



Fiscal Year 2010

Annual Report

Building
a Stronger
Tomorrow



MINNCOR Industries

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OAK PARK HEIGHTS

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RUSH CITY

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STILLWATER

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Bayport, MN 55003-1490

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Mission

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.

Vision

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.

Strategy

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

Relentless monitoring of financial performance will ensure our on-going success. Focusing on customer needs, MINNCOR will continue to offer quality products and services. MINNCOR will also continue to provide work skills training for offenders and support finding employment following release so they can become productive, contributing citizens.

To Our Stakeholders and Customers,

The overall results of Fiscal Year 2010 were quite positive. We increased our total number of offender assignments to over 1,300, reaching or surpassing our full employment goals at all facilities except Stillwater. Financially we were able to contribute almost \$400,000 for education and reentry, over \$400,000 for Department of Corrections initiatives and \$1,547,000 to the general fund. Given our prolonged success, we are now able to move past the point of being satisfied with breaking even and will be able to set new, aggressive goals for the next fiscal year.

MINNCOR is good for Minnesota in other ways. Not only can we provide businesses with an alternative to manufacturing and assembly production overseas, we annually purchase over \$11 million dollars in goods and services from Minnesota businesses.

We contribute to a safer Minnesota by teaching offenders work skills. EMPLOY was both very active and successful this year. EMPLOY staff enrolled 335 offenders in FY10 and connected with over 1,000 employers during the year. There were over 130 job skills training sessions held and 262 resumes created - all contributing to a released offender employment rate of 66 percent. We are anticipating the release of a program evaluation regarding the impact of EMPLOY on offender recidivism and post-release employment. The initial findings suggest significant reduction in recidivism, higher rates of employment, higher total wages, and more hours worked. Full details will be available after the report has been published.

FY11 will be another year with significant challenges and opportunities. State budget deficits have state agencies spending less. Unfortunately, this results in less revenue for MINNCOR. To make up for this loss of revenue, we are reaching out more strongly than ever to the non-profit market. We will be challenged by an ever increasingly competitive marketplace that is unaware of who we are and what we do.

We're also looking forward to launching a new Enterprise Resource Planning system which will help us manage customers, costs, inventory, and profit more efficiently. The success of the new system will not only require good project planning and organization, but, most importantly, buy-in and commitment from staff.

Our continued success can be attributed to the hard work and dedication of our staff and the support of our stakeholders and our customers.

Thank you.

Guy Piras
Chief Executive Officer
MINNCOR Industries

HISTORY OF MINNCOR INDUSTRIES

Prison industries have a long history within Minnesota, dating back to the production of twine in the 1870s, soon followed by the Minnesota Line of farm machinery. For more than 100 years, emphasis was placed on training and employing as many inmates as possible in these programs.

MINNCOR Industries was created in 1994 by the Minnesota Department of Corrections (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 - not as a competitive business venture. 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, utilizing approximately 1300 offenders as its main workforce.

Today, MINNCOR runs a contemporary, cohesive, self-sufficient business operation featuring 20 diverse product lines. 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 serves as a subcontract manufacturer to many different companies located throughout Minnesota. By partnering with MINNCOR, companies have benefited from a flexible/skilled workforce, broad capabilities, quality products and services, timely delivery, and competitive pricing. MINNCOR provides these subcontract services to Minnesota businesses to open new opportunities for them by broadening their capabilities and increasing their workforce and physical space as needed. MINNCOR views this service as a key asset to Minnesota industries that choose to utilize our resources.

The EMPLOY Program, MINNCOR's post-release employment service, seeks to teach offenders to capitalize on vocational training, job skills, and skills learned while incarcerated and apply them to employment opportunities once released. EMPLOY staff provides employment readiness training and viable job leads to released participants.

Enterprise Resource Planning

Due to an ever-increasing need for efficiency, MINNCOR began the process of purchasing and implementing a new Enterprise Resource Planning system. Following an in depth analysis of functional needs, a request for proposal was published the first quarter of FY10. Responses were reviewed, scored, and evaluated. After thorough analysis, demonstrations and meetings, MINNCOR selected Microsoft Dynamics AX through Wipfli. Implementation begins the first part of FY11 and is expected to take approximately 18 months.

MINNCOR Messenger

In October, the Marketing Department recreated the MINNCOR Messenger, a monthly internal newsletter. The newsletter features stories regarding the successes of MINNCOR and EMPLOY, as well as a few historical pieces and other updates. The newsletter was created to inform and involve staff in the events and progress at each facility. It has proven to be a great method to improve communication with MINNCOR employees.

NCIA Central Region Conference

In the later part of July, MINNCOR Industries hosted the annual National Correctional Industries Association Central Region Conference. The theme of the conference was *'Making It Work'*. The event was well attended, having over 50 vendors representing 38 companies and over 50 participants. The keynote speaker was Les Green, director of cultural diversity at Saint Cloud State University. Green, who was once an inmate, shared his story of the impact prison employees can have on former inmates as they strive for successful lives outside the prison walls. The conference featured seven different training sessions for participants to take part in. Each session provided insight and new ideas on how to better grow and maintain correctional industries.

Increased Inmate Employment

MINNCOR's goal in FY10 was to maintain an average of 1,200 assigned offenders. Surpassing that goal, MINNCOR increased the total number of offender assignments to over 1,300 by year end, resulting in a 9.3 percent increase from FY09. Subcontract continues to hold the largest share of offender assignments.

Canteen Expansion

When the canteen at the MCF-Oak Park Heights started outgrowing its facility due to opportunities from the Department of Human Services, expansion space was researched. The outside warehouse at MCF-Stillwater proved to be the best option for the canteen development project. Expansion work for the MCF-Stillwater facility began on July 17, with efforts including floor and wall repair, lighting upgrades, office construction, and painting. The success of the expansion project was dependent on the hard work of the Oak Park and Stillwater directors and industry staff, engineering, building maintenance crews, electrical teams, and the IT unit.

Certified Welding

The American Welding Society (AWS) added MINNCOR Industries into their membership catalogue of Certified Welders. With the addition, MINNCOR now has the capability to provide welded steel structures meeting requirements of AWS standard D1.1. The Stillwater facility went through a training program that prepared candidates for the AWS certification. Participants received comprehensive welding inspection education and practical experience in welding processes and procedures. The training included welding inspection technology and visual inspection workshops.

The AWS/Certified Welding Inspector Certification is recognized and accepted worldwide in the welding industry as it represents the quality of skills and knowledge in the field of welding.

MINNCOR is a member of the following Professional Organizations

MPMA - The Minnesota Precision and Manufacturing Association will not only allow MINNCOR to network with other manufacturing companies, but it will give it a chance to spread the word about MINNCOR to a wider selection of manufacturing and job shop companies.

PIM - The Printing Industry of Minnesota is the trade association for the second largest segment of the manufacturing industry in Minnesota. With this membership, MINNCOR will stay informed on issues relating to technical expertise and new legislation.

NAHRO - The National Association of Housing and Redevelopment Officials Minnesota Chapter is a non-profit organization committed to ensuring the provision of decent, affordable housing and livable communities for all Minnesotans. Membership will give MINNCOR the opportunity to promote and educate the state's government agencies about the products and services we provide.

AMFA - The Arrowhead Manufacturers and Fabricators Association is a member driven organization helping to strengthen and grow the manufacturing and fabrication industries in Northeastern Minnesota and Northwestern Wisconsin. Membership will give MINNCOR the ability to network with other manufacturing companies.

TSMA - The Tri State Manufacturers Association assists manufacturing companies by providing networking, education, and programs to enhance the success of members and their communities. MINNCOR will be provided opportunities to acquire industry relevant knowledge and skills.

Conferences/Trade Shows

During FY10, MINNCOR Industries was well represented at many conferences and trade shows. The list includes the Annual Council of Non-Profits Conference, the Medical Design and Manufacturing show, AmCon, the Annual Association of Minnesota Counties show, the Minnesota Jail Administrators conference, the Chief Engineer's Guild conference, the Chief Financial and Facilities Officer conference (University of Minnesota annual meeting), and many more. These conferences and trade shows are a great way to promote MINNCOR and share its mission and story with a wide audience.

OPERATIONAL HIGHLIGHTS

FARIBAULT

Year end offender assignments: 434; Increase from FY09: 11%.

Products and services include wood furniture, laundry, plastics thermoforming, custodial products, and subcontract labor services.

Total Sales = \$6,488,596

MOOSE LAKE

Year end offender assignments: 190; Increase from FY09: 39%.

Products and services include textiles, printing, and subcontract labor services.

Total Sales = \$7,017,000

OAK PARK HEIGHTS

Year end offender assignments: 94; Decrease from FY09: 1%.

Services include the centralized canteen.

Total Sales = \$8,627,471

RUSH CITY

Year end offender assignments: 193; Decrease from FY09: 11%.

Products and services include license plates, stickers, and subcontract labor services.

Total Sales = \$8,787,685

SHAKOPEE

Year end offender assignments: 137; Increase from FY09: 20%.

Products and services include textiles, safety products, and subcontract labor services.

Total Sales = \$934,722

STILLWATER

Year end offender assignments: 268; Increase from FY09: 7%.

Products and services include metal products, mattresses, furniture upholstery, warehousing, and subcontract manufacturing services.

Total Sales = \$3,991,235

HISTORY/HIGHLIGHTS OF EMPLOY

EMPLOY was started in 2006 and is completely funded by MINNCOR Industries. It was designed to help inmates capitalize on work experiences and skills acquired during their incarceration and to aid them in employment readiness for post-incarceration. It also offers support for one year following an inmate's release. The ultimate goal of EMPLOY is to help offenders locate, gain, and retain employment at a livable wage.

In order to become a participant in EMPLOY, inmates must be within the last five years of their sentence and have either a minimum of six months work experience at MINNCOR Industries or have completed a vocational education program; OnTrack students are also eligible. Participants are held accountable for their actions and are expected to have a clean discipline record while enrolled. Remaining discipline-free reflects a willingness on the part of the individual to establish trust and shows that he or she is thinking about the future.

Shortly before release, participants meet with a job training specialist for two eight-hour sessions. During these meetings, the group discusses skills assessments, resumes, job-searching techniques, interviewing skills, and more. The week before a participant's supervised release date, a job development specialist begins searching for job leads in the offender's field of skill and location of release.

Within the first week of release, an appointment is scheduled with an EMPLOY retention specialist. At this meeting, participants receive an individualized portfolio that contains copies of their resume, any certifications submitted to EMPLOY, job leads, and various other resources and tools to assist them with their job search. The retention specialist maintains contact with and provides continuous support to each participant in the form of career advice and resume maintenance. Follow-up meetings are conducted one, three, and six months after release. The final meeting is held at 12 months upon program completion.

The MINNCOR Industries EMPLOY Program has seen many successes during FY10. The group exceeded its goal of 240 new participants for the year by enrolling 335 offenders. EMPLOY has also seen a considerable increase in the number of people completing the program. A total of 57 people completed the program or successfully participated until their expiration in FY10, which was a 60 percent increase from the previous fiscal year.

In an effort to help released participants find work, EMPLOY connected with over 1,000 employers statewide and launched its new employer-specific website. Job development specialists established 279 potential new partnerships with companies across the state. Due in part to 130 intensive job skills training sessions, and the 262 new resumes created by EMPLOY's job search coordinator, released participants ended the fourth quarter with a 66 percent employed rate.

Johnny

Johnny is an EMPLOY participant who grew up in the projects of Chicago. He had several felonies on his record before coming to Minnesota and found himself incarcerated yet again for another conviction. Eventually he landed a job as a warehouse worker for MINNCOR Industries. During this time, he gained a certification as a forklift operator. In addition to learning a new trade, Johnny says that MINNCOR helped him to get used to the idea of working and having a job. Maintaining employment was something he had never done before in his adult life. Through word of mouth, he heard about the EMPLOY Program.

At first, he was under the false impression that this program would place him in a job. After realizing that EMPLOY's focus was to help break down barriers by offering employment-readiness training, he was impressed and grateful for the skills and life lessons the staff taught him. Johnny understood that this was a program that would help him to be prepared and show him how to connect with employers and market his skills, but that he still had to work hard everyday and stay motivated.

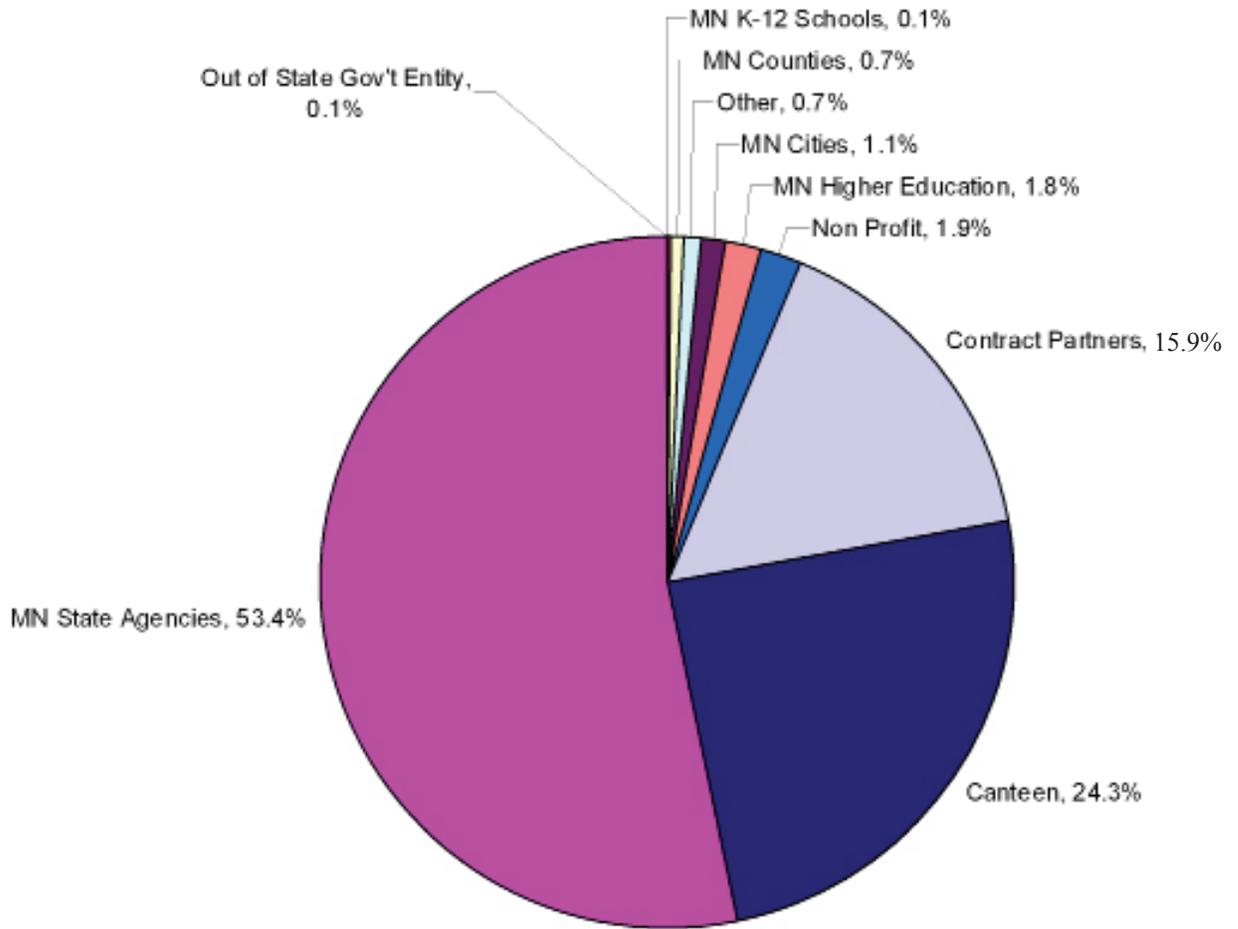
Not only did EMPLOY help to develop better job searching skills, he says it also got him ready for the challenges of everyday life, particularly how to understand the "real value" of things and how to begin creating a budget so he could start saving some of his money. Previously, Johnny said he had no concept of managing money or sticking to a budget. It's still something he is learning, but he's happy to be figuring it out.

Johnny left prison with a more positive work ethic than he had at the beginning of his sentence and it wasn't long before he reaped the benefits of his efforts. Less than a month after he was transferred to work release, he was offered three different jobs! Recently, Johnny was awarded the first ever *Employee of the Month* through his employer. The site supervisors said they were impressed with his willingness to work long, sporadic hours and for always exercising a high level of integrity on the job site. Johnny is early for work and is courteous no matter what situation he faces. These work habits were topics covered in his Job Skills Training class that Johnny rarely used in any previous job he had held. Interviewing techniques were another skill he learned through EMPLOY that he maintains helped him to find employment.

Since his release, Johnny has continued to be impressed with the assistance offered by EMPLOY. He was given a bus pass and says he didn't fully understand how nice of a gift that was until he had to buy his own. The most important and valuable commodity he's received from EMPLOY has been a sense of worth. Johnny said that when the EMPLOY team showed up for training and retention services, he felt special, like somebody cared. It meant a lot to him because sometimes it seemed as though he didn't have anything or anyone. But he felt good knowing he was a part of the EMPLOY Program; and when he feels good, it makes him want to work harder to succeed in life.

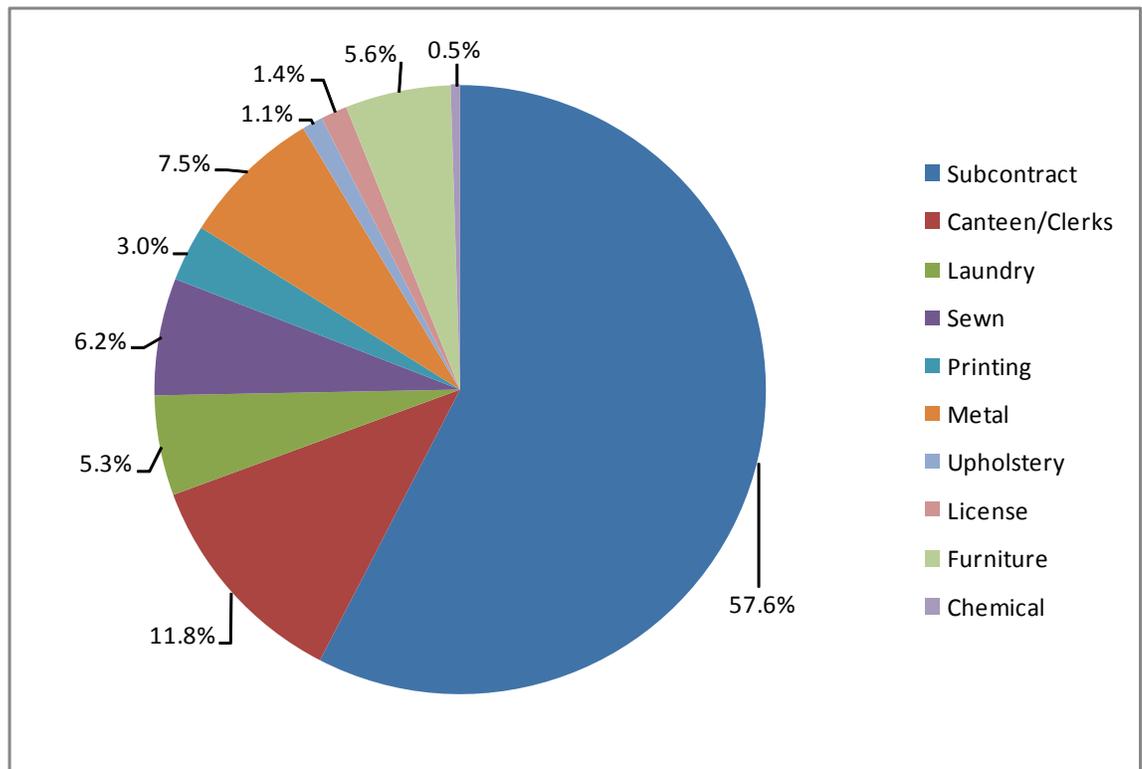
TOTAL SALES

Sales by Market Segment, as a Percentage of Total Sales FY10



OFFENDER EMPLOYMENT

Offender Employment as of June 30, 2010



1,314 Offenders Employed

BALANCE SHEET

<i>Assets</i>	FY2010	FY2009
Cash	\$17,184,598	\$15,451,592
Total Other Current Assets	8,137,727	9,562,383
Total Other Assets	<u>4,590,631</u>	<u>4,441,576</u>
Total Assets	<u><u>\$29,912,956</u></u>	<u><u>\$29,455,551</u></u>
 <i>Liabilities and Equity</i>		
	FY2010	FY2009
Total Current Liabilities	\$1,237,542	\$1,304,571
Total Other Liabilities	<u>766,531</u>	<u>791,308</u>
Total Liabilities	<u><u>\$2,004,073</u></u>	<u><u>\$2,095,879</u></u>
Contributed Capital	\$6,552,957	\$6,552,957
Retained Earnings	19,232,715	19,828,736
Current Year Earnings	<u>2,123,211</u>	<u>977,979</u>
Total Equity	<u><u>\$27,908,883</u></u>	<u><u>\$27,359,672</u></u>
Total Liabilities and Equity	<u><u>\$29,912,956</u></u>	<u><u>\$29,455,551</u></u>

INCOME STATEMENT

	FY 2010	FY 2009
Total Sales	\$35,489,552	\$36,330,951
Total Cost of Goods Sold	(15,537,513)	(17,080,920)
Gross Margin	<u>\$19,952,039</u>	<u>\$19,250,031</u>
Total Facility Manufacturing Costs	\$12,079,401	\$10,651,583
Cost of Confinement	(1,879,986)	(1,036,055)
Net Manufacutring Costs	<u>\$ 10,199,415</u>	<u>\$ 9,615,528</u>
Total General and Administrative Costs	*\$7,629,413	*\$8,656,524
Net Income	<u><u>\$2,123,211</u></u>	<u><u>\$977,979</u></u>

*includes EMPLOY expenses and DOC Funded Initiatives as outlined in M.S. 241.27

CASH FLOW STATEMENT

	FY 2010	FY 2009
Cash Flow from Operating Activities		
Income From Continuing Operations	\$2,123,211	\$977,979
Adjustments to Reconcile Income From Continuing Operations to Cash Provided by Operating Activities	<u>\$1,681,432</u>	<u>\$47,551</u>
Cash Provided from Financing Activities	\$3,804,643	\$1,025,530
Cash Flow from Financing Activities	<u>(\$2,071,635)</u>	<u>\$153,704</u>
Increase/(Decrease) in Cash and Cash Equivalents	\$1,733,008	\$1,179,234
Cash, Beginning of Year	<u>\$15,451,591</u>	<u>\$14,272,356</u>
Cash, End of Year	\$17,184,599	\$15,451,590

NATURE OF THE BUSINESS

MINNCOR as a program of the Minnesota DOC 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's mission is to provide a safe working environment within the prison system and successfully transition offenders into the community at no cost to taxpayers. 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.

SUMMARIES OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

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 Office 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 five 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 five 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.

SPECIAL CHARGES – PRIOR PERIOD ADJUSTMENTS

The Income Statement account entitled “DOC Expenses” incurred \$813,000 in expenses in FY10. The expenses incurred include re-entry and education costs for offenders, as well as MINNCOR related costs for our manufacturing locations, as per M.S. 241.27.

SIGNIFICANT ACCOUNT VARIANCES

Mandated by 2009 MN Session Law, chapter 83, article 1, section 14, Subd. 2, paragraph (g), and 2010 MN Session Law, chapter 215, article 11, section 13, Subd. 4, MINNCOR transferred \$1,574,000 to the general fund in 2010, which affected retained earnings on the 2010 financial statements.