

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 ACI's financial statements is fairly stated in all material respects and the financial statements can be relied upon. Also, ACI maintained adequate internal controls over financial reporting. This information is also incorporated in the State's *Comprehensive Annual Financial Report*.

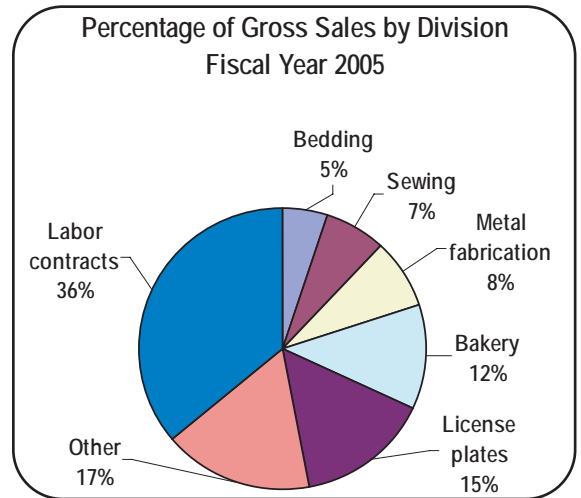


2005

Year Ended June 30, 2005

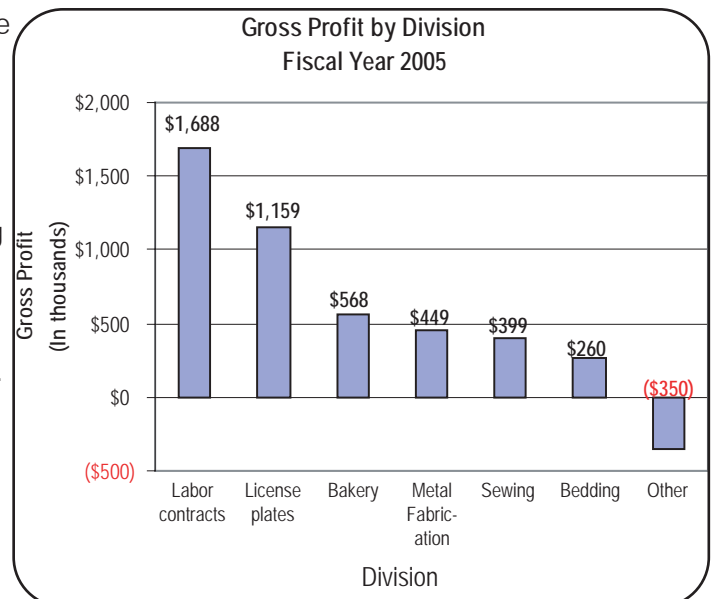
Revenues Earned from Various Sources

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 19 divisions that include 43 enterprise activities such as manufacturing, farming, data processing, graphic arts, and public and private inmate labor service contracts.



Profitability by Division in Fiscal Year 2005

Arizona Revised Statutes require ACI to be profitable. For fiscal year 2005, ACI's gross profit increased to \$4.2 million from \$2.8 million for fiscal year 2004. 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 to the right shows the gross profit for ACI's largest divisions.



Declining Cash Balance over Past 5 Years

ACI's cash balance has decreased from over \$7 million at of June 30, 2001, to \$3.4 million at June 30, 2005. The following table illustrates this decline in ACI's year end cash balances. A substantial part of this decline can be attributed to transfers to other state agencies by ACI. Over the past 5 fiscal years, legislation has required ACI to transfer a total of \$6.4 million in cash to other state funds. For fiscal years 2001-2004, ACI has transferred \$3 million to the State General Fund, \$1 million to the State Corrections Fund, and \$1 million to the Department of Corrections (DOC).

During fiscal year 2005, ACI transferred \$500,000 to the State General Fund and \$918,228 to DOC. ACI reports that these transfers are for the purposes of inmate workforce development. Payments for inmate instruction related to vocational education are allowed under A.R.S. §41-1624. The second table classifies ACI's cash transfers for the past 5 years as mandated or voluntary transfers.

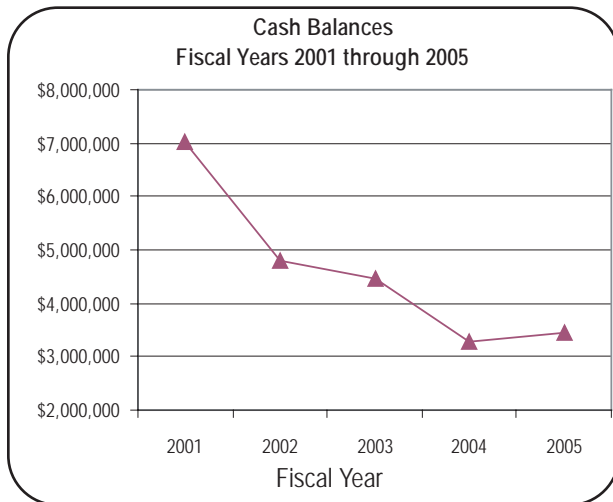
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(602) 553-0333

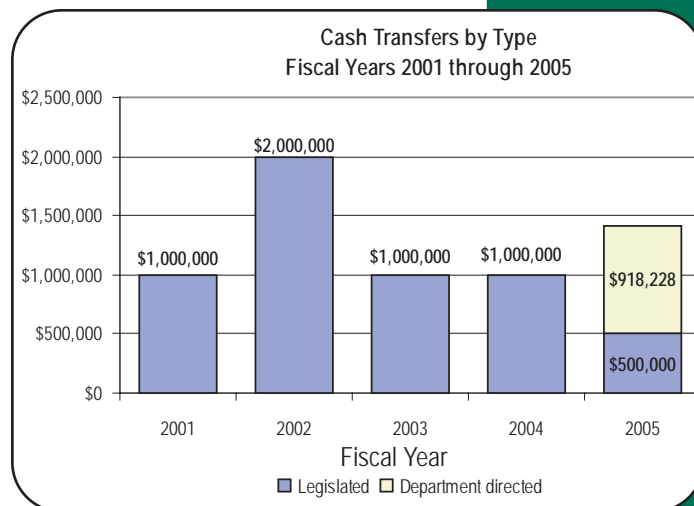


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Contact person for this report:
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ACI management reports that cash transfers have not yet had a significant impact on ACI's ability to maintain working capital requirements; but these transfers may affect its ability to expand operations, and if these transfers continue, ACI may not meet its working capital needs.



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Year Ended June 30, 2005