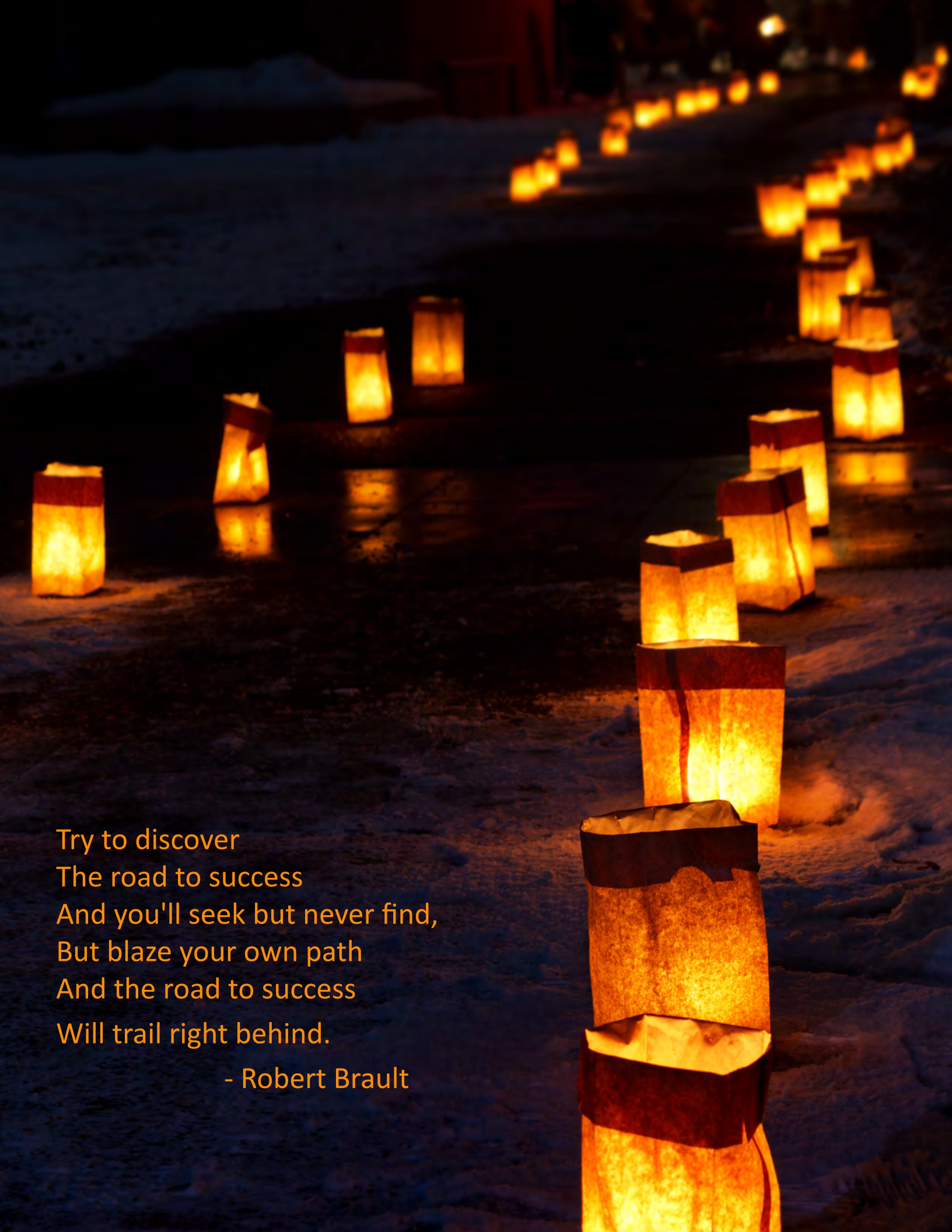


ANNUAL REPORT 2014

PATHWAYS TO SUCCESS

ARIZONA CORRECTIONAL INDUSTRIES

A long, winding path of glowing lanterns is laid out on a snowy field at night. The lanterns are made of a textured, translucent material, possibly paper or fabric, and are illuminated from within, casting a warm, golden light. The path leads from the foreground into the distance, where the lanterns become smaller and more blurred. The background shows a dark, silhouetted mountain range under a starry night sky. The overall atmosphere is serene and contemplative.

Try to discover
The road to success
And you'll seek but never find,
But blaze your own path
And the road to success
Will trail right behind.

- Robert Brault

A desert landscape at sunset. A vibrant rainbow arches across the sky, partially obscured by the text. The scene is dominated by large, reddish-brown rock formations, including a prominent butte on the right and a smaller one on the left. The foreground is filled with dry, scrubby vegetation and tall grasses. The overall lighting is warm and golden, characteristic of the 'golden hour' of sunset.

MISSION STATEMENT

To 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.

CONTENTS

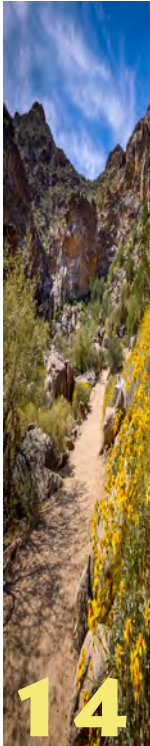
ENVISION



TARGET



SHARE



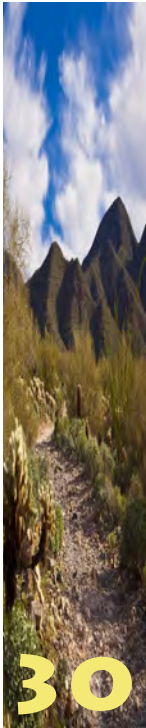
MEASURE



INNOVATE



EVALUATE



RECOGNIZE





ENVISION

Dear Director Ryan:

Fiscal Year 2014 proved to be a strong but challenging transition year for Arizona Correctional Industries, forcing us to explore some new pathways to success. Although product sales increased by 20%, total sales fell 6% to \$38 million with a net income of \$1,201,623. Inmate hours while still strong fell by 20,000 totaling 3.8 million. The main contributor was the severe reduction in operations at NatureSweet, our largest customer for the last few years.

Fortunately steps were already in place or added that helped reduce the impact of these developments. Some of these efforts – or pathways to success — will be highlighted throughout this annual report. A highlight at our Florence operations was the arrival on May 22 of Justice, a beautiful male foal now part of our Wild Horse and Burro Program.

Partnerships and collaborations figured prominently as we continued to explore new routes to success. A huge asset, our National Correctional Industry Association (NCIA) membership, provides many opportunities to learn from and work more closely with Correctional Industries in other states.

With our new shop in Kingman manufacturing polystyrene block building materials, we are blazing a new path for our Owned-and-Operated shops by purchasing a production line from EF Block™. As the construction industry in Arizona gains strength, this partnership should prove very fruitful for both organizations.

Arizona Correctional Industries began a slow progression down the recycling path several years ago and we are now in negotiations with Arizona State University to create a comprehensive recycling and composting operation using inmate labor.

As we continue to add new shops, we found a need to modify and improve our organization by creating a new leadership position for our owned and operated plants similar to the one in the labor contract area. Bill Foster, our previous central region manager, will set the course for these vital operations using his vast manufacturing and corrections experience.

Understanding that success can also dwell within, we have begun the extensive process of objectively reviewing each segment of our business to determine its continuing viability. At the same time, we are expanding our branding and marketing efforts to tell our customers, and the broader markets, the entire ACI story putting us on the fast-track going forward.



We are proud, once again, to share the findings of the Arizona State University, WP Carey School of Business, Seidman Research Institute study. It estimates the economic impact from Arizona Correctional Industries to the State of Arizona this year at \$165 million with the creation of 1,820 private sector jobs potentially generating millions more in state tax revenues in the coming years.

As we conclude our 27th year, mindful of the unique challenges and responsibilities of this business, we sincerely thank you for your leadership and support. Our continued success depends on you, the Arizona Department of Corrections executive staff, the Arizona Correctional Industries Advisory Board, associates, business partners, customers and suppliers throughout the year. Together we will continue to find new pathways to success.

Sincerely,

Brian Radecki
CEO/General Manager



MANAGEMENT TEAM



Brian Radecki
CEO/General
Manager



Dale Beatty
Chief Financial
Officer



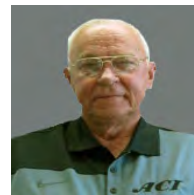
Glen Davis
Senior Vice President
Labor Contracts and
Marketing/Sales



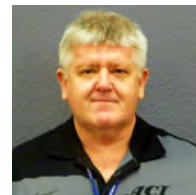
William Foster
Industrial Operations
Administrator



**Gregg
Hillebrand**
Vice President



Alan Wesley
Vice President



**Richard
Selapack**
Vice President
Labor Contracts



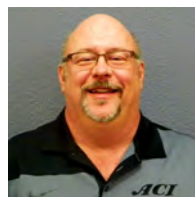
Eric Cole
Vice President
Labor Contracts



Mario Diaz
Vice President
Labor Contracts



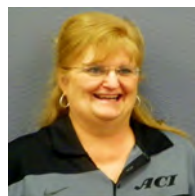
Rick Kahn
Vice President
Sales



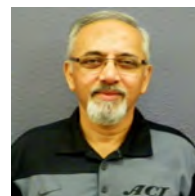
Thomas Brown
Customer Service
Manager



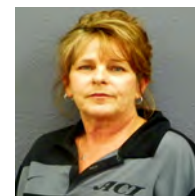
Clark DesSoye
Marketing
Manager



Vicki Fitzpatrick
Procurement
Manager



Anil Shukla
Materials Manager



Malinda Strom
ESA/HR Liaison
Administration

PLANNING FOR SUCCESS

Planning for growth is always the bottom line for a Correctional Industry. Recognizing that as the number of incarcerated individuals increases, so does the number of prisons and the need for increasing the size of the correctional industry program.

Each calendar year, prior to the end of the current fiscal year, a budget is developed for Arizona Correctional Industries. Each shop, cost center, labor contract, Industry Program Specialist, and Correctional Officer as well as selling and administrative expense is budgeted for the new year.

Another part of the planning process involves looking at all capital equipment, reviewing labor dollars, and funding to the Arizona Department of Corrections (ADC) and Department of Administration. These expenditures are ultimately reviewed by senior personnel and approved by ADC.

Expansion of existing operations plays an important role in maintaining a thriving correctional industry

program. This past year the ACI Print shop began a program to replace obsolete equipment and invest in a new state-of-the-art digital press. A need for direct data transfer, shorter lead times, small lot orders, and higher printing quality necessitated the move from traditional offset to digital printing.

The RYOBİ 3404X-DI digital offset press meets such demands by directly utilizing prepress data to quickly print the number of sheets needed with uniform high quality. This state-of-the-art press was jointly developed by Ryobi and Presstek Inc., of the United States. The popular direct imaging system was upgraded to achieve even higher printing quality. Higher productivity through direct printing of received data, plus user-friendly operation achieved through extensive automation, is combined with the high printing quality of offset printing.

The fiscal year 2014 annual report has the distinction of being one of the first print jobs completed on the new press.



The RYOBİ 3404X-DI digital offset press located at the ACI print shop at ASPC-Perryville, Goodyear, AZ.



The ACI Print shop at ASPC Perryville currently employs 55 inmates.



TARGET

TARGETING SUCCESS LABOR CONTRACT PARTNERS



Aquachill call center located in Phoenix, Arizona.

The labor contract team created several different pathways to find new business partners during fiscal year 2014. Some of ACI's best contracts are with business-to-business telemarketing firms. The Valley of the Sun is home to many such organizations and many other local businesses have their own in-house operations in this area.

The team has submitted proposals to several of these companies to provide labor within or outside the prisons. Inmates seem to work out very well in these situations, obtaining the useful job-training that often leads to hiring by these firms upon their release. Ex-offenders know what is expected of them and understand the business climate. With their experience during incarceration they are able to quickly advance, moving into managerial positions that would never have been available to them with their limited job experience prior to prison.

Long time labor contract partner, Hickman's Family Farms, will be expanding their inmate labor force in the coming months. They are depending on the experienced inmate team that they have used in the past to help them construct a new facility in Tonopah, Arizona. Once built, they will be expanding their inmate labor force to tend the 4.4 million chickens and keep the new egg processing facility running smoothly.



Hickman's new Tonopah facility under construction



Hickman's egg processing plant in Arlington, Arizona.



Solana Power Plant west of Gila Bend, Arizona.

ACI will soon be sending inmate labor crews from ASPC Lewis to perform a variety of routine maintenance duties in and around the Solana Power Plant west of Gila Bend. The success of this new concept in harnessing the sun's power will encourage investors to expand operations throughout Arizona. Talks are already underway to explore the possibility of producing vital infrastructure components for the new Solana facilities in the ACI metal fabrication shop.

As the world's largest parabolic trough plant, owned by Abengoa Solar, Solana produces enough electricity for about 70,000 households. The electricity is steam generated from water heated by

tubes filled with synthetic oil that has been heated to 740 degrees by sunlight reflected off the curved mirrors. The field of mirrors, which were made in Surprise (each 20 feet wide, 450 feet long and more than 20 feet tall), covers nearly three square miles. Each mirror is programmed to automatically track the sun. After sundown or on cloudy days, heat from thermal energy storage systems continues generating electricity overnight.

All of Solana's electricity is delivered to Arizona customers through Arizona Public Service Co. (APS), which has a 30 year power purchase agreement with Solana.



Metal Fabrication facility in ASPC-Florence

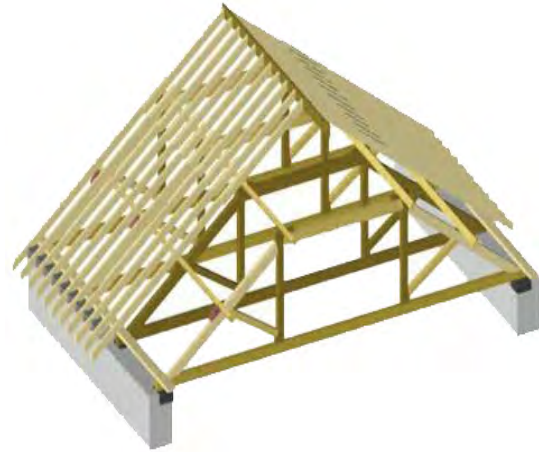
After a long application process, ACI is nearing final approval for the Prison Industry Enhancement Certification Program (PIECP) within the metal fabrication facility in Florence. Once finalized, ACI will be able to manufacture items for use beyond Arizona. National or international manufacturers will be able to contract with us to fabricate specialty items, parts or components.



The inmates working on these projects will earn prevailing, free-world wages for the labor performed. In addition to expanding the customer base for the skilled metal fabrication workers, the other industrial yard inmates will all want to show their capability to do quality work and thus qualify to participate in PIE programs where they can earn substantially more.

ACI has joined forces with a couple manufacturers of wooden wall panels and housing trusses. Alliance Truss in Casa Grande is using a 14 inmate crew each day to expand their business in central Arizona. Startup manufacturer Insideout Industries LLC is working with ACI to complete infrastructure modifications on a new shop at the CCA Red Rock facility in Eloy. They will use inmate crews to assemble framing units for use in Arizona’s recovering residential and commercial building industries. These operations will provide some great jobs-skill training and could see significant expansion as the real estate market recovers.

Sun Country Trailer is working with ACI to set up a facility to fabricate steel utility trailers. They considered spaces within a prison facility but settled on collocating it with a complementary operation in Buckeye, where inmate labor will supplement their existing labor force as they strive to expand their business.



Sample housing truss made by Alliance Truss



ACI trailers currently produced for JimGlo Trailers





SHARE

COLLABORATING WITH OTHER CORRECTIONAL INDUSTRIES

In the public sector, most industry associations serve the shared interests of organizations that are competing with each other for business. This limits how much the members will share with each other. But, in the National Correctional Industries Association (NCIA), Arizona Correctional Industries and the other members are not direct competitors. In fact, they complement each other, sharing the same mission in separate states.



Brian Radecki (center) teamed up with Mike Herron (on left) from Indiana and Tony Miller (on right) from Pennsylvania to teach a seminar on Working with Other CIs during the NCIA Conference in New Orleans last April.

Arizona Correctional Industries managers take an active role in the NCIA participating in working groups, webinars and attending the annual conference. At last years NCIA conference the Tennessee Correctional Industries shared how they went about rebranding themselves as TRICOR and this served as a road map that Arizona Correctional Industries has been following in its efforts to standardize the ACI brand that will soon be launched with a new logo and website.

Over the years, Arizona Correctional Industries has worked with its counterparts in many different states to share information about successful



programs and private business partners. Learning about these successes and what pitfalls to avoid, helps new programs become profitable sooner.

Industries from Nevada, Colorado, Utah and Kansas provided ACI with invaluable insights on getting our Wild Horse and Burro Program started. They helped us connect with the Bureau of Land Management representative for our region and provided guidance in constructing our facilities and training program, which today rival established programs across the country.

As one of the 21 state Correctional Industries (CI's) in the NCIA License Plate Working Group, Arizona Correctional Industries managers can speak directly with more experienced practitioners and provide guidance to managers who are launching or expanding their license plate plants. They can share knowledge of vendor experiences and help each other negotiate better pricing and delivery schedules.

ACI managers have visited several different Correctional Industries that resulted in the establishment of new programs. For instance, the Arizona Correctional Industries Fish Farm Program was inspired by similar programs in Washington and Colorado. Arizona Correctional Industries continues to work with Washington on a new line of Dormitory Furniture and a Restraint Chair. They are also assisting ACI to establish our embroidery program and provide guidance on possible Optical and Braille programs down the road.

There are new product lines and shops being created at Correctional Industries around the country all the time. Because they work collaboratively instead of competitively, they can help inspire each other with ideas on new programs and things to beware of. In addition they help to find markets, private sector business partners and good materials sourcing options.

By learning about programs and private sector partnerships at other Correctional Industries, ACI managers know where they can go for advice



about their own programs or programs under development. This partnership also creates a strong referral network. For instance, because Arizona Correctional Industries partners with the national company Closed Loop here in Arizona, the Ohio Correctional Industry knows that Closed Loop is predisposed to work with them as well from their Ohio facilities.

Occasionally, one Correctional Industry will be asked to manufacture something they simply do not have the ability to fabricate, but can subcontract to another CI that can.

Because the NCIA membership is a small but connected group, members continuously capitalize on their networking. NCIA membership also provides many additional benefits:

- The NCIA Directory is a wonderful resource for ideas and contact information.
- The annual NCIA Convention provides a venue for face-to-face meetings where members learn about new products and opportunities, while establishing valuable contacts.
- NCIA Surveys and NCIA Webinars provide valuable information throughout the year.

Arizona Correctional Industries’s partnership with other correctional industries has already provided invaluable information to help launch, expand and improve programs. With General Manager Brian Radecki’s election to the NCIA Board of Directors, Arizona Correctional Industries’ ties to it and other Correctional Industry members will be further strengthened promising many more shared successes on the horizon.



Along with the popular Leadership Sales and Marketing tracks, a unique workshop on Correctional Industries partnering with other Correctional Industries was taught by Brian Radecki, at the 2014 NCIA National Conference in New Orleans, LA.



NATIONAL
CORRECTIONAL
INDUSTRIES
ASSOCIATION

There is no question of the value of the Prison Industry Enhancement Certification Program (PIECP). Correctional industries directors agree, especially in times of economic downturn when the need to supplement public markets with private markets is most acute. Finally, the amounts of money created through PIECP jobs that have gone to ease the public tax burden cannot be ignored: As noted above, from the program's inception, PIECP workers have contributed approximately \$57 million to victims' compensation funds, \$171 million to cover some of the costs of incarceration, \$36 million in family support, and \$75 million in taxes. By any measure, the PIECP has made a substantial contribution to American taxpayers.

THE PIECP: A PROGRAM HISTORY
By Barbara Auerbach
December 2011



ASPC-Florence wood/metal inmate working with dovetail drawer

A dirt path leads through a field of yellow wildflowers towards a large, jagged rock formation under a blue sky with wispy clouds. The word "MEASURE" is overlaid in the center in a bold, yellow, sans-serif font.

MEASURE

TOP TEN ACCOUNTS



1. Trinity Services Group Inc., \$5,256,000
2. Hickman's Egg Ranch \$4,238,000
3. AZ Department of Transportation \$3,781,000
4. AZ Department of Corrections \$3,665,000
5. NatureSweet \$3,102,000

6. Televerde \$2,987,000
7. Common Market Equipment \$2,667,000
8. Safety Services Company \$1,385,000
9. AZ Department of Economic Security \$776,000
10. Bureau of Land Management AZ State office Administration \$758,000

Leading the top five performing accounts this year is Trinity Services Group. With more than 40 years in the industry, Trinity Services Group is a leader in essential support services for secure facilities encompassing correctional food service, commissary services and inmate training programs.

Hickman's family farms began with a flock of 50 chickens and sales of eggs from the back porch of Nell Hickman. Today Hickman's Family Farms is based in Buckeye, Arizona. The hens and processing operations are located in Arizona, Colorado, and California. The flock number is approximately 7 million laying hens, and 1 million replacements which ranks the family farm in the top twenty in the United States.

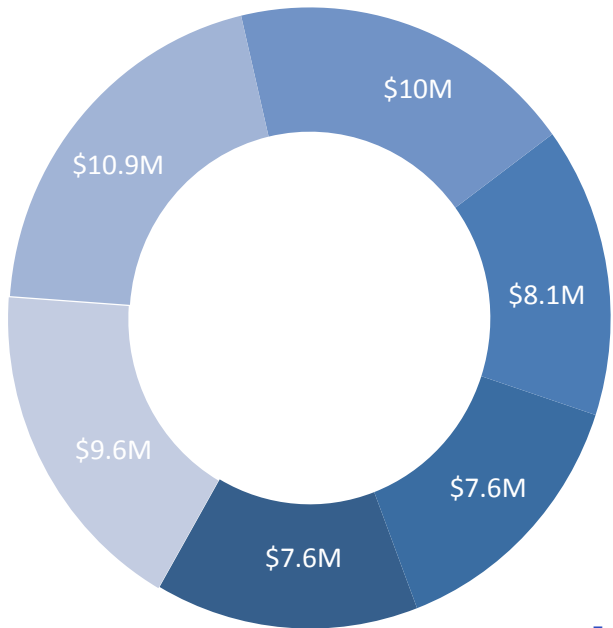
The Arizona Department of Transportation (ADOT) is a multi modal transportation agency serving one of the fastest-growing areas of the country. A major component of the organization is the Motor Vehicle Division, which provides title, registration, drivers

license services and license plates to the general public throughout the state of Arizona.

As the parent agency of Arizona Correctional Industries, the Department of Corrections employs over 10,000 employees in prisons, a training academy, probation, and administrative offices all over the state of Arizona.

On January 28, 2013 – NatureSweet® Limited, the leading grower of premium fresh tomatoes in North America under the NatureSweet® brand, announced the company intended to purchase substantially all of the assets of EuroFresh Farms, based in Willcox and Snowflake, Arizona. NatureSweet and EuroFresh Farms are two of the leading producers of high-quality tomatoes in North America. The Willcox and Snowflake locations are a year-round producer and marketer of greenhouse tomatoes and cucumbers in the United States and an innovator in the branded, high-end fresh tomato and cucumber industry.

INMATE WAGES



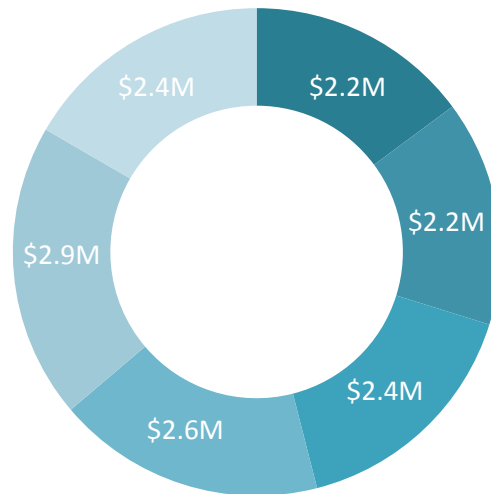
- FY-2009
- FY-2010
- FY-2011
- FY-2012
- FY-2013
- FY-2014

During fiscal year 2014 inmates earned \$9,613,000 in wages. The chart shows the total wages paid to ACI inmates over the last six fiscal years; a noteworthy \$54 million.

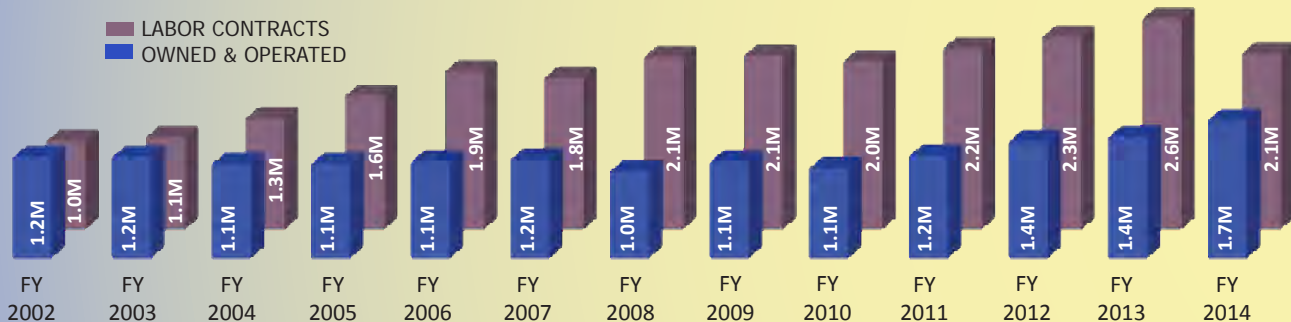
INMATE ROOM & BOARD

Deductions from inmate wages reduce the cost of room and board, which contributes to the general fund. Total inmate contributions for room and board for FY 2014 were \$2,480,000.

- FY-2009
- FY-2010
- FY-2011
- FY-2012
- FY-2013
- FY-2014



INMATE HOURS BY FISCAL YEAR





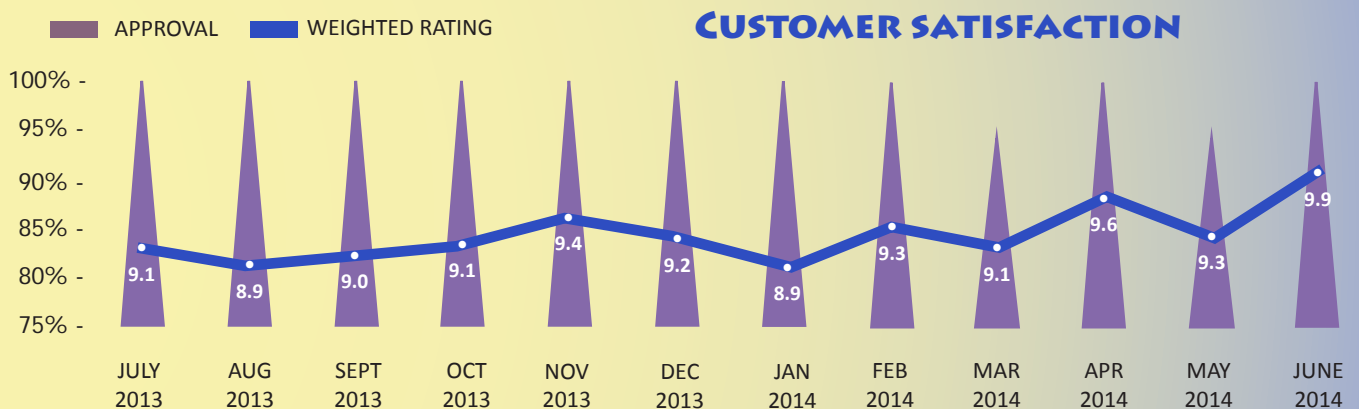
When Six Sigma and other metrics-based systems began to insert themselves into today's corporations, it became apparent that customer satisfaction needed to be measured using the same types of data-driven precision that most other performance metrics used. After all, if customer satisfaction was to be focused on as part of a company's overall improvement efforts, then a sound, tested means for measuring this quality would be required.

Enter the customer satisfaction survey. Customer satisfaction could be broken down by business unit, department and individual employee. Satisfaction

levels could be monitored over time to determine upward or downward trends.

ACI Customer Satisfaction Surveys allow us to quickly capture vital information with relatively little expense and effort. A primary advantage of this method is its directness: the purpose is clear, and the responses straightforward. Additionally, the information gathered by surveys can easily be analyzed and used to identify trends over time.

Monthly customer surveys resulted in an overall approval rate of 99.16%. The average weighted rating was 9.6 for customer satisfaction on scale of 1 to 10 (10 being the best).





**DEPARTMENT OF CORRECTIONS
ARIZONA CORRECTIONAL INDUSTRIES**

**FINANCIAL STATEMENTS
(unaudited)**

Year Ending June 30, 2014



STATEMENT ON NET ASSETS - ENTERPRISE FUND

	2014	2013
Assets		
Current assets		
Cash and cash equivalents	\$ 5,366,173	\$ 7,904,870
Accounts receivable, net	3,551,461	3,653,873
Inventories	4,986,720	3,877,166
Prepaid expenses	136,438	129,458
Total current assets	14,040,792	15,565,367
Long-term assets		
Land	692,438	692,438
Capital Assets, net of depreciation	3,293,071	3,155,653
Total Long-term assets	3,985,509	3,848,091
Total assets	18,026,301	19,413,458
Liabilities		
Current liabilities		
Accounts payable	141,146	1,173,744
Accrued payroll and benefits	866,772	1,114,872
Deferred revenue	0	22,550
Other accrued liabilities	617,721	600,153
Capital lease	0	0
Total liabilities	1,625,639	2,911,319
Net assets		
Invested in capital assets, net of related debt	3,985,509	3,848,091
Unrestricted	12,415,153	12,654,048
Total net assets	\$ 16,400,662	\$ 16,502,139





STATEMENT OF REVENUES, EXPENSES AND CHANGE IN FUND NET ASSETS

	2014	2013
Sales	\$ 37,978,989	\$ 40,377,111
Cost of goods sold	32,298,360	32,431,716
Gross profit	5,680,629	7,945,395
Operating expenses		
Selling	1,018,928	892,934
General and administrative	3,501,739	4,065,518
Total operating expenses	4,520,667	4,958,452
Operating income	1,159,962	2,986,943
Non-operating revenue (expenses)		
Investment income	35,009	34,946
Net gain/(loss) on disposal of equipment	6,652	15,268
Interest expense	-	(116)
Net non-operating revenues (expenses)	41,661	50,098
Income before transfers	1,201,623	3,037,041
Transfers to State of Arizona funds	(1,303,100)	(947,400)
Increase/(decrease) in net assets	(101,477)	2,089,641
Total net assets, July 1	16,502,139	14,412,498
Total net assets, June 30	\$ 16,400,662	\$ 16,502,139

STATEMENT OF CASH FLOWS

	2014	2013
Net cash (used)/provided by operating activities	\$ (517,278)	\$ 5,080,269
Net cash used for noncapital financing activities	(1,303,100)	(952,400)
Net cash used for capital and financing activities	(753,328)	(1,297,807)
Net cash provided by investing activities	35,009	34,944
Net (decrease)/increase in cash and cash equivalents	(2,538,697)	2,865,006
Cash and cash equivalents, July 1	7,904,870	5,039,864
Cash and cash equivalents, June 30	\$ 5,366,173	\$ 7,904,870



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

	2014	2013
Operating Income	\$ 1,159,962	\$ 2,986,905
Adjustment to reconcile operating income to net cash provided for operating activities		
Depreciation	622,510	543,798
(Increase)/decrease in accounts receivable	102,465	1,237,138
Increase/(decrease) in accounts payable	(1,032,599)	824,747
Increase/(decrease) in inventories	(1,109,554)	(776,407)
(Increase)/decrease in prepaid expenses	(6,979)	63,237
Increase/(decrease) in accrued payroll & benefits	(248,101)	272,628
Increase/(decrease) in deferred income	(22,550)	2,835
Increased/(decrease) in accrued liabilities	17,568	(74,612)
Net cash (used)/provided by operating activities	\$ (517,278)	\$ 5,080,269

SCHEDULE OF CAPITAL ASSETS AND ACCUMULATED DEPRECIATION

	2014	2013
Schedule of capital assets		
Land	\$ 692,438	\$ 692,438
Land Improvements	866,418	391,016
Building	787,808	787,797
Building Improvements	1,297,611	1,150,620
Equipment	8,488,337	8,116,202
Construction In Process	0	369,178
Total capital assets	\$ 12,132,612	\$ 11,507,251
Schedule of accumulated depreciation		
Land improvements	275,181	243,397
Building	526,652	497,154
Building improvements	676,646	635,840
Equipment	6,668,624	6,282,771
Total accumulated depreciation	\$ 8,147,103	\$ 7,659,162
Capital assets, net	\$ 3,985,509	\$ 3,848,089

A photograph of a natural rock archway in a desert landscape. The arch is made of reddish-brown sandstone and frames a view of a dirt path leading through a canyon. The path is lined with large, smooth boulders. The sky is clear and blue. The word "INNOVATE" is overlaid in the center in a bold, yellow, sans-serif font.

INNOVATE

INITIATIVES

STRENGTHEN BUSINESS PARTNERSHIPS

Several years ago, while ordering material for our commodities manufacturing shop, Regional Manager Al Wesley noticed that the cardboard and plastic he used to manufacture corrugated boxes and trash can liners were made from recycled materials. When he next had to order the materials for the constructing of mattresses, he asked his supplier where they purchased their raw materials. They told him that it was mainly comprised of recycled clothing and linens. At the time, Arizona prisons were simply throwing out discarded clothing and linens. So Al asked them if we could sell them these items for recycling and thus partially offset the cost of the cores and padding we subsequently buy from them. They agreed. A deal was struck and a new partnership was forged. It's good for the environment and good for both businesses.

Arizona Correctional Industries never set out to be environmentalists but suddenly we were on the path as the Arizona Correctional Industries Green Initiative was begun. Throughout the organization, managers, staff, inmates and business partners began to look for similar opportunities where instead of paying landfill fees, discarded materials could be recycled.

Today, Arizona Correctional Industries shops and labor partnerships play a significant role in protecting the environment, reducing waste, and preserving natural resources. All company vehicles use FlexFuel technology and are maintained to perform at peak efficiency for better gas mileage.



Padding, made from recycled inmate clothing, used in Arizona Correctional Industries spring mattress production.

Currently, Arizona Correctional Industries gratefully accepts:

- ◆ Cardboard boxes from all ACI shops and other prison operations
- ◆ Box scrap from our box manufacturing shop
- ◆ Coated paper rolls from license plate manufacturing
- ◆ Discarded inmate clothing from ADC and the private prisons
- ◆ Discarded denim clothing
- ◆ Scrap fabric from our garment shops
- ◆ Plastic drink bottles, plastic milk containers, plastic scrap from our bag operation
- ◆ Plasticized twine
- ◆ Ultra touch mattress cores
- ◆ Cotton mattress pads
- ◆ Mattress coil springs

FURNITURE REFURBISHING

Soon after the Arizona Correctional Industries Green Initiative launched, a favorable article about our reupholstering capabilities appeared in the local newspaper ("Florence prison upholstery shop is Valley decor secret," by Jaimee Rose - March 30, 2010; The Arizona Republic) and Arizona Correctional Industries became the go-to shop for refurbishing furniture. Public and private businesses – as well as private citizens – across the state brought their worn, dated, stained and otherwise damaged furnishings and Arizona Correctional Industries shops made them look new again.

Since then, Arizona Correctional Industries shops have refinished living and dining room furnishings, offices, dorms, courtrooms, conference and committee rooms for both houses of the state legislature as well as the Governor's executive floor offices. Recently, after refinishing upholstered chairs for the Senate, several staff members remarked that they hadn't realized there was wood on the chairs, they had been so tarnished they had looked like painted metal.



Upholstering specialists give worn furniture a new life in homes and offices instead of landfills.

WATER RESOURCING



Arizona Correctional Industries has farmed since its inception back in 1986, providing real-world agricultural training to hundreds of inmates while supplying alfalfa to local farmers and ranchers. Since last year, through a partnership with the US Bureau of Land Management, much of the alfalfa crop now feeds wild horses and burros that might have perished had they remained on federal lands that can no longer sustain them.

Working hand in hand with these agricultural efforts, another new Arizona Correctional Industries initiative, begun in 2013, brought fish farming to the Arizona desert. So far the fish farm includes twelve concrete raceways (108 feet long x 10 feet wide) for breeding and raising some 100,000 tilapia and two earthen ponds where more than 64,000 catfish are maturing.



Located outside the prison at Florence, AZ, on land with two functioning wells, the fish farm provides unique training for dozens of inmates. The precious water continues on to irrigate the alfalfa crops in the surrounding fields.



Meet Justice, our new foal!

The first Wild Horse Inmate Program foal was born on Thursday May 22, 2014. A contest was held to name the new foal. Arizona Correctional Industries received over 207 entries and Justice was chosen, the winning name was submitted by ACI General Manager Brian Radecki.



RECYCLING PARTNERS

ARIZONA STATE UNIVERSITY (ASU)

ASU has one of the largest sustainability educational programs in the world. Their faculty is helping to develop a new generation of business leaders who understand how to get more out of our resources through renewable energy, recycling and energy conservation.

Arizona Correctional Industries has been discussing recycling opportunities with ASU to see if we can provide them with a more cost effective way to dispose of organic materials. Currently paying \$140 per ton for the 500 annual tons of organic waste, ASU is hoping that Arizona Correctional Industries can help them move toward their goal of 0% trash going to landfills. That will involve the collection of another 1,800 annual tons of compostables.

The new composting facility in Florence will receive all food, plant and biodegradable waste. With resources already identified for some equipment and training, Arizona Correctional Industries's investment in this program will be modest and will be offset by collection fees, inmate labor fees and revenue generation from the sale of seasoned compost and recyclable materials down the road.

EARTH FRIENDLY BUILDING MATERIALS LLC

Arizona Correctional Industries partners with Earth Friendly Block (EF Block™; efbm.com/) in transforming recycled polystyrene into durable, fire-resistant, insulative blocks that are easily stacked and shaped into almost every possible construction design. The finished blocks are seven times as strong as wood-frame construction and take various types of coatings and finishes. These blocks are manufactured at Arizona Correctional Industries's Kingman, Arizona facility.

EF Block™ will have an everlasting positive impact on the environment through strength in construction, thermal energy savings, and the recycled use of materials that would otherwise be sent to landfills. EF Block™ is quick and easy to construct and, once constructed, various fascias can be applied to customize the appearance of finished walls.

Working with its vendors and partners, Arizona Correctional Industries has found many ways to be more environmentally responsible. It will continue to develop new recycling opportunities and form partnerships that promote sustainability.

CLOSED LOOP REFINING & RECOVERY, INC.

Arizona Correctional Industries provides a reliable, trainable labor force to Closed Loop Refining and Recovery (CLRR; closedlooprr.com) in its effort to reduce global carbon emissions and recover lead (Pb) without polluting the environment.

Using their proprietary technology, CLRR processes cathode ray tubes (CRTs) and extracts lead (Pb) from the funnel glass. The technology is environmentally safe, energy efficient and does not volatilize the lead during the process.



Labor contract partner Closed Loop employs proprietary technologies to safely remove lead from cathode ray tubes.

CLRR is initially set-up to recycle 3,000 tons per month in the company's 75,000 square foot facility in Phoenix, Arizona with plans to expand to other markets as opportunities arise.



Blocks made from recycled polystyrene and specially formulated concrete provide an ideal building material alternative for Earth Friendly Building Materials' customers throughout Arizona.

A vibrant desert landscape featuring a rocky, light-colored path that winds through the scene. The foreground is filled with various cacti, including a prominent cholla cactus on the left and several cholla cholla cacti in the middle ground. The background shows rolling green mountains under a bright blue sky with scattered white clouds. The overall scene is bright and clear, suggesting a sunny day.

EVALUATE

REBRANDING

Too often, organizations that enjoy consistent organic growth year after year, do not take the time to formulate strategies to aggressively grow their business. The Arizona Correctional Industries management team has decided that it is now time to change that attitude. With our ambitious 2020 Vision to increase sales and inmate hours by 50% in the next five years, we know we need to clearly understand, define and live the Arizona Correctional Industries brand so that we can reach broader markets in Arizona.

SELF ANALYSIS

There are many steps in the rebranding process. We research our markets and potential markets. We examine what our competitors are doing. But the most important analysis is to look within. This is usually a very unpleasant task as it can highlight shortcomings and areas where we simply do not do things well. Our analysis did bring to light some of these things, but overall, it reminded us of the important work we do here at Arizona Correctional Industries. We have a very positive story to tell about training inmates, helping the department in its vital public safety mission, saving state tax payers millions of dollars in room and board each year and positively impacting the state's economy. All of that work happens before we even begin to look at what we do for our customers and private business partners.

For us, our self analysis was an illuminating exercise in recognizing our important contributions to the broader community.

FEATURES, BENEFITS OR ADVANTAGES

One important self-analysis a company can undergo is to determine what it delivers to its customers: Features, Benefits or Advantages. Understanding that allows us to clearly see what we sell, the kind of business we are and what customers really want from us.

The management team agreed that Arizona Correctional Industries sells Benefits. In other words, we help enhance what our customers do. We do not make semi tractors, but we provide many of the custom parts and maintenance services that Swift Transportation depends on to keep their fleet of trucks running.

As a benefit-driven business, Arizona Correctional Industries needs to focus on selling products and services that enhance what our customers deliver to their customers. Because Creative Leather's chair components are fabricated in Arizona Correctional Industries's wood shop instead of China, they can assure their customers that their furnishings are Made in the USA.

With this clear understanding that Arizona Correctional Industries is a benefit-driven company, we can focus on producing the appropriate products and services and targeting organizations who can leverage our products or services most profitably for their customers. Televerde could go through the long process of hiring and training new call center representatives every time they win a new account.



New Televerde call center at San Pedro Complex, ASPC-Perryville

But their management team understands that they can serve that new customer better with an experienced team of telemarketers from Arizona Correctional Industries.

The next step in our self-analysis is to reevaluate our processes and procedures, shops and partnerships to better understand our competitiveness in the markets we serve and how we might increase our market share.

Strengths

- Advantages
- Capabilities
- Resources, Assets, People
- Marketing - reach, distribution, awareness

Weaknesses

- Lack of competitive strength
- Financials
- Our vulnerabilities
- Timescales, deadlines and pressures
- Continuity, supply chain robustness

Opportunities

- Market developments
- Business and product development

Threats

- Environmental effects
- Market demand
- Obstacles

STRENGTHS, WEAKNESSES, OPPORTUNITIES AND THREATS

Known in the business world as SWOT analyses, they help us focus on the Strengths, Weaknesses, Opportunities and Threats within each business unit. With input from executive management, business managers, sales, accounting and shop supervisors, we are objectively evaluating each operation. Where we determine that our opportunities outweigh the threats, we are implementing changes to seize the opportunities and put the business on a more positive growth path. Sometimes these changes involve the purchase of updated equipment, like the new four-color printer at the Perryville print shop used to print this report. On occasion, course corrections may just mean doing a better job educating the sales staff and our customers. Unfortunately there might be some instances, where the analysis concludes that we can no longer be competitive and we will need to phase the product out.

The information we have collected from our SWOT analysis has already helped us create new sales

collateral and product worksheets to improve the order process. We will continue to evaluate each shop well into the next year and put into place a schedule to revisit each shop for such analysis regularly to ensure that it stays on track.

BRAND MESSAGING PULLS

Branding has been defined as the expression of the essential truth or value of an organization. As a company that has been different things to different audiences—inside and outside the department—the entire management staff had to come together to distill Arizona Correctional Industries’s one essential truth. Where did our different understandings of Arizona Correctional Industries come together? Where did they diverge? How can they all be represented in one clear, simple brand message? And we did come together to create our new brand message:

Innovative Solutions <—> Productive Lives

Because Arizona Correctional Industries does more than just make products and provide services, we feel that the broader phrasing “Innovative Solutions” better describes how we can help potential customers and business partners. After all Arizona Correctional Industries provides — or can provide — just about anything that an Arizona organization may need to enhance their business. And we do it while we help inmates turn their lives around by giving them important job-training skills.

We also recognized that our brand is much more than a new logo and tag line because “everyone in an organization is, with their every action, either constructing or deconstructing the brand.” We need to walk the walk as well as talk the talk every day in every action we take in every conversation we have.

To ensure that the entire Arizona Correctional Industries family embraces this new branding message, we invited everyone — staff as well as inmates — to submit their design ideas for a new logo. Their response was tremendous as we received many interesting designs. The management team came together again to evaluate the submissions and we picked the one that we feel best represents Arizona Correctional Industries. The proposed new logo will be presented for approval at our Advisory Board meeting in early fall.



The introduction of our new brand messaging and images will begin on the internet, where we will update the graphics and messaging on our website and in our social media presence as we begin posting stories and images to build up followers.

Though we will use Twitter and Facebook as well as several other online venues, our major focus will be with LinkedIn. As the world's largest social network for business, we will have many different ways to reach out to executives and top tier decision makers in the state. We will also be distributing a series of posters to state legislators and agencies articulating this brand message. Using the posters as space ads, we hope to also start some focused media advertising.

Branding strives to pull in new customers by creating the impression that our company is one they should be doing business with. When you see the Apple logo you instantly understand the kind of product you can expect. Their branding does not attempt to sell you the latest iPhone or other electronic device, it simply serves to continuously reinforce the Apple image as the leader in communications technology innovation. When they introduce a new product, you are predisposed to consider it should it meet some current need. From there, the push begins, where targeted marketing details the value proposition associated with the new Apple product and you move ahead in your purchase considerations.

For Arizona Correctional Industries, our brand message is an open invitation to ask, "Can you...?" Every organization has challenges and continuously strives to discover ways to improve their processes. Whether it's the need for temporary labor or a more reliable gadget provider, Arizona Correctional Industries can find a solution for them. In fact, as Apple begins construction on their new factory

here in Phoenix, Arizona Correctional Industries just might provide some answers to the many "Can you" questions that they will be asking as they begin searching for local resources and suppliers.

Entrepreneurs looking to create new products or expand operations, might ask, as EF Block™ did last year, "Can Arizona Correctional Industries work with us to create a new production line?" Or a start up with a great business plan may need some help to get over some initial financial hurdles, like Safety Services:

"I knew that we could quickly become a major player in the untapped safety training and compliance market, if we could just reach businesses desperate for our services," explained Devon Dickinson, founder and current board member of Safety Services."

Begun in 2002 by a guy with a vision — and not much else — Safety Services Company has grown into one of INC Magazine's Top 5,000 Companies for the sixth year in a row.

"We looked at India, the Philippines and elsewhere, but the costs to start up a call center operation were prohibitive," he continued. "I was familiar with the correctional industry in Ohio, so I looked to see if Arizona had a similar program we might work with to launch our business. I discovered Arizona Correctional Industries and the rest, as they say, is history."

Devon Dickinson



A dirt path leads through a scrubby landscape towards a mountain range. The path is sandy and winds through various green and brown shrubs. In the background, there are rugged, rocky mountains under a clear blue sky.

RECOGNIZE

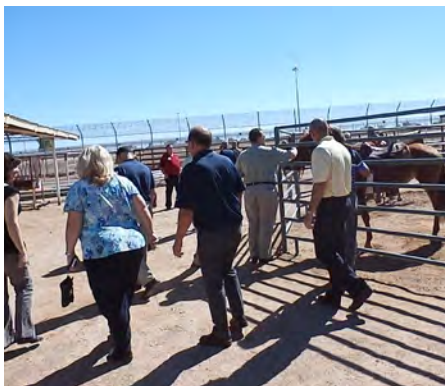
CELEBRATING SUCCESS



The Windmill Event Center site of the 2014 Annual meeting located in Florence, Arizona

The Windmill Event Center in Florence, AZ once again welcomed Arizona Correctional Industries for its Annual Meeting on October 3rd, 2013. Employees toured ACI's Fish Farming Program and the Wild Horse and Burro Programs at ASPC Florence, with a luncheon and program filled with representatives from the Department of Corrections, and our private sector partners. Awards were given for outstanding shop performance, and plans were discussed for upcoming projects.

At the end of the day, employees were invited to take an advanced look at the Windmill's latest addition the Lake House which opened just a few days after the meeting.



PROMOTING DEVELOPMENT



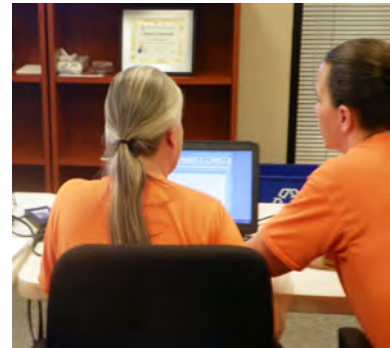
During FY 2014, ACI's Administrative Offices in Phoenix began a unique training program for the inmates and staff. To further their experience and broaden their office experience, classes were offered in the Adobe Creative Suite 5. Introductory and intermediate classes were offered in InDesign, Illustrator, and Photoshop.

Classes took place on laptops and were facilitated by trainers from Executive Training Solutions in

Phoenix. These classes were designed to assist inmates working in the Sublimation and Sales & Marketing departments. Students were encouraged to bring projects and questions they were currently experiencing to better be able to apply the training received. At the conclusion of the classes certificates of completion were offered. Due to the success of this pilot program, more classes are being investigated for training during FY 2015.



Instructor Melanie Rogers teaching Photoshop.



A DAY IN OUR LIFE

At Arizona Correctional Industries, you will find people from all backgrounds, interests and abilities, united by a common purpose to make a difference in our work, our company and our community. It's a high standard, but one that produces amazing results, and possibilities.

Culture is what separates a good company from a great company. Our strong company culture is evident in every element of our work, our people and our future. Arizona Correctional Industries is unique by design.

JOIN US FOR A TYPICAL DAY AT ARIZONA CORRECTIONAL INDUSTRIES... THE PEOPLE...THE PROCESSES...AND PATHS THAT MAKE OUR COMPANY SUCCEED.

6:00 AM



The first ACI Fish Farm harvest on August 5th yielded 3,750 lbs. of catfish that was available in Phoenix markets by midday.



Finished products are assembled into shipment groups in the Florence warehouse in preparation for loading onto delivery trucks.



The manufacture of sturdy corrugated boxes from recycled cardboard employs a full-time staff of a dozen inmates.



Municipalities across the state take advantage of the free delivery of customized bus shelters they have purchased from ACI metal fabrication.

8:00 AM

A Typical Day at Arizona Correctional Industries...The People...The Processes...and Paths that make our Company Succeed

10:00 AM



Semi-tractor repair involves many specialized skills at the Swift operation within Lewis prison.



Sewing skills endure at ACI's three facilities. The Douglas operation specializes in institutional clothing.



Several times each day the fleet of ACI trucks carry finished goods, wood and metal products to counties throughout Arizona.



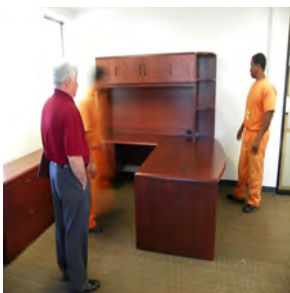
The ACI farm grows all the alfalfa used to feed the Wild Horse Inmate Program animals, illustrating the synergy between ACI programs.



Local farmers and ranchers buy excess alfalfa through the Prison Retail Outlet across the street from the Florence prison.



ACI currently employs approximately 25 inmates in the Wild Horse & Burro Program at ASPC Florence.



Sales Representative Rob King supervises the installation of custom built office furnishings at the new DOT offices in mid-town Phoenix.

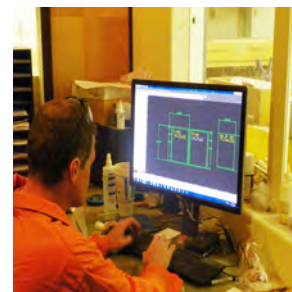
12:00 PM



The Perryville print shop provides hands-on job training from 40-year veteran of the print business Randy Bialkowski.



Trusses and frame fabrication in the new Red Rock facility in Eloy will benefit from the experienced craftsmen who learned their skills in the various ACI shops.



Using the latest 3-D design software to create custom office furnishings, inmates learn office skills that will help them find high-paying jobs upon release.

A Typical Day at Arizona Correctional Industries.....The People.....The Processes.....and Paths that make our Company Succeed



2:00 PM



Sublimation, a division of the Sign shop produces custom signs, plaques and apparel.



NatureSweet farms not only relies on ACI for a large portion of its labor, but the ACI bobbin shop also provides the stringing used to tie up their tomato plants.



Institutional shorts, undergarments, sheets and pillow cases are all manufactured in the ASPC Perryville sewing facility.



In addition to making custom signs, the Tucson sign shop also does vehicle graphics for many law enforcement agencies in Arizona.



Inmates make excellent call center representatives in facilities across the state, like the Televerde San Pedro ASPC Perryville operation.

4:00 PM



The wood shop fabricates custom components for several manufacturers as well as custom office and outdoor furnishings.



Just like millions of other workers across the country, ACI inmate crews need to catch their bus at the end of a fruitful workday.



Hickman's Farms provides transportation from ASPC Florence, Lewis and Perryville to the egg production facilities across Arizona where nearly 200 men and women work the production lines.

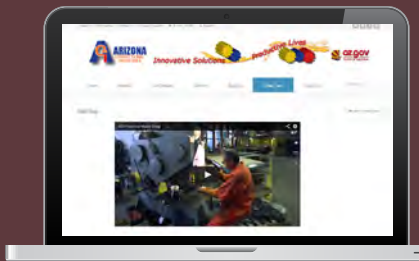


The Eyman bakery produces baked goods as well as corn and wheat tortillas to every state prison as well as many private prisons.

12:00 AM 10:00 PM 8:00 PM 6:00 PM

Some ACI Owned and Operated shops as well as Private Sector Partners operate shifts 24 hours a day.

We continue to shape our presence...
Online and everywhere else!
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