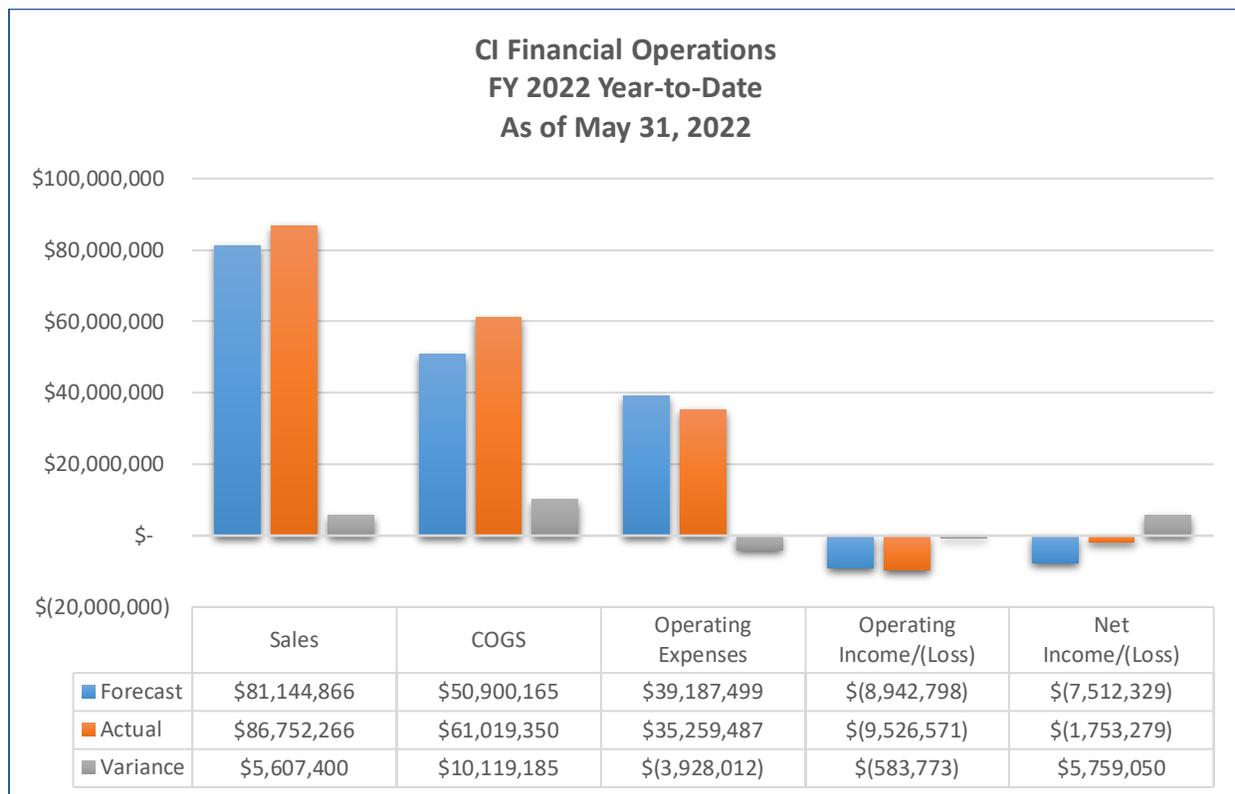


Financial Operations

FY 2022 – July 2021 through May 2022

FY 2022 Financial Overview

Correctional Industries (CI) continues to experience the financial impacts of the Covid-19 pandemic, with May 2022 financials reflecting an actual Operating Loss of $-\$9.53\text{M}$ and a Net Loss of $-\$1.75\text{M}$ fiscal year-to-date. The following provides a brief summary of FY 2022 year-to-date activity by key indicator.



Key Indicators

- **Sales**

Through May 2022, CI has experienced $\$86.75\text{M}$ in actual sales, which exceed forecasted sales by $\$5.61\text{M}$. The positive variance is primarily due to Food Manufacturing & Distribution ($+\$5.21\text{M}$), Incarcerated Services ($+\$1.54\text{M}$), Food Service, ($+\1.31M), and Communications ($+\$755\text{K}$). These increases are partially offset by shortfalls in other industries, including Furniture ($-\$2.30\text{M}$), Textiles ($-\676K), Optical ($-\$220\text{K}$), and Laundry ($-\122K). Food Manufacturing & Distribution has experienced heightened pass-through product sales due to Covid-related production impacts as well as increased overall demand. Reduced Furniture sales reflect Covid impacts on production. Furniture maintains about $\$3.7\text{M}$ in pending orders to be fulfilled over the coming months under an Office of Financial Management waiver, which allows agencies to receive certain furniture orders after June 30, 2022. Once the orders are fulfilled, the sales will be recognized in FY 2023.

- **Cost of Goods Sold (COGS)**

Through May 2022, CI has experienced \$61.02M in actual COGS, which exceed forecasted COGS by \$10.12M. While increased Raw Material Usage is expected with higher sales activity, CI continues to experience heightened raw material costs due to Covid and other factors (e.g., inflation). Industries are actively reviewing current raw material costs prior to quoting and fulfilling orders. Doing so allows timely pricing adjustments, where necessary and appropriate, to promote full cost recovery.

- **Operating Expenses**

Through May 2022, CI has experienced \$35.26M in actual Operating Expenses, or \$3.93M below forecast year-to-date. The variance is primarily attributable to Personnel Expenses (-\$2.94M), Incarcerated Indirect Labor (-\$497K), and Contracted Services (-\$402K).

- **Operating Income/(Loss)**

Through May 2022, CI has experienced an actual Operating Loss of -\$9.53M, exceeding the forecasted loss by (\$584K) fiscal year-to-date. Beyond non-revenue generating program areas (e.g., Headquarters Administration), operating losses include Food Service (-\$4.09M), Furniture (-\$1.53M), Textiles (-\$393K), Laundry (-\$323K), and Communications (-\$240K) lines-of business.

- **Net Income/(Loss)**

Through May 2022, CI has experienced a Net Loss of -\$1.75M, representing a \$5.76M positive variance when compared to forecast. The variance is attributable to Fund Reimbursement activity, reflecting year-end closing adjustments partially offsetting shortfalls in Food Service and Laundry Service as well as certain equipment replacement. Remaining net losses include Furniture (-\$2.05M), Textiles (-\$772K), Food Manufacturing & Distribution (-\$370K), Communications (-\$357K), Food Service (-\$256K), and Laundry (-\$53K), after indirect costs are allocated to respective lines-of-business. Further corrective actions are anticipated via DOC year-end closing to address the remaining shortfall in Food Service and Laundry Service. In addition, it should be noted overall Net Income does not reflect \$4.60M in year-to-date Business Led Transformation Project expenses, which are excluded from the CI Financial Summary to avoid skewing financial reporting for CI operations.

CI - INCARCERATED WORKERS
FY 2022 FORECAST vs ACTUAL
By Month

| | Jul-21 | Aug-21 | Sep-21 | Oct-21 | Nov-21 | Dec-21 | Jan-22 | Feb-22 | Mar-22 | Apr-22 | May-22 | Jun-22 |
|-----------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Forecast | 2,151 | 2,151 | 2,151 | 2,151 | 2,151 | 2,151 | 2,151 | 2,151 | 1,973 | 1,973 | 1,973 | - |
| Actual | 1,738 | 1,738 | 1,749 | 1,687 | 1,697 | 1,704 | 1,613 | 1,387 | 1,617 | 1,627 | 1,612 | - |
| Variance | (413) | (413) | (402) | (464) | (454) | (447) | (538) | (764) | (356) | (346) | (361) | - |
| | -19% | -19% | -19% | -22% | -21% | -21% | -25% | -36% | -18% | -18% | -18% | 0% |

CORRECTIONAL INDUSTRIES - FY 2022 MAY FISCAL ACTIVITY
YTD and Year-over-Year Comparisons by Industry

July 2022
DRAFT

| INDUSTRY/PROGRAM AREA | FY 2022 MAY (92%) | | | FY 2021 MAY | YR-over-YR | COMMENTS |
|-----------------------------------|----------------------|----------------------|---------------------|----------------------|------------------------|--|
| | FORECAST | ACTUAL | VARIANCE | ACTUAL | VARIANCE | |
| SALES | \$ 81,144,866 | \$ 86,752,266 | \$ 5,607,400 | \$ 99,267,326 | \$ (12,515,060) | |
| Communications | \$ 4,258,900 | \$ 5,013,837 | \$ 754,937 | \$ 4,152,117 | \$ 861,720 | |
| Food Manufacturing & Distribution | \$ 13,500,096 | \$ 18,711,359 | \$ 5,211,263 | \$ 16,487,511 | \$ 2,223,848 | |
| Food Service | \$ 28,845,965 | \$ 30,152,248 | \$ 1,306,283 | \$ 30,387,403 | \$ (235,155) | |
| Furniture | \$ 8,925,500 | \$ 6,623,662 | \$ (2,301,838) | \$ 8,329,279 | \$ (1,705,617) | |
| Laundry | \$ 2,500,338 | \$ 2,378,212 | \$ (122,126) | \$ 2,687,051 | \$ (308,839) | |
| Incarcerated Services | \$ 9,571,633 | \$ 11,113,625 | \$ 1,541,992 | \$ 11,957,259 | \$ (843,634) | |
| Optical | \$ 4,090,000 | \$ 3,869,800 | \$ (220,200) | \$ 4,093,956 | \$ (224,156) | |
| Textiles | \$ 9,375,010 | \$ 8,699,078 | \$ (675,932) | \$ 20,811,811 | \$ (12,112,733) | FY21 reflects DSHS activity |
| All Other | \$ 77,424 | \$ 190,445 | \$ 113,021 | \$ 360,939 | \$ (170,494) | Transportation (FY 2021 includes Field Crops, Boxes) |

CORRECTIONAL INDUSTRIES - FY 2022 MAY FISCAL ACTIVITY
YTD and Year-over-Year Comparisons by Industry

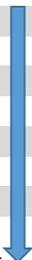
July 2022
DRAFT

| INDUSTRY/PROGRAM AREA | FY 2022 MAY (92%) | | | FY 2021 MAY | YR-over-YR | COMMENTS |
|--|----------------------|----------------------|----------------------|----------------------|-----------------------|---|
| | FORECAST | ACTUAL | VARIANCE | ACTUAL | VARIANCE | |
| COGS (Primarily Raw Material Usage) | \$ 50,900,165 | \$ 61,019,350 | \$ 10,119,185 | \$ 65,930,376 | \$ (4,911,026) | |
| Communications | \$ 2,551,129 | \$ 3,507,898 | \$ 956,769 | \$ 2,469,705 | \$ 1,038,193 | II Direct Labor down (\$1.4M Forecast; \$341K Prior Yr)  |
| Food Manufacturing & Distribution | \$ 9,212,070 | \$ 14,298,489 | \$ 5,086,419 | \$ 12,922,327 | \$ 1,376,162 | |
| Food Service | \$ 20,390,146 | \$ 23,157,816 | \$ 2,767,670 | \$ 22,346,145 | \$ 811,671 | |
| Furniture | \$ 4,974,884 | \$ 4,526,601 | \$ (448,283) | \$ 4,598,980 | \$ (72,379) | |
| Laundry | \$ 655,095 | \$ 542,341 | \$ (112,754) | \$ 638,447 | \$ (96,106) | |
| Incarcerated Services | \$ 5,489,205 | \$ 7,094,548 | \$ 1,605,343 | \$ 7,062,325 | \$ 32,223 | |
| Optical | \$ 1,493,797 | \$ 1,262,215 | \$ (231,582) | \$ 1,533,504 | \$ (271,289) | |
| Textiles | \$ 6,133,838 | \$ 6,629,020 | \$ 495,182 | \$ 14,315,229 | \$ (7,686,209) | |
| All Other | \$ 1 | \$ 422 | \$ 421 | \$ 43,714 | \$ (43,292) | |

FY21 reflects DSHS activity
 FY 2021 includes Field Crops, Boxes

CORRECTIONAL INDUSTRIES - FY 2022 MAY FISCAL ACTIVITY
YTD and Year-over-Year Comparisons by Industry

July 2022
DRAFT

| INDUSTRY/PROGRAM AREA | FY 2022 MAY (92%) | | | FY 2021 MAY | YR-over-YR | COMMENTS | |
|---|----------------------|----------------------|-----------------------|----------------------|-----------------------|---|--|
| | FORECAST | ACTUAL | VARIANCE | ACTUAL | VARIANCE | | |
| OPERATING EXP (Primarily Salary & Ben) | \$ 39,187,499 | \$ 35,259,487 | \$ (3,928,012) | \$ 39,236,246 | \$ (3,976,759) | | |
| Communications | \$ 1,985,246 | \$ 1,746,371 | \$ (238,875) | \$ 1,271,247 | \$ 475,124 | PE Variance -(\$2.94M) Forecast; -(\$3.37M) PY Actual  | |
| Food Manufacturing & Distribution | \$ 4,794,203 | \$ 4,414,699 | \$ (379,504) | \$ 4,878,250 | \$ (463,551) | | |
| Food Service | \$ 11,849,326 | \$ 11,086,598 | \$ (762,728) | \$ 11,616,002 | \$ (529,404) | | |
| Furniture | \$ 4,969,041 | \$ 3,623,690 | \$ (1,345,351) | \$ 4,438,253 | \$ (814,563) | | |
| Laundry | \$ 2,117,020 | \$ 2,159,305 | \$ 42,285 | \$ 2,273,430 | \$ (114,125) | | |
| Incarcerated Services | \$ 3,293,129 | \$ 3,123,745 | \$ (169,384) | \$ 3,230,598 | \$ (106,853) | | |
| Optical | \$ 1,426,701 | \$ 1,207,202 | \$ (219,499) | \$ 1,507,544 | \$ (300,342) | | |
| Textiles | \$ 2,794,360 | \$ 2,463,337 | \$ (331,023) | \$ 2,533,673 | \$ (70,336) | | |
| Site Admin and HQ Administration | \$ 4,834,773 | \$ 4,444,074 | \$ (390,699) | \$ 5,514,974 | \$ (1,070,900) | | FY22 YTD does not reflect costs coded to BLT Project |
| Fund Level (Excluding BLT Project) | \$ - | \$ (332,104) | \$ (332,104) | \$ 494,543 | \$ (826,647) | | Primarily Change in Accrued Leave Liability |
| All Other | \$ 1,123,700 | \$ 1,322,570 | \$ 198,870 | \$ 1,477,732 | \$ (155,162) | Program Summary, FC, Boxes, Transportation | |

CORRECTIONAL INDUSTRIES - FY 2022 MAY FISCAL ACTIVITY
YTD and Year-over-Year Comparisons by Industry

July 2022
DRAFT

| INDUSTRY/PROGRAM AREA | FY 2022 MAY (92%) | | | FY 2021 MAY | YR-over-YR | COMMENTS |
|------------------------------------|-----------------------|-----------------------|---------------------|-----------------------|-----------------------|--|
| | FORECAST | ACTUAL | VARIANCE | ACTUAL | VARIANCE | |
| OPERATING INCOME/(LOSS) | \$ (8,942,798) | \$ (9,526,571) | \$ (583,773) | \$ (5,899,296) | \$ (3,627,275) | |
| Communications | \$ (277,475) | \$ (240,432) | \$ 37,043 | \$ 411,165 | \$ (651,597) | |
| Food Manufacturing & Distribution | \$ (506,178) | \$ (1,830) | \$ 504,348 | \$ (1,313,066) | \$ 1,311,236 | Covid RM Costs Pass-through |
| Food Service | \$ (3,393,506) | \$ (4,092,166) | \$ (698,660) | \$ (3,574,745) | \$ (517,421) | Fund Reimb in May to Partially Address Shortfall |
| Furniture | \$ (1,018,426) | \$ (1,526,628) | \$ (508,202) | \$ (707,954) | \$ (818,674) | |
| Laundry | \$ (271,777) | \$ (323,434) | \$ (51,657) | \$ (224,826) | \$ (98,608) | Fund Reimb in May to Partially Address Shortfall |
| Incarcerated Services | \$ 789,299 | \$ 895,333 | \$ 106,034 | \$ 1,664,336 | \$ (769,003) | |
| Optical | \$ 1,169,502 | \$ 1,400,383 | \$ 230,881 | \$ 1,052,909 | \$ 347,474 | |
| Textiles | \$ 446,812 | \$ (393,279) | \$ (840,091) | \$ 3,962,909 | \$ (4,356,188) | FY21 reflects DSHS activity |
| Site Admin and HQ Administration | \$ (4,834,773) | \$ (4,444,102) | \$ 390,671 | \$ (5,514,976) | \$ 1,070,874 | FY22 YTD does not reflect costs coded to BLT Project |
| Fund Level (Excluding BLT Project) | \$ - | \$ 334,426 | \$ 334,426 | \$ (494,534) | \$ 828,960 | Change in Accrued Leave Liability |
| All Other | \$ (1,046,276) | \$ (1,134,842) | \$ (88,566) | \$ (1,160,514) | \$ 25,672 | Program Summary, Field Crops, Boxes, Transportation |

CORRECTIONAL INDUSTRIES - FY 2022 MAY FISCAL ACTIVITY
YTD and Year-over-Year Comparisons by Industry

July 2022
DRAFT

| INDUSTRY/PROGRAM AREA | FY 2022 MAY (92%) | | | FY 2021 MAY | YR-over-YR | COMMENTS |
|------------------------------------|-----------------------|-----------------------|---------------------|---------------------|-----------------------|---|
| | FORECAST | ACTUAL | VARIANCE | ACTUAL | VARIANCE | |
| NET INCOME/(LOSS) | \$ (7,512,329) | \$ (1,753,279) | \$ 5,759,050 | \$ (445,226) | \$ (1,308,053) | |
| Communications | \$ (430,908) | \$ (357,271) | \$ 73,637 | \$ 231,905 | \$ (589,176) | |
| Food Manufacturing & Distribution | \$ (855,498) | \$ (369,851) | \$ 485,647 | \$ (1,372,449) | \$ 1,002,598 | Covid RM Costs Pass-through |
| Food Service | \$ (5,002,333) | \$ (255,554) | \$ 4,746,779 | \$ (3,057,561) | \$ 2,802,007 | Fund Reimbursement Partially Addressed Shortfall |
| Furniture | \$ (1,716,135) | \$ (2,047,375) | \$ (331,240) | \$ (1,349,781) | \$ (697,594) | |
| Laundry | \$ (682,393) | \$ (52,984) | \$ 629,409 | \$ (557,579) | \$ 504,595 | Fund Reimbursement Partially Addressed Shortfall |
| Incarcerated Services | \$ 358,337 | \$ 501,164 | \$ 142,827 | \$ 1,231,315 | \$ (730,151) | |
| Optical | \$ 1,019,182 | \$ 1,262,453 | \$ 243,271 | \$ 885,859 | \$ 376,594 | |
| Textiles | \$ (1,227) | \$ (772,299) | \$ (771,072) | \$ 3,513,072 | \$ (4,285,371) | RM Pricing adjustments; FY21 reflects DSHS activity |
| Site Admin and HQ Administration | \$ - | \$ (593) | \$ (593) | \$ - | \$ (593) | |
| Fund Level (Excluding ERP Project) | \$ (957,858) | \$ (485,141) | \$ 472,717 | \$ (1,481,003) | \$ 995,862 | Fund Sweep, Accrued Leave and Comp Time Liability |
| All Other | \$ 756,504 | \$ 824,172 | \$ 67,668 | \$ 1,510,996 | \$ (686,824) | Program Summary, Field Crops, Boxes, Transportation |