MISSION

- To make available within the state correctional institutions opportunities for employment of inmates in jobs which combat idleness and develop good job skills and working habits.
- To provide training and work experience that will assist inmates in eventually securing and holding gainful employment outside the correctional institution.
- To reduce the cost to society of maintaining an inmate through the sale of inmate-produced goods and services and by requiring and enabling inmates to pay some portion of their room and board costs.
- To require and enable inmates to make restitution to the victims of their offenses, so as to assist the inmates in accepting responsibility for the consequences of their acts.
- To require and enable inmates to provide assistance to their dependents, thus tending to strengthen family ties.
- To require and enable inmates to accumulate savings for their eventual return to the community.

VISION

ACI’s compelling vision is to maintain its momentum of successfully accomplishing legislative and departmental objectives while integrating and balancing strategic plans with the necessity to be a purely “customer-driven” organization that serves all of its customers as a quantifiable value-added partner.
Dear Director Schriro:

It is my privilege on behalf of the staff and inmate workers assigned to Arizona Correctional Industries (ACI) to present the Annual Report for Arizona Correctional Industries for Fiscal Year 2003.

The FOCUS of this year’s annual report is dedicated to the very important subject of recidivism. One of the fundamental motivating factors which serves to fuel ACI’s continuous efforts to enhance existing prison industry enterprises and exploit new opportunities is the untiring conviction that ACI work programs make a significant difference in the lives of inmates, both now and in the future. As Correctional Industry professionals, ACI subscribes fervently to the belief that the skills and work habits inmates learn while engaged in prison industry work programs, in combination with the self-esteem they gain, will significantly contribute to their successful transition back to society.

This underpinning premise was reinforced recently by the results of the formal longitudinal research completed by the Arizona Department of Corrections Research Unit, which found that prison industry programs were the most effective of all rehabilitative programs in reducing recidivism. The study specifically revealed that Arizona inmates who worked in prison industry work programs were 33.4 percent less likely to return to prison than were inmates who did not participate in ACI work programs.

By extrapolating and applying these results to the total of 13,529 inmates who had participated in ACI work programs and were released between 1990 and 2002, researchers were able to conclude that 923 fewer inmates would return to prison exclusively due to the benefits of their ACI experience. In addition to the successful transition of 9,202 inmates, this remarkable achievement translates to a reduction in recidivism which saved Arizona taxpayers almost $49 million in incarceration costs.

ACI looks forward to the future with great enthusiasm and an untiring commitment under your direction to enhance both the quality and number of inmate work opportunities within the Arizona Department of Corrections.

Sincerely,

John J. Spearman
Assistant Director
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While the wording may be dated, this sentiment remains just as true today. For well over a century, correctional experts have recognized the value of meaningful work in the successful transition of offenders back into society. Within the Arizona Department of Corrections, Arizona Correctional Industries offers inmates unique work experiences that mirror the free world, benefiting both the inmates and prison management. In a broader context, these enterprises offer economic and social rewards to the taxpayers, ACI customers, and the State of Arizona.
Many inmates enter prison without basic job skills and good work habits. ACI offers inmates the opportunity to acquire the knowledge and behavior necessary to return to the community as law-abiding and productive citizens. ACI provides inmates with the chance to learn marketable job skills, to develop a sound work ethic, and to experience self-confidence and pride in their work, while also forming legitimate, constructive working relationships. Inmates take responsibility for their families through wage deductions and accumulate savings to assist them in their transition back into society.
A CI represents an important and beneficial prison operations program by assisting administrators in the day-to-day management of prisons. Prison industries significantly contribute to the safety and security of staff and inmates by combating inmate idleness and reducing costly disruptive behavior. Inmates understand that assignment to an ACI job is a privilege that must be earned and maintained. This serves to motivate inmates to comply with institutional requirements and provides prison administrators with a valuable program of rewards for inmates who exhibit desirable attitudes and behaviors.
A CI is a fiscally self-sufficient division of the Arizona Department of Corrections. The division functions entirely on revenues generated from its businesses and related activities without any financial support from the taxpayers. In addition, ACI provides for substantial financial deductions/contributions from inmate wages, including taxes, room and board, victim’s compensation, restitution, and other financial obligations such as family support. Through its activities, ACI makes significant contributions to the economic development and prosperity of the State. Finally, returning law-abiding, productive citizens to the community avoids the cost of future incarceration.
ACI facilitates the cost-effective use of taxpayer dollars by offering a wide selection of quality products and services to the Arizona Department of Corrections and other tax-supported entities. In addition, ACI has formed successful partnerships with other state agencies and local governments to provide inmate labor for their operations. ACI helps to reduce the cost of their operations, while enabling them to increase the timeliness and quality of the service they provide to their customers—the citizens of Arizona. ACI also enters into partnerships with private sector businesses unable to meet their work force requirements through the free-world labor market. These Partners gain a dependable local work force, enabling them to focus on running their business.
HISTORICAL PROFILE

COUNTING INMATE WORKERS

Throughout this report, "Inmates Employed" reflects the actual number of inmates that worked for ACI during the year, regardless of the number of hours per day or the duration of the assignment. By capturing information about all positions, as well as turnover, this method of calculation enables ACI to report the exact number of inmates who have had the opportunity to benefit from ACI work programs.
Contributions/deductions from inmate wages include taxes, cost of incarceration, victim’s compensation, restitution, and other financial obligations, including family support.

Direct contributions represent expenditures for goods and services, and staff compensation. Indirect contributions represent demand for goods and services created by ACI operations and enterprises.
Arizona Correctional Industries reports to the Director of the Department of Corrections through the Deputy Director of Prison Operations. This structure ensures that ACI activities complement those of Prison Operations and allows for maximum coordination between ACI and the prisons. In addition, ACI’s strategic plans are developed in alignment with Prison Operations’ goals, to contribute to their achievement.

ACI BOARD OF DIRECTORS

ACI’s business and financial operations are reviewed periodically by the ACI Board of Directors. The Board is composed of the following members:

- **Board Chair:** Dr. Dora Schriro, Director, Arizona Department of Corrections
- **Board Members:**
  - Charles L. Ryan, Deputy Director, ADC Prison Operations
  - Richard G. Carlson, Deputy Director, ADC Administration
  - Michael J. Smarik, Assistant Director, ADC Administrative Services Division
  - Frank Nageotte, Retired President, Greyhound/Dial Corporation

ACI FUNCTIONAL ORGANIZATIONAL STRUCTURE

Structured along the lines of a traditional private enterprise, ACI industries and related activities are directed through three administrative units and three operational bureaus:

- **Administrative Services:** Provides support for all administrative functions, such as planning, personnel, legal affairs, and public information.

- **Business Development:** Responsible for development of Public and Private Sector Partnerships and compliance with the resulting inmate labor contracts.

- **Graphic Design and Engineering:** Provides state-of-the-art conceptual drawings and detailed manufacturing illustrations.

- **Finance and Accounting:** Responsible for all financial and accounting functions.

- **Marketing and Sales:** Responsible for all business activities associated with marketing and sales of ACI products and services.

- **Operations:** Responsible for all owned-and-operated manufacturing, production, and service facilities and activities.
Central Administrative Office
   Installation/Support Services (3 Teams)
   Central Office Operations

Arizona State Prison - Phoenix West
   Greater Auto Auction

Arizona State Prison Complex - Perryville
   Garment Factory
   Data Fulfillment Center
   Graphic Arts Division/Copy Service
   (Copy Service co-located with ADC Central Office)
   AZ Department of Transportation-Motor Vehicle Division (2 Operations)
   Televerde (2 Operations)
   Sodexho

Arizona State Prison Complex - Lewis
   Hickman’s Egg Ranch (2 Operations)
   BoMax Vehicle Servicing Group
   Desert Thunder Welding
   Green Acres
   Common Market Equipment Co., Inc.
   Eagle Milling Co., Inc.

Arizona State Prison Complex - Yuma
   Solar Industries
   Safety Services Co.

Arizona State Prison - Marana
   ESB Modular Manufacturing

Arizona State Prison Complex - Florence
   Farm
   Bedding Factory
   Central Warehousing
   Transportation Services
   Operations Administration/Industrial Maintenance
   License Plate Factory
   Metal Fabrication Factory
   Wood/Metal Refurbishing
   Retail Store
   Furniture Factory
   Commodity Products Industry
   Dixon Farms
   Eagle Milling Co., Inc.

Arizona State Prison Complex - Winslow
   Kit Manufacturing and Upholstery Plant
   Eurofresh

Arizona State Prison Complex - Eyman
   Bakery Division
   Furniture Factory
   Solar Industries

Arizona State Prison Complex - Safford/Fort Grant
   Eurofresh

Arizona State Prison Complex - Douglas
   Garment Factory
   Southeast Arizona Medical Center

Arizona State Prison Complex - Tucson
   Sign Factory
   AZ Department of Transportation - Motor Vehicle Division
   Farmer’s Investment Company
   Solar Industries

* Public/Private Sector Partnerships
1 Inmate workers from Arizona State Prison - Phoenix West
2 Inmate workers from Arizona State Prison Complex - Perryville
3 Also employs inmates from Arizona State Prison - Florence West
ACI is proud to report the following major accomplishments for Fiscal Year 2003:

**FINANCIAL AND OPERATIONAL ACCOMPLISHMENTS**

- Generated total revenues of $18,942,570 from goods and services.
- Maintained debt-free operations.
- Provided daily work opportunities for an average of 1,524 inmates in ACI work programs.
- Paid more than $5 million in inmate wages.
- Provided for the following deductions from inmate wages:
  - Returned a total of $971,310 to the State General Fund for room and board.
  - Contributed $70,371 to the Victim’s Compensation Fund.
  - Distributed $108,236 to the Alcohol Abuse and Treatment Fund.
  - Supervised distribution of federal, state, and FICA taxes of $96,806.
- Contributed $1 million to the State General Fund for the fifth year in a row.
- Paid $1.8 million in Correctional Officers’ salaries.

**SOURCE OF INMATE WAGES**

For FY 2003

```
TOTAL: $5,068,569
```

**DISTRIBUTION OF INMATE WAGES**

For FY 2003

```
TOTAL: $1,492,076
```

(1) Alcohol Abuse and Treatment Fund
(2) Includes such deductions as disciplinary and compassionate restitution and filing fees.
**INDUSTRY EXPANSION AND GROWTH**

**NEW ENTERPRISES**

**ASPC-Florence**
*Commodity Products Industry*—ACI’s plastic bag manufacturing operation is Phase One of this new, multiphase Commodity Products Factory, which will ultimately produce plastic bags, corrugated boxes, and paper products.

**NEW PRIVATE SECTOR PARTNERSHIPS**

**ASPC-Lewis**
*Common Market Equipment Company, Inc.*—A wholly-owned subsidiary of Swift Transportation Company, CME repairs Swift Transportation Company trucks that have been involved in vehicular accidents throughout the United States.

*Eagle Milling Company, Inc.*—ACI entered into its second partnership with Eagle Milling Company, which processes and packages animal feed.

**ASPC-Yuma**
*Safety Services Company*—Operating a business-to-business telemarketing center, Safety Services Company markets packages of occupational safety-related information to assist companies in complying with OSHA requirements specific to their state.

**ASPC-Winslow**
*Eurofresh*—Tomatoes are grown and harvested in this 20-acre hydroponic greenhouse operation. This is the company’s second facility in Arizona, both of which employ ACI inmate workers.

**ECONOMIC IMPACT***

In addition to the financial accomplishments noted, ACI created the following economic impact for Fiscal Year 2003, without any appropriated funding:

ACI operations contributed directly and indirectly to the economic prosperity of the State of Arizona through expenditures for materials, supplies, and outside services totaling nearly $14.6 million.

Staff salaries amounted to $4 million for the year, creating more than $3.1 million in demand for goods and services.

ACI expenditures resulted in further indirect economic impact, including the creation of 351 new jobs and a corresponding demand for $16.4 million for additional goods and services.

* Source - Arizona State University Center for Business Research

---

**Inmate Hours Worked**

**Fiscal Year 2003**

<table>
<thead>
<tr>
<th>Description</th>
<th>Hours Worked</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACI Owned-and-Operated</td>
<td>1,255,000</td>
</tr>
<tr>
<td>Partnerships</td>
<td>1,146,619</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,401,619</strong></td>
</tr>
</tbody>
</table>
The rigorously designed study involved follow-up of 54,660 inmates released from ADC custody between 1990 and 1999. The study concluded that “prison industry programs were found to be the most effective of all rehabilitation programs in reducing recidivism.” The inmates who participated in ACI work programs while incarcerated were 33.4 percent less likely to return to prison than were inmates who did not participate in ACI work programs. Through the application of a “recidivism risk profile,” it was further proven that, prior to their participation in ACI work programs, ACI inmate workers were actually at a higher risk for recidivism than were inmates who did not participate.

For the purpose of this study, recidivism was defined as the return to prison of a released offender for a new felony conviction.
These results are even more dramatic when placed in the context of the national recidivism crisis. While crime rates have declined nationwide since 1994, prison populations have continued to rise. Much of this increase can be attributed to recidivism (defined as return to prison for any reason). Volumes of research have been devoted to assessing correctional programs in search of “what works, what doesn’t work, and what’s promising” in reducing recidivism. The majority of research remains inconclusive and current figures are anything but promising: more than 95 percent of offenders return to the community; 51.8 percent of those return to prison. Here in Arizona, however, research has proven that ACI programs are successful in reducing recidivism. Both the quality of ACI work programs and the quality of the research can serve as models to others in search of “what works.”

923 Fewer Inmates Returned To Prison
$49 Million Were Avoided In Incarceration Costs

* Source - Management & Training Corporation Institute, 2003; Bureau of Justice Statistics, 2002
ACI Prison Industry Enterprises consist of two primary types of operations: ACI Owned- and-Operated work programs and Public/Private Sector Partnerships. These programs offer inmates the opportunity to acquire marketable job skills in a diverse range of trades and professions.

**TOTAL INMATES EMPLOYED**

IN ALL OPERATIONS

(Monthly Average)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACI Service Enterprises</td>
<td>17.7%</td>
</tr>
<tr>
<td>ACI Manufacturing Enterprises</td>
<td>31.2%</td>
</tr>
<tr>
<td>Public and Private Sector Partnerships</td>
<td>49.4%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>1,524</td>
</tr>
</tbody>
</table>

**REVENUES**

FOR ALL OPERATIONS

<table>
<thead>
<tr>
<th>Sector</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACI Manufacturing Enterprises</td>
<td>54.3%</td>
</tr>
<tr>
<td>ACI Service Enterprises</td>
<td>11.0%</td>
</tr>
<tr>
<td>ACI Agricultural Enterprises</td>
<td>1.4%</td>
</tr>
<tr>
<td>Public and Private Sector Partnerships</td>
<td>32.8%</td>
</tr>
<tr>
<td>Miscellaneous*</td>
<td>0.5%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>$18,942,570</td>
</tr>
</tbody>
</table>

*Includes such sources as interest income.
ACI Owned-and-Operated Prison Industry Enterprises employ inmates in a total of 22 manufacturing, service, and agricultural operations located in eight prisons throughout the state.

**INMATES EMPLOYED**

IN ACI OWNED-AND-OPERATED INDUSTRIES
(Monthly Average)

- **Service Enterprises**: 35.0%
- **Manufacturing Enterprises**: 61.7%
- **Agricultural Enterprises**: 3.3%

**TOTAL: 771**

**REVENUES**

FOR ACI OWNED-AND-OPERATED INDUSTRIES

- **Manufacturing Enterprises**: 80.8%
- **Service Enterprises**: 16.4%
- **Agricultural Enterprises**: 2.1%
- **Miscellaneous***: 0.7%

**TOTAL: $12,737,306**

*Includes such sources as interest income.
Manufacturing Enterprises

INMATES EMPLOYED
BY ACI MANUFACTURING ENTERPRISE TYPE
(Monthly Average)

TOTAL: 476

SALES
BY ACI MANUFACTURING ENTERPRISE TYPE

TOTAL: $10,289,052
**Service Enterprises**

**INMATES EMPLOYED**

BY ACI SERVICE ENTERPRISE TYPE  
(Monthly Average)

- Graphic Arts: 30.1%
- Installation/Support Services: 2.9%
- Transportation and Warehouse: 10.7%
- Data Fulfillment: 35.3%
- Copy Service: 1.4%
- Retail Store: 0.4%
- Other Labor Services*: 19.2%

TOTAL: 270

*Includes clerical and administrative jobs for areas that do not generate revenue in ACI’s Central Office, regional operations centers, and maintenance.

**SALES**

BY ACI SERVICE ENTERPRISE TYPE

- Graphic Arts: 54.2%
- Data Fulfillment: 21.9%
- Copy Service: 14.8%
- Transportation/Warehouse and Other Labor Services have been omitted because they are support functions not involving sales.

TOTAL: $2,090,308
ACI’s partnerships with other governmental agencies, as well as private sector enterprises, have resulted in the most promising and sought-after inmate work opportunities within the prison system. In Fiscal Year 2003, approximately 50 percent of all ACI workers were assigned to one of ACI’s 24 Public/Private Sector Partnerships located in 11 prisons throughout Arizona.

Since 1998, the number of inmates employed by ACI Public/Private Sector Partnerships has increased by 238 percent, with Partnership jobs now accounting for nearly 50 percent of all ACI work opportunities. These assignments offer inmates the most valuable work experience and the best wages available within the Department of Corrections. ACI engages in two types of Partnerships:

**Public Sector**—These contracts supply inmate workers for other state agencies, to provide more efficient service and use of tax dollars.

**Private Sector**—These contracts provide private sector companies with inmate labor for hard-to-fill labor needs. Prison Industry Enhancement (PIE) Certification Programs are a subcategory of Private Sector contracts requiring adherence to additional guidelines.
Recidivism is typically measured by program, by state, or on a national level. The following letter from a former inmate, however, reminds us that returning to the community as a law-abiding citizen happens through hard work, one offender at a time.

April 6, 2003

Dear Mr. Spearman:

I am writing this to you in appreciation for all that Arizona Correctional Industries has given me. I am so very thankful for the training and experience I received while in Arizona State Prison.

I was incarcerated from May of 1996 until December of 2002, and spent the entirety of that time working in one format or another with the Arizona Correctional Industries (ACI). The quality and quantity of things I have learned by choice and with the assistance of ACI, has been the leading force in my current success within the public sector.

When I arrived in Prison, my confidence, courage and drive to find a better life was all but non-existent. It’s very easy, within the system to feel like you’re nothing and nothing but a soul with a number. ACI was an intricate part in the healing process for me. . . .The position I now maintain is a gift and one that is partly mine thanks to ACI and all the Supervisors that gave me the trust and knowledge that I can do better, that I can be a productive part of society. I love life again, freedom is not frightening like I thought it would be, people are finding ways to trust me, when I thought it would never come my way again. Doors are opening and my life has begun—Thank you, ACI, you are part of a puzzle that has given me the courage to reach for my dreams and the knowledge that if I reach, “Even I, the soul with nothing but a number” can attain those dreams.

ACI as a whole is a wonderful program, and I hope that it grows and continues to help others like it has helped me. I would most especially like to thank those who helped me individually and in depth: Mr. Spearman, Mr. Gregg Hillebrand, Mr. John Badley, Mr. Don Martin and all of his staff. These people are the foundation of a program that changed how I did my time in Prison, they changed my outlook and they have each changed my future in a hopeful and confident way.

Again, thank you, and I wish you all the best regards.

Sincerely,

Tawnya Denise Farmer (Formerly known as 120031), now titled “Manager”
FISCAL YEAR 2003
FINANCIAL STATEMENT

ARIZONA CORRECTIONAL INDUSTRIES
UNAUDITED FINANCIAL STATEMENT
JUNE 30, 2003 AND 2002
## Statement on Net Assets—Enterprise Fund
### June 30, 2003 and 2002

<table>
<thead>
<tr>
<th>Assets</th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Assets:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash in Bank and on Hand</td>
<td>$76,471</td>
<td>$49,576</td>
</tr>
<tr>
<td>Cash on Deposit with State Treasurer</td>
<td>4,395,382</td>
<td>4,741,327</td>
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<tr>
<td>Receivables:</td>
<td></td>
<td></td>
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<tr>
<td>Accounts Receivable net</td>
<td>2,275,882</td>
<td>2,260,051</td>
</tr>
<tr>
<td>Interest Receivable</td>
<td>17,536</td>
<td>28,661</td>
</tr>
<tr>
<td>Inventories</td>
<td>2,676,481</td>
<td>2,631,839</td>
</tr>
<tr>
<td>Prepaid Expenses</td>
<td>52,228</td>
<td>125,408</td>
</tr>
<tr>
<td><strong>Total Current Assets</strong></td>
<td>9,493,980</td>
<td>9,836,862</td>
</tr>
<tr>
<td><strong>Noncurrent assets:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital assets, not being depreciated</td>
<td>692,438</td>
<td>692,438</td>
</tr>
<tr>
<td>Capital assets, being depreciated, net</td>
<td>2,000,952</td>
<td>2,212,632</td>
</tr>
<tr>
<td><strong>Total noncurrent assets</strong></td>
<td>2,693,390</td>
<td>2,905,070</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>12,187,370</td>
<td>12,741,932</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current liabilities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>$923,543</td>
<td>$170,193</td>
</tr>
<tr>
<td>Accrued Payroll and Employee Benefits</td>
<td>134,918</td>
<td>126,305</td>
</tr>
<tr>
<td>Accrued Compensated Absences</td>
<td>248,348</td>
<td>231,663</td>
</tr>
<tr>
<td>Other Accrued Liabilities</td>
<td>73,176</td>
<td>267,498</td>
</tr>
<tr>
<td><strong>Total Current Liabilities</strong></td>
<td>1,379,985</td>
<td>795,659</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Net Assets:</th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Invested in capital assets</td>
<td>2,693,390</td>
<td>2,905,070</td>
</tr>
<tr>
<td>Unrestricted</td>
<td>8,113,995</td>
<td>9,041,203</td>
</tr>
<tr>
<td><strong>Total net assets</strong></td>
<td>$10,807,385</td>
<td>$11,946,273</td>
</tr>
<tr>
<td></td>
<td>2003</td>
<td>2002</td>
</tr>
<tr>
<td>--------------------------</td>
<td>-------------</td>
<td>-------------</td>
</tr>
<tr>
<td>Sales</td>
<td>$18,847,869</td>
<td>$17,194,992</td>
</tr>
<tr>
<td>Cost of Goods Sold</td>
<td>17,410,242</td>
<td>15,457,044</td>
</tr>
<tr>
<td>Gross Profit</td>
<td>1,437,627</td>
<td>1,737,948</td>
</tr>
<tr>
<td>Operating Expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Selling</td>
<td>529,721</td>
<td>457,748</td>
</tr>
<tr>
<td>General and Administrative</td>
<td>1,143,613</td>
<td>1,122,231</td>
</tr>
<tr>
<td>Total Operating Expenses</td>
<td>1,673,334</td>
<td>1,579,979</td>
</tr>
<tr>
<td>Operating Income (Loss)</td>
<td>(235,707)</td>
<td>157,969</td>
</tr>
<tr>
<td>Nonoperating revenues (expenses):</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment income</td>
<td>97,047</td>
<td>224,762</td>
</tr>
<tr>
<td>Net loss on disposal of equipment</td>
<td>(2,654)</td>
<td>(4,312)</td>
</tr>
<tr>
<td>Depreciation expense on discontinued operations</td>
<td>(246)</td>
<td>(2,571)</td>
</tr>
<tr>
<td>Net nonoperating revenues</td>
<td>94,147</td>
<td>217,879</td>
</tr>
<tr>
<td>Net Income (Loss)</td>
<td>(141,560)</td>
<td>375,848</td>
</tr>
<tr>
<td>Capital contributions</td>
<td>2,672</td>
<td>8,455</td>
</tr>
<tr>
<td>Transfers out to other state funds</td>
<td>(1,000,000)</td>
<td>(2,022,076)</td>
</tr>
<tr>
<td>Increase/(decrease) in net assets</td>
<td>(1,138,888)</td>
<td>(1,637,773)</td>
</tr>
<tr>
<td>Total net assets, July 1</td>
<td>11,946,273</td>
<td>13,584,046</td>
</tr>
<tr>
<td>Total net assets, June 30</td>
<td>$10,807,385</td>
<td>$11,946,273</td>
</tr>
</tbody>
</table>
STATE OF ARIZONA
DEPARTMENT OF CORRECTIONS
ARIZONA CORRECTIONAL INDUSTRIES
Statement of Cash Flows - Enterprise Fund
Year Ended June 30, 2003 and 2002

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash flows from operating activity:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receipts from customers</td>
<td>$18,926,739</td>
<td>$17,453,043</td>
</tr>
<tr>
<td>Payments to suppliers for goods and services</td>
<td>(8,687,231)</td>
<td>(8,364,680)</td>
</tr>
<tr>
<td>Payments to employees</td>
<td>(4,350,037)</td>
<td>(4,262,668)</td>
</tr>
<tr>
<td>Payments to inmates</td>
<td>(4,971,763)</td>
<td>(4,988,521)</td>
</tr>
<tr>
<td><strong>Net cash used for operating activities</strong></td>
<td>917,708</td>
<td>(162,826)</td>
</tr>
<tr>
<td><strong>Cash flows from noncapital financing activities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash transfers to other state funds</td>
<td>(1,000,000)</td>
<td>(2,000,000)</td>
</tr>
<tr>
<td><strong>Net cash used for noncapital financing activities</strong></td>
<td>(1,000,000)</td>
<td>(2,000,000)</td>
</tr>
<tr>
<td><strong>Cash flows from capital and related financial activities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proceeds from sale of capital assets</td>
<td>18,757</td>
<td>5,575</td>
</tr>
<tr>
<td>Purchases of capital assets</td>
<td>(361,780)</td>
<td>(299,678)</td>
</tr>
<tr>
<td><strong>Net cash used for capital and related financing activities</strong></td>
<td>(343,023)</td>
<td>(294,103)</td>
</tr>
<tr>
<td><strong>Cash flows from investing activities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest received on investments</td>
<td>106,265</td>
<td>240,706</td>
</tr>
<tr>
<td><strong>Net cash provided by investing activities</strong></td>
<td>106,265</td>
<td>240,706</td>
</tr>
<tr>
<td><strong>Net decrease in cash and cash equivalents</strong></td>
<td>(319,050)</td>
<td>(2,216,223)</td>
</tr>
<tr>
<td><strong>Cash and cash equivalents, July 1</strong></td>
<td>4,790,903</td>
<td>7,007,126</td>
</tr>
<tr>
<td><strong>Cash and cash equivalents, June 30</strong></td>
<td>$4,471,853</td>
<td>$4,790,903</td>
</tr>
</tbody>
</table>
Reconciliation of operating income to net cash source/used for operating activities:

Operating income (Loss) $(235,707) $157,969

Adjustments to reconcile operating income to net cash used for operating activities:

Depreciation 643,255 673,237

Net changes in assets and liabilities:

Accounts receivable (15,831) 416,259
Inventories (62,643) (426,589)
Prepaid expenses (494) 847
Accounts payable 753,351 (904,980)
Accrued payroll and employee benefits 25,299 56,837
Accrued compensated absences 21,802
Other accrued liabilities (189,522) (158,208)

Net cash source/used for operating activities $917,708 ($162,826)

The following noncash transactions occurred during the year ended June 30, 2003:

Building improvements 332,820 9,379
Construction in progress completed (332,820) (9,379)

Depreciation expense for discontinued operations 246 2,571
Accumulated depreciation related to discontinued operations (246) (2,571)

Capital assets, net of accumulated depreciation (2,654) (9,887)
Loss on disposal of equipment 2,654 9,887

Donated equipment 2,673 8,455
Capital Contributions (2,673) (8,455)