MINNCOR industries

To Our Stakeholders:

We ended fiscal year 2007 strong with $38.4 million in sales and a net income of $1.7 million. This success was due to a lot of hard work by staff and changes made throughout the organization.

Some legislation changes made during the 2007 session that affected MINNCOR include eliminating the state purchasing mandate, the use of MINNCOR funds for offender employment development, and access to the DEED employment data for tracking of employment of released offenders in the EMPLOY program. These are important changes for our future success and indicate the growing scope of our organization.

The expectations of what we can accomplish are changing…we've come a long way from the years of receiving a state subsidy. We are being asked not only to employ offenders in a correctional setting at no cost to the taxpayer, but also to help them find employment in the community upon release. This year we saw our MINNCOR offender assignment numbers continue to climb and the offender participation in the EMPLOY program increase.

Fiscal Year 2007 was a successful year in many ways …and a tribute to a lot of hard work. Thus, we begin FY08 a stronger organization.

As always, thanks for your interest and support.

Regards,

Chris Pizinger
Chief Executive Office
MINNCOR Industries

Highlights
From Fiscal Year 2007

EMPLOY
MINNCOR's EMPLOY Program made considerable progress during FY07. Since the start of the program in April 2006, offender participation numbers have grown to 240. Eighteen of the twenty-five participants released through February 2007 reported employment, a seventy-two percent success rate. This percentage is projected to increase with the addition of an EMPLOY staff to assist offenders with their resumes and offer supplemental employment counseling. MINNCOR staff at Rush City, Faribault, Stillwater and Shakopee have been conducting forklift training for offenders nearing release. The offenders completing this training obtain a three year certificate from the Minnesota Safety Council.

Cost Reduction
We challenged our organization this year with a significant cost reduction objective. Lean training was provided, lean principles were implemented and the results were impressive. Our goal was $800,000 and we achieved a total of $1,071,778. This includes a total of $585,000 in hard reoccurring cuts, $357,000 in one time cuts and $130,000 in soft savings. This is the first time this type of exercise has been performed by this organization and the results were obviously very favorable. It is important that it become a standard method of doing business.

St. Cloud License Plates
The Minnesota Department of Public Safety Driver Vehicle Services approached us looking for a solution for their Internet/mailing of registration and license plates. Their system was obsolete and they were having difficulty purchasing material needed to produce registrations. MINNCOR was able to design and implement a complete turnkey system for DVS through a partnership with 3M, who provides the technical support. We presently mail 1.2 million registrations and 100,000 plates annually out of the St. Cloud facility. Annual growth is expected as use of the Internet becomes more popular. This is all new work and revenue for MINNCOR.

School Specialties
School Specialties desk production at Stillwater was terminated due to a continued lack of profitability. Customer owned equipment and inventories of raw materials, components and finished goods were removed in January. The elimination of this business unit allows more efficient, profitable use of the metal shop.

Financials

Balance Sheet

Assets

	FY 2007	FY 2006
Cash	$12,909,816	$11,203,013
Total Other Current Assets	$9,359,397	$12,208,192
Total Other Assets	$3,877,357	$3,880,828
Total Assets	**$26,146,570**	**$27,292,034**

Liabilities and Equity

	FY 2007	FY 2006
Total Current Liabilities	$1,897,234	$4,514,808
Total Other Liabilities	$828,539	$855,701
Total Liabilities	**$2,725,773**	**$5,370,509**
Contributed Capital	$6,552,957	$6,587,559
Retained Earnings	$15,128,774	$14,662,064
Current Year Earnings	$1,739,066	$671,901
Total Equity	**$23,420,797**	**$21,921,524**

	FY 2007	**FY 2006**
Total Liabilities and Equity	**$26,146,570**	**$27,292,034**

Financials

Comparative Income Statement

		FY 2007	FY 2006
Total Sales	……………………………..	$38,445,854	$41,542,407
Total Cost of Goods Sold	……………………………..	$20,666,374	$24,114,814
Gross Margin	**……………………………..**	**$17,779,479**	**$17,427,593**
Total Facility Manufacturing Costs	……………………………..	$9,674,302	$9,881,570
Total General and Administrative Costs	……………………………..	$6,366,112	$6,874,122
Net Income	**……………………………..**	**$1,739,066**	**$671,901**

Financials

Cash Flow Statement

		FY 2007	FY 2006
Cash from Operating Activites			
Income from Continuing Operations	………………………………..	$1,739,066	$671,901
Adjustments to Reconcile Income from Continuing Operations to Cash Provided by Operating Activities	………………………………..	$467,483	$2,972,958
Cash Provided from Financing Activities	………………………………..	$2,206,549	$3,644,860
Cash Flow from Financing Activities	………………………………..	($499,743)	($10,297)
Increase/(Decrease) in Cash and Cash Equivalents	………………………………..	$1,706,805	$3,634,562
Cash, Beginning of Year	………………………………..	$11,203,013	$7,568,451
Cash, End of Year	………………………………..	**$12,909,816**	**$11,203,013**

Notes to the Financial Statements

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 provides services that benefit the community by operating a dynamic and profitable business. MINNCOR provides work skills to offenders as well as preparing them for release. 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 intercompany transactions and profits are eliminated in the consolidation.

Cash and Cash Equivalents
Cash and Cash equivalents are invested by the Minnesota Department of Finance 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 4 – 10 years for machinery and equipment. Merchandising equipment consists principally of various systems that dispense MINNCOR's cleaning and sanitizing products. Merchandising equipment is capitalized and depreciated using the straight-line method over the assets estimated life of 5 years.
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 2007, 6.0% of vacation leave and 14.0% 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 2007 of approximately $16,000.

NOTE 4 SPECIAL CHARGES

During the fourth quarter of Fiscal Year 2007, the board of directors approved a transfer of cumulated canteen profits, fiscal year 2003 through fiscal year 2006, to the social welfare fund (611,P78,0000,X81) of the Department of Corrections. This was in accordance with state law dealing with the disbursement of canteen profits. The effect was a reduction to cash and retained earnings of approximately $239,790.

NOTE 5 DISCONTINUED OPERATIONS

In Fiscal Year 2007, MINNCOR terminated its School Specialty operations at the Stillwater facility. This business unit resulted in a loss after G&A of approximately $288 thousand in Fiscal Year 2007. In addition, the Print business unit at Rush City was discontinued and all outstanding jobs were moved to the print operations at Moose Lake this resulted in a loss after G&A of approximately $44 thousand.