

FISCAL
YEAR 14
ANNUAL
REPORT

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Improving Minnesota communities . . .

We are a customer-driven business that contributes to a safer Minnesota by providing safe working environments within the prison system and successfully transitioning offenders into the community at no cost to taxpayers.

A MESSAGE FROM OUR CEO

Hello,

I would like to take this opportunity to provide you with some information about Fiscal Year 2014. MINNCOR Industries uses three performance metrics to measure our business activities; financial, offender employment, and offender transition services.

In FY14, our revenue increased from \$37.9 million to \$41.6 million, our net income from \$2.7 million to over 3.1 million, and our offender assignments increased 13.4% to 1472 offenders assigned. In addition, the EMPLOY Program increased its total number of participants by 204 offenders to 724, and enrollment at MINNCOR Bridge went from exactly zero participants to 80 in the first nine months of the program. Of the 44 Bridge program graduates, 42 of them have successfully gained employment. By using the performance measures above, FY14 has been a very successful year!

FY14 was a year of promising new and exciting additions to MINNCOR's product line. Park benches using recycled timbers were introduced and have been purchased by the Minnesota State Fair for use at the fair in 2014. High visibility garments, developed for use by the Minnesota Department of Transportation, were introduced and are now on the way to serving a much wider market. MINNCOR now has the state contract and we are able to provide a very extensive product line that includes a variety of vests, t-shirts, pants and hats.

I would also like to take this time to mention the Bridge program. This is a very unique transition model that incorporates a partnership between MINNCOR and the Minnesota Department of Corrections Work Release Unit. This program provides employment and work skills training for offenders for three months before their work release eligibility. We believe that the revenue generated by the work program will pay most of the Bridge operational costs and the offenders in the program will require extensive training and support prior to release. At the end of the program, participants are expected to have found a job so that at the start of their work release program, they are employed. We are very encouraged with the results we received in the first nine months.

We do have significant challenges in the upcoming year. Some costs which are out of our control are increasing significantly. Our IT costs are increasing from \$100,000 a year ago to \$750,000 in FY15. Indirect costs have increased over \$200,000, and staffing costs will be about \$1.3 million higher than they were in FY14; these are serious expense increases. In addition, we have a restricted market for our product lines and cannot just pass all of these costs on to our customers. We will need strategies to deal with these issues, which will include increased market penetration, new products, more aggressive cost monitoring, price increases and expense reductions. We have faced many challenges before and overcome them, as we will with these.

Thanks,
Guy

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INNCOR Industries provides many benefits to the citizens of Minnesota. The overall mission of MINNCOR is to reduce recidivism and improve the community and the State of Minnesota by providing a safe working environment within the prison system and successfully transition offenders into the community at no cost to taxpayers.

Correctional industries has 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 assigning 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. Financially self-sufficient since FY03, MINNCOR has demonstrated its ability to coordinate and maintain prison industries that are efficient, productive, and safe.

MINNCOR provides offender job skill training, meaningful work, and teaches proper employment habits. 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. Offenders are paid for their work and various deductions are withheld including child support, victim restitution and taxes.

Over twenty different lines of premium products are offered, as well as a variety of subcontract manufacturing services to various markets and industries. Minnesota vendors benefit from the millions of dollars spent locally every year for raw materials.

MINNCOR is located in six facilities throughout the state, utilizing approximately 1500 offenders as its main workforce. 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 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.

1 July - 30 September 2013



July

New Fabric was added to MINNCOR's standard line, thus allowing customers more options to colors, styles and patterns. This addition brought in three new vendors, Douglass, Mayer and Momentum.

The MINNCOR Annual Calendar was designed by the marketing department and featured a stunning view of Lake Superior in Canal Park of Duluth, Minnesota. The calendar is an annual promotional piece that is distributed to customers of MINNCOR, primarily state agencies, as a thank-you for their years of continued support.



August

Military Affairs order of \$300,000, comprised of seating and laminate furniture, was delivered and installed. This order was just the first of many for MINNCOR throughout the fiscal year.

Print Division worked alongside marketing, sales and operations to create a business plan aimed at finding new customers.



September

Minnesota State University Mankato's efforts to reduce waste and increase recycling was a tag-team endeavor with MINNCOR, who had the opportunity to manufacture garbage and recycling systems for use in their student union.

MINNCOR Bridge successfully and officially opened its doors for business. Within the first month of operation, Bridge enrolled 10 offenders and provided cognitive-based employment training, job preparation, job leads and assistance. Various assembly and packaging work was secured through business development.

1 October -
31 December 2013



October

Rush City License Plate Division worked alongside DVS and the DNR to create the seventh Critical Habitat plate design, which was released for public purchase.

Bridge Open House was held in the beginning days of October and brought in over 100 people representing local businesses, non-profit organizations and state agencies.



November

Faribault Laundry staff implemented a new scale system which has streamlined the data input process and improved throughput, resulting in increased production. In addition, two new polyurethane interior brine tanks were installed, giving MINNCOR many advantages, including the reduction of chemical usage, reduction of softener repairs, and an increase in the quality of linens.

Roosevelt Townhomes, a building project with the St. Paul Public Housing Authority, was in need of new kitchen cabinets for residence homes. MINNCOR had the opportunity to bid and won the project. Multiple cabinets were built and installed, worth over \$13,000.



December

MN Teen Challenge had requested and ordered 100 beds for a juvenile facility operated through the organization back in Fiscal Year 2013. By mid-December, all 100 beds had successfully been installed.

Sales and Net Income for the first half of the fiscal year were well over budget by \$1.18 million.

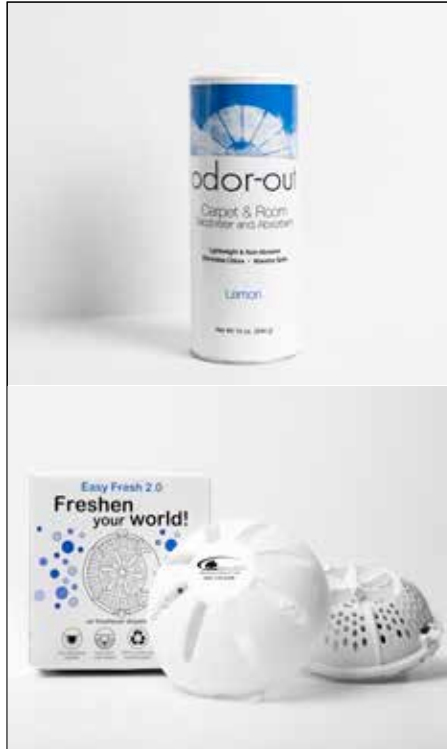
1 January - 31 March 2014



January

Minnesota State University Mankato expanded student living quarters, which resulted in MINNCOR winning a bid to provide the university with 200 metal loft beds. This partnership has continued to be a success with the hard work of MINNCOR Sales and Operations staff.

Computers at Bridge were installed for participants to job search. During the last 30 days of the program, participants can research jobs and apply for jobs online.



February

A new **Custodial Catalogue** was designed and distributed to current and potential customers to showcase the current line of product offering. This new catalogue features products specifically for state agencies, education facilities, and private non-profits.



March

MINNCOR St. Paul held its first ever **Learn @ Lunch**, a new department-wide initiative aimed at providing quarterly trainings and sessions to state agencies and private non-profits. The first event brought in speakers from two different paper mills who presented on the importance of choosing the right paper for a print job. The event was a success and resulted in more awareness of MINNCOR's print capabilities and increased requests for purchases.

Ice Melt sales exceeded the FY14 forecast by 26%, thanks to a wicked winter full of snow and ice.

1 April -
30 June 2014



FACT #4
Digital printing is flexible and fast.

April

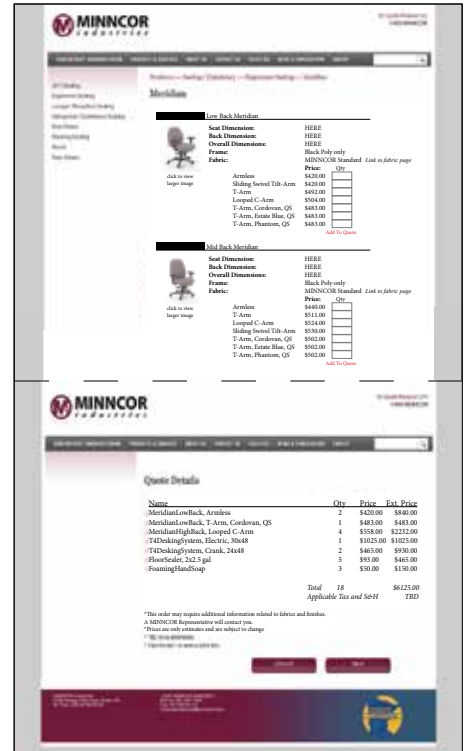
A new Digital Print Press was installed in the MCF-Moose Lake print shop. The new press is a high-performance, professional, light production printer best suited for graphic arts and commercial environments. This will allow MINNCOR the opportunity to bid out additional projects and keep previous outsourced work in-house.



May

Faribault Wood Division began a partnership with Miller Manufacturing to produce a new backyard beekeeping product line. Approximately 2,500 bee hive boxes and 25,000 frames for collecting honey will be produced each month. MINNCOR Bridge will package a variety of beekeeping supplies once the project begins.

Turning Lives Around, owned and operated by 180 Degrees, placed an order for beds, dressers, desks, custom wardrobes, tables and chairs to be placed in their new Safe and Sound Shelter for sexually exploited youth. This project is worth over \$36,000 and is to be delivered in July 2014 for an August 1st grand opening.



June

MINNCOR's Website Revision Project began. This project will incorporate using Microsoft AX item numbers, replacing the old Traverse inventory numbers. This project is expected to end midway through FY15.

High Visibility apparel has found its home at MINNCOR Moose Lake.

The EMPLOY Program

THE EMPLOY PROGRAM aims to help 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, responsibility and communication, participants are better prepared for success.

EMPLOY provides participants with assistance to enhance their readiness for post-release employment and offers them community support for one full year following release from prison.



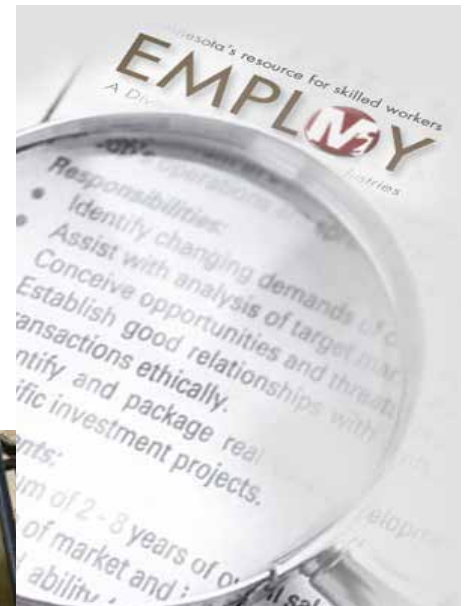
New Participants

The EMPLOY Program enrolled 454 new participants into the program during Fiscal Year 2014. This has been a significant increase from prior years. Seventy-five percent of participants are employed within their first month of release.

Rebranding Efforts

In order to be more consistent across all printed materials, EMPLOY underwent a rebranding initiative aimed at repositioning the program with incarcerated offenders and potential employers.

Surveys were conducted, data was compiled, and new brochures (for both offenders and employers) were created as well as new business cards and letterhead, all with a very cohesive design.



Bridge Trainings

EMPLOY staff partnered with MINNCOR Bridge staff to create a more in-depth training plan for Bridge participants. The training consisted of daily exercises in attitude, behavior, job search, resume building, self-awareness, and more.

Over the course of FY14, EMPLOY staff conducted these trainings for 47 participants.

Forklift Certification Success

Participants are offered forklift training and certification during their three-months at Bridge, providing additional employment opportunities.

FY15 Goals

Looking into FY15, The EMPLOY Program anticipates another successful year.

Goals include enrolling 370 new participants, maintain a 75% employed participant rate, work with the marketing team to redevelop the EMPLOY website, and continue to work with MINNCOR Bridge in trainings.

OUR IMPACT ON MINNESOTA

\$1.3

million was given back to Minnesota's General Fund in FY14.

128

full-time employees work for MINNCOR Industries.

\$11

million dollars spent locally in Minnesota on raw materials.

2.01

million total hours MINNCOR offenders worked during FY14.

OFFENDERS EMPLOYED

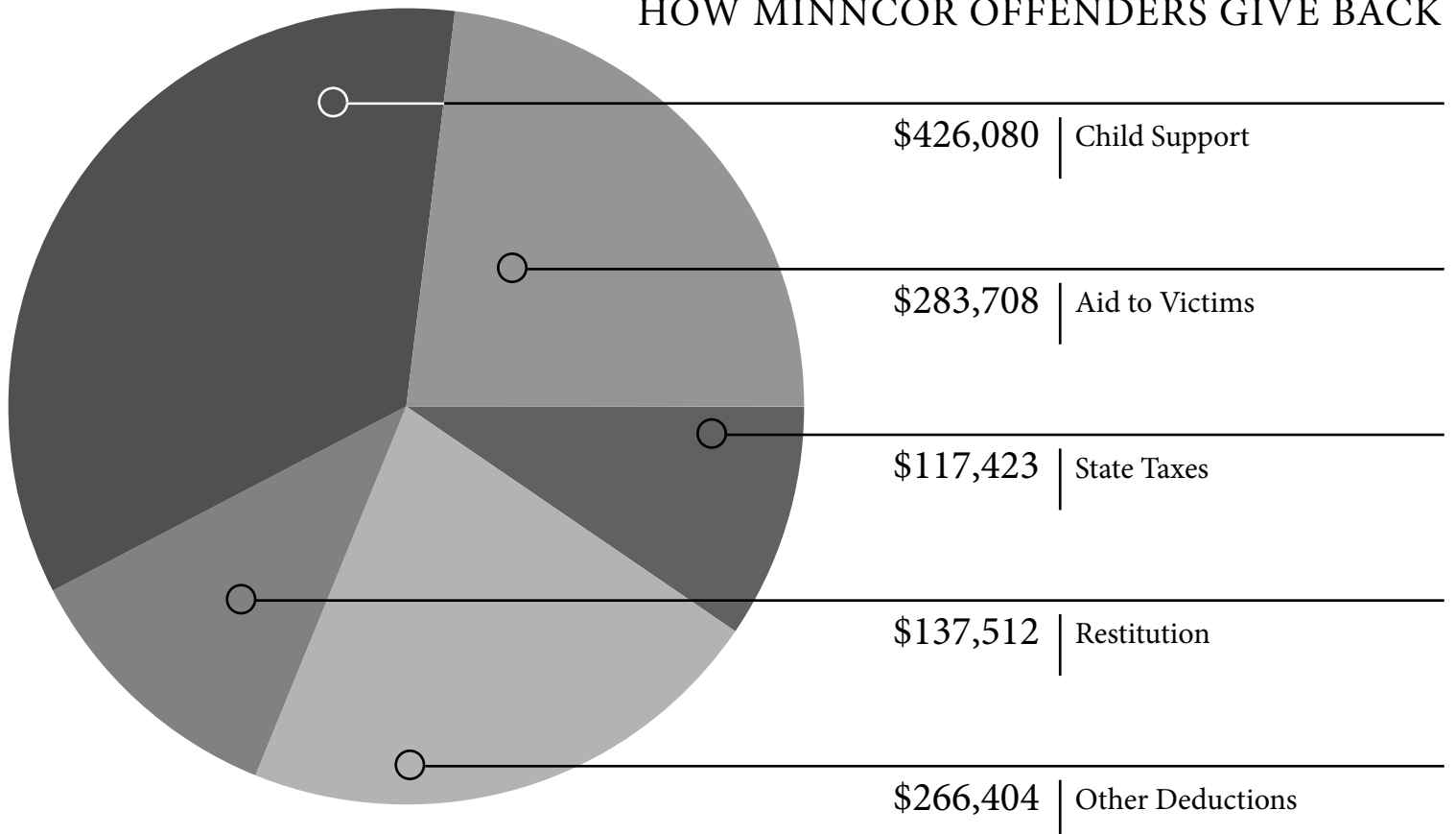
1472

(20% MN DOC population)

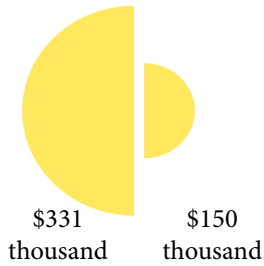
*Based on daily averages for FY14



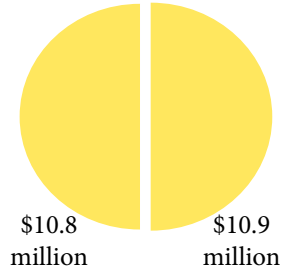
HOW MINNCOR OFFENDERS GIVE BACK



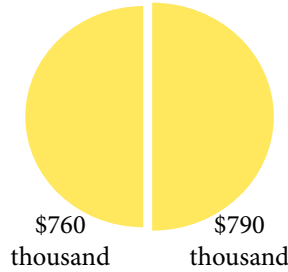
CABINetry/
CASEWORK



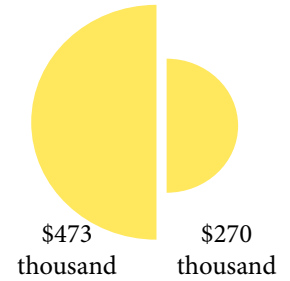
CANTEEN



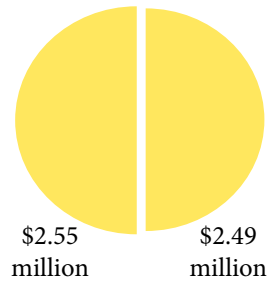
CUSTODIAL



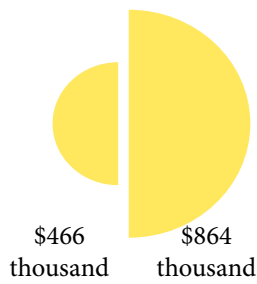
DETENTION



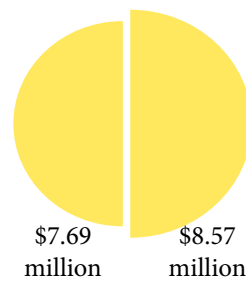
LAUNDRY
SERVICES



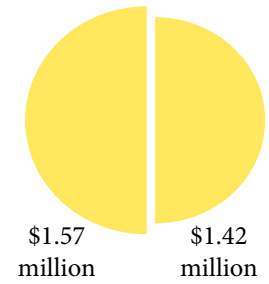
LIBRARY & OFFICE
FURNITURE



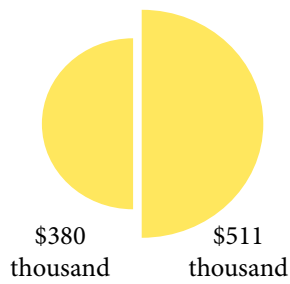
LICENSE
PLATES/STICKERS



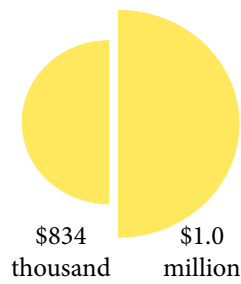
LINENS/
CLOTHING



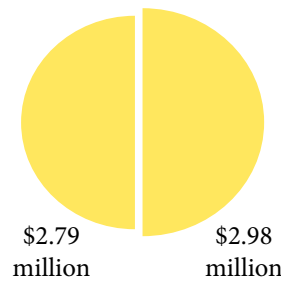
MATTRESSES/
PILLOWS



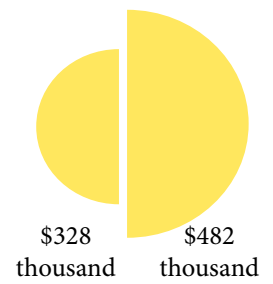
OUTDOOR
RECREATIONAL



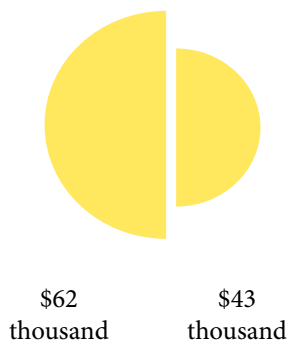
PRINTING



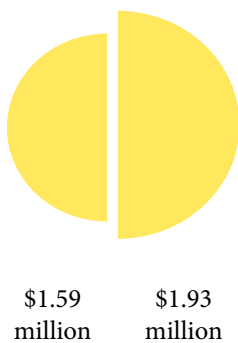
RESIDENCE
FURNITURE



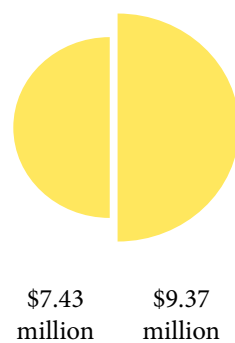
SAFETY
PRODUCTS



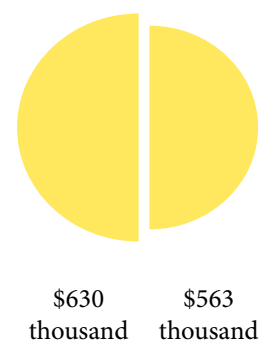
SEATING/
UPHOLSTERY



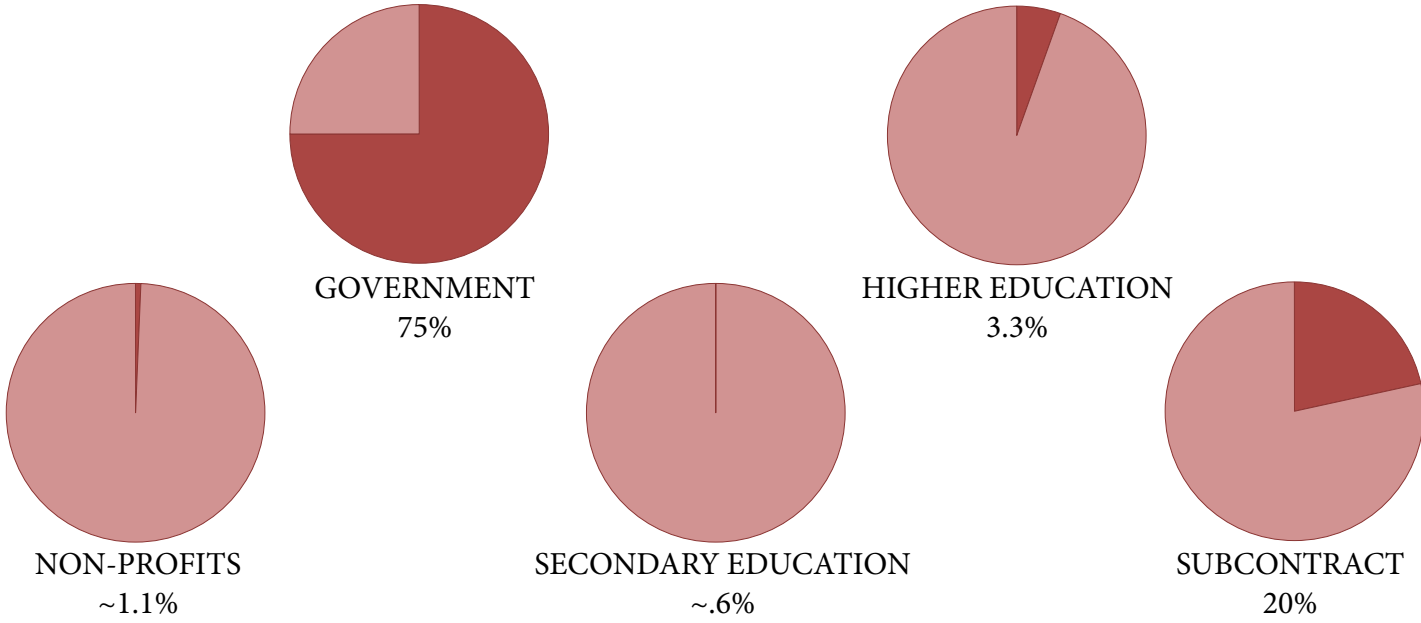
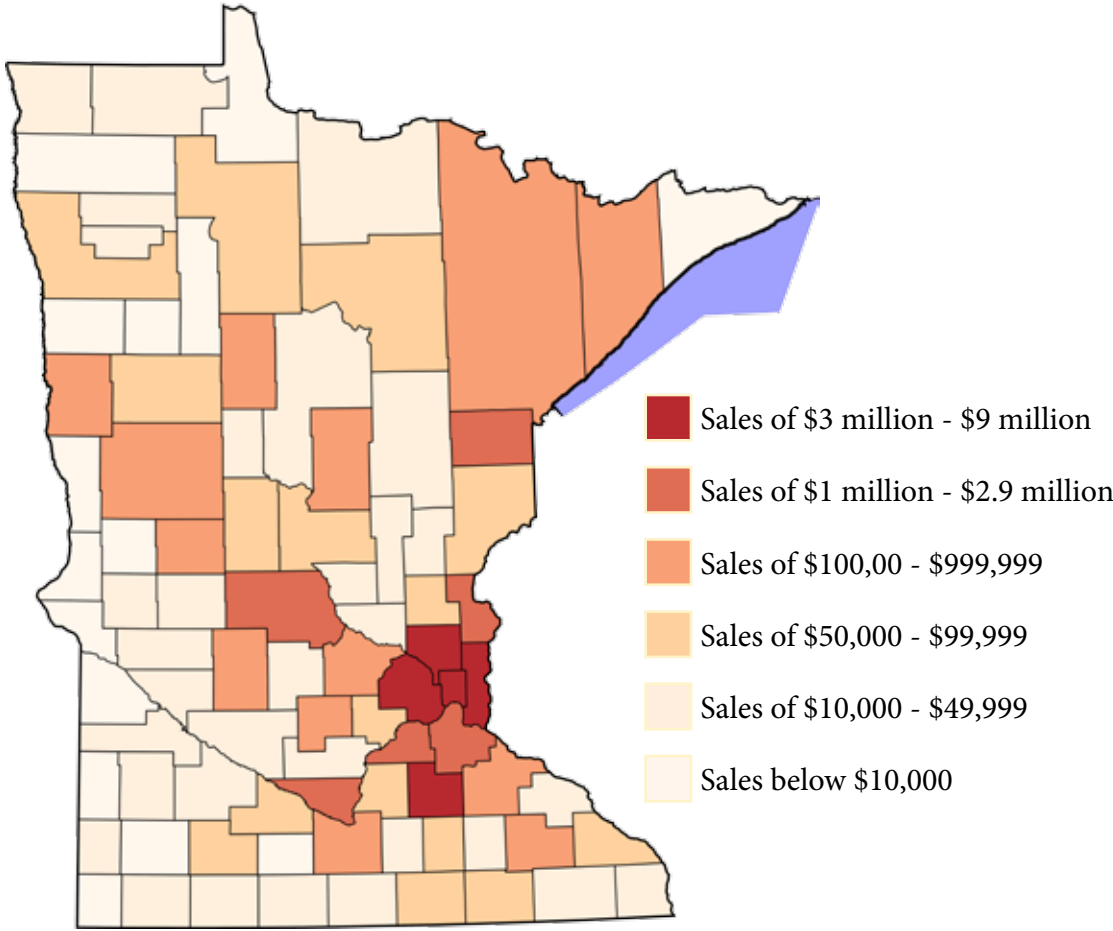
SUBCONTRACT
MANUFACTURING



TRANSPORTATION
PRODUCTS



Revenue Breakdown



FINANCIAL STATEMENTS

BALANCE SHEET	YEAR ENDING JUNE 30	
	FY2014	FY2013
Assets		
Current Assets		
Cash	17,989,810	19,334,462
Receivables (net)	3,623,442	3,254,778
Inventory	6,420,821	6,524,244
Prepays	129,819	163,858
Other Current Assets	170,754	177,745
Fixed Assets	13,453,016	12,967,124
Accumulated Depreciation	(8,753,022)	(7,976,779)
Total Assets	33,034,640	34,445,431
Liabilities		
Short Term Liabilities		
Accounts Payable	162,704	175,214
Accrued Liabilities	660,644	716,246
Accrued Payroll	772,390	532,642
Total Short Term Liabilities	1,595,738	1,424,102
Long Term Liabilities	1,143,042	862,426
Total Liabilities	2,278,780	2,286,528
Equity		
Contributed Capital	6,552,957	6,552,957
Retained Earnings	20,615,607	22,891,823
Current Year Net Income	3,127,296	2,714,123
Total Equity	30,295,860	32,158,904
Total Liabilities & Equity	33,034,640	34,445,431

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF INCOME	YEAR ENDING JUNE 30	
	FY2014	FY2013
Sales		
Customer Sales	41,604,568	37,973,620
MINNCOR Sales	518,534	575,361
Sales Returns	(482,278)	(533,476)
Sales Discounts	(22,327)	(4,910)
Customer Restocking Charge	880	458
Sales Write Off	0	73
Total Sales	41,619,374	38,011,154
Cost of Goods Sold		
CGS	19,340,882	17,625,805
CGS - Non Inventory	558,951	657,805
Intra-Industry CGS	(7,437)	2,465
Obsolete, Scrap	39,895	27,352
Variances	(1,732,955)	(1,732,585)
Total Cost of Goods Sold	18,199,337	16,580,841
Gross Margin	23,420,037	21,430,313
Total Manufacturing Costs	12,346,222	11,287,671
Facility Income	11,073,815	10,142,642
Total G&A Costs	7,946,520	7,428,518
Net Income	3,127,296	2,714,123

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CASH FLOWS	YEAR ENDING JUNE 30	
	FY2014	FY2013
Cash Flows from Operating Activities		
Receipts from Customers	41,619,374	38,011,154
Payments to Employees	10,601,877	9,862,169
Purchased Services	2,652,364	2,411,817
Depreciation	914,551	926,330
Indirect Costs	968,403	824,811
Payment for Manufacturing Costs	18,199,337	16,580,841
Supplies & Materials	1,162,739	1,194,631
Repaires	256,026	303,927
Other Expense	6,774,706	5,823,537
Other Income	2,946,594	2,524,839
Gain on Sale of Fixed Assets	6,366	8,537
Investment Earnings	84,965	97,657
Net Income	3,127,296	2,714,123
Decreases (Increases) in:		
Accounts Receivable	(368,664)	3,389,933
Inventory	103,422	(1,217,963)
Other Current Assets	6,413	62,551
Increases (Decreases) in:		
Accumulated Depreciation	776,243	391,270
Accounts Payable	(72,338)	(634,980)
Accrued Expenses	524,591	106,148
Net Cash Provided by (used for) Operating Expense	4,096,962	4,811,083
Case Flows from Capital & Related Financial Acitivities		
Purchased of Fixed Assets	(485,892)	(531,716)
Net Cash Provided by (used for) Capital Activities	(485,892)	(531,716)
Cash Flows from General Fund & DOC Activities		
General Fund Distributions & DOC Initiatives	(4,955,722)	(2,010,526)
Net Cash to General Fund & DOC Activities	(4,955,722)	(2,010,526)
Net Increase (Decrease) in Cash & Cash Equivilents	(1,344,652)	2,268,840

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, offender transition services, and work skills' training that prepare offenders 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 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 2014, 7.58% of vacation leaves, and 17.54% of vested severance is classified as current. 100% of compensatory time is also classified as current. The remaining balance, as well as 56% of non-eligible severance pay is classified as non-current.

NOTE 4: SIGNIFANCT ACCOUNT VARIANCES

In FY 2014 MINNCOR paid \$3,655,722 in DOC Expenses not related to Minncor activities. These DOC expenses incurred include re-entry/transition programs, education costs for offenders and facility improvements.

Mandated by Minnesota Session Laws of 2013, Chapter 86-S.F. No.671, Article 1, Sec. 16, Subd. 2(c), MINNCOR transferred \$1,300,000 to the State General Fund in Fiscal Year 2014, which affected retained earnings on the Fiscal Year 2014 financial statements.

MINNCOR Industries Facility Locations



Faribault

Manufacturing Square Feet: 114,000
Prison Population: 2,024

Industry MINNCOR Workforce: 451

Custodial Products, Laundry, Plastics,
Wood Furniture, Subcontract Labor



Moose Lake

Manufacturing Square Feet: 72,000
Prison Population: 1,052

Industry MINNCOR Workforce: 251

Printing, Textiles, Subcontract Labor



Oak Park Heights

Manufacturing Square Feet: 30,000
Prison Population: 431

Industry MINNCOR Workforce: 88

Centralized Canteen



Rush City

Manufacturing Square Feet: 38,000
Prison Population: 1,014

Industry MINNCOR Workforce: 217

License Plates, Stickers, Subcontract
Labor



Shakopee

Manufacturing Square Feet: 29,000
Prison Population: 628

Industry MINNCOR Workforce: 103

Textiles, Safety Products, Subcontract
Labor



Stillwater

Manufacturing Square Feet: 464,000
Prison Population: 1,623

Industry MINNCOR Workforce: 314

Metal, Mattresses, Painting,
Seating/Upholstery, Subcontract
Labor, Warehousing, Distribution and
Logistics

