

REPORT HIGHLIGHTS FINANCIAL STATEMENT AUDIT

Subject

The Arizona Correctional Industries (ACI) issues financial statements annually. ACI is responsible for preparing financial statements, maintaining strong internal controls, and demonstrating accountability for its use of public monies. As the auditors, our job is to determine whether ACI has met its responsibilities.

Our Conclusion

The information in the financial statements is reliable. Also, ACI maintained adequate controls over financial reporting. This information is also incorporated in the State's *Comprehensive Annual Financial Report*.

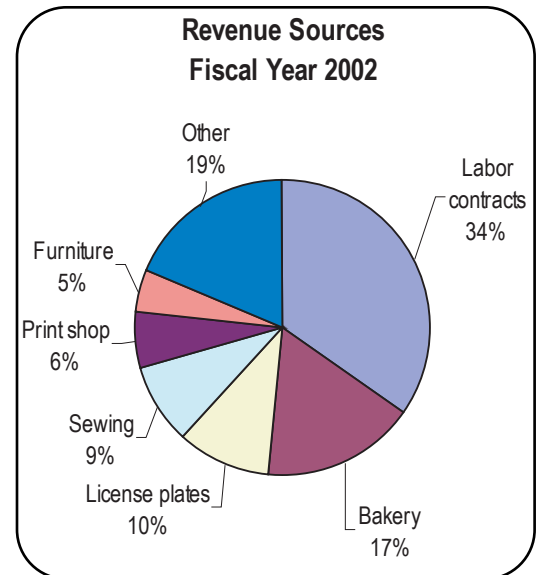


2002

Year Ended June 30, 2002

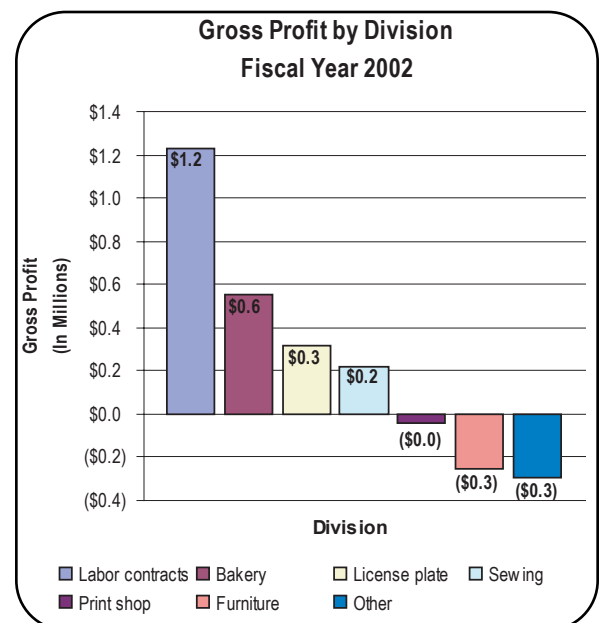
Revenues Come from a Variety of Sources

Arizona Correctional Industries (ACI) develops and manages revenue-generating inmate work activities in the State's correctional institutions. ACI receives no state appropriations and relies solely on revenues generated by its business activities to support its operations. ACI operates 18 divisions that include 44 enterprise activities such as manufacturing, farming, data processing, graphic arts, and public and private inmate labor service contracts.



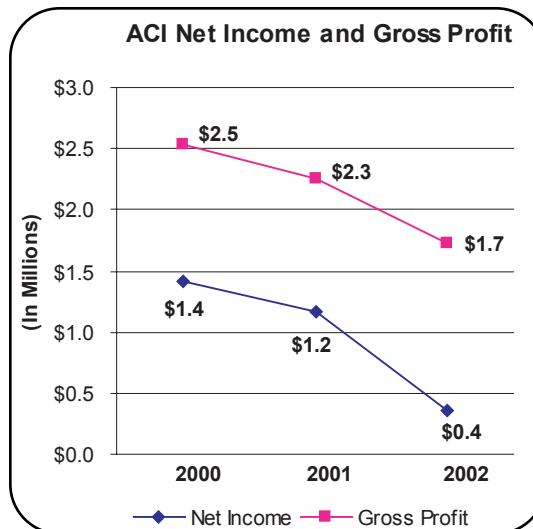
ACI Division Profitable in Fiscal Year 2002

Arizona Revised Statutes require ACI to be profitable. For fiscal year 2002, ACI experienced \$1.7 million in gross profit, \$157 thousand in operating income, and \$375 thousand in net income. Gross profit, which compares sales with the cost of producing the goods sold, is an indication of how efficiently a business activity uses its materials and labor in the production process. The table at the right describes the gross profit or loss for ACI's largest divisions.



ACI's Net Income is Decreasing

ACI's net income has been declining over the past 3 years. For fiscal year 2002, ACI's net income was \$375,848. The decline in fiscal year 2002 net income is partially attributable to ACI paying salaries of approximately \$600 thousand for correctional officers assigned to ACI divisions. In prior years, the State Department of Corrections paid these salaries. ACI also paid another \$640 thousand for correctional officer salaries that were reimbursed through outside labor contracts.



TO OBTAIN MORE INFORMATION

A copy of the full report can be obtained by calling
(602) 553-0333



or by visiting
our Web site at:
www.auditorgen.state.az.us

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Legislature Mandated Transfers to Other State Funds

Previously, ACI transferred \$3 million to the State General Fund as directed by the Legislature. Also, in fiscal year 2002 the Legislature directed ACI to transfer \$1 million to the State's Corrections Fund for construction and maintenance of correctional facilities. In addition, the State Department of Corrections transferred \$1 million from ACI for inmate education and training activities during this same year.

ACI is also required to transfer \$1 million to the State General Fund during each of the fiscal years 2003 and 2004. ACI's management has indicated that this will impact their ability to expand operations and meet program goals.

Financial Reporting Changes

As a result of the implementing GASB Statement No. 34, the State made several accounting and reporting changes. Specifically, the State changed the financial statement presentation for its Proprietary Funds from a Balance Sheet to a Statement of Net Assets and a Statement of Operations, and Changes in Fund Equity to a Statement of Revenues, Expenses, and Changes in Fund Net Assets. In addition, ACI's fund equity and its components have been relabeled as net assets.

REPORT HIGHLIGHTS

FINANCIAL STATEMENT AUDIT

Year Ended June 30, 2002