

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*.



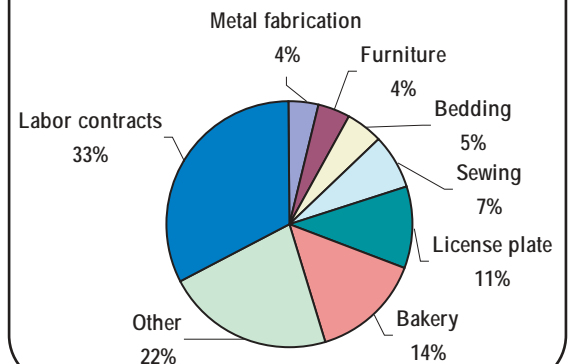
2003

Year Ended June 30, 2003

Revenues Come 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.

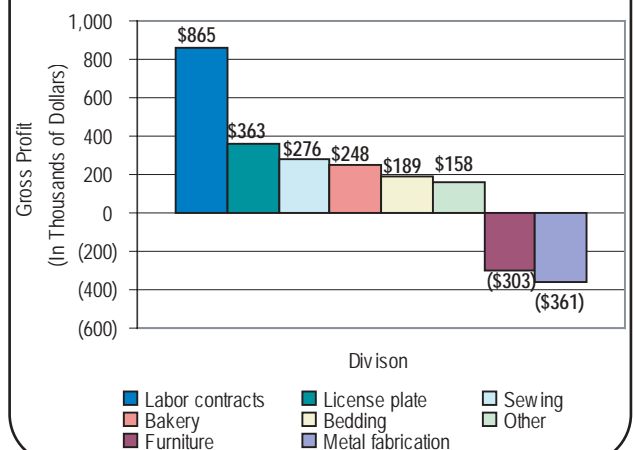
Percentage of Revenue Produced by Division
Fiscal Year 2003



Several ACI Divisions Profitable in Fiscal Year 2003

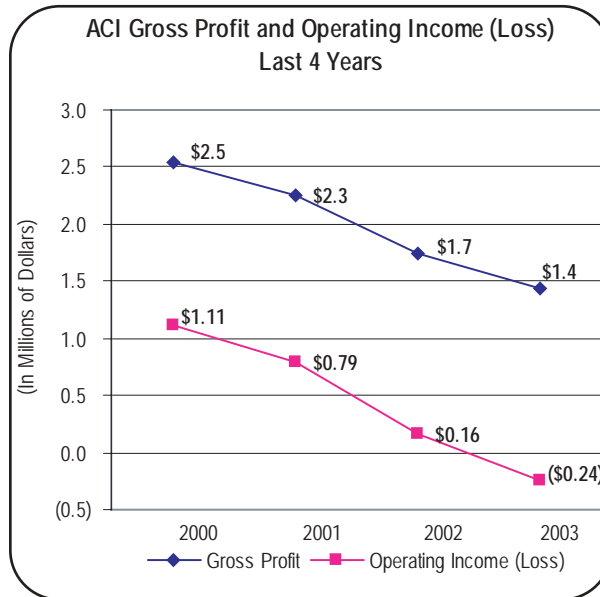
For fiscal year 2003, ACI had \$1.4 million in gross profit, but general and administrative expenses of \$1.6 million resulted in an operating loss of approximately \$240,000. Gross profit, which compares sales with the cost of producing the goods sold, is an indication of how efficiently a business 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.

Gross Profit by Division
Fiscal Year 2003



ACI Experiences an Operating Loss in 2003

ACI's operating income has been declining over the past 4 years. The fiscal year 2003 operating loss of approximately \$240,000 is the first operating loss in 10 years. A significant reason for this and the 2002 decline is a change in policy to reimburse the State Department of Corrections for expenses related to correctional officers assigned to ACI divisions. This treatment of salaries is the most appropriate method of applying generally accepted accounting principles to recognize all cost associated with doing business. This resulted in approximately \$800,000 of additional costs in fiscal years 2002 and 2003. Prior to fiscal year 2002, the State Department of Corrections paid these salaries.



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this report:
Phil Shultz

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Year Ended June 30, 2003