

CREATING MOMENTUM



ARIZONA CORRECTIONAL INDUSTRIES
2015 ANNUAL REPORT





**One Way To Keep
Momentum Going
Is To Have
Constantly
Greater Goals**

Michael Korda

VISION



ADC Vision

Safer communities through effective corrections.

ACI Vision

Support ADC's Vision, serve as a resource for the public sector and private businesses throughout the state and operate successful business enterprises that help inmates acquire occupational skills and work experience.

ADC Mission

To serve and protect the people of Arizona by securely incarcerating convicted felons, by providing structured programming designed to support inmate accountability and successful community reintegration, and by providing effective supervision for those offenders conditionally released from prison.

ACI Mission

Support ADC's mission and create opportunities for offenders to develop marketable skills and good work habits through enterprises that produce quality products and services for our customers while achieving our revenue, profit, and inmate work increase objectives.

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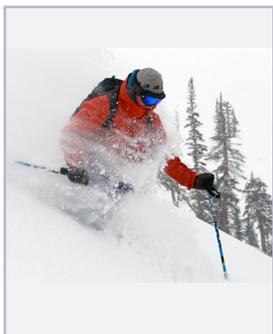


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Marketing of the new ACI brand extends visibility as new and expanded labor contracts promote increased private sector partnerships.



Develop

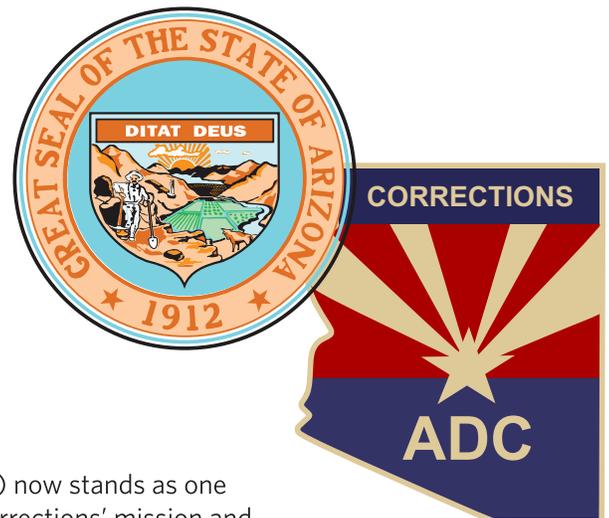
Monsoon storm over Phoenix, Arizona

FROM THE GOVERNOR

ACI is a uniquely beneficial program within state government which contributes to the state's economy, while receiving no money from the taxpayers. As ACI fulfills its primary mission of teaching job skills and the right work ethic to inmates, it functions entirely on revenues generated from its businesses and related activities. ACI further eases the financial burden on taxpayers by applying deductions from ACI inmate wages to such costs as taxes, room and board, victim's compensation, restitution, and family support. In addition, ACI consistently makes significant contributions to the economic prosperity of the state.

ACI has successfully expanded its industry activities while meeting the legislative mandate to operate without taxpayer dollars. ACI stands as a valued member of the business community, supporting other state agencies and forming solid partnerships with local enterprises. These achievements are all the more praiseworthy for a business run with inmate labor behind prison walls.

I applaud ACI's outstanding accomplishments and the efforts of the staff and inmates who work together on this program. I greatly anticipate their continued contributions to the State of Arizona.



FROM THE DIRECTOR

Originally created for simple utility, Arizona Correctional Industries (ACI) now stands as one of the cornerstones in the achievement of the Arizona Department of Corrections' mission and goals. Through vision, ingenuity, and commitment, ACI has transformed into a financially self-sufficient business enterprise with far-reaching benefits.

One of the Department's primary goals is to optimize inmate participation in work programs. ACI is continually pursuing new and expanded operations and partnerships, with emphasis on the number and quality of inmate jobs, as well as the quality of the goods produced and the services provided. Through their assignment to ACI, inmates learn higher-level job skills and are introduced to the work habits and work ethic that can help them to successfully change their lives.

The Department's highest priority is maintaining effective custody and control over inmates in an environment that is safe and secure for staff and inmates. In addition, the desirability of ACI work assignments contributes to the day-to-day management of prisons by providing a major incentive for inmates to voluntarily comply with institutional requirements. I look to ACI to continue its vital contribution to the achievement of the Department's mission and goals.





3279 East Harbour Drive • Phoenix, Arizona 85034 • 602-272-7600 • www.aci.az.gov

Dear Director Ryan:

Fiscal Year 2015 proved to be a very strong performance year for ACI as we built on the positive momentum created over the last few years. Sales increased 10% to \$42.1 million with a net income of \$3.87 million-both all time records. Inmate hours totaled 4,087,321 - our second highest total ever. Our production shops and labor contract business saw continued overall improvement, thanks to effective employee engagement and associated productivity and security enhancements.

The business development team finalized two new labor contract partnerships this year and many top-level management meetings were held throughout the year to strengthen our existing relationships. In April, we enjoyed a wonderful celebration of our 20-year partnership with Hickman's Family Farms.

Investments in our owned and operated shops continued to pay dividends this year. The print shop's new four-color digital press expanded business opportunities that contributed to record sales for that important Perryville shop while the Wild Horse and Burro program received more positive press from various media outlets.

During the year, two of our associates were recognized by the National Correctional Industries Association. It is gratifying to receive this recognition and we hope to see the work of more ACI associates acknowledged for diligently providing quality products and services while supporting our mission to teach inmates job skills and a proper work ethic.

In May, we completed our move to a new headquarters building that significantly improves our brand image, saves ACI a great deal of money and provides easier access to our key Florence facilities.

We are proud, once again, to share the finding of the Arizona State University, WP Carey School of Business, Seidman Research Institute study. It estimates the economic impact from ACI to the State of Arizona this year at \$192 million with the creation of 2,104 private sector jobs potentially generating millions more in state tax revenues.

As we conclude our 28th year, mindful of the unique challenges, important mission and responsibilities of this business, we sincerely thank you for your leadership and support. Our continued success depends on you, the ADC executive staff, the ACI Advisory Board, ACI associates, business partners, customers and suppliers throughout the year. Together we will strengthen the momentum on our pathways to success.

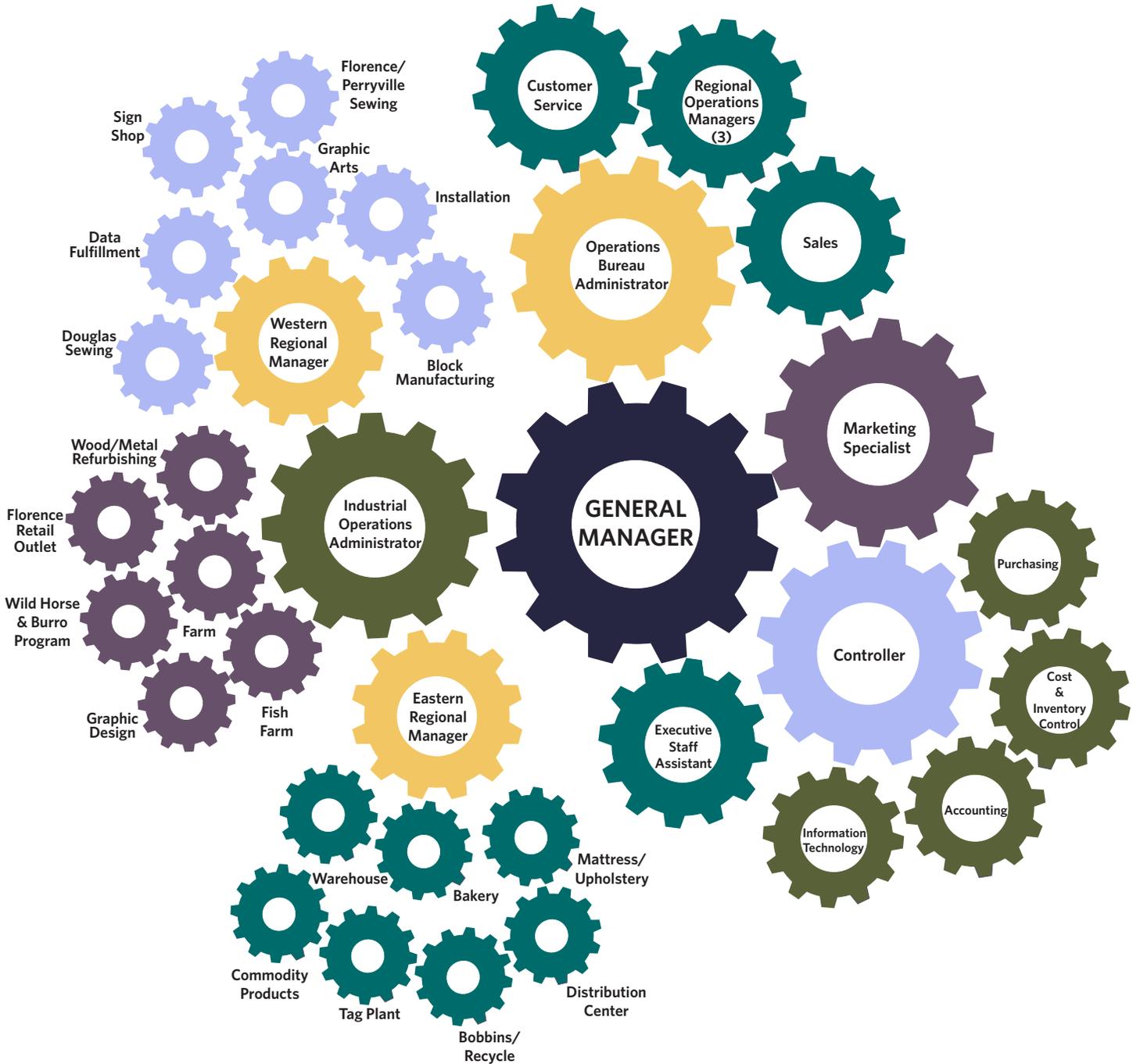


Sincerely,

Brian Radecki
CEO/General Manager



ORGANIZATIONAL FLOW



MANAGEMENT TEAM



Executive Staff - left to right: Glen Davis, Bill Foster, Brian Radecki, Clark DesSoye, Dale Beatty

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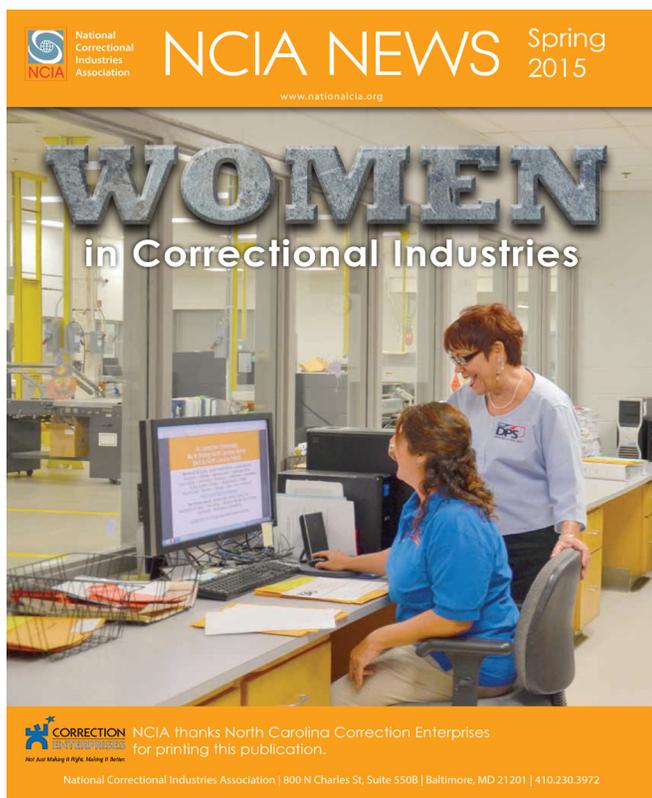
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Visualize



Hot air ballooning over the London Bridge in Lake Havasu City, Arizona



As featured in the NCIA (National Correctional Industries Association) Spring 2015 newsletter titled “Women in Corrections,” Vicki Fitzpatrick is advancing Procurement through technology. “It’s a fun job,” says Vicki Fitzpatrick, CPPB, Purchasing Manager at Arizona Correctional Industries (ACI), “there’s something new every day; sometimes daunting challenges, sometimes tremendous satisfaction.”

Procurement impacts the central office, sales and every shop throughout ACI. Without the efficient purchasing and delivery of raw materials, the shops cannot fabricate finished products for ACI’s customers. The pricing for many of these finished products are fixed as part of State Contracts, so you can’t simply pass along rising material costs. Vicki constantly needs to find ways to save.

Vicki purchases materials – from office supplies through raw fabric and steel by the ton – from more than two hundred different vendors. “Freight costs are a huge part of our overall expenses,” Vicki explains. Little did she know, when she accepted an offer as the account receivables clerk at ACI in 1997, that she’d be working at an organization made up of so many different business environments.

Over the years since she started, Vicki has also applied and enhanced the other skills she learned before coming

to work at ACI. Moving first to inmate payroll, then accounts payable, in 2000 she became a buyer. Two years later, after two promotions, she was named Purchasing Manager taking responsibility for all procurement actions at ACI. At the same time, she was taking online

classes to earn her Bachelors of Science degree in Business Management (2004) and her designation as a Certified Professional Public Buyer (CPPB, 2005).

Today Vicki supervises a buyer as well as three inmate clerks and writes all RFPs (Request for Proposals) and IFBs (Invitations for Bids). She serves as chairperson at proposal evaluation committee meetings, evaluates contracts and researches current procedures and procurement rules and regulations. In addition to writing and reviewing contract components, negotiating contracts and monitoring contract compliance, she also develops policies and procedures for contract management and relays them to the staff.

“It’s still a challenge with the constantly changing rules and regulations,” Fitzpatrick concludes, “but I enjoy the work. I like training new staff and inmates and discovering new vendors and contractors. I’ve seen what we do changes the lives, for the better, of the inmates we work with and that makes it all very fulfilling.”



Vicki Fitzpatrick, CPPB, Purchasing Manager assists one of her clerks.



Vicki verifies incoming shipments into Central office warehouse.

ACI is completely self-funded and, in fact, returns millions to the State with income generated from production shops and labor contracts.

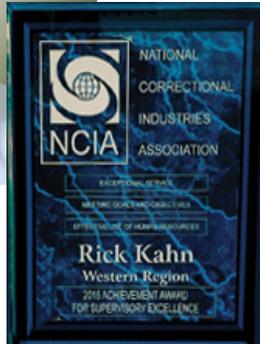
On her résumé all this seems like a typical career in a typical business. But to really understand the challenges of her job, you need to understand ACI. Not quite a private business, not really a state agency, correctional industries are a truly unique place to work. "The inmates I work with have surprised me with their professionalism and positive approach to their jobs. I really enjoy working with them."

Another major difference working with ACI, as opposed to a private business, is the variety of products and services offered. Usually a manufacturer just makes products within their own scope. At ACI we operate a sign shop, a metal fabrication shop, a print shop, and several sewing, wood, and upholstery shops. "Then one day a couple of years ago they tasked me with purchasing food for 64,000 catfish and 100,000 neons (baby tilapia)!" Vicki exclaimed. "You're always learning new markets, researching possible suppliers, and evaluating purchasing options."

During her eighteen years at ACI it has grown and evolved and continued to become more business-like in its operations. "It's still a challenge with the constantly changing rules and regulations," Vicki concludes, "But I enjoy the work. I like training new staff and inmates and discovering new vendors and contractors. I've seen how what we do changes the lives, for the better, of the inmates we work with and that makes it all very fulfilling."



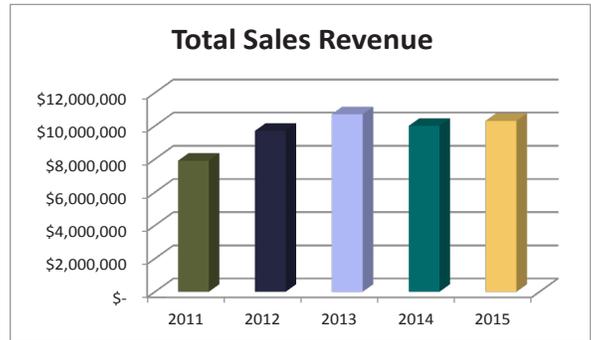
EXCEEDING EXPECTATIONS THROUGH PASSION AND LEADERSHIP



Congratulations go out to Rick Kahn, ACI Vice President of Sales for receiving the NCIA 2014 Western Region Employee of the Year Award at the NCIA Annual Convention held in Indianapolis, Indiana in April of 2015.

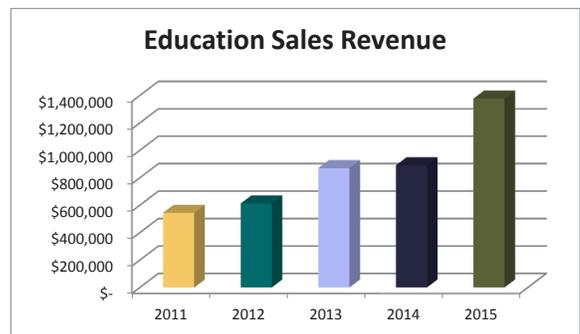
Successful sales managers bring something extra-something that cannot be taught or learned. These key company leaders need to be able to motivate and mentor their sales team, develop and nurture customer relationships and help make sure that sales orders are processed and delivered as per customer expectations.

ACI has been fortunate for the last five years to have just such a sales manager in Rick Kahn. After a long, distinguished career in the private sector, Rick brought his talents to ACI in 2010. Poised for growth but still reeling from the 2008 economic downturn ACI had been primarily relying on orders from the Arizona Department of Corrections and a handful of other state agencies. Management recognized that if it was to meet its ambitious goals to double revenue and inmate work hours in the coming decade, it was time to bring in a sales manager with experience from the private sector who could jump start their sales efforts, creating positive momentum toward ACI's goals.



Sales in Rick's first year as manager were \$7.9 million and in the four full years since have averaged nearly \$10.2 million — a 28% increase. One market segment that he and his sales team have focused on is education (public and private K-12 and colleges and universities) where sales have grown by 72% during his tenure.

The numbers clearly illustrate the dramatic difference Rick has helped make. The numbers don't tell the whole story, or even the most important part of the story. The key ingredient that Rick brings to ACI is his passion. You can witness it every time he talks with a customer or a Chamber of Commerce or one of the inmate clerks who help process sales orders.



Rick understands that his job is about more than increasing revenues, it's also about creating more work opportunities for the other 43,000 inmates in state facilities. He understands that if ACI is successful, but the inmates working with us are not, we are not really fulfilling our mission. Rick sees the vital role that ACI plays in the lives of the inmates working here on staff and in our shops. He appreciates their willingness to learn and grow and the pride they take in building a custom conference room, an office furniture suite, or a solar-powered bus shelter for the transit authority.

EXPANDING OPPORTUNITIES FOR LABOR CONTRACTS

Each year the Business Development Team has two important challenges: creating new partnerships and strengthening existing partnerships. Both require persistence, thoroughness and negotiation. In fiscal year 2015 they successfully met both of these challenges.

Contract Negotiation

Labor partnership contracts and renewals involve coordination with the ADC Complex Wardens and support staff, ADC Contracts Department, AZ Department of Administration Risk Management unit, AZ Department of Labor, and the private industry partners themselves. Inmate Work Contracts are official agreements between a Labor Contract Partner and the Director of the Arizona Department of Corrections (the Department), for and on behalf of Arizona Correctional Industries (ACI). Like all legal contracts, each party agrees to perform certain tasks or services for the other under clearly defined terms and conditions. A typical Inmate Work Contract will run thirty or forty pages and include attachments and revisions over time, as the scope of work or requirements change.

Strengthening Partnerships

Currently the Business Development Team supervises thirty partnerships at forty-one different sites, employing fifty-six security staff. As our partners' needs and management change, the team continuously communicates with them to reinforce the benefits of the inmate work program for partners and the inmates working with them. Sometimes the changing needs require contractual revisions for adjusting work crew numbers up or down, creating new security or tool handling procedures or training the partners' staff on the best ways to manage their inmates.

In addition to meetings and adjustments to the programs, the team manages day-to-day operations that interface between the labor partner and the prison complex staff, such as security issues, staffing issues, transportation, facility problems, and helping to improve the partner's operation. They conduct compliance surveys with each partnership and manage the hiring and management process of the security staff. These IPS (Industry Program Specialists) personnel provide security and (in most cases) transportation to work sites as ADC Operations does not provide full-time security staffing at any Arizona Correctional Industries Program. The combined programs employ about 1,300 inmates daily.

These Labor Contract partners benefit from a reliable, trainable workforce. The inmates themselves benefit from hands-on training in job-skills that will make them

more employable when they are released. The recovering construction industry will continue to need skilled wood workers, like the crews currently working at Alliance Truss. The welding and other metal fabrication skills the Sun Country Trailer inmates are learning, will qualify them for similar, high-level jobs on the outside. Employers in food preparation industries are always looking for employees who have experience like what the Papa John's Salads and Produce work crews are gaining.

Across all thirty labor contract partnerships, hundreds of inmates are learning diverse, valuable job skills. They are gaining real work experience in real trades. For many of these inmates, this represents a chance to display their commitment to making a positive change in their lives. Many of our partner organizations recognize their efforts and offer them jobs upon their release. An impressive number of inmates have gone into management positions in these organizations, where they are currently enjoying successful careers.



Business Development Team: (left to right) Glen Davis, Rich Selapack, Mario Diaz, Corinne Samuelson, Eric Cole.



Motivate

Skiing the San Francisco Peaks outside of Flagstaff, Arizona

ACI LIFTS CURTAIN ON NEW HEADQUARTERS



On Monday, June 1, 2015, Arizona Correctional Industries (ACI) finished its move into its new administrative headquarters on Harbour Drive near Sky Harbor International Airport in Phoenix, Arizona.

Scouting for the new offices started in the fall of 2014 and renovations to the space began in March of 2015.

A more modern administrative facility provides more convenient access for ACI customers and business partners. There are several meeting spaces available for private conferences, training, or board meetings. The new space also includes a standard product showroom and an area to showcase new product lines.

Since its evolution to ACI (Arizona Correctional Industries) from ARCOR Enterprises in 1987, our growing organization has needed different space. From its location on the first floor of the Arizona State Building in the Capitol Plaza, ACI expanded to a stand alone building a few blocks away in 1990. ACI's next big move was in 2001 when we moved out of the Capitol complex to a much larger office and warehouse in central Phoenix, staying there for the next thirteen years.



As ACI matured and changed, the need arose for a more modern, administrative facility with a smaller warehouse element. In June 2015, the nearly seventy staff and inmates made the move into our new administrative headquarters.



Earliest ACI location (top left) 1987 - 1688 W. Adams, (Middle) 1990 - 1918 W. Van Buren, (Right) 2001 - 3701 W. Cambridge, (Bottom) 2015 - new headquarters at 3279 E. Harbour Drive, in Phoenix, Arizona

2014 ANNUAL MEETING



For the third year in a row, the Windmill Event Center in Florence, Arizona has hosted the ACI Annual Employee Meeting. We were honored to have ADC Director Ryan in attendance this year to share in the celebration of the many staff accomplishments.

In addition to Director Ryan, invited guests included ADC Division Director Gail Rittenhouse and ASPC Florence Warden Greg Fizer, Florence Police Chief Dan Hughes and Judy Hughes from the Florence Chamber of Commerce, along with Dan Chouinard and Alan McCoy from Earth Friendly Block, Jerry Weston and Tod Kean from Bonded Logic, Michael Garcia from CACF, and Chris Fontes from Safety Services Company.



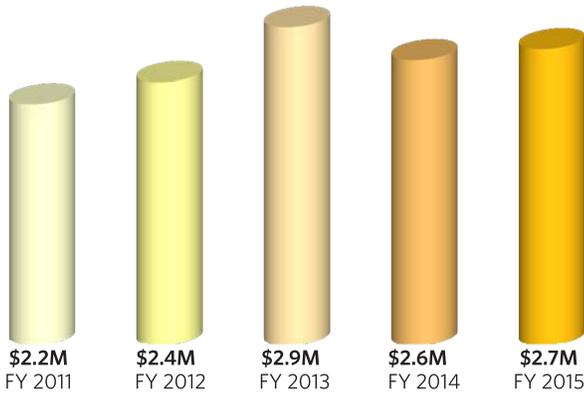


Stimulate

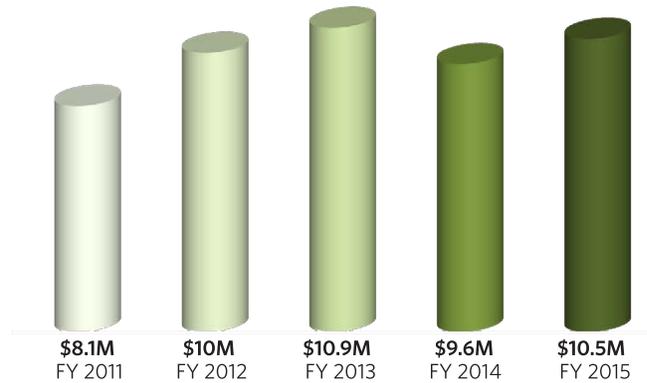
Rafting the Colorado River in Arizona

PROMOTING FINANCIAL STABILITY THROUGH ACCOUNTABILITY

INMATE ROOM & BOARD

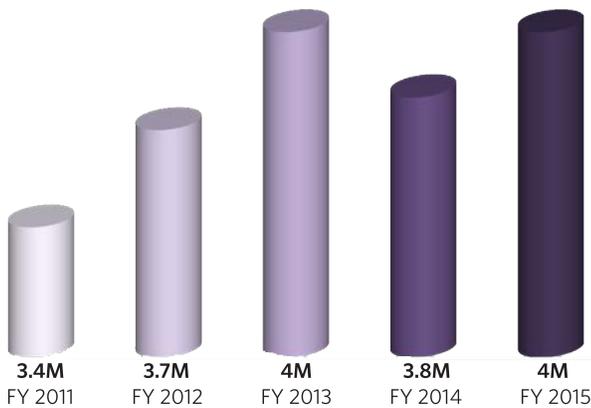


INMATE WAGES

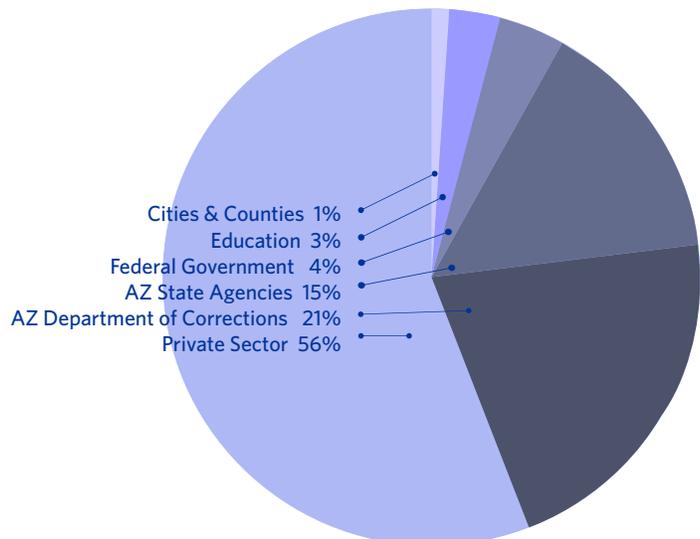


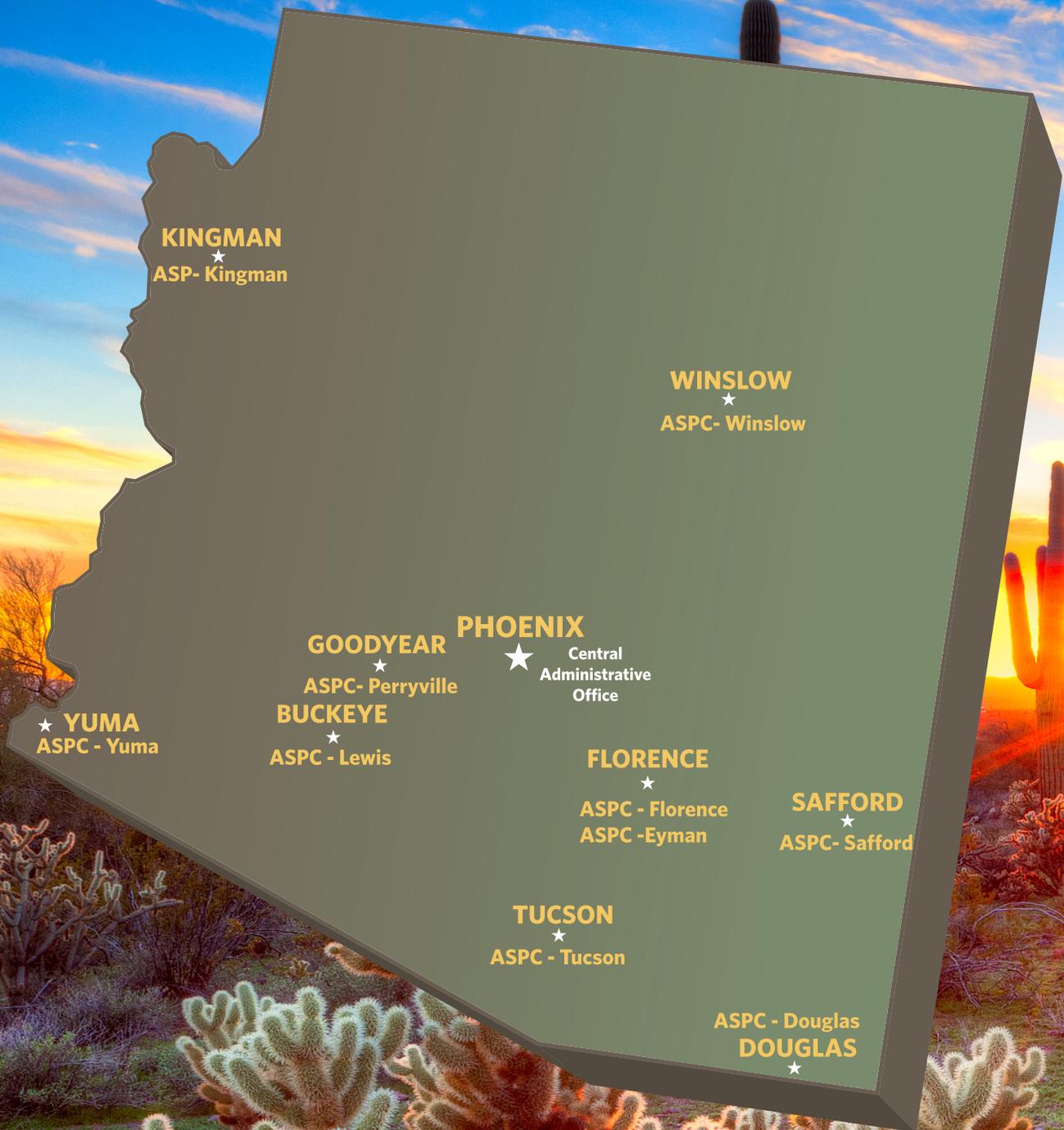
INMATE HOURS BY FISCAL YEAR

(Labor Contracts & Owned and Operated)



ACI MARKET SEGMENTS





ACI's Owned and Operated Prison Industries are primarily directed towards saving taxpayer dollars by offering a wide selection of products and related services to meet the needs of both the Arizona Department of Corrections, State Agencies, and many other public agencies. At the close of the current fiscal year 828 inmates were employed in the Owned and Operated enterprises of Arizona Correctional Industries.

ACI is able to enter into two different types of Partnerships for utilization of inmate labor. The Public Sector Partnership establishes an agreement with other governmental agencies or related political subdivisions (cities, counties, etc.) for the employment of inmate labor. Under Private Sector Partnerships, ACI provides inmate workers to private sector companies that are engaged in agricultural, service or manufacturing types of operations.

While these jobs can be some of the highest paying jobs available to the inmates, the inmates employed in these programs are required to contribute a portion of their wages to their cost of incarceration, mandatory savings, victims compensation and/or restitution funds. At the close of the current fiscal year ACI employed thirty-two inmates in Public Sector Partnerships and 1,232 inmates in Private Sector Partnerships.

OWNED & OPERATED AND PRIVATE SECTOR/LABOR CONTRACTS FY 2015 SALES

Arizona State Prison Complex - Douglas

(Owned & Operated)

Sewing \$ 1,465,010

(Labor Contract)

Fiesta Canning \$ 804,706

NatureSweet-Willcox \$ 188,039

Cochise Regional Hospital \$ 24,880

Arizona State Prison Complex - Eyman

(Owned & Operated)

Bakery Division \$ 5,163,997

License Plate \$ 4,164,868

Commodity Products

Corrugated boxes \$ 166,702

Plastic trash can liners \$ 129,904

Boot Repair \$ 3,544

Arizona State Prison Complex-Florence

(Owned & Operated)

Sewing \$ 414,146

Farm/Agriculture \$ 690,358

Wild Horse Program \$ 1,496,549

Fish Farm \$ 179,047

Recycle/Packaging \$ 100,826

NatureSweet Bobbin \$ 117,697

Metal Fabrication \$ 2,814,735

Wood/Metal Refurbishing \$ 985,362

Mattress \$ 523,316

Upholstery \$ 304,206

Retail Outlet \$ 87,696

(Labor Contract)

Pinal Energy \$ 189,203

Hickman's Egg Ranch-Maricopa \$ 817,147

Cargill Animal Nutrition \$ 130,324

Whitfill Nursery \$ 254,708

Arizona State Prison - Kingman

(Owned & Operated)

Block Manufacturing \$ 132,996

(Labor Contract)

Jim-Glo Trailer \$ 251,925

Arizona State Prison Complex - Lewis

(Owned & Operated)

CME East/West

ACI Special Projects \$ N/A

(Labor Contract)

American Curb & Vent \$ 103,083

Common Market

Equipment/West \$ 1,924,882

Hickman's Egg Ranch-Tonopah \$ 1,704,334

Continental Tire \$ 148,255

Sun Country Trailer \$ 90,529

Alliance Truss \$ 522,082

Arizona State Prison Complex - Perryville

(Owned & Operated)

Print Shop \$ 1,841,958

ACI Central Office

Sublimation \$ 56,500

Installation \$ 760,187

AquaChill \$ 132,713

Sewing \$ 671,345

Flatirons Solutions \$ 171,563

Data Fulfillment \$ 85,782

(Labor Contract)

Greater Auto Auction \$ 600,523

Hickman's Egg Ranch

Arlington \$ 2,007,846

Morrison Management \$ 143,894

MVD Call Center \$ 67,703

Televerde \$ 3,360,217

Papa John's Salad & Produce \$ N/A

Arizona State Prison Complex-Safford

(Labor Contract)

NatureSweet - Willcox \$ 2,087,237

Arizona State Prison Complex - Tucson

(Owned & Operated)

Sign Shop \$ 414,332

(Labor Contract)

Hometown Hero \$ 566,599

ESB Modular Mfg. - Marana \$ 105,009

Arizona State Prison Complex - Winslow

(Labor Contract)

AZ Structural Laminators \$ 418,332

AZ Log & Timber \$ 117,991

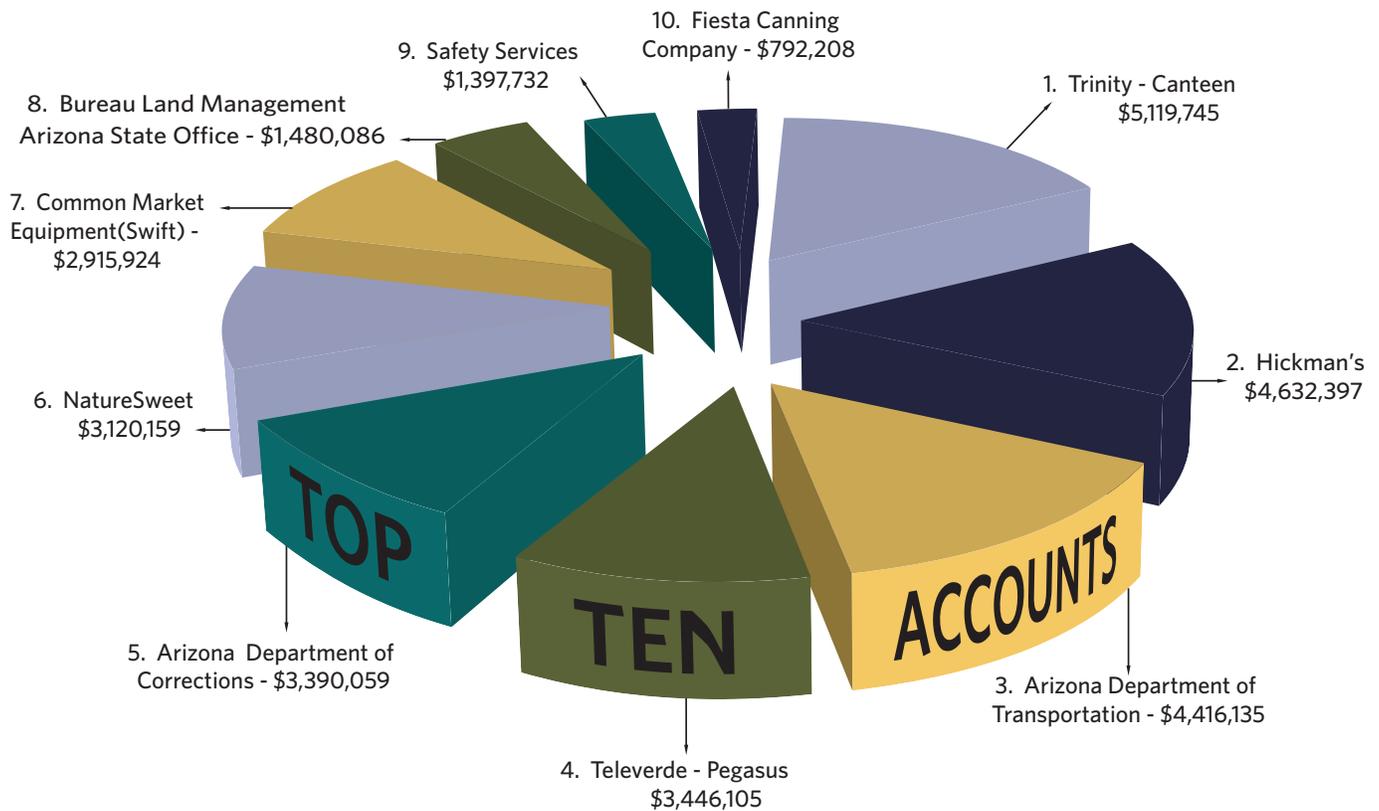
NatureSweet-Snowflake \$ 808,569

Arizona State Prison Complex-Yuma

(Labor Contract)

Safety Services \$ 1,395,460

Waste Recycling \$ 193,228



ACI tracks sales by type of customer. The seven main categories are: The Department of Corrections, Arizona State Agencies, Trinity (Canteen), Municipalities, Education (Schools, Colleges, and Universities), Labor Contracts, and General/Miscellaneous (private sector, not Labor Contracts). The composition of this fiscal year's Top Five customers breaks down as follows:

Ranking as the number one customer for the second year is Trinity Services Group. Trinity Services Group is one of the largest providers of correctional food service in the nation. With more than forty years in the industry, their combined operations serve nearly 300,000 inmates daily in forty-four states, Puerto Rico and the U.S. Virgin Islands.

In second place and one of the largest and most consistent of ACI's top ten customers is Hickman Family Farms. ACI's ongoing relationship with Hickman Family Farms continued to thrive during the past fiscal year. In the spring of 2015, ACI celebrated our twenty year partnership with Hickman Family Farms with a milestone 4,697,867 inmate hours worked during the course of this Labor Contract.

The Motor Vehicle Division of the Arizona Department of Transportation once again is in the third slot of our top ten customers this year. One of the mainstays of ACI's manufactured items throughout its history has been the license plate. Although license plates have only existed for

just over one hundred years in the United States and Canada, they have developed a distinctive history that has undergone several periods and changes. The first license plates in North America appeared in 1903 in the Commonwealth of Massachusetts. Soon after, other states followed suit, with virtually every state having adopted a form of license plates by 1918.

Making the fourth spot in ACI's top ten this year is Pegasus Research Group, dba Televerde. Televerde has been partnered with Correctional industries in Arizona for nearly twenty years. The call centers located at the prison in ASPC-Perryville in Goodyear, Arizona offer inmates the opportunity to become successful call center agents while incarcerated. This gives them a unique opportunity to be eligible for hire in a civilian call center with the added benefits of assistance in housing, transportation, and education, all run through a non-profit foundation.

The fifth of ACI's top ten customer this year is the Arizona Department of Corrections. The Department is responsible for serving and protecting the people of the state of Arizona by incarcerating inmates in correctional facilities and supervising released offenders in the community. Many of ACI's products are goods that the Department utilizes on a daily basis.





STATEMENT ON NET ASSETS ENTERPRISE FUND



	2015	2014
Assets		
Current assets		
Cash and cash equivalents	\$ 7,346,000	\$ 5,366,000
Accounts receivable, net	6,351,000	3,551,000
Inventories	4,471,000	4,987,000
Prepaid expenses	50,000	136,000
Total current assets	18,218,000	14,040,000
Long-term assets		
Land	705,000	692,000
Capital Assets, net of depreciation	3,584,000	3,293,000
Total Long-term assets	4,289,000	3,985,000
Long-Term Other		
Deferred employer contribution - Pension	933,000	-
Total Long Term Other	933,000	-
Total assets	23,440,000	18,025,000
Liabilities		
Current liabilities		
Accounts payable	205,000	141,000
Accrued payroll and benefits	1,080,000	867,000
Other accrued liabilities	1,957,000	616,000
Total current liabilities	3,242,000	1,624,000
Noncurrent liabilities		
Net pension liability	7,011,000	-
Total noncurrent liabilities	7,011,000	-
Deferred inflows of resources		
Deferred inflows of resources related to pensions	1,226,000	-
Total long term liabilities	1,226,000	-
Net assets		
Invested in capital assets, net of related debt	4,289,000	3,986,000
Unrestricted	7,672,000	12,415,000
Total net assets	\$ 11,961,000	\$ 16,401,000





STATEMENT OF REVENUES, EXPENSES AND CHANGE IN FUND NET ASSETS



	2015	2014
Sales	\$ 42,147,000	\$ 37,979,000
Cost of goods sold	33,628,000	32,298,000
Gross profit	8,519,000	5,681,000
Operating expenses		
Selling	962,000	1,019,000
General and administrative	3,743,000	3,502,000
Total operating expenses	4,705,000	4,521,000
Operating income	3,814,000	1,160,000
Non-operating revenue (expenses)		
Investment income	24,000	35,000
Net gain/(loss) on disposal of equipment	(1,000)	7,000
Interest expense	-	-
Net non-operating revenues (expenses)	23,000	42,000
Income before transfers	3,837,000	1,202,000
Transfers to State of Arizona funds	(1,000,000)	(1,303,000)
Increase/(decrease) in net assets	2,837,000	(101,000)
Total net assets, July 1	16,401,000	16,502,000
Deferred pension restatement	(7,277,000)	-
Total net assets, June 30	\$ 11,961,000	\$ 16,401,000



STATEMENT OF CASH FLOWS



	2015	2014
Net cash provided/(used) by operating activities	\$ 3,979,000	\$ (517,000)
Net cash used for noncapital financing activities	(1,000,000)	(1,303,000)
Net cash used for capital and financing activities	(1,023,000)	(753,000)
Net cash provided by investing activities	24,000	34,000
Net increase/(decrease) in cash and cash equivalents	1,980,000	(2,539,000)
Cash and cash equivalents, July 1	5,366,000	7,905,000
Cash and cash equivalents, June 30	\$ 7,346,000	\$ 5,366,000

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) FOR OPERATING ACTIVITIES

	2015	2014
Operating Income	\$ 3,814,000	\$ 1,160,000
Adjustment to reconcile operating income to net cash provided for operating activities		
Depreciation	719,000	623,000
(Increase)/decrease in accounts receivable	(2,799,000)	102,000
Increase/(decrease) in accounts payable	64,000	(1,033,000)
Increase/(decrease) in inventories	515,000	(1,110,000)
Decrease/(increase) in prepaid expenses	86,000	(7,000)
Increase/(decrease) in accrued payroll & benefits	213,000	(248,000)
Increase employer contribution	26,000	-
Decrease in deferred income	-	(23,000)
Increased in accrued liabilities	1,341,000	19,000
Net cash provided by/(used) by operating activities	\$ 3,979,000	\$ (517,000)

SCHEDULE OF CAPITAL ASSETS AND ACCUMULATED DEPRECIATION

	2015	2014
Schedule of capital assets		
Land	\$ 692,000	\$ 692,000
Land Improvements	957,000	866,000
Building	778,000	788,000
Building Improvements	1,326,000	1,298,000
Equipment	8,287,000	8,490,000
Construction In Process	12,000	-
Total capital assets	\$ 12,052,000	\$ 12,134,000
Schedule of accumulated depreciation		
Land improvements	294,000	275,000
Building	547,000	527,000
Building improvements	663,000	677,000
Equipment	6,259,000	6,669,000
Total accumulated depreciation	\$ 7,763,000	\$ 8,148,000
Capital assets, net	\$ 4,289,000	\$ 3,986,000



A person is seen from behind, climbing a narrow slot canyon. They are wearing a teal long-sleeved shirt, dark shorts, and a large teal backpack. The canyon walls are smooth, reddish-brown rock. The lighting is dramatic, with bright light at the top and deep shadows in the crevices. The word "Promote" is overlaid in a bold, blue, sans-serif font on the right side of the image.

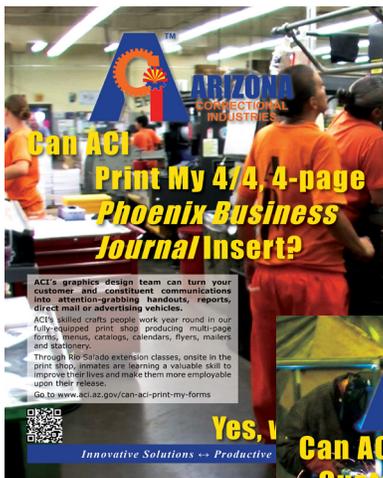
Promote

Rock climbing Slipknot Canyon in Northern Arizona.

Our marketing efforts picked up a lot of momentum this year with our rebranding now firmly established. This effort received very positive feedback from the Advisory Board, customers, vendors, NCIA and industry peers, prompting us to file trademark applications for the logo and tagline “Innovative Solutions ↔ Productive Lives.”

Our attorney did a thorough, international search before filing our trademark applications in June 2015 and is quite confident that both will be granted by the end of this calendar year. For now the logo and tagline will include the pending trademark symbol: ™ and once granted they will feature the official registered trademark symbol: ®. Trademark protections will help ensure that the new ACI brand is not compromised by unscrupulous business characters or other enterprises that might try to capitalize on our marketing and promotional efforts for their own gain.

The sales team continues to actively support various trade shows throughout the state as these have proven to be very good lead generators, expanding our customer base in key market segments like education and municipal government agencies in recent years.



Print Collateral

A full-color, two-sided, 5.5” x 8.5” card highlights “How ACI Benefits ADC” on one side and how ACI benefits the State of Arizona on the reverse. This is perfect for use within the Department and at business and chamber events throughout the State.




How ACI Benefits ADC

- ⚙️ **ACI is a vital part of the Department of Corrections.**
- ⚙️ **ACI assumes security responsibility for 2,000 inmates a day, freeing ADC staff to perform other duties.**
FY2015 ACI Inmate Work Hours: 4,000,000*
- ⚙️ **ACI instills a sense of purpose for inmates who otherwise would have nothing to do but play headgames inside and resume former “activities” upon release.**
- ⚙️ **ACI creates good work habits and positive routines for inmates; a tired inmate creates fewer issues on the yard.**
- ⚙️ **ACI generates inmate salaries that offset ADC room and board costs, allowing ADC resources to be used on staffing and infrastructure.**
FY2015 ACI Inmate Room & Board: \$2,700,000*
- ⚙️ **ACI helps ADC keep costs down on items purchased from owned and operated shops, like: clothes, bedding, mattresses, bunks, exercise equipment, tables and chairs, office furnishings, signs, plaques, awards, printing...**
- ⚙️ **ACI employment helps reduce recidivism by 31.5%.†**
- ⚙️ **Every year ACI transfers \$1,000,000 of its net income to ADC, the rest is reinvested to create new work opportunities for inmates and maintain ongoing operations.**

A new 12-page, 5.5” x 8.5” full-color brochure promotes the new ACI branding message while detailing its unique mission has been favorably received and will be updated as necessary to serve as a detailed overview of what ACI is all about. Other printed materials will be produced as needed to support sales and events, but the website will remain the most important resource for up-to-date information on products, services and the organization itself.



Website

ACI will continue to update and improve our aci.az.gov website. The site is necessary to meet the requirements of State Procurement and as a resource for sales account executives and customers to find the current pricing and product information. The website consists of more than 500 pages of articles, news stories, and company and product information. Since we began our redesign of the website in July 2013 we have already seen some dramatic changes in key site analytics:

Monthly	1-Jul-13	1-Aug-15	Change %
Unique Visitors	689	2,730	296.2%
Average time (mins)	1	3	200.0%
Page Views	2,988	20,353	581.2%
Pages per session	2	6	219.7%
Bounce Rate	80%	23.3%	-56.8%
New Visitors (%)	63.8%	71%	7.3%

Unique Visitors represents individual users who visited the site during the month.

Average time (mins) details how much time each user spent on the site.

Page Views show the total number of pages visited.

Pages per session calculates the average number of pages visited by each user.

Bounce Rate represents the percentage of visitors who immediately left the site, having a lower percentage is better.

New Visitors illustrates how successfully (or not) marketing efforts are working at driving new, potential customers to the site.

In our ongoing efforts to improve the website, we will be working with an internet consulting firm to do a thorough digital SWOT analysis by surveying users and hosting a focus group comprised of internal stakeholders and site users.

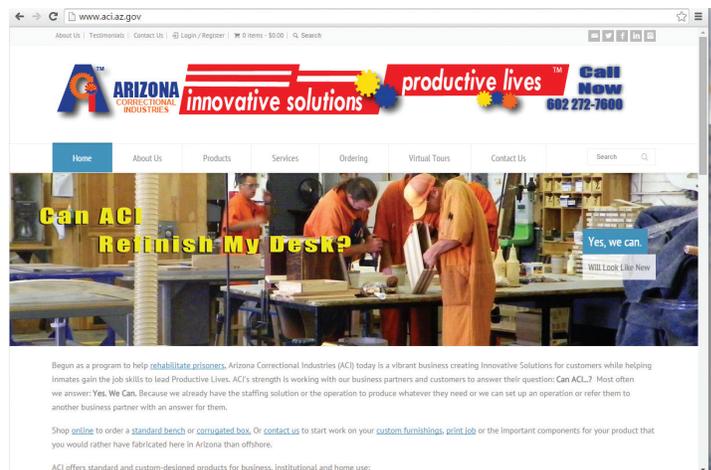
Print Media Plan for FY2016



We feel the best local vehicle for reaching new markets with the branding message is the Phoenix Business Journal. We have committed to an aggressive advertising schedule in this weekly publication that includes:

- Seven, 4-page, 8.5" x 11" full color inserts (11,000 copies each, printed by ACI) in issues featuring:
 - Women in Business/Trade Associations
 - Graphic Designers
 - Fastest Growing Companies
 - Education
 - Manufacturing Roundtable
 - Construction/Concrete Contractors
 - Highest Paid State Employees
- Three, half-page, full color space ads in select special issues:
 - Engineering
 - Electrical/Mechanical Engineering
 - Top Contractors/Construction Companies
 - A trade credit (for ACI plaques/awards) toward Phoenix Business Journal event sponsorships.

Each insert and ad will include a link to a unique splash page on the website to help us track their effectiveness.



COMMUNICATION BUILDS STRONGER PARTNERSHIPS IN LABOR CONTRACTS



Trailer fabrication at Sun Country Trailer facility located in Phoenix, Arizona.

New Partners

During FY2015, two new partnerships came online and another, initiated in late 2014, picked up steam. New labor contract opportunities are currently being explored and the team will be seeking out potential partners near more remote prison locations like Kingman, Winslow and Yuma.

Sun Country Trailer

Like so many of ACI's labor contract partnerships, the skilled metal working crew at Sun Country Trailer began quite modestly with eight inmates making the daily trek from ASPC-Lewis to the partner's manufacturing facility in



Finished trailer ready for shipment.

south Phoenix. Today thirteen inmates earn \$3 to \$4 an hour cutting, shaping, welding, finishing and powder coating steel components. These components are assembled into several different styles of custom trailers for the Arizona market. They range from simple boat or ATV haulers to 20-ton vehicle trailers.

Sun Country Trailer has been very pleased with the caliber of the skills their inmate crews have brought to the job and the outstanding assistance they have received from ACI management in putting the program together and expanding it. They have installed monitoring cameras throughout the plant that their managers use to track the progress of jobs and evaluate the staff (both inmates and civilians).



Regional Operations Manager, Rich Selapack is able to view remotely ACI inmate workers at Sun Country Trailers.

By sharing their monitoring channels with ACI, the managers at ACI's administrative offices, fifteen miles away, can also watch from their desktop computers to ensure that security and tool management procedures are being followed regularly. In FY2015 this program generated \$90,529 in revenue.





ACI inmate workers from ASPC - Lewis set up the framework, fit the various-sized wood components into place and nail them together.



Workers inspect trusses before transferring the framework to the pressing machine.

Alliance Truss

Each morning a work crew of between 50 - 55 minimum security inmates makes its way from ASPC-Lewis to the Alliance Truss assembly plant in Casa Grande, AZ, about twenty miles south of Phoenix. The inmates earn \$3 - \$4 an hour (depending on experience).

As the Alliance Truss management monitored the original work crew of twenty-two inmates, they recognized their willingness to learn and work hard at their assigned tasks. Gradually, more and more inmates were brought in to supplement the civilian staff, dramatically increasing participation in the program.

These inmates assemble prefabricated building components for residential and commercial construction projects throughout Arizona. Working from sixteen different building plans the inmate crews set up the framework, fit the various-sized wood components into place, nail them together, and then transfer the entire new structure to a pressing machine. There the structure assembly is completed and it is loaded onto a pallet with the other complementary



Worker assembles trusses to be shipped to vendors.

structures that, when joined together on the building site, comprise the finished building. In FY2015, this program generated \$522,022 in revenue.



Inmate training consists of learning how to use the equipment appropriately.



Inmate workers are trained on how to properly frame the trusses.

Papa John's Produce



Vegetable Salad is one of the many varieties of salads prepared at Papa John's.



Loaded potato salad.



Egg Salad Croissant.

Kevin S. Jones saw a need in the market for offering high quality fruits and vegetables and fresh made foods fifteen years ago and ran a successful business in Nebraska before moving to Arizona and purchasing Papa John's Salad and Produce, Inc. The company supplies grocery and convenience stores fruits and vegetables, deli salads, sandwiches, and various specialty items.

A partnership was formed with Arizona Correctional Industries in June of 2015 to supply inmates from the San Carlos Unit of the Arizona State Prison Complex Perryville located in Goodyear, Arizona. The partnership currently produces prepared foods for Fry's and Circle K Arizona locations.

Negotiations on terms of this inmate work contract went on for several months and involved discussions with wardens from two facilities as well as the Director's office. Initially fourteen inmates began being transported to the Papa John's Salads and Produce facility in Phoenix five days a week.



Papa John's location in Tolleson, Arizona.



Inmate employees preparing basic deli items like potato salad.



ACI inmate employees work together on an assembly line to prepare food items that will be sold to local grocery and convenience stores.



In the long term Papa John's intends to expand this work crew to around one hundred inmates working daily, based on the availability of minimum custody cleared inmates. This would make Papa John's the largest new private sector inmate work contract partnership in several years.



The food items are prepared and packaged in a refrigerated room.

On a weekly basis the Deli, Produce and Meat departments create 725 different items that utilize:

900 loaves of bread

105,000 pounds of cheese

35,000 pound of fresh chicken

5,000,000 pounds of watermelon

3,000,000 pounds of pineapple

Delivered to 550 stores directly 7 days a week.



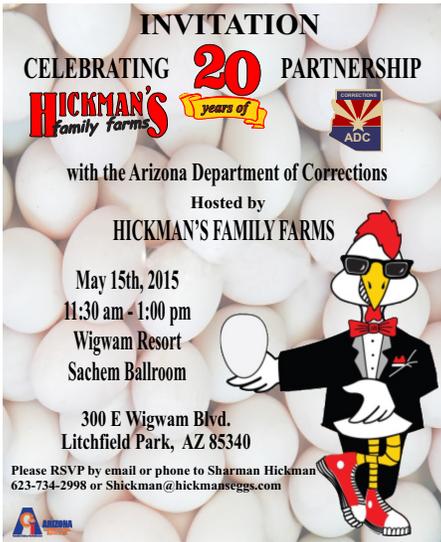
Workers prepare fresh-cut fruit and vegetable trays as well as desserts, quick-snack packs and lunch box products.



Papa John's products are made fresh daily and delivered directly to the stores.



20 YEARS OF PARTNERSHIP CELEBRATED



On May 15, 2015 the Arizona Department of Corrections (ADC), Arizona Correctional Industries (ACI), and Hickman's Family Farms celebrated the 20th year of their inmate work program

partnership providing egg production and packaging services in Arizona.

The partnership began in 1995 under ADC Director Sam Lewis with a single work crew from ASPC-Perryville, where ten men were trained to repair and assemble chicken coops. Retired ACI Director John Spearman and former Perryville Warden Dale Copeland were instrumental in getting the program off the ground.

Today, crews from three Arizona State Prison Complexes (ASPC) Perryville, Lewis, and Florence show up for work at three of Hickman's Farms locations. The program enables 186 male inmates and 93 female inmates to develop meaningful job and life skills while also helping Hickman's egg operations run smoothly.

Inmates are encouraged to learn all aspects of the business from building and repairing chicken coops and equipment, driving forklifts, moving pallets, welding, raising and vaccinating hens, processing the eggs, to working the production lines and helping with new projects.

Over the past twenty years, Hickman's Family Farms has taught and trained nearly 2,500 inmates, who have worked a total of 4,697,867 hours.

ADC Director Charles Ryan presented a plaque to the Hickman family commemorating the partnership and the noteworthy inmate hours worked.

Through this partnership and others like it, the Department is able to fulfill its responsibility to provide inmates a meaningful work opportunity that enables them to develop skills and training that can help them get a

'second chance' for a productive life, which is a primary objective of Corrections. ACI work programs have proven to be the most effective tool to reduce recidivism. Whereas thirty-eight percent of inmates will return to ADC custody within three years, considerably fewer will return if they participate in ACI programs during their time in prison.

State taxpayers see a savings as a result of work program partnerships too, since a portion of the inmate's wage goes

"It gives me great pride to work with the Hickman family and see the positive impact that our inmate work program has had for Hickman's Farms, for the inmates, and for the public."
 -Charles Ryan,
 ADC Director



Aerial view of Hickman Family Farms.

to offset some of the costs of incarceration. That money is returned to the state General Fund including millions of dollars earned through the partnership with Hickman's. A part of inmate earnings is paid into court-ordered restitution for victims of crime and their families, as well as to child support.

The Hickman family hosted luncheon commemorated the notable anniversary of the partnership between ADC and ACI.



Director Ryan (center) receives check presented by Billy and Glenn Hickman.

Among the attendees were former Governor Jan Brewer, State Senator Judy Burgess, State Representative Phil Lovas, Assistant Maricopa County Manager Mary Ellen Sheppard, and former ADC Director Terry Stewart. ADC Director Charles Ryan told those gathered, "It gives me great pride to work with the Hickman family and see the positive impact that our inmate work program has had for Hickman's Farms, for the inmates, and for the public."

He noted that the opportunity for inmates can continue after they are released, as Hickman's Farms regularly provide work references for former offenders, and some have been offered employment after they're released.

Ryan gave a special thanks to the men and women - past and present - of the Department and ACI for their hard work to make this partnership a success.

He also expressed ADC's gratitude to Hickman's Farms and the entire family for their unwavering commitment to the Department and the success of meaningful inmate work programs.

ADC and ACI look forward to continuing this partnership for many years to come!

As the anniversary event concluded, The Hickman family presented Director Ryan with a \$25,000 donation to the newly established Fallen Correctional Employee Memorial fund, which will be used to help pay for the memorial's design and construction.



Director Charles Ryan, Former Governor Jan Brewer, Deputy Director Jeff Hood, and ACI CEO/General Manager Brian Radecki.



Arizona Correctional Industries and Bureau of Land Management (BLM) began working together in April 2012 with the Arizona Department of Corrections inmate population. The program was launched with six horses and to date there have been 997 arrivals of horses and burros with over 150 adoptions.



Under the guidance of Randy Helm, the manager of the Wild Horse Inmate Program (WHIP) and other experienced animal trainers provide horsemanship, animal husbandry and farrier skills. Wild horses obtained from BLM are domesticated (gentled) so that they can be offered for adoption. WHIP operates in a state-of-the-art facility

and the inmates receive hands-on training in the equestrian field and learn about the care and treatment of animals, while building self confidence.

ACI and BLM held an open house on November 15, 2014 at the holding facility within the Florence Prison grounds located at 19789 E. Butte Avenue in Florence, Arizona (located a mile from the intersection with Route 79). ADC Director Charles Ryan and BLM Arizona State Director Raymond Suazo addressed an engaged crowd and stressed the importance of the partnership between ADC and BLM to the success of ACI's Wild Horse Inmate Program.



Using the barrel contraction fabricated in the ACI industrial yard, the horses learn how to carefully move objects, including people.



Charles Ryan, Director, gives a history of WHIP.

This event promoted WHIP and featured demonstrations, clinics, a BBQ, gifts, a ribbon cutting ceremony with color guard, and much more. Among the horse enthusiasts in attendance at the open house were Arizona State Senators Al Melvin and Barbara McGuire

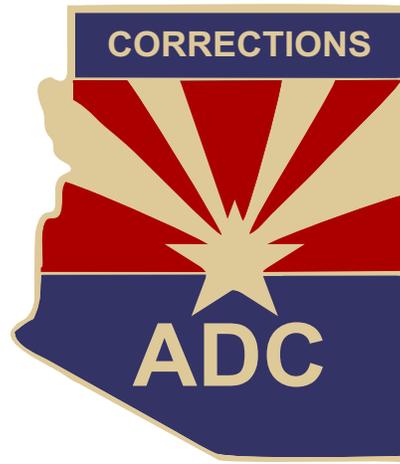
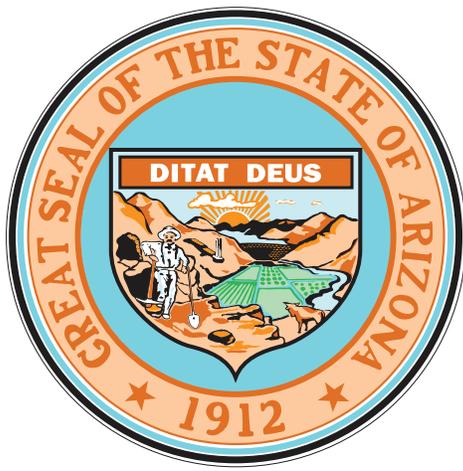
and State Representatives Frank Pratt and Vince Leach as well as BLM Lead Wild Horse and Burro Specialist Roger Oyler. The entire ACI WHIP

staff and several of the inmates from the program, took part in demonstrations led by Randy Helm. Randy explained many of the techniques the trainers use to "get the horses and burros thinking instead of just reacting." He went on to detail how they can provide training to meet the needs of many different constituents. For instance, the US Border Patrol needs horses that can track and chase, while police departments may need horses that can help with crowd control.

Operated by ACI, the public is welcome to view the horses and watch any training or other activities taking place within the fenced areas.

"We began this program because BLM needed a place to care for these wonderful animals and ACI needed another job skills training program for our inmates in Florence," explains Glen Davis, ACI Operations Vice President.





ARIZONA
CORRECTIONAL
INDUSTRIES

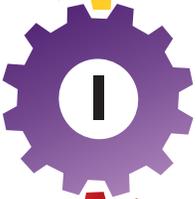
ADC Core Values



Professionalism: Modeling the ideal



Responsibility: Owning your actions



Integrity: Doing the right thing



Courage: Taking action despite fear



Efficiency: Making every action count

PRICE

Reflects values that are of worth and significance to our agency and to the State of Arizona.



www.aci.az.gov

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