

Annual Report 2005



MINNCOR
i n d u s t r i e s

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Overview

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Our Mission:

To be a customer driven business, operating a program that contributes to a safer Minnesota.

We will achieve our mission by providing:

- Sound management that ensures financial self-sufficiency
- Quality products on time to build a loyal customer base
- Efficient reduction of inmate idleness that contributes to a secure prison environment
- Work skills training that prepare the offender for release



MINNCOR
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.....with purpose

Dear Stakeholders,

First and foremost, I would like to thank you for your interest in MINNCOR Industries. Fiscal 2005 was a year for opportunity, change and continuing to build on past successes. It was also a year for making decisions with regard to organizational change and investments to suit our mission. Profitable business growth remains a focal point. MINNCOR Industries' successes continue to support another key focus, that of increasing offender assignments and funding initiatives having a social impact in Minnesota.

The Customer

MINNCOR is privileged to serve two distinct groups 1) customers we transact with through our business activities 2) the State of Minnesota by providing opportunities for offenders to learn valuable work skills. We are proud to be able to provide offenders with tools needed to become productive and responsible citizens. We continued to increase the number of assigned offenders, employing more than 14.5%, the highest in the nation. Throughout the fiscal year, the assigned offenders worked more than 1,335,500 hours. We will focus on continuing to increase this number.

Changing With Our Industry

We have completed company-wide business planning in fiscal 2005. Working diligently to improve our facilities, we have created better response times, decreased the number of mistakes and implemented manufacturing modules at all of our facilities. We have evaluated not only each facility, but moreover, each and every business unit. Our strategic plan will enable us to operate an organization that can accomplish our goals and missions in the long term, through increased challenges of economic pressure and inmate population growth.

Opportunity

With our purposeful commitment to success, MINNCOR's future looks bright. We are working very hard to build upon our strengths and improve our weaknesses. We are dedicated to making any necessary improvements to ensure the success of MINNCOR Industries and contribute to a safer Minnesota.

Sincerely,



Chris Pizinger
Chief Executive Officer
MINNCOR Industries

Fiscal Year Highlights

Administrative Highlights

NCIA Conference

In April 2005, MINNCOR was the proud host of the annual National Correctional Industry Association (NCIA) National Conference. More than 500 correctional staff attended the event at the Minneapolis Hyatt. The central region provided a training track for canteen centralization. Presenters from Minnesota, Colorado, Iowa and Indiana provided details of their centralized canteens.

Placement Program:

Definitions and objectives were developed for a new employment coordinator position. Techniques to track released offenders employed and the employers willing to hire released offenders were implemented. MINNCOR received written confirmation from the Printing Industry of Minnesota (PIM) of their willingness to develop a placement program with private sector offenders that complete the Education/Industry Printing Program.

Performance Management

A new performance management system has been implemented throughout MINNCOR. Based on the management-by-objective (MBO) system, the annual organizational objectives cascade throughout MINNCOR to each staff member. Supervisors and staff develop measurable objectives together and continue to meet quarterly to review progress.

Staffing

All MINNCOR job descriptions were reviewed and revised where necessary. As a part of ongoing strategic planning, position duties now more accurately reflect the developing nature of the organization. Several staff were added following the strategic planning efforts. The MINNCOR St. Paul office new hires include an engineer, sales support, a project manager and a transition to employment position. Factory new hires include a new Faribault industry director and a Stillwater factory manager. In addition to new factory hires, several personnel have moved to different facilities. Most importantly, new and existing employees have been encouraged to participate in ongoing skills and development training.

Technology

The programming and installation of a "paperless" office solution was started. The first phase was related to purchasing. Efforts to incorporate the paperless solution into billing, receiving, shipping accounts payable and sales will begin next fiscal year. Managing virtually every type of paper content will enable more efficiency. In addition to paperless solutions, manufacturing software was installed at each of the facilities. This software will allow for planning and material control related to custom work. Training and more in-depth use of the software will continue next fiscal year. Efficiency was also a major component to the upgrade made in OnContact customer management software. The software is now better utilized through the direct converting capabilities of sales quotes. Now, sales quotes are directly converted into live orders in Traverse accounting software. The use of the program is now more widespread; the Moose Lake facility now has the capability to use OnContact for order entry. This not only speeds up the process of the print facility, but also reduces errors and provides the print industry with better access to detailed customer information.

Fiscal Year Highlights

Operational Highlights

Canteen

The Canteen is one of the most successful business units for MINNCOR. At the end of the fiscal year, MINNCOR Industries supported seven officers at Oak Park Heights relating to Canteen. This translated into a more than \$300,000 payment to the DOC to help fund positions. Many issues and concerns were identified and remedied in the Canteen. Fulfillment errors were maintained at 3% or less due to new software installed in the third quarter. Feedback from staff and inmates has been very positive.

Factories in Motion

As part of the strategic planning process, facilities were reviewed. Results consisted of the decision to close the Automotive Refurbishing Facility. The remaining equipment was liquidated or sent to Surplus Services. This effort was made to ensure all of the facilities are as productive as possible. In addition, the two separate wood manufacturing shops were merged into a more efficient, single facility. This meant closing the furniture shop located at the Stillwater facility and moving all furniture efforts to the Faribault facility. This consolidation not only meant opening the doors to more opportunities, but a more efficient wood production due to all aspects of the business unit operating out of one facility. Finally, the operations at the Lino Lakes facility have been moved to Stillwater without sacrificing quality or timeline issues.

Partnerships

With the closing of the Automotive Refurbishing Facility at the Faribault facility, Anagram International took the opportunity to grow with MINNCOR. Anagram International continues to be a valuable contributor to MINNCOR's success. In addition to Anagram International many other organizations began to build a partnership with MINNCOR to meet labor and manufacturing capacity needs. Northern Tool & Equipment renewed their contract, resulting in significant increased offender assignments. Other partnerships developed in Fiscal Year 2005 included Bridgewater Tech (Stillwater), Robinson Rubber (Shakopee), Savoie Supply, Jacobs Trading (Moose Lake) and Weyerhaeuser (Rush City). Partnerships continue to be one of MINNCOR's best opportunities for offender employment and business growth.

Looking Forward

Six Sigma

The future is bright for MINNCOR. The planning, restructuring and changes have not ended with this fiscal year. The Six Sigma process continues. Committees will be formed in order to identify more specific needs and desired directions. Ongoing Six Sigma training will allow for improvements in our weaker areas. The resources Six Sigma will make available should prove to be instrumental for MINNCOR to focus on continuous improvement.

Upgrading Technology and Software Implementation

In addition to Six Sigma, upgrading technology and current processes will be ongoing. An internal discovery process will be implemented for the manufacturing software. This will track custom work and enable job costings on manufacturing modules in addition to contributing to planning efforts. In the customer relationship management software, queries will be developed to enable better tracking of products, customers and orders.

Product Line Review

Continued review of all MINNCOR product lines will be conducted. Specifically, Seating and Upholstery will be among the first lines to be reviewed. All aspects of individual business units will be reviewed according to the number of hours of inmate labor and profitability.

Management by Objectives (MBO)

A new Performance Management system will be implemented. This method of performance review will be based on the management-by-objective system (MBO). Management by objectives (MBO) is a systematic and organized approach that allows management to focus on achievable goals and to attain the best possible results from available resources. It aims to increase organizational performance by aligning goals and subordinate objectives throughout the organization.

Department of Human Services Project

MINNCOR will continue to be a part of the planning and implementation for the multi-million dollar Department of Human Services project scheduled to begin this fall. MINNCOR is proud to have been selected to be a part of this impressive project. This project will push the factories to operate as efficiently as possible.

MINNCOR's Future Impact

MINNCOR has proven to be a nimble adapter to change and growth in Fiscal 2005. Key objectives in Fiscal 2006 will build on the past year's successful implementation of strategic planning, organizational restructuring, customer service benchmarks, quality initiatives and technological advancements. MINNCOR is well positioned to continue to succeed, continue to grow, and continue to make a difference for the State of Minnesota.

Financial Overview

Product Groups

*Seating ■ Library Furniture ■ Residential Furniture ■ Office Furniture ■ Signage ■ Printing
Correctional Products ■ Cleaning Products ■ Outdoor Recreational Products ■
Transportation Products ■ Contract Services ■ Partnerships.*

Fiscal Year 2005 marks the third year in a row that MINNCOR has operated without subsidy from the state of Minnesota. MINNCOR achieved \$32,326,875 in sales – an increase of nearly nine percent over the previous fiscal year.

Fiscal year 2005 was also a year for change. The Cost of Goods (COG) was revised to reflect the true cost to manufacture a product. Also, new software has been installed that enables the capturing of costs in greater detail. This allowed for greater planning capabilities and better customer service.

This fiscal year brought the restructuring of many business units located at the Stillwater, Faribault and Lino Lakes Facilities. These and many other changes have allowed for the expansion of other business units to better reflect our mission statement.

Growth was evident in many business units including the Canteen, Wood Products, Laundry and Printing Services. Anticipated growth is expected for many other business units to follow with the strategic planning efforts already in place.

