Fiscal Year
2011
Annual Report

MINNCOR
industries

MINNCOR Industries is the financially self-sufficient department of the Minnesota Department of Corrections. Our mission is to provide a safe working environment within the prison system and successfully transition offenders into the community at no cost to taxpayers. Our vision is to be a customer-driven business that contributes to a safer Minnesota. We believe in sound management that ensures financial self-sufficiency, delivery of quality products on time to build a loyal customer base, efficient reduction of inmate idleness that contributes to a secure prison environment, and work skills training that prepares the offender for release.

MINNCOR Industries is committed to benefiting the State of Minnesota's economy and safety by requiring no state funding and reducing recidivisim. Maintaining a balance of offender employment and financial self-sufficiency through diverse business units, MINNCOR benefits the Minnesota correctional facilities, offenders, businesses, and communities.

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Letter to Stakeholders

Building a Better Tomorrow:
Taking Steps to Position MINNCOR for the Future.

Delivering in challenging times
Balancing offender assignments while maintaining financial self-sufficiency is always the underlying goal of MINNCOR. Not only are we tasked with providing high quality products and services for our customers, we also have a responsibility to help offenders become productive members of their community upon release by teaching them work skills.

In Fiscal year 2011, MINNCOR was able to provide $2.17 million to the Minnesota general fund and an additional $964,055 to the Department of Corrections for offender education and transition.

We partnered with DOC Education to offer manufacturing and CAD classes taught by Hennepin Technical College at Stillwater. This resulted in more skilled workers for MINNCOR and offenders releasing with marketable skills. The overall FY11 annual average of offenders working for MINNCOR was 1332, which exceeded our goal of 1300.

Sales and marketing efforts included the launch of our new website, offering improved search engine optimization and an updated look. We've increased our visibility by expanding our conference and tradeshow participation. The efforts paid off with a solid sales revenue stream of $38.3 million.

Positioning MINNCOR for the future
In fiscal year 2011, in addition to managing our business during a slow economy, we took steps to position MINNCOR for the future by enhancing our core business and investing in new and emerging growth areas.

We're thinking outside the box – with the Fast-track pilot program at the Hennepin County Workhouse. This involves partnering with the DOC work release unit, Hennepin County, EMPLOY and a customer. While not without its challenges, the program has been quite successful to date.

I want to thank the 125 MINNCOR staff for their hard work and dedication throughout fiscal year 2011. I would also like to thank DOC leaders and staff for their continued support.

Guy Piras
CEO

THE YEAR AT A GLANCE

key highlights from product sales and business development sectors

New MINNCOR Website

The new MINNCOR website was launched. The site provides improved search engine optimization (SEO) capabilities, Google Analytics (ability to track searches and visits) and an overall updated appearance and functionality. Customers can request a quote on-line.

Fast-Track Program

Partnering with DOC Work Release, Hennepin County and a customer, MINNCOR established the Fast-Track Program on May 19th. The program initially began with 5 offenders that will transition to the regular work-release program after participating in evening training twice weekly and working during the day for MINNCOR.

New Metal Beds

New metal beds were designed for Minnesota State University Mankato, a total of 685 beds were successfully installed and met all customers expectations.

New Casework Contract

A new contract for $750k worth of kitchen cabinets was obtained in April for Cedar Riverside. This is the single largest casework project ever won by MINNCOR. Product began shipping in June and will continue through Q2 of FY12.

Park Benches

Ramsey County ordered 300 recycled plastic timber park benches. This is a significant design change and reflects the use of recycled materials in our products. The 300 represents the first phase in a potential 1000 bench order.

DNR also placed a large order for docks and piers that will be delivered in FY12

Business Development

- Business Development closed FY11 at 112% of Forecasted Budget, which was an increase in sales from FY10 by 22% while maintaining an average 38% margin at the operations level.

- MINNCOR continues to be active through its memberships in professional organizations, including the Minnesota Precision Manufacturing Assocation, Tri-State Manufacturing Association, and the Arrowhead Manufacturing and Fabricators Association. These memberships have provided MINNCOR new prospects for contract manufacturing.

- Through the use of Thomas Net, MINNCOR has received numerous leads for subcontract work; leads for sewing, metal fabrication, assembly and packaging have accounted for new customers during the year.

ERP Project

Following a thorough analysis and RFP process, MINNCOR decided to roll out a new Enterprise Resource Planning (ERP) system, Microsoft Dynamics AX. This new system is a comprehensive business management solution that makes it easy to do business across locations and helps productivity across MINNCOR.

New Printing Press

A new folder, perfect binder, a collator/stitcher for staple binding and a large format four color press have been added to the Moose Lake Printing division. These acquisitions will allow MINNCOR to keep more work in-house and over time it will help provide more offender employment and training.

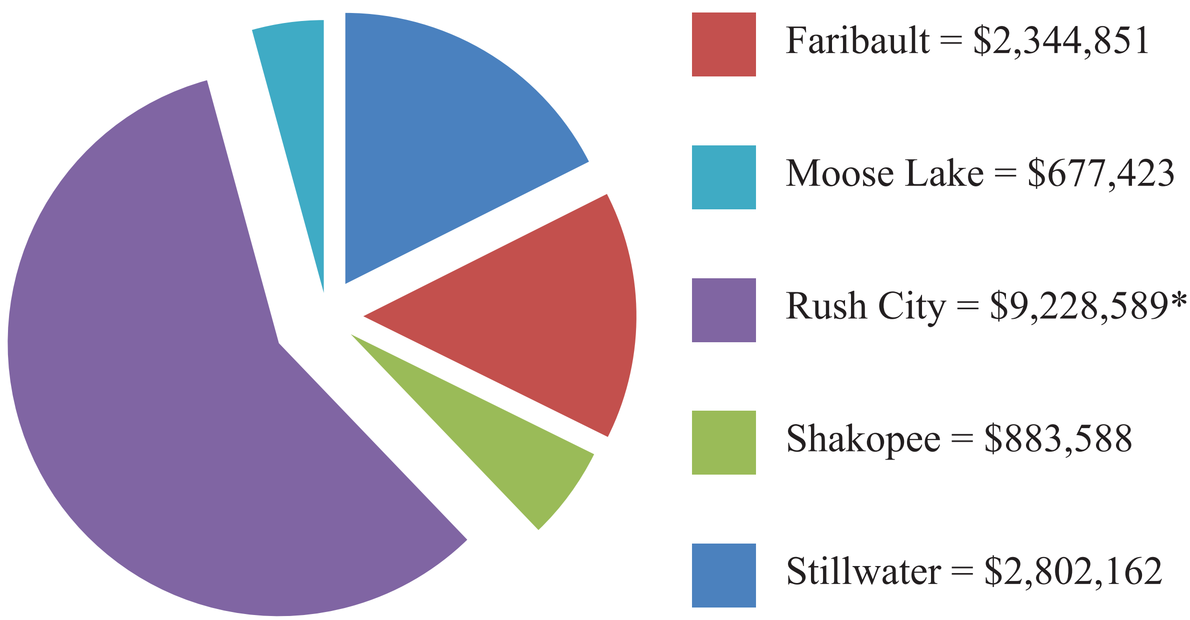
Laundry

New laundry washer extractors at Faribault has reduced the number of empty cycles in the Continuous Batch Washer by 52%. Laundry also successfully integrated the daily workload of the inter-agency agreements with St. Peter Regional Treatment Center, Nicollet County Jail, CBHH St. Peter, and CARE St. Peter.

Chemical Program

Aeon and Minneapolis Public Housing were added to the Chemical dispensing stations for their multiple unit housing projects

Business Development Sales (Facility)



*This amount includes the production of license plates and stickers ($8,212,816).

Product Sales

Canteen = $9,125,365
Printing = $3,376,102
Laundry = $2,481,110
Linens = $2,059,181
Seating = $1,251,663
Wood = $1,141,560
Outdoor Rec = $1,050,532
Custodial = $660,498
Mattresses = $439,271
Transportation = $388,093
Detention = $294,133
Res Metal = $172,281
Safety = $59,148

CONSOLIDATED FINANCIAL STATEMENTS

financial statements through fiscal year 2011

INCOME STATEMENT

Description	FY11	% of YTD Actual Sales	FY10	% Prior YTD Sales
Total Sales	38,285,285	100.0%	35,489,552	100.0%
Total Cost of Goods Sold	16,555,773	43.2%	15,537,513	43.8%
Gross Margin	21,729,513	56.8%	19,952,039	56.2%
Total Divisional Manufacturing Costs	10,462,602	27.3%	10.199.415	28.7%
Division Operating Income	11,266,911	29.4%	9.752.624	27.5%
Total Indirect G&A Costs	8,374,678	21.9%	7.629.413	21.5%
Consolidated Income	2,892,233	7.6%	2.123.211	6.0%
Non Business Activities				
EMPLOY	355,967		354.143	
DOC	964,055		813.035	
Adjusted Net Income	4,211,960	11.0%	3.290.389	9.3%

BALANCE SHEET

Assets		
Cash	$14,961,664	$17,184,598
Total Other Current Assets	10,912,577	8,137,727
Total Other Assets	5,230,565	4,590,631
Total Assets	**$31,124,806**	$29,912,956
Liabilities		
Total Current Liabilities	$1,591,512	$1,237,542
Total Other Liabilities	902,178	766,531
Total Liabilities	2,493,691	2,004,073
Equity		
Contributed Capital	6,552,957	6,552,957
Retained Earnings	19,185,925	19,232,715
Current Year Earnings	(2,892,233)	2,123,211
Total Equity	28,631,115	27,908,883
Total Liabilities and Equity	**$31,124,806**	$29,912,956

STATEMENT OF CASH FLOWS

Account Description	
Cash Flows from Operating Activities	
Receipts from Customers	38,285,285
Payments to Employees	9,184,668
Payments-Fixed Costs	4,126,829
Payments for Manufacturing Costs	5,503,144
Payments to Suppliers	16,555,773
Other Income	76,380
Gain from Sale of Fixed Assets	(188,701)
Investment Earnings	89,683
Net Income	**$ 2,892,233**
Decreases (Increases) in:	
Accounts Receivable	1,572,430
Inventory	1,146,107
Other Current Assets	5 6,313
Other non-Current Assets	0
Increases (Decreases) in:	
Accumulated Depreciation	77,908
Accounts Payable	150,864
Accrued Expenses	338,753
Net Cash provided by(used for) Oper. Exp.	**684,909**
Cash Flows from NonCapital Financing Activities	
Operating Grant Transfer in:	
Operating Grants Transfer In	0
Net Cash provided by(used for)noncapital activities	**0**
Cash Flows From Capital and Related Financing Activities	
Purchases of Fixed Assets	717,842
Payments of Interest	0
Net Cash provided by(used for) capital activities	**(717,842)**
Cash Flows From Investing Activities	
Securities lending Income (Net)	
Adjustments - General Fund Distribution	(2,170,000)
Net Increase(Decrease) in Cash and Cash Equivilent	**(2,202,933)**
Cash and Cash Equivalents	**17,184,598**
Cash and Cash Equivalents	**14,981,665**

NOTES TO THE FINANCIAL STATMENTS

NOTE 1 NATURE OF THE BUSINESS

MINNCOR as a division of the Minnesota Department of Corrections develops and markets premium products and services to various markets and industries. In addition, MINNCOR will provide contract-manufacturing services to companies to fulfill their manufacturing needs. MINNCOR Industries strives to provide a safe working environment within the prison system and successfully transition offenders into the community at no cost to taxpayers. MINNCOR's mission is a customer-driven business model that contributes to a safer Minnesota by providing sound management, quality products, reduction of inmate idleness, offender transition services, and work skills' training that prepare offenders for release into the community. MINNCOR operates through an enterprise fund, which is a set of self-balancing accounts comprised of assets, liabilities, equities, revenues and expenses. Beginning with Fiscal Year 2003, MINNCOR has continued to be self-sufficient receiving no appropriations, grants or subsidies from the State of Minnesota.

NOTE 2 SUMMARIES OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of all the individual business units. All inter-company transactions and profits are eliminated in the consolidation.

Cash and Cash Equivalents

Cash and Cash equivalents are invested by Minnesota Management and Budget and State Board of Investments.

Inventory Valuations

Inventories are valued at the Weighted Average or Lower of Cost or Market. Predominately raw materials are priced at Weighted Average and finished goods are Lower of Cost or Market.

Merchandise placed in service to support laundry rental operations is amortized over the estimated useful lives of the underlying inventory items, primarily on a straight-line basis, which results in a matching of the cost of the merchandise with the revenue generated by the merchandise. Estimated lives of this merchandise are in a service range of three years. In establishing estimated lives for merchandise in service, management considers historical experience and the intended use of the merchandise.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation is charged to operations using the straight-line method over the assets estimated useful lives ranging from 20 years for buildings to 3 – 10 years for machinery and equipment. Expenditures for repairs and maintenance are charged to expense as incurred. Expenditures for major renewals and betterments, which significantly extend the useful lives of existing plant and equipment, are capitalized and depreciated. Upon retirement or disposition of plant and equipment, the cost and related depreciation are removed from the accounts and any resulting gain or loss is recognized in income.

Capitalized Software

Purchased software applications in excess of $25,000 are capitalized and reported according to the Generally Accepted Accounting Principals (GAAP). These assets will appear on the balance sheet and be amortized using the straight-line method over an estimated useful life of 5 years.

Revenue Recognition
MINNCOR recognizes revenue as services are performed or on product sales at the time title transfers to the customer. MINNCOR records estimated reductions to revenue for customer programs and incentive offerings, including pricing arrangements, promotions and other volume based incentives at the time of the sale.

Interfund Transactions
In accordance with Statement 2 – Grant, Entitlement and Shared Revenue Accounting and Reporting by State and Local Governments by the national Council on Governmental Accounting, these transactions are reflected in the financial statements as follows:
1. Funds provided for capital expenditures and fixed assets are recorded and reported in the financial statements as Contributed Capital.
2. Funds provided for payment of operating expenses are recorded and reported in the financial statements as expenses and Operating Grant Revenue.

NOTE 3 COMPENSATING ABSENCES
The liability of the employee's rights to receive compensation for future absences when certain conditions are met has been accrued and recognized in the financial statements according to the Governmental Accounting Standards Board (GASB) Statement Number 16. Compensated absences are classified as current and non-current. Actuarial determined percentages determine what portion of the liability is current. For Fiscal Year 2011, 6.5% of vacation leaves and 15% of vested severance is classified as current. 100% of compensatory time is classified as current. The remainder as well as 54% of non-eligible severance pay is classified as non-current. This resulted in a negative adjustment on the balance sheet to record compensated balances for Fiscal Year 2011 of approximately $153,735.

NOTE 4 SIGNIFICANT ACCOUNT VARIANCES
The Income Statement account entitled "DOC Expenses" incurred $964,000 in expenses in fiscal year 2011. The expenses incurred include re-entry/transition ($374,650), education costs for offenders ($561,950), and MINNCOR related costs for our manufacturing locations ($27,400), as per statute 241.27.

NOTE 5 SIGNIFICANT ACCOUNT VARIANCES
Mandated by 2009 Minnesota Statute, Chapter 83, article 1, Sec. 14, Subd. 2, and 2010 Minnesota Statute, chapter 215, article 11, section 13, Subd. 4, MINNCOR transferred $2,170,000 to the general fund in fiscal year 2011, which affected retained earnings on the fiscal year 2011 financial statements.

NOTE 6 SIGNIFICANT ACCOUNT VARIANCES
In response to a thorough internal review of MINNCOR's fixed assets an entry