ANNUAL REPORT FY-2013

MINNCOR Industries
Minnesota Department of Corrections

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I am pleased to report on another good year for our organization. We are still very profitable, our offender employment numbers are up significantly, our EMPLOY Program has grown and we have laid the groundwork for a new transition program that will begin in September of FY 2014. This type of success is not something we can or should take for granted. It is in a large part due to the continued hard work, dedication and innovation of MINNCOR staff. Day in and day out your efforts are making our organization one of the best of its kind in the country. Nice job! Thanks for everything you do.

It is also the result of important strategic choices we made several years ago - choices that have put MINNCOR in a strong position to continue to grow profitably, to strengthen our client relationships, and to seize the most attractive opportunities in a very dynamic economy.

Guy Piras,
MINNCOR CEO

The mission of MINNCOR Industries 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.

ABOUT
MINNCOR INDUSTRIES

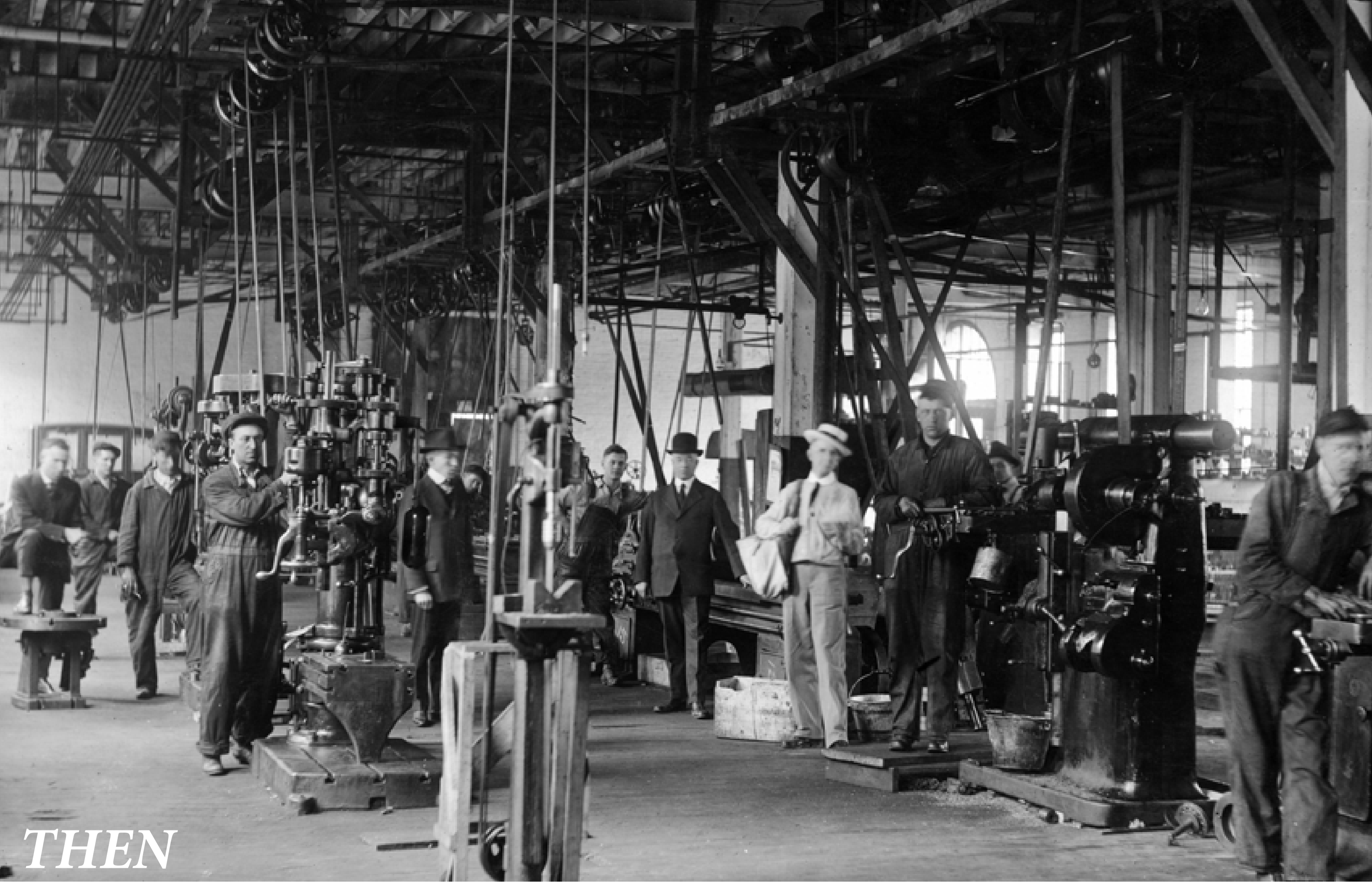
As the Minnesota Department of Corrections (DOC) industry program, MINNCOR Industries maintains a delicate balance of providing works skills training to offenders and premium products to customers while maintaining financial self-sufficiency. Receiving no state subsidies, taxpayer dollars or grants, MINNCOR runs a contemporary, cohesive, self-sufficient business operation, featuring 18 diverse product lines.

MINNCOR Industries was created in 1994 by the Minnesota DOC to consolidate and centralize its individual facility programs into a single statewide business, as well as to increase efficiency and decrease reliance on the state's general fund. MINNCOR exists for the primary purpose of providing offender job skill training, meaningful employment, and teaching proper work habits - without burdening the tax payer. Correctional industries provide a means to minimize offender idleness and reduce costly disruptive behavior, thereby significantly contributing to the maintenance of a safe and secure environment for both staff and offenders.

Financially self-sufficient since FY03, MINNCOR has demonstrated its ability to coordinate and maintain prison industries that are efficient, productive, and safe. Receiving no state subsidies, taxpayer dollars, or grants, MINNCOR offers premium products and services to various markets and industries.

MINNCOR is located in six facilities throughout the state, providing work assignments for over 1300 offenders. Strategically, MINNCOR endeavors to maintain diversification and avoid investing too heavily in any one area. It does not intend to become a dominant competitor in any particular segment. MINNCOR offers state and other government agencies an option for purchasing products through an easier and more efficient process.

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.



Today, MINNCOR runs a contemporary, cohesive, self-sufficient business operation featuring 18 diverse product lines. Above is an image of The American Motor Company in the old state Stillwater prison in 1917. Below shows an offender using the welding skills he learned to work on a Department of Transportation snow plow.

YEAR - IN - REVIEW

MINNCOR Industries continues to shine year after year due to the hard work and diligence of the staff and offenders. Between the activities at each one of MINNCOR's facilities, The EMPLOY Program and efforts at St. Paul, MINNCOR had a tremendous year. Below are just a few highlights of Fiscal Year 13.

Quarter 1 Highlights

The Stillwater metal shop increased activity with DOT and DNR, in addition to an expansion with 3M and an opportunity to manufacture clothing drop boxes.

P-lam kitchen cabinets for Cedar-Riverside Housing were constructed and installed.

PIECP Assessment gave a 100% compliance report.

Quarter 2 Highlights

New Continuous Batch Washer was installed at Faribault reducing chemical usage and softener repairs and increasing the quality of linens.

A marketing campaign was developed to find new business development opportunities. Cold calling and follow-up activities were executed resulting in new leads.

Quarter 3 Highlights

A new 3000 square feet showroom was added to St. Paul's location. The space highlights MINNCOR's role with the DOC and showcases new product lines.

New registration printers were installed at Rush City's license division.

Fabric offerings increased with additional vendors.

Quarter 4 Highlights

MINNCOR successfully held an open house to introduce the new showroom to current and potential customers. Over 180 guests attended the two-day event.

Shakopee business units ended the year with excellent results. Net income was 5% greater than that of FY12.

UW-Superior ordered 400 metal collegiate beds.

AN AVERAGE MINNCOR DAY

On any given day, 84 online visitors have made their way to MINNCOR's website, resulting in over 500 pages viewed daily. Over 40 sales orders are taken totaling over $150,000 a day! MINNCOR job assignments average 1,317 offenders, some of who helped create and print 8,745 license plates a day.

THE EMPLOY PROGRAM

270

Number of new participants enrolled in The EMPLOY Program during FY13

73%

Employment rate of offenders released over 1-month

520

Total number of participants enrolled in The EMPLOY Program at the end of FY13

The EMPLOY Program helps once-incarcerated individuals succeed on the 'outside' with the main goal of reducing recidivism by focusing on industry skills gained and on the cultivation of soft skills such as work values, ethics, reponsibility and communication.

Designed to help offenders locate, gain, and retain employment at a liveable wage, EMPLOY provides incarcerated participants with assistance to enhance their readiness for post-release employment and offers them community support for one full year following release from prison. The program is entirely voluntary and offenders must be qualified before submitting an application for consideration.

EMPLOY Program participants are experienced, skilled workers trained in one or more of 38 different trade areas. The employment skills gained while incarcerated give the participants a distinct advantage in finding quality employment in today's competitive job market.

NEW EMPLOY VENTURES

The EMPLOY Program continues to work hard with new efforts embarked on during FY13... some are explained below.

Success Stories

EMPLOY's first ever success story was writen about Erin Hatier*, who had worked as a Lead Worker in Shakopee's Textile Shop for four years. She successfully transitioned back into the community and has been gainfully employed since December of 2012.

Erin continues to work full time in sewing and has been promoted to a warehouse manager position at her work. She continues to be successful in her life and in the community.

Employment Tracking

EMPLOY staff track where its participants are currently employed and found that 35% hold manufacturing positions followed next with 12% in the food service industry. Here is a breakdown of employed participants.

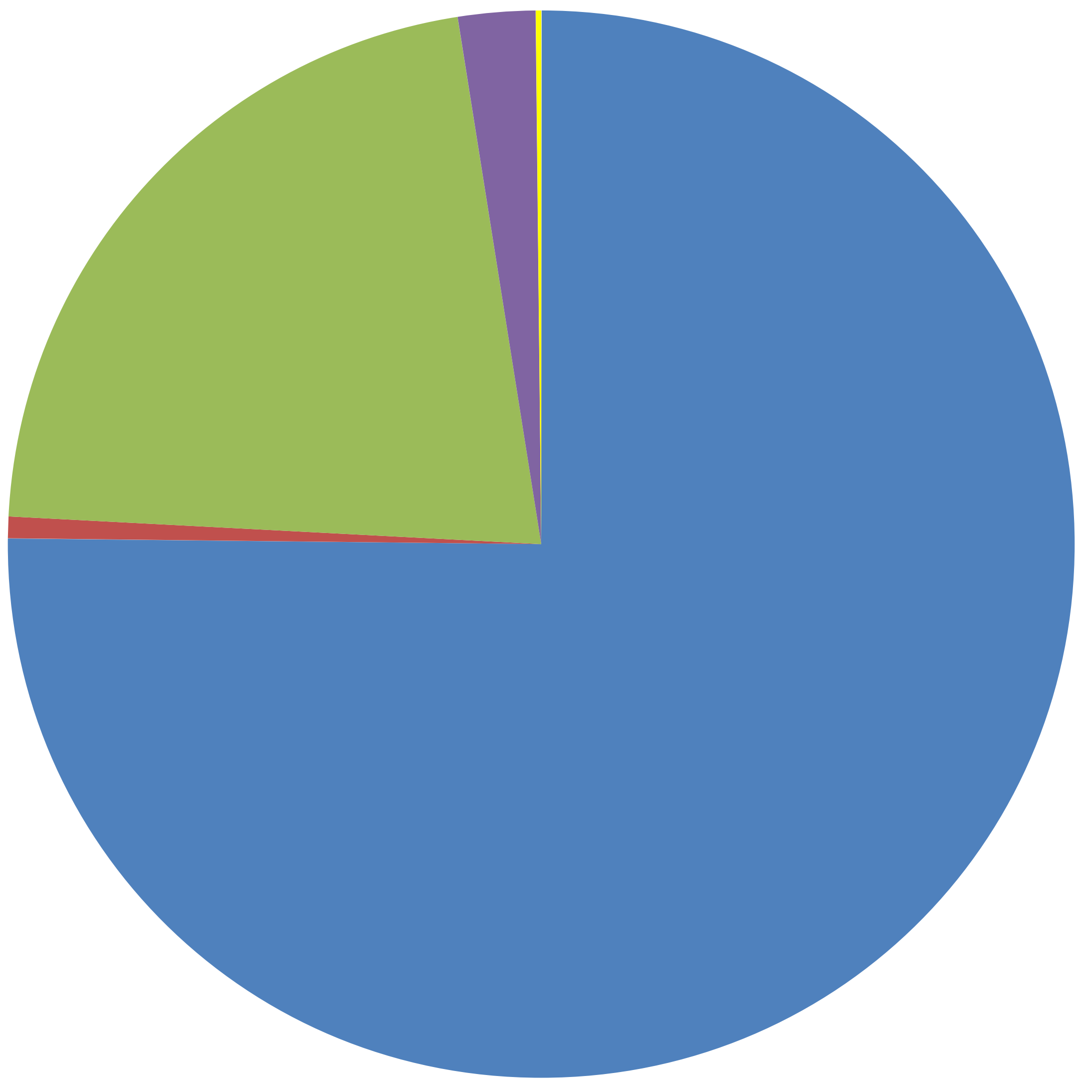
11% - Business Services
11% - Construction
11% - Automotive/Warehousing/etc.
8% - Sales/Telemarketing/Customer Service
6% - Cleaning/Janitorial/Maintenance
6% - Attending School

Newsletters

The EMPLOY Program continues to send out semi-annual newsletters and has added close to 100 new receipients. FY14 goals include adding 85 new participants quarterly.

*name has been changed to protect confidentiality

CUSTOMER SALES
FY14 BREAKDOWN



Government = 75.17%

Sub-Contract = 21.67%

Higher Education = 2.34%

Non-Profit = 0.65%

K-12 Education = 0.16%

BALANCE SHEET

	FY-2013	FY-2012
Assets		
Current Assets		
Cash	19,334,462	17,065,622
Receivables (net)	3,254,778	6,644,711
Inventory	6,524,244	5,306,281
Prepaids	163,858	221,759
Other Current Assets	177,745	182,395
Fixed Assets	12,967,124	12,435,407
Accumulated Depreciation	(7,976,779)	(7,585,509)
Total Assets	34,445,431	34,270,666
Liabilities		
Short Term Liabilities		
Accounts Payable	175,214	344,547
Accrued Liabilities	716,246	1,219,806
Accrued Payroll	532,642	382,968
Total Short Term Liabilities	1,424,102	1,947,321
Long Term Liabilities	862,426	868,038
Total Liabilities	2,286,528	2,815,359
Equity		
Contributed Capital	6,552,957	6,552,957
Retained Earnings	22,891,823	20,070,272
Current Year Net Income	2,714,123	4,832,077
Total Equity	32,158,904	31,455,306
Total Liabilities & Equity	34,445,431	34,270,666

INCOME STATEMENT

	FY-2013	FY-2012
Sales		
Customer Sales	37,973,620	40,334,716
MINNCOR Sales	575,361	509,863
Sales Returns	(533,476)	(571,553)
Sales Discounts	(4,910)	(25,105)
Customer Restocking Charge	458	0
Sales Write Off	73	(393)
Total Sales	38,011,154	40,247,527
Cost of Goods Sold		
CGS	17,625,805	18,821,565
CGS - Non Inventory	657,805	548,647
Intro Industry CGS	2,465	(363)
Obsolete, Scrap	27,352	42,442
Variances	(1,732,585)	(2,423,049)
Total Cost of Goods Sold	16,580,841	16,989,243
Gross Margin	21,430,313	23,258,285
Total Manufacrturing Costs	11,287,671	11,019,839
Facility Income	10,142,642	12,238,445
Total G&A Costs	7,428,518	7,406,368
Net Income	2,714,123	4,843,890

STATEMENT OF CASH FLOWS

	FY-2013	FY-2012
Cash Flows from Operating Activities		
Receipts from Customers	38,011,154	40,274,527
Payments to Employees	9,862,169	9,735,310
Purchased Services	2,411,817	2,293,513
Depreciation	926,330	911,845
Indirect Costs	824,811	874,444
Payments for Manufacturing Costs	16,580,841	16,989,243
Supplies & Materials	1,194,631	1,147,495
Repairs	303,927	267,971
Other Expenses	5,823,537	5,782,075
Other Income	2,524,839	2,506,120
Gain on Sale of Fixed Assets	8,537	10,970
Investment Earnings	97,657	81,168
Net Income	2,714,123	4,843,890
Decreases (Increases) in:		
Accounts Receivable	3,389,933	(1,892,686)
Inventory	(1,217,963)	456,855
Other Current Assets	62,551	(6,737)
Increases (Decreases) in:		
Accumulated Depreciation	391,270	655,943
Accounts Payable	(634,980)	874,631
Accrued Expenses	106,148	(552,962)
Net Cash Provided by (used for) Operating Expense	4,811,083	4,3378,934
Cash Flows from Capital & Related Financial Activities		
Purchases of Fixed Assets	(531,716)	(275,277)
Net Cash Provided by (used for) Capital Activities	(531,716)	(275,277)
Cash Flows from General Fund & DOCk Activities		
General Fund Distributions & DOC Initiatives	(2,010,526)	(2,007,887)
Net Cash to General Fund & DOC Activities	(2,010,526)	(2,007,887)
Net Increase (Decrease) in Cash & Cash Equivilents	2,268,840	2,095,771

NOTES ON 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 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 vision is a customer-driven business model that contributes to a safer Minnesota by providing sound management, quality products, reduction of inmate idleness, off ender transition services, and work skills' training that prepare off enders for release into the community. MINNCOR operates through a State 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, or the Department of Corrections.

NOTE 2 SUMMARIES OF SIGNIFICANT ACCOUNTING PRINCIPLES.

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 Minnesota Management and Budget and State Board of Investments.

Inventory Valuations

Inventories are valued at a Weighted Average Cost. MINNCOR produced merchandise placed in service to support laundry rental operations is amortized over the estimated useful lives of the inventory items on a straight-line depreciation 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 11 months to 36 months. 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 and computers.

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.

Revenue Recognition
MINNCOR recognizes revenue as services are performed, or on product sales at the time of shipping.

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 2013, 7.26% of vacation leaves, and 16.70% of vested severance is classified as current. 100% of compensatory time is also classified as current. The remaining balance, as well as 55% of non-eligible severance pay is classified as non-current.

NOTE 4 SIGNIFICANT ACCOUNT VARIANCES
In FY 2013 MINNCOR paid $1,410,526 in DOC Expenses not related to Minncor activities. These DOC expenses incurred include re-entry/transition programs, education costs for offenders.

Mandated by Minnesota Laws of 2011, 1st Special Session, Chapter 1, Article 1, Sec. 15, Subd. 5(a), MINNCOR transferred $600,000 to the State General Fund in Fiscal Year 2013, which affected retained earnings on the Fiscal Year 2013 financial statements.