

ANNUAL REPORT

FISCAL YEAR 2015

July 1st, 2014 - June 30th, 2015

Faribault



MINNCOR
i n d u s t r i e s

Moose Lake

supporting

building

Oak Park Heights

leading

Rush City

promoting

envisioning

Shakopee

Stillwater

encouraging

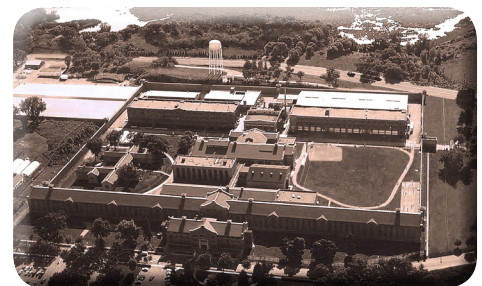


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Improving Minnesota communities . . .

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.



LETTER FROM THE CEO

Dear friends and stakeholders of MINNCOR Industries:

I am pleased to report that Fiscal Year 2015 was a record breaking year for MINNCOR Industries.

MINNCOR Industries uses three performance metrics to measure our business activities; financial, offender employment, and offender transition services.

MINNCOR Industries year-end sales were \$44.28 million, surpassing our goal of \$43, 000. The net income was \$3.26 million. FY15 sales were over budget by \$987 thousand, and FY15 consolidated net income was over budget by \$715 thousand.

As of the last payroll in June of FY15, MINNCOR employed 1,565 offenders, or 22.9% of the facility population in which MINNCOR has an industry operation. Compared to the last payroll of June of FY14, MINNCOR's employment of offenders is up 3 offenders.

In addition, the EMPLOY Program increased its total number of participants by from 724 to 767, and MINNCOR BRIDGE transition to employment rate was between 95% to 100% each quarter. By using the performance measures above, FY15 has been very successful for MINNCOR!

We do have significant challenges in the upcoming year. Costs which are out of our control, such as salaries, are increasing significantly. We will need strategies to deal with these issues, which include increased market penetration, new products, more aggressive cost monitoring, price increases and expense management.

This year marks MINNCOR Industries 12th year as a successful, self-sufficient division of the Minnesota Department of Corrections (DOC).

Sincerely yours,

Guy Piras, CEO
MINNCOR Industries

PART I: INTRODUCTION



Members of the Executive Team from left to right: Guy Piras, CEO,
Brenda Chandler, VP of Business Development & Marketing,
Jeff Lonsky, VP of Operations, Joe Bjelland, CFO

WHO IS MINNCOR?

MINNCOR Industries is the Minnesota Department of Corrections industry program that teaches offenders employable skills and reinvests profits to fund core initiatives.

OUR 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.

OUR 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, on-time delivery of quality products to build a loyal customer base, work skills training, and efficient reduction of inmate idleness that contributes to a secure prison environment.

OUR STRATEGIC GOALS

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.

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.



PART II: 2015 HIGHLIGHTS, CHALLENGES AND OPPORTUNITIES



Central Office Staff from back (left to right): Mike Hreha, Jack Taly, Jeff Lonsky, Gary Biedler, Paul Tweet, Jill Reschetz, Jane Altendorfer, Gina Mangen, Nikki Oldenburg
Front (left to right): Jon Giesar, Janet Harnack, Pat Aune, Brenda Chandler, Steve Hofstead, Rose Widell

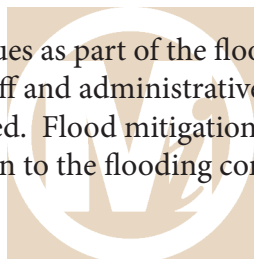
2015 HIGHLIGHTS

OPH Winter Cheer: Oak Park Heights Canteen staff successfully developed and executed a “Winter Cheer” product offering to offenders in December. The offering provided offenders a selection of unique items that are not typically available. This initiative was well received by the offenders. Excellent work by the OPH team in delivering such a successful campaign.

Increased Services: The outside warehouse at Stillwater is providing a fulfillment service element to the Moose Lake Print Shop. By housing inventory at the Stillwater location, we are able to provide this added value to our customers in prompt delivery times and cost control.

ML Reconfiguration: Moose Lake is reconfiguring industry space to accommodate an increase in customer demand for sewn products. This effort will provide space for an additional 25 offender assignments in the Garment shop and space for garment inventory will improve. The Assembly Division will operate in one continuous space and print workflow will improve with the relocation of Print inventory. Overall these changes will positively impact all business operations at Moose Lake.

Flood Recovery: A great deal of the open issues as part of the flood recovery in the Faribault industry building were completed in Quarter 2. Production staff and administrative offices are fully functional and all other major construction items have been completed. Flood mitigation planning is underway with the intent to provide a permanent non-mechanical solution to the flooding concern.



Delivery Improvements: Through a tremendous team effort from all business units we delivered the highest on-time delivery performance we have experienced. This was achieved with sales above budget, indicating that this was accomplished during a period of tremendous work volume. Especially noticeable were the on-time improvements in Stillwater's metal division as they meet the challenges of continued growth in demand for metal products. An exceptional effort was put forth by all operations staff in achieving this milestone.

Career Technical Programs: The Moose Lake garment shop has developed a Career Technical Sewing program that will provide offenders with a strategic and purposeful exposure to critical elements of production sewing. This program will integrate with education and has been presented for endorsement to local Makers Coalition members. This exciting opportunity has significant transition potential.

2015 CHALLENGES

Workforce Instability: Instability in the workforce is creating an inability to meet customer expectations in existing work and with new opportunities as our lead times extend and become non-competitive. Our ability to meet the departments financial and offender assignment expectations is at risk without ensuring we have capitalized on any and all opportunities to improve and stabilize the workforce. A strategy is in place to add second shifts and to create flexibility.

Decline of Wood Furniture Product Sales: The demand for wood furniture products at Faribault continues to decline. The current staffing design for operations to provide costing on new work opportunities and to manage active projects has been negatively impacted by staffing demands on the shop floor. The need to reestablish a project manager position for this business has been identified.

Stillwater forklifts and shuttle trailers: The aged Stillwater forklift fleet has become unreliable and increasingly expensive to maintain. The shuttle trailers that were scheduled to be replaced in FY15 have not been replaced due to a virtually non-existent used equipment market. A new plan considering the availability of equipment has been submitted and approved. The purchasing process will begin in FY16.

2015 OPPORTUNITIES

Website: Website revisions were finalized, allowing better customer interaction and an easier quoting process.

Bridge: One of the Digital presses was moved from Moose Lake Print to Bridge and digital printing will begin in FY16 at the St. Paul Bridge location.

Faribault Warehouse Loading Dock: We remodeled and replaced the required overhead doors in the Faribault outside warehouse and installed a dock leveler, which allows us to bring in product more securely.

Conferences & Tradeshows: There have been many unique conferences and tradeshows that MINNCOR has attended and participated in, both from the perspective of selling our high quality products, but also just from the perspective of getting our name out there to increase sales opportunities.

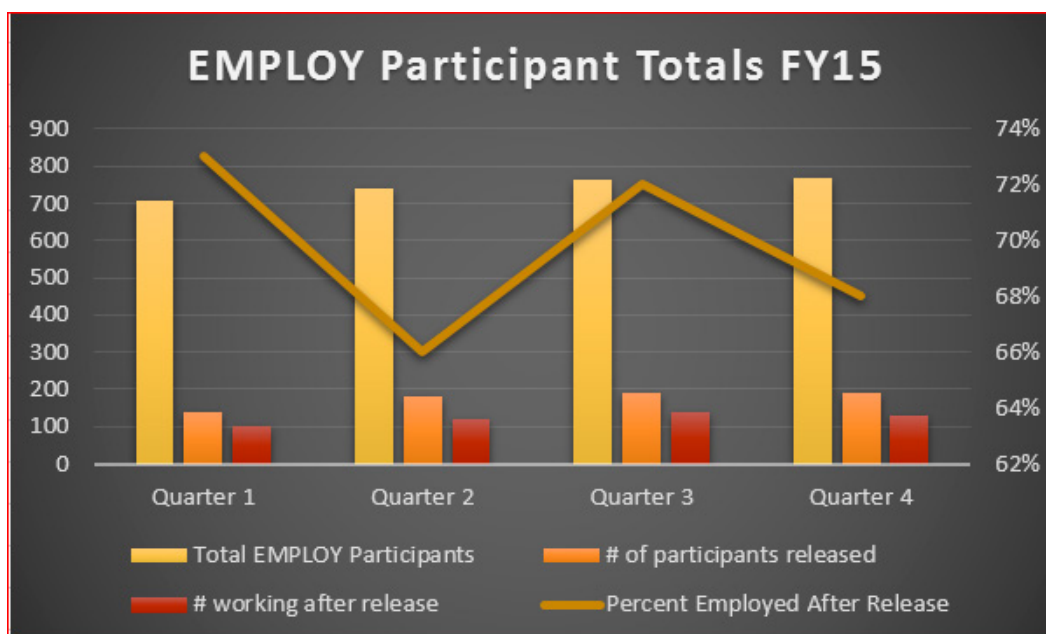


PART III: EMPLOY

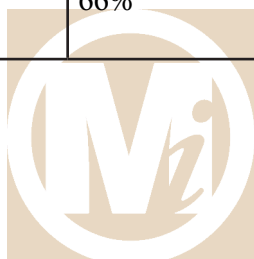
EMPLOY's mission is to reduce recidivism by equipping offenders with employment readiness, employer connections, and reinforcing positive change. Our strategic goal is to provide our participants with the necessary tools needed to help them locate, gain, and retain employment at a livable wage.

EMPLOY continues to maintain a presence in the facilities, attending transitions fairs and making presentation in the MINNCOR Shops and Education Departments to market services.

The EMPLOY program is expanding. During FY15, two new staff were hired. EMPLOY also added two student workers due to a rapid increased enrollment of program participants and greater numbers of released offenders each month. EMPLOY has an active member on the DOC ICMS and Diversity/Recruitment committees along with DOC's TPC Effective Interventions committee.



EMPLOY Participant Totals for Fiscal Year 2015 (Data Chart)				
	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Total EMPLOY Participants	707	739	764	767
# of participants released	137	181	190	192
# working after release	100	120	138	131
Percent Employed After Release	73%	66%	72%	68%

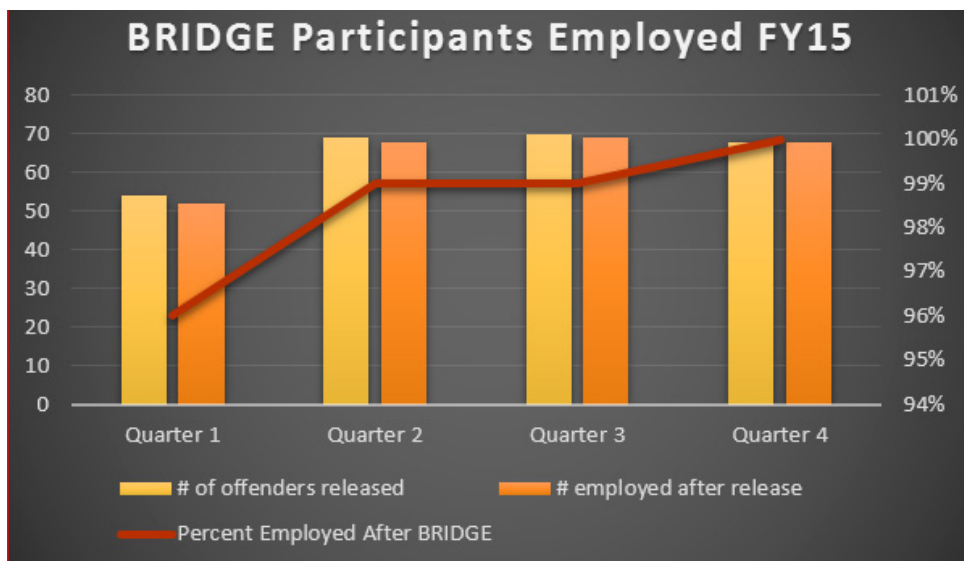


PART IV: BRIDGE

MINNCOR Bridge is a unique program of MINNCOR Industries and the Minnesota Department of Corrections. Those who have qualified for Work Release may take part in this ground-breaking program.

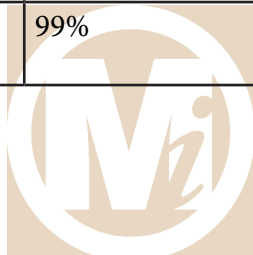
Offenders who have been screened and selected by the DOC Work Release unit are eligible to participate prior to their Work Release date. Participants live in metro area halfway houses and take public transportation to and from the Bridge location (bus cards are provided). Upon completion of Bridge, participants transition to 'Work Release' status and start receiving full EMPLOY services for up to one year, including on-going job retention support.

Upon acceptance into Bridge, offenders participate in professional development sessions and job search activities that will lead to their desired career path once released. Through this opportunity, they are able to work at a steady job and gain income for three months along with the tools needed to make life successful, post-release.



BRIDGE Participants Employed in Fiscal Year 2015 (Data Chart)

	Quarter 1	Quarter 2	Quarter 3	Quarter 4
# of offenders released	54	69	70	68
# employed after release	52	68	69	68
Percent Employed After BRIDGE	96%	99%	99%	100%



OUR IMPACT ON MINNESOTA

\$1.0

million was given back
to Minnesota's General
Fund in FY15.

127

full-time employees
work for MINNCOR
Industries.

2.20

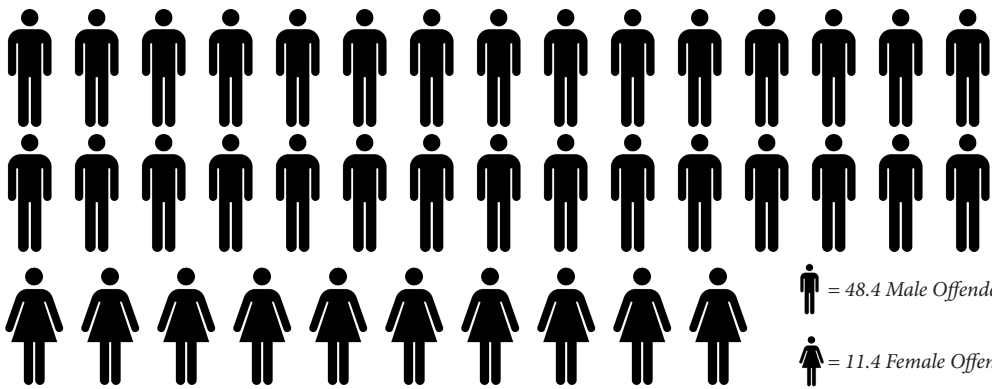
million total hours
MINNCOR offenders
worked during FY15.

OFFENDERS EMPLOYED

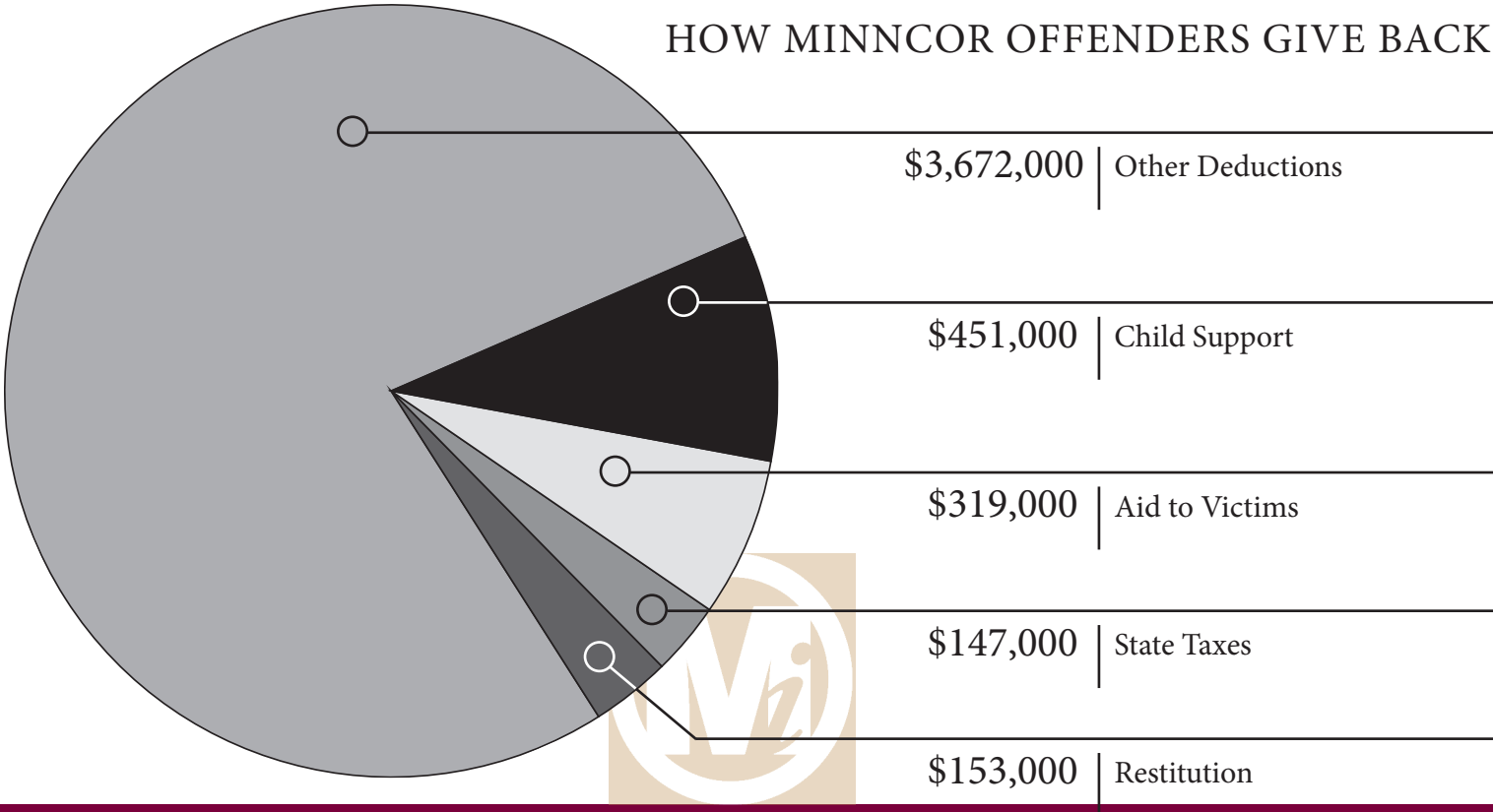
1565

(22.9% MN DOC population)

*Based on daily averages for FY15



HOW MINNCOR OFFENDERS GIVE BACK



FINANCIAL STATEMENTS

BALANCE SHEET	YEAR ENDING JUNE 30	
	FY2015	FY2014
Assets		
Current Assets		
Cash	14,676,260	17,989,810
Receivables (net)	4,463,650	3,623,442
Inventory	7,558,278	6,420,821
Prepays	457,351	129,819
Other Current Assets	238,082	170,754
Fixed Assets	14,059,274	13,453,016
Accumulated Depreciation	(9,673,842)	(8,753,022)
Total Assets	31,779,052	33,034,640
Liabilities		
Short Term Liabilities		
Accounts Payable	346,354	162,704
Accrued Liabilities	986,119	660,644
Accrued Payroll	724,164	772,390
Total Short Term Liabilities	2,056,637	1,622,653
Long Term Liabilities	1,228,642	1,143,042
Total Liabilities	3,285,279	2,765,696
Equity		
Contributed Capital	6,743,324	6,552,957
Retained Earnings	18,533,260	20,615,607
Current Year Net Income	3,217,188	3,100,380
Total Equity	28,493,773	30,268,944
Total Liabilities & Equity	31,779,052	33,034,640



FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF INCOME		YEAR ENDING JUNE 30	
		FY2015	FY2014
	Sales		
	Customer Sales	44,272,429	41,604,568
	MINNCOR Sales	657,128	518,534
	Sales Returns	(620,802)	(482,278)
	Sales Discounts	(26,319)	(22,327)
	Customer Restocking Charge	1,869	880
	Sales Write Off	(72)	0
	Total Sales	44,284,233	41,619,374
	Cost of Goods Sold		
	CGS	20,478,312	19,340,882
	CGS - Non Inventory	596,872	558,951
	Intra-Industry CGS	3,106	(7,437)
	Obsolete, Scrap	24,324	39,895
	Variances	(2,223,810)	(1,732,955)
	CGS Quality	25,676	0
	Total Cost of Goods Sold	18,904,480	18,199,337
	Gross Margin	25,379,753	23,420,037
	Total Manufacturing Costs	13,401,482	12,346,222
	Facility Income	11,978,271	11,073,815
	Total G&A Costs	8,761,083	7,973,435
	Net Income	3,217,188	3,100,380



FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CASH FLOWS		YEAR ENDING JUNE 30	
		FY2015	FY2014
	Cash Flows from Operating Activities		
	Receipts from Customers	44,284,233	41,619,374
	Payments to Employees	11,004,500	10,601,877
	Purchased Services	3,167,271	2,652,364
	Depreciation	999,919	914,551
	Indirect Costs	975,486	968,403
	Payment for Manufacturing Costs	19,904,480	18,199,337
	Supplies & Materials	1,371,577	1,162,739
	Repaires	470,687	256,026
	Other Expense	7,728,141	6,774,706
	Other Income	3,468,537	2,946,594
	Gain on Sale of Fixed Assets	1,534	6,366
	Investment Earnings	84,955	84,965
	Net Income	3,217,198	3,127,296
	Decreases (Increases) in:		
	Accounts Receivable	(840,208)	(368,664)
	Inventory	(1,137,457)	103,422
	Other Current Assets	(394,860)	6,413
	Increases (Decreases) in:		
	Accumulated Depreciation	920,820	776,243
	Accounts Payable	472,961	(72,338)
	Accrued Expenses	62,623	524,591
	Net Cash Provided by (used for) Operating Expense	2,291,078	4,096,962
	Cash Flows from Capital & Related Financial Activities		
	Purchased of Fixed Assets	(415,891)	(485,892)
	Net Cash Provided by (used for) Capital Activities	(415,891)	(485,892)
	Cash Flows from General Fund & DOC Activities		
	General Fund Distributions & DOC Initiatives	(5,188,727)	(4,955,722)
	Net Cash to General Fund & DOC Activities	(5,188,727)	(4,955,722)
	Net Increase (Decrease) in Cash & Cash Equivalents	(3,313,540)	(1,344,652)

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 2015, 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 2015 MINNCOR paid \$2.13 million in DOC Expenses not related to MINNCOR activities. These DOC expenses incurred include re-entry/transition programs, education costs for offenders and facility improvements.

In FY15 Minncor had to book a \$21.75 million pension liability based on MMB Analysis and GASB 68.

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 2015, which affected retained earnings on the Fiscal Year 2015 financial statements.



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