



# 2008 Annual Report

## *Table of Contents*

Stakeholder Letter	2
Who We Are	3
Over the Years	4
Highlights from FY08	5
Operational Highlights	8
Balance Sheet	13
Comparative Income Statement	14
Cash Flow Statement	15
Notes to the Financial Statements	16

## *To Our Stakeholders:*

MINNCOR's mission is three-fold: to operate a profitable business at no cost to the taxpayer, contribute to a safe environment within the prison system, and provide offenders the opportunity to learn work skills that will help them be successful upon release.

Due to staff commitment, hard work and determination, we successfully fulfilled all three goals in our mission.

The sales for fiscal year 2008 amounted to \$35.8 million and our net income for the year was \$2.63 million; though the year was not without its challenges including staggering fuel cost increases which resulted in many raw material price increases and state agencies with tight budgets.

Creating and maintaining MINNCOR industry jobs in the institution prevents offender idleness, thereby increasing prison safety. Approximately 20 percent of Minnesota offenders are assigned to MINNCOR in the facilities that MINNCOR operates in, higher than the national percentage.

EMPLOY, MINNCOR's offender employment program, has gained considerable momentum. Since its inception in June 2006, participation numbers have increased to over four hundred. The program maintains a 70 percent successful employment rate for released program participants. The EMPLOY Program continues to provide the link to community employment that is vital to the success of re-entry.

Fiscal year 2009 will bring new challenges brought on by economic changes. We will need to adapt and further improve the way we do business. I am confident MINNCOR is ready to navigate the course.

Guy Piras  
Chief Executive Officer  
MINNCOR Industries

## Who We Are

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MINNCOR Industries provides services that benefit the community by operating a dynamic and profitable business. For many years, MINNCOR Industries has proudly partnered with the State of Minnesota to provide products and services to state agencies and their buyers. Minnesota's Cooperative Purchasing Venture (CPV), also allows city, county, MNSCU, school district and township buyers the same purchasing opportunities as state agencies.

MINNCOR Industries was created in 1994 by the Minnesota Department of Corrections as a way to centralize and organize prison industry operations that have been a part of this state since 1870. Correctional industries provide a means to combat offender idleness and reduce costly disruptive behavior, thereby significantly contributing to the maintenance of a safe and secure environment for both staff and offenders.

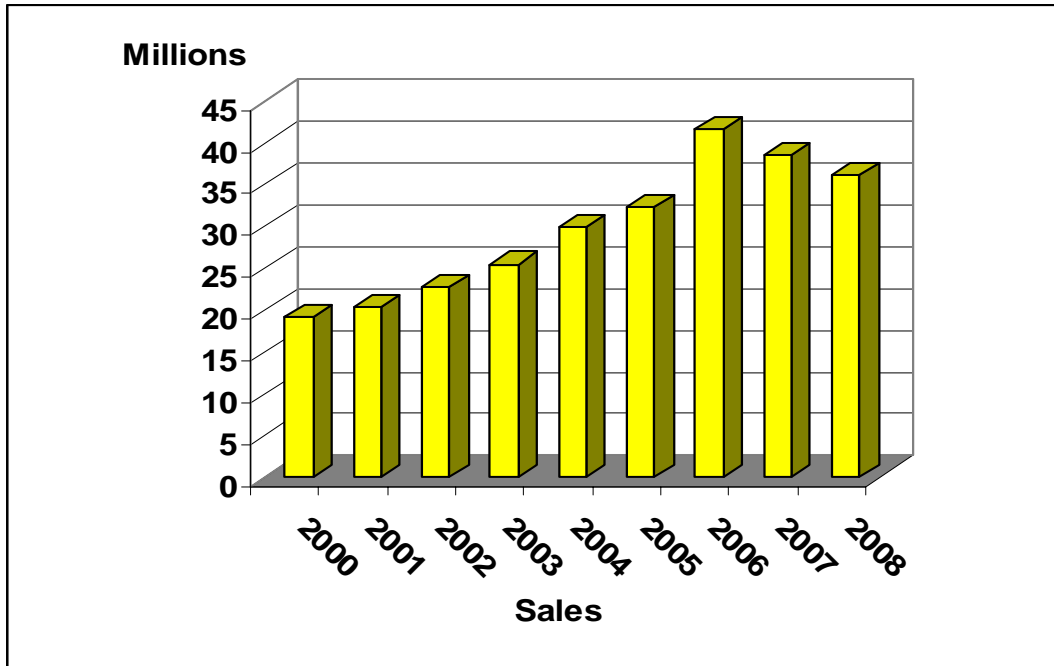
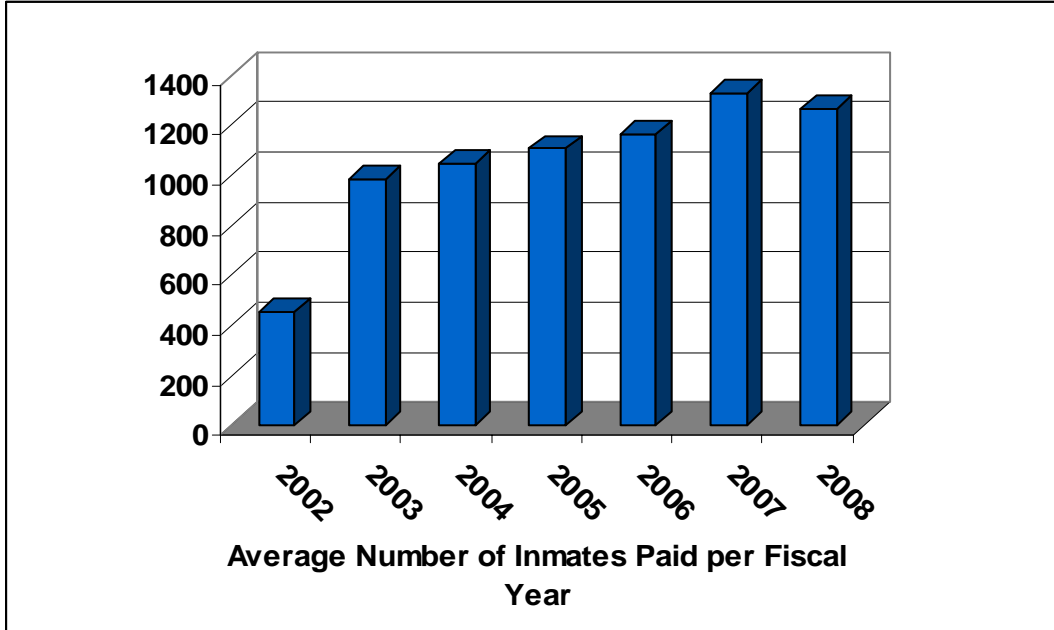
Financially self-sufficient since fiscal year 2003, MINNCOR has demonstrated its ability to coordinate and maintain prison industries that are efficient, productive, and safe. As state department budgets continue to shrink, financially independent programs like MINNCOR can help more offenders return to society with better work habits and more marketable job skills.

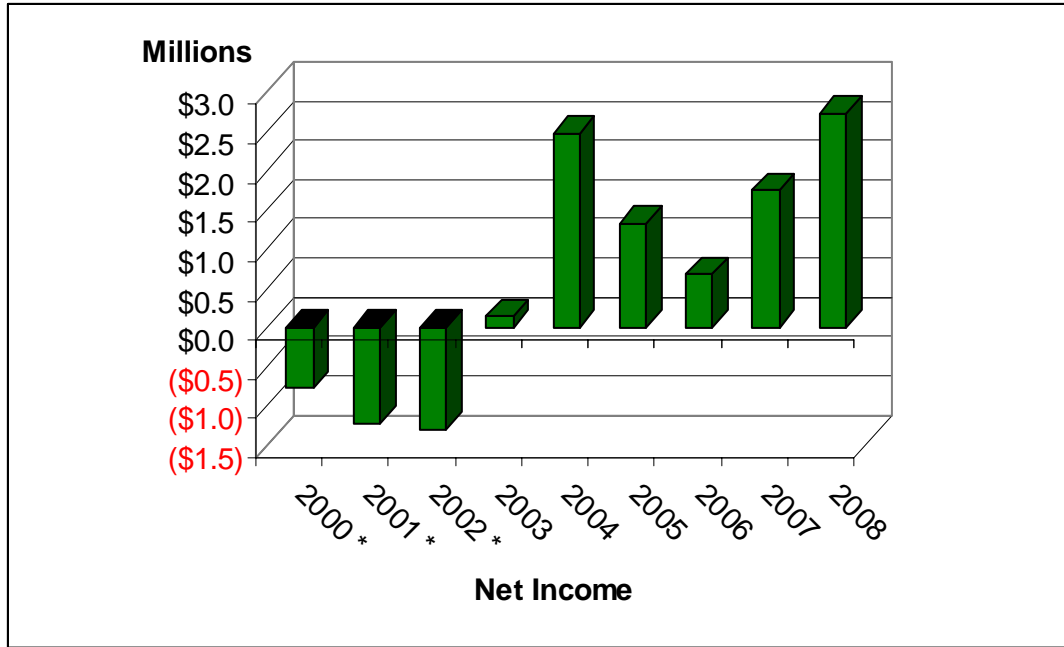
The EMPLOY Program, our post-release employment service, seeks to teach offenders to capitalize on trade skills, job skills, and vocational skills learned while incarcerated and apply them to employment opportunities once released. EMPLOY's goal is to reduce recidivism and release offenders as employable, productive and contributing citizens.

MINNCOR Industries, in partnership with Minnesota Department of Corrections, is located in six facilities throughout the state utilizing up to 1,250 offenders as its main workforce. MINNCOR Industries is a financially self-sufficient division, receiving no state subsidies, taxpayer dollars or grants. We generate 100 percent of our revenue through the sale of our products and services. We accomplish this by offering premium products and services to various markets and industries.

# Over the Years

## To Fiscal Year 2008





# Highlights

## From Fiscal Year 2008

### License Plates

The Minnesota Department of Public Safety made the decision in 2007 to convert from embossed license plates to a flat plate. The relatively new process involves printing the design on flat sheeting. The new plate is produced in a manner that saves time, space, money and a few unpleasant chemicals while it makes the plates easier to read. The thinner, lighter — and still recyclable — aluminum used in the new process requires less storage space and reduces postage costs. There’s a small environmental advantage, too. The digital printing process eliminates some of the paints and solvents necessary to produce embossed plates. It also allows faster delivery on specialty plates, because they can be printed anytime; the embossed plates require a sequential production process that couldn’t be interrupted to print a special plate.

With input from law enforcement, the Department of Public Safety Division of Driver and Vehicle Services redesigned the plates to include black lettering, which creates higher contrast and greater readability, and a bar code that can be scanned for inventory control and record-keeping.

Since the technology was basically a new manufacturing process, an in-depth analysis was completed to discover the facility that would best handle the new technique. This was determined to be MINNCOR-Rush City. Fiscal year 2008 saw the registration and validation sticker line shut down and moved from St. Cloud to Rush City. We also moved a license plate blanking line and started manufacturing license plates. Successful production of flat plates began at Rush City during the fourth quarter of FY2008.

## **Sign Shop**

The MINNCOR sign shop was closed at Minnesota Correctional Facility-Moose Lake and transferred to the Department of Human Services. An agreement was reached with the DHS Sex Offender Program, allowing the transfer of the sign shop on December 31, 2007. As part of the transfer agreement DHS purchased our equipment and inventory. This is the first new industry business for the expanding Minnesota Sex Offender Program's Minnesota State Industries and we wish them well.

## **Canteen**

During FY08, the Canteen continued to grow by adding the sale of the physical therapist recommended tennis shoes. Over-the-counter (OTC) items were converted from institution distribution to the Canteen. This conversion allowed 2 full time nurses from Health Services to focus on nursing duties rather than logging medications in and out.

Discussions began in early FY08 to upgrade the current iTag system from version 4 to 10g. This new version went through heavy testing by the end of FY08. The upgrade is anticipated to go live in early FY09.

## **Cost Reductions**

We exceeded our cost reduction objective of \$800,000 this year. The final cost reduction total was \$1,117,000, which includes \$826,000 in hard savings, \$237,000 in one time savings and \$53,600 in soft savings. The Rush City Facility accounted for \$316,500 hard savings in license plate and related products. Various cost reductions at the rest of the facilities contributed the remaining amount.

## **Green Chemical Line**

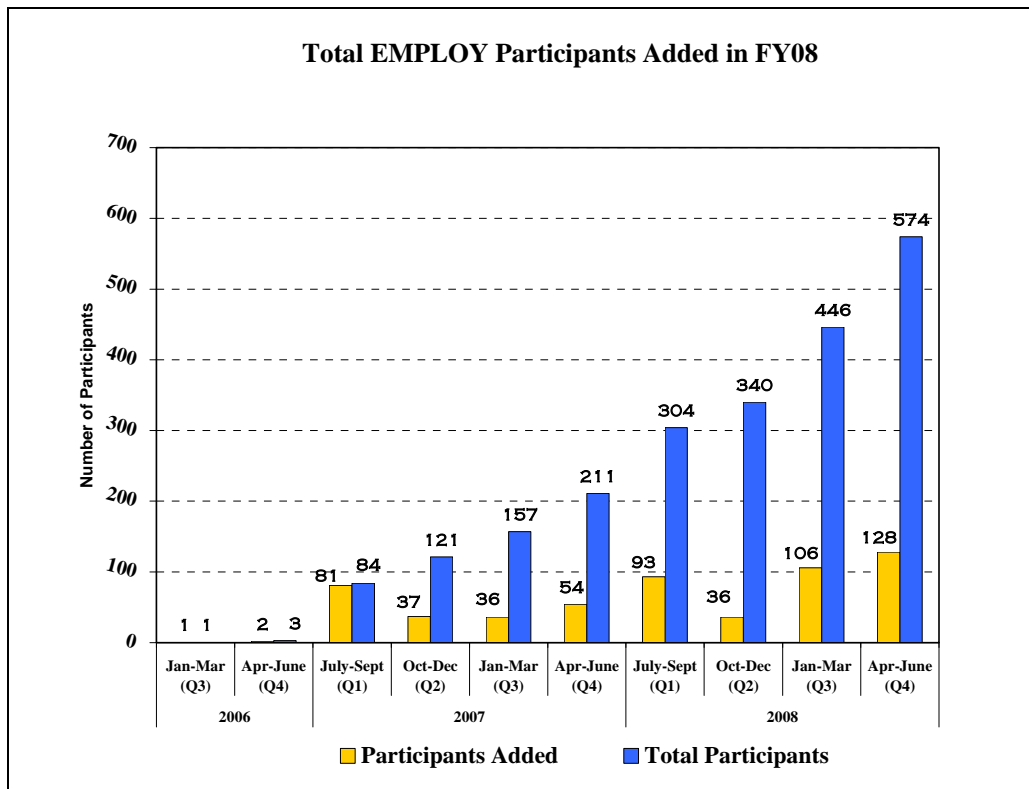
A Green Seal certified line of chemicals was developed and included in a "Green" chemical contract with the Minnesota Department of Administration. Through a partnership with our new chemical vendor, we anticipate incremental growth of \$200,000 - \$300,000 in our chemical sales in our next fiscal year.

## EMPLOY

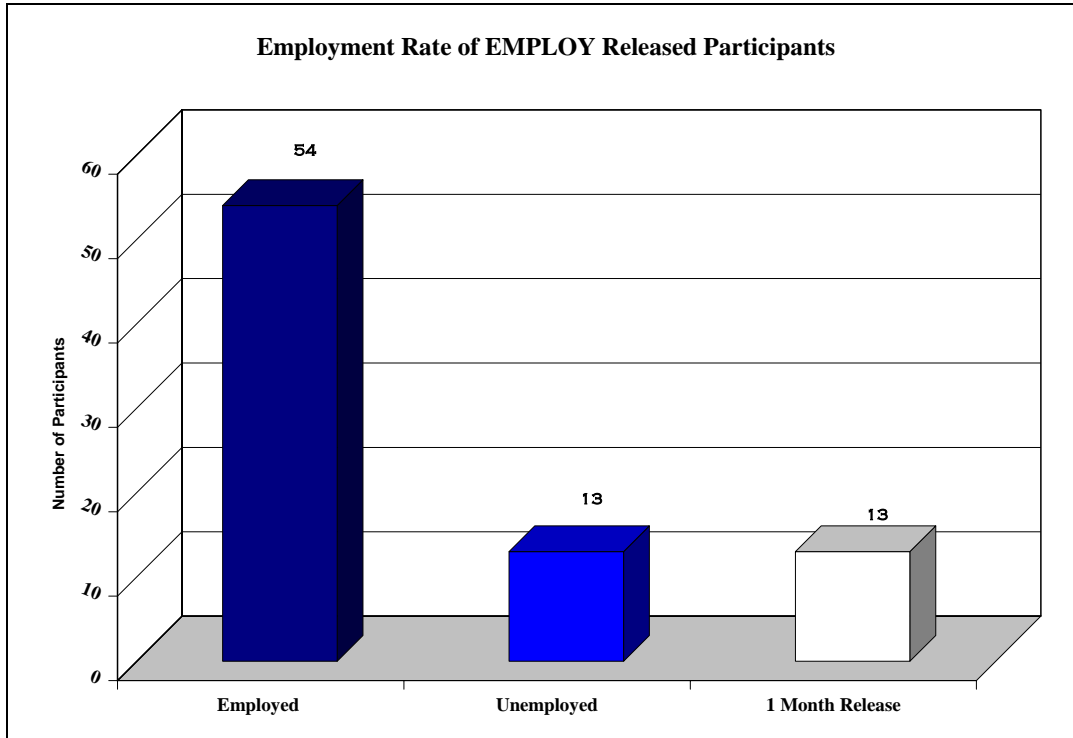
MINNCOR created the EMPLOY Program in 2006 to help once-incarcerated individuals succeed on the ‘outside’ with the main goal of reducing recidivism. MINNCOR provides individuals with the opportunity to learn specific skills and gain valuable work experiences in the various trade shops. This work experience qualifies and prepares each individual for competitive employment after his/her release. EMPLOY becomes the link between MINNCOR work experience and community employment once released. The program teaches MINNCOR’s skilled offenders how to capitalize on their industry skills gained and apply them to employment in the community. EMPLOY not only focuses on industry skills, but also on the cultivation of soft skills such as work values, ethics, responsibility, communication, and maintaining a positive work attitude.

In 2008, the EMPLOY program expanded to include vocational education graduates as eligible for the program. This expansion allowed the EMPLOY program to respond to an increased demand for program services from non-MINNCOR offenders. With this addition, we’ve gained a pool of participants with a variety of vocational and industry skills.

During fiscal year 2008, 363 participants were added to the EMPLOY program.



EMPLOY staff work with offenders for one year after release. In 2008, approximately 70% of released offenders gained and maintained successful employment.



## *Operational Highlights*

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### **MINNCOR-Faribault**

- Location Square footage – 95,000 square feet
- Number of Staff - 24
- Assigned offenders - 270
- FY 08 total sales revenue - \$6.5 million
- Business units – Wood Furniture, Casework, Plastic Thermoform, Chemicals, Laundry, and Sub-Contract.



- Interesting operational facts –
  - ✓ Wood shop has provided casework to the hurricane Katrina recovery efforts.
  - ✓ In FY08 FRB laundry processed over 4 million pounds of laundry.
  - ✓ The FRB Laundry provides laundry services to DOC facilities.
  - ✓ Thermoform provides the plastic totes for offender property.
  - ✓ FRB packages “green friendly” chemicals as of July 1<sup>st</sup> of 2008.
  - ✓ In addition to the business units, FRB also has 3 full-time delivery van drivers and 3 part-time delivery van drivers. Drivers are responsible for Laundry and Wood deliveries.
  - ✓ FRB has packaged just under 5,000,000 balloons during the last quarter of FY08.

## **MINNCOR-Oak Park Heights**

- Location Square footage – 25,400 square feet
- Number of Staff - 10
- Assigned offenders - 77
- FY 08 total sales revenue - \$6.5 million
- Business units – Canteen
- Interesting operational facts –
  - ✓ 6,000 offender orders are processed and 110,000 individual items are pulled weekly in the Canteen
  - ✓ Shipments are made to 2 facilities each day
  - ✓ Over 200 pallets are moved through the facility each week

## MINNCOR-Moose Lake

- Location Square footage – 56,000 square feet
- Number of Staff - 16
- Assigned offenders - 175
- FY 08 total sales revenue - \$6.9 million
- Business units – Printing, Garment Shop, Sub-Contract
- Interesting operational facts –
  - ✓ On Track Printing vocational program offers participants vocational education, on-the-job experience in MINNCOR’s printing shop, and the opportunity to participate in EMPLOY’s job assistance program.
  - ✓ Waste products from the garment shop are used to produce archery targets.
  - ✓ Printing for Minnesota state agencies

## MINNCOR-Rush City

- Location Square footage – 38,000 square feet
- Number of Staff - 7
- Assigned offenders - 150
- FY 08 total sales revenue - \$1.98 million
- Business units – License Plates, Stickers, Sub-Contract
- Interesting operational facts –
  - ✓ 1 million pair of license plates is produced at Rush City annually.
  - ✓ Over 12 million validation stickers are produced annually.
  - ✓ Rush City folds and packages over 900,000 balloons per month.



## **MINNCOR-Shakopee**

- Location Square footage – 22,800 square feet
- Number of Staff - 6
- Assigned offenders - 170
- FY 08 total sales revenue - \$1 million
- Business units – Sewn Products, Sub-Contract
- Interesting operational facts on each BU –
  - ✓ MINNCOR’s industry assignments employ 30% of the facilities population
  - ✓ Anagram utilizes the Shakopee facility for high priority quick turn orders
  - ✓ Safety and security products are sewn at the Shakopee facility

## MINNCOR-Stillwater

- Location Square footage – 464,000 square feet
- Number of Staff - 24
- Assigned offenders - 300
- FY 08 total sales revenue - \$8.4 million
- Business units – Metal, Upholstery, Sub-Contract and Logistics (warehousing).
- Interesting operational facts –
  - ✓ Stillwater processes over 40 tons of steel per week in metal, which is equal to just over 22 light duty pick-up trucks.
  - ✓ Built over 900 tractors
  - ✓ Packaged an average of 28,000 ~ 30,000 balloons per day or over 5.6 million units through 11 months of FY8
  - ✓ Produced over 21,000 pieces in upholstery, 5,000 of which were mattresses in FY8



# Financials

## Balance Sheet

<b>Assets</b>			
		<b>FY2008</b>	<b>FY2007</b>
Cash .....		\$14,272,356	\$12,909,816
Total other current Assets .....		\$9,633,355	\$9,359,397
Total Other Assets .....		\$4,806,144	\$3,877,357
<b>Total Assets</b> .....		<b>\$28,711,855</b>	<b>\$26,146,570</b>
<b>Liabilities and Equity</b>			
		<b>FY2008</b>	<b>FY2007</b>
Total Current Liabilities .....		\$1,504,852	\$1,897,234
Total Other Liabilities .....		\$750,163	\$828,539
<b>Total Liabilities</b> .....		<b>\$2,255,015</b>	<b>\$2,725,773</b>
Contributed Capital .....		\$6,552,957	\$6,552,957
Retained Earnings .....		\$17,272,948	\$15,128,774
Current Year Earnings .....		\$2,630,936	\$1,739,066
<b>Total Equity</b> .....		<b>\$26,456,841</b>	<b>\$23,420,797</b>
<b>Total Liabilities and Equity</b>		<b>\$28,711,855</b>	<b>\$26,146,570</b>

# Financials

## Comparative Income Statement

	FY2008	FY2007
Total Sales .....	\$35,779,445	\$38,445,854
Total Cost of Goods Sold .....	\$17,021,348	\$20,666,374
<b>Gross Margin .....</b>	<b>\$18,758,097</b>	<b>\$17,779,480</b>
Total Facility Manufacturing Costs .....	\$9,570,969	\$9,674,302
Total General and Administrative Costs .....	\$6,219,853	\$6,365,740
<b>Net Income .....</b>	<b>\$2,630,936</b>	<b>\$1,739,066</b>

# Financials

## Cash Flow Statement

	FY2008	FY2007
<b>Cash Flow from Operating Activities</b>		
Income From Continuing Operations .....	\$2,630,936	\$1,739,066
Adjustments to Reconcile Income from Continuing Operations to Cash Provided by Operating Activities .....	(\$362,765)	\$467,483
<b>Cash Provided from Financing Activities .....</b>	<b>\$2,268,171</b>	<b>\$2,206,549</b>
<b>Cash Flow from Financing Activities .....</b>	<b>(\$905,631)</b>	<b>(\$499,743)</b>
<b>Increase/ (Decrease) in Cash and Cash Equivalents .....</b>	<b>\$1,362,540</b>	<b>\$1,706,805</b>
<b>Cash, Beginning of Year .....</b>	<b>\$12,909,816</b>	<b>\$11,203,013</b>
<b>Cash, End of Year .....</b>	<b>\$14,272,356</b>	<b>\$12,909,816</b>



# *Notes* to the Financial Statements

## **NOTE 1 NATURE OF THE BUSINESS**

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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**

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### **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 life 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 life of this merchandise is in a service range of three years. In establishing estimated life of 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 life 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 life 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**

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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 2008, 6.0% of vacation leave and 14.5% of vested severance is classified as current. 100% of compensatory time is classified as current. The remainder as well as 53% 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 2008 of approximately \$125,400.

#### **NOTE 4 SPECIAL CHARGES**

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The accounting software contained a problem that sporadically created incorrect unit amounts on a report that was used to create and validate cycle counts; this resulted in transactions that affected inventory. Resulting adjustments for \$517,011 to correct this were made and the impact was recorded to the balance sheet versus the income statement as these errors occurred in past years. Prior fiscal year 2007 inter-company profit was not reversed out; a transaction that affected retained earnings was made in fiscal year 2008 in the amount of \$142,523 to correct profit. Canteen profits for 2007 were distributed to the social welfare account in 2008 creating a transaction in the retaining earnings account.

#### **NOTE 5 BUSINESS CHANGE**

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To streamline our license and sticker operation, during the 3rd quarter of fiscal 2008, the operation was moved from the St. Cloud facility to the Rush City facility. This move enabled us to move forward with the flat plate license product with the purchase of new equipment in the 3rd quarter of fiscal 2008.

#### **NOTE 6 DISCONTINUED OPERATIONS**

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In Fiscal Year 2008, MINNCOR terminated its office panel, installation and file cabinet business units at the Stillwater facility, the market research business unit at the Shakopee facility, and the sign business unit at Moose Lake. The business units resulted in a cumulative loss after G&A of approximately \$208 thousand in Fiscal Year 2008.