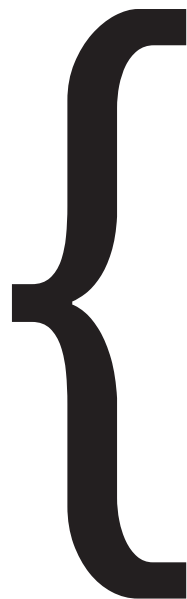




# ANNUAL REPORT FY16

# WELCOME

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# Who is MINNCOR

MINNCOR Industries provides many benefits to Minnesota citizens and economy. 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.

MINNCOR Industries was created in 1994 by the Minnesota Department of Corrections (DOC) to consolidate and centralize its individual facility programs into a centrally managed business, with increased efficiency and decreased 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. Offender compensation provides for deductions, to be withheld including child support, victim restitution and taxes.

MINNCOR is located in seven facilities throughout the state, utilizing approximately 1700 offenders as its main workforce. Strategically, MINNCOR endeavors to maintain diversification and avoid investing too heavily in any one area. In accordance with state statute, it will not 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 recidivism reduction. Maintaining a balance of offender employment and financial self-sufficiency across diverse business units, MINNCOR benefits the Minnesota correctional facilities, offenders, businesses, and communities.

# Message from the CEO

Dear Friends and Stakeholders of MINNCOR Industries:

Since assuming the leadership role in January 2016, I am honored to report that Fiscal Year 2016 establishes another record, registering \$46.4 million in Sales.

MINNCOR Industries measures its overall effectiveness in three dimensions: financial self-sufficiency, prison work assignments, and career transition services.

MINNCOR Industries year-end Sales of \$47.4 million exceeded budget by 3.9% and were 7.1% higher than prior fiscal year results. Consolidated Net Income of \$4.6 million, was significantly stronger than planned, and improved 39.4% from prior year results. FY 2016 marked our highest level of Sales, but only our second highest profit of record. Such stellar financial results can only be attributable to the talent and hard work exemplified by the MINNCOR team. It is truly my honor to lead such a committed, hardworking organization that tirelessly contributes to the preservation of our mandated financial self-sufficiency.

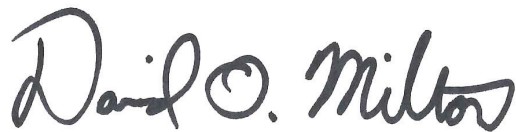
Reflecting strong growth, prison work assignments of 1,742 are up 11.4% from the previous year. MINNCOR assignments provide meaningful, skill-based opportunities for approximately 24.6% of the facility populations where industry is present. More than 2.3 million hours of market relevant, production-based, skilled assignments were achieved.

The MINNCOR EMPLOY Program celebrated its 10th anniversary of providing career transition services. For the past few years, EMPLOY Program enrollment has been well over 700 participants, gaining valuable career search and workforce development support services. The work-release Bridge Program continues to provide experience and training to more than 200 participants each year.

Looking forward, the bar has clearly been raised for FY2017. I have learned much from my team and am fully inspired with the prospects for next fiscal year.

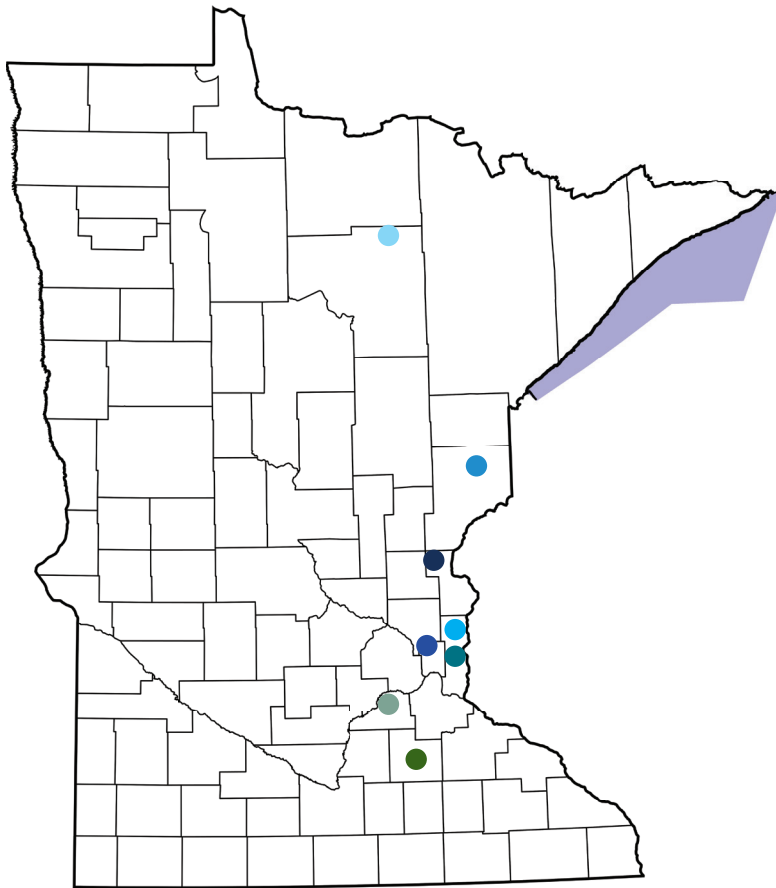
On behalf of the MINNCOR Industries family, I salute our valued customers, workers, partners, suppliers and community support service providers for making this year's success possible.

Sincerely,

A handwritten signature in black ink that reads "David O. Milton". The signature is fluid and cursive, with the first letters of each name being capitalized and prominent.

David O. Milton, CEO  
MINNCOR Industries

# Our Programs



## FARIBAULT ●

Square Footage = 114,000 ft.

FY16 Offender Assignments = 539

- Custodial Products
- Laundry
- Plastics
- Subcontract Labor
- Wood Products

## MOOSE LAKE ●

Square Footage = 72,000 ft.

FY16 Offender Assignments = 300

- Printing
- Textiles
- Subcontract Labor

## OAK PARK HEIGHTS ●

Square Footage = 30,000 ft.

FY16 Offender Assignments = 87

- Centralized Canteen

## RUSH CITY ●

Square Footage = 38,000 ft.

FY16 Offender Assignments = 339

- License Plates
- Stickers
- Subcontract Labor

## SHAKOPEE ●

Square Footage = 29,000 ft

FY16 Offender Assignments = 111

- Safety Products
- Textiles
- Subcontract Labor

## STILLWATER ●

Square Footage = 464,000 ft

FY16 Offender Assignments = 292

- Mattresses
- Metal Products
- Seating/Upholstery
- Outdoor Recreation Products
- Warehousing, Logistics, and Distribution
- Subcontract Labor

## TOGO ●

Square Footage = 5,000 ft

FY16 Offender Assignments = 8

- Firewood

## BRIDGE - ST PAUL ●

Square Footage = 45,000 ft

FY16 Offender Assignments = 25

- Subcontract Labor



# Significant Accomplishments

## Central Office Location

### New Roseville Building

In June 2016, staff at MINNCOR's central office moved from the Energy Park Building to a new location in Roseville, MN. Along with the move came a complete remodel of the building, new offices and a new showroom. The planning began in January 2016 with the building opened for business on June 6.



## New CEO

Guy Piras retired after working in correctional industries for 33 years. David O. Milton was hired as the new CEO.



## EMPLOY's 10th Anniversary

### Celebrating a Decade-Long Program

EMPLOY's 10 year anniversary was in June 2016. One primary objective in 2016 was to create an informative newsletter. The EMPLOY Editor was created to capture and share the significant achievements of this program and is printed every quarter.



## Faribault Wood

### Increase in Production

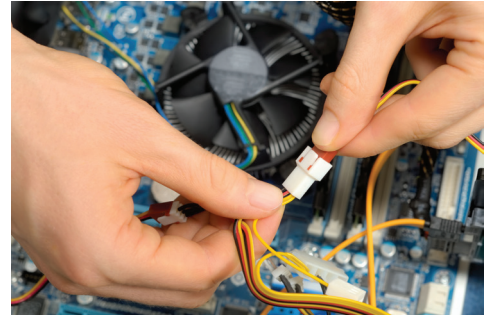
During the second quarter of Fiscal Year 16, MINNCOR's Faribault wood shop saw an increase in orders, including one for Beacon Hill for a cabinetry order valued at \$102 Thousand. An additional 11 orders valued at \$66 Thousand from Aeon were received to assist them in remodeling management offices and community rooms.



## Offender Assignments

### Increased Offender Assignments

During Fiscal Year 16, MINNCOR saw an increase in the number of offenders assigned to various work positions throughout each facility. Overall, there was an increase of 177 offenders assigned MINNCOR jobs.



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## Overall MINNCOR Sales

### Increased Gross Sales by 7.1%

At the end of Fiscal Year 16, MINNCOR had a total of just over \$47 Million in sales which was 3.9% above forecast. Such growth contributed to an 11.4% increase in MINNCOR Industries work assignments, noted above.



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## MINNCOR Contracts

### Consolidation of Contracts

The Bi-annual contract for license plates, validation stickers and fulfillment with DVS was negotiated and approved by all parties. All other contracts were combined into one, which will make it much simpler for State Buyers to find.



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## Subcontract Second Shift

### New Operational Changes

A second shift was successfully deployed at both Rush City and Moose Lake. This added just over 160 combined offender assignments, or 1,000 hours per day in production capacity. Outstanding planning by all stakeholders resulted in highly effective roll-outs at both facilities.



## Production Efficiencies

### Womens' Clothing Line

As part of a lean manufacturing initiative, the women's clothing line was moved to Moose Lake from Shakopee. This change will allow us to capitalize on production efficiencies and create capacity in the Shakopee Sewn shop for new partnership projects.

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## Stillwater Outside Warehouse

### House Cleaning

Great progress has been made with the reorganization of the Stillwater outside Warehouse. Surplus and obsolete equipment have been auctioned along with miscellaneous overstock items generating incremental revenue and much needed floor space. Other unmarketable items have been recycled.

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## Print Pricing Restructure

### Pricing and Logistics

A new pricing structure for standard forms in the MINNCOR print division provides our DOC customers an opportunity for increased cost savings. The Stillwater logistics division has been working closely with the Moose Lake Printing team to provide fulfillment services on select printing products.

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## Togo Firewood

### New Operational Changes

The Togo firewood business unit has produced a seasonal inventory. A new delivery truck has also been purchased to ensure on time order deliveries. Togo is ready to fulfill orders for state parks.





## Safety Improvements

### New Safety Initiative

During Fiscal Year 16, a priority was placed on safety, which included hiring a new MINNCOR safety officer. High level goals will include driving consistency in safety practices and regulatory compliance throughout MINNCOR's facility operations.

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## Summer Laundry Requests

Summer programs require extra laundry services. Laundry at Faribault added an additional 7,500 pounds of laundry per week accommodating the needs of Gustavus Adolphus and University of Minnesota colleges for their summer programs.

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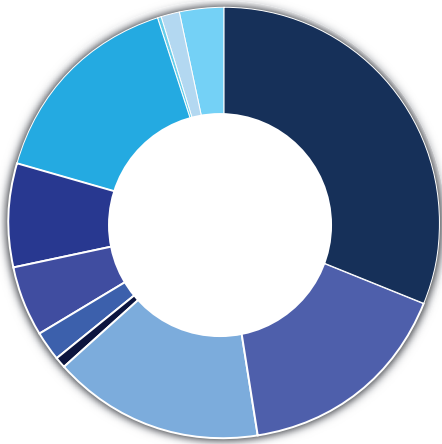
## Stillwater Metal

### Outdoor Recreational Products - White Bear Lake Marina

With the award of the White Bear Lake Marina project the Stillwater metals division is ramping up for a very active dock and pier season in FY17



# EMPLOY/Bridge Success



Average Number of  
EMPLOY Participants  
by Location

FRB - 201	
LL - 106	
ML - 101	
OPH - 6	
RW - 14	
RC - 34	
SHK - 51	
STW - 100	
TOGO - 2	
WR - 9	
BRIDGE - 20	

## NUMBERS AT A GLANCE

**764**

Total Number of  
offenders enrolled in  
the program.

**566**

Total Number of  
EMPLOY participants  
who have completed  
the program.

**79%**

EMPLOY Participants  
who are successfully  
employed after  
1-month release.

**221**

Total Number of  
offenders enrolled in  
MINNCOR Bridge.

**103**

Total Number of  
Bridge participants  
who have completed  
the program.

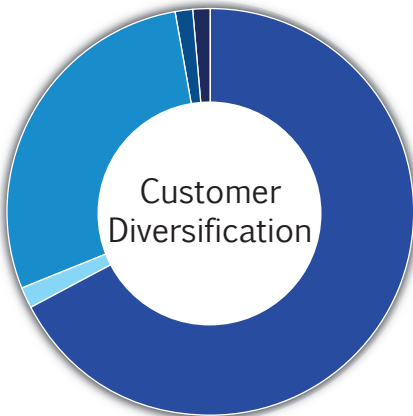
**95%**

Bridge Participants  
who are successfully  
employed after  
1-month release.

## Released Bridge Participant Success Story

A previous Bridge graduate recently checked back with Bridge/EMPLOY staff to report his continuous success after his release. One year after his completion of work release and the Bridge program, he was proud to share he is gainfully employed with a local union and has been approved for the purchase of his first home. This individual completed the vocational masonry program while incarcerated, earned his lift truck certification and sharpened his employment readiness skills through EMPLOY trainings and mock interviews while attending Bridge. Each experience made him more qualified for the position he now holds, and has elevated the ceiling for his potential growth going forward. As a successful Bridge and EMPLOY program graduate, this person is a true success story.

# FY16 FINANCIAL HIGHLIGHTS



## NUMBERS AT A GLANCE

**1,750**

Average Number of offender assignments in FY16.

**\$2.3M**

Given back to Minnesota's General Fund since 2015.

**\$47M**

Total sales achieved in FY16.

**764**

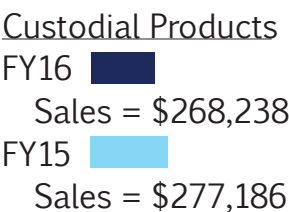
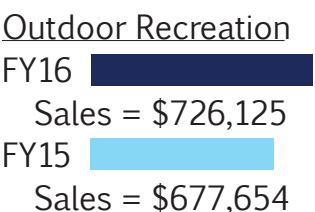
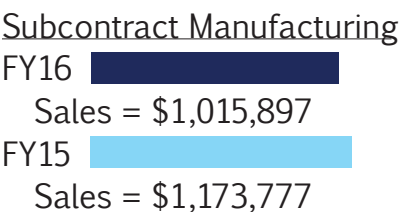
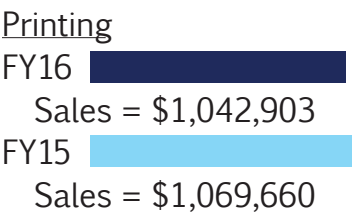
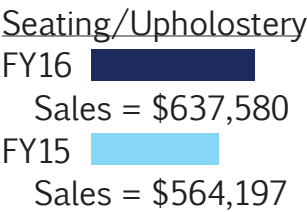
Total number of EMPLOY and Bridge Participants in FY16.

**120+**

Full-time state employees work for MINNCOR Industries.

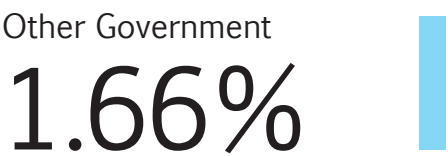
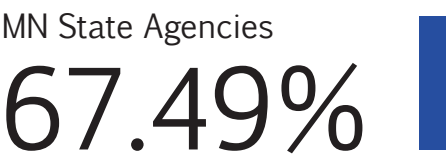
**7**

MINNCOR operates at seven state facilities. (\*Togo added recently)



Customer Diversification

MINNCOR's sales are well diversified across five customer segments:



# Balance Sheet FY16

	Fiscal Year 2016	Fiscal Year 2015
<b>Assets</b>		
Cash	\$12,564,721	\$16,244,085
Receivables (net)	\$5,860,800	\$4,525,263
Inventory	\$7,122,157	\$7,560,161
Prepays	\$329,074	\$471,284
Other Current Assets	(\$7,497,107)	(\$7,329,918)
Fixed Assets	17,355,726	\$13,854,973
Accumulated Depreciation	<u>(\$10,719,506)</u>	<u>(\$9,673,842)</u>
<b>Total Assets</b>	<b>\$25,015,865</b>	<b>\$25,652,006</b>
<b>Liabilities</b>		
Accounts Payable	\$249,557	\$346,354
Accrued Liabilities	\$1,168,388	\$968,339
Accrued Payroll	\$864,105	\$700,129
Total Short Term Liabilities	\$2,282,050	\$2,014,822
<b>Total Long Term Liabilities</b>	<b>\$15,250,975</b>	<b>\$15,283,223</b>
<b>Total Liabilities</b>	<b>\$17,533,025</b>	<b>\$17,298,045</b>
<b>Equity</b>		
Contributed Capital	\$6,743,324	\$6,552,957
Contributions - Government	(\$21,750,000)	(\$21,750,000)
Retained Earnings	\$17,861,797	\$20,292,410
Current Year Net Income	<u>\$4,627,718</u>	<u>\$3,258,593</u>
<b>Total Equity</b>	<b>\$7,482,839</b>	<b>\$8,353,961</b>
<b>Total Liabilities &amp; Equity</b>	<b>\$25,015,865</b>	<b>\$25,652,006</b>



# Income Statement FY16

	Fiscal Year 2016	% of Sales	Fiscal Year 2015	% of Sales
Sales				
Customer Sales	\$47,664,876	100.5%	\$44,272,429	100.0%
MINNCOR Sales	\$421,531	0.9%	\$657,128	1.5%
Sales Returns	(\$638,610)	(1.3%)	(\$620,802)	(1.4%)
Sales Discounts	(\$23,155)	0.0%	(\$26,319)	(0.1%)
Customer Restocking Charge	\$3,200	0.0%	\$1,869	0.0%
Sales Write-Off	0	0.0%	(\$72)	0.0%
Total Sales	\$47,427,839	100.0%	\$44,284,233	100.0%
Cost of Goods Sold				
Cost of Goods Sold	\$21,344,014	45.0%	\$20,440,352	46.2%
Cost of Goods Sold-Non Inventory	\$1,032,487	2.2%	\$596,872	1.3%
Intra-Industry	(\$11,565)	0.0%	\$3,106	0.0%
Obsolete, Scrap	\$23,753	0.1%	\$24,324	0.1%
Overhead Variances	(\$2,935,559)	(6.2%)	(\$2,407,795)	(5.4%)
Cost of Goods Sold Quality	\$32,522	0.1%	\$25,676	0.1%
Inventory Variances	\$140,914	0.3%	\$182,223	0.4%
Total Cost of Goods Sold	\$19,626,568	41.4%	\$18,864,758	42.6%
Gross Margin	\$27,801,272	58.6%	\$25,419,475	57.4%
Total Manufacturing Costs	\$14,081,769	29.7%	\$13,439,719	30.3%
Facility Income	\$13,719,503	28.9%	\$11,979,756	27.1%
Total G & A Costs	\$9,091,785	19.2%	\$8,721,163	19.7%
Net Income	\$4,627,718	9.8%	\$3,258,593	7.4%

# Cash Flow Statement FY16

	Fiscal Year 2016	Fiscal Year 2015
Cash Flows from Operating Activities		
Receipts from Customers	\$47,427,839	\$41,619,374
Payments to Employees	\$11,301,392	\$10,601,877
Purchased Services	\$3,657,610	\$2,652,364
Depreciation	\$1,098,972	\$914,551
Indirect Costs	\$1,064,048	\$968,403
Payments for Manufacturing Costs	\$19,626,567	\$18,199,337
Supplies & Materials	\$1,077,452	\$1,162,739
Repairs	\$404,361	\$256,026
Other Expenses	\$8,373,768	\$6,774,706
Other Income	\$3,712,452	\$2,946,594
Gain on Sale of Fixed Assets	-	\$6,366
Investment Earnings	<u>\$91,595</u>	<u>\$84,965</u>
Net Income	\$4,627,718	\$3,127,296
Decreases (Increases) in:		
Accounts Receivable	(\$1,335,537)	(\$368,664)
Inventory	\$438,004	\$103,422
Other Current Assets	\$309,399	\$6,413
Other Non-Current Assets	-	-
Increases (Decreases) in:		
Accumulated Depreciation	\$1,045,664	\$776,243
Accounts Payable	\$58,123	(\$72,338)
Accrued Expenses	<u>\$176,857</u>	<u>\$524,591</u>
Net Cash Provided by (used for) Oper Exp	\$5,320,228	\$4,096,962
Change in Acct. Principle		
Change in Acct. Principle	-	-
Net Cash Provided by (used for) Noncapital Activities	-	-
Cash Flows from Capital and Related Financing Activities		
Purchases of Fixed Assets	(\$3,500,753)	(\$485,892)
Contributed Capital Equipment	\$190,367	-
Payments on Interest	-	-
Net Cash Priovided by (used for) Capital Activities	(\$3,310,385)	(\$485,892)
Cash Flows from General Fund and DOC Activities		
General Fund Distributions and DOC Initiatives	<u>(\$5,689,207)</u>	<u>(\$4,955,722)</u>
Net Cash to General Fund and DOC Activities	(\$5,689,207)	(\$4,955,722)
Net Increase (Decrease) in Cash and Cash Equivilents	<u>(\$3,679,364)</u>	<u>(\$1,344,652)</u>
Cash and Cash Equivalents - YTD	<u>\$12,564,721</u>	<u>\$16,244,085</u>

# Notes on Financial Statement

## 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 2016, 7.23% of vacation leaves, and 17.64% of vested severance is classified as current. 100% of compensatory time is also classified as current. The remaining balance, as well as 54% of non-eligible severance pay is classified as non-current.

#### NOTE 4: SIGNIFICANT ACCOUNT VARIANCES

In FY 2016 MINNCOR paid \$3.81 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 FY16 Minncor had a \$19.571 million net pension liability, a \$5.011 million Deferred Pension outflow and a \$6.027 million Deferred Pension inflow, based on MMB Analysis and GASB 68.

Mandated by Minnesota Session Laws of 2015, Chapter 65-S.F. No.878, Article 1, Sec. 16, (a), MINNCOR transferred \$1,000,000 to the State General Fund in Fiscal Year 2016, which affected retained earnings on the Fiscal Year 2016 financial statements.



## MINNCOR LEADERSHIP

DAVID O. MILTON  
Chief Executive Officer

BRENDA CHANDLER  
Vice President

JEFF LONSKY  
Vice President of Operations

JOSEPH BJELLAND  
Chief Financial Officer

## DOC LEADERSHIP

TOM ROY  
Commissioner of Corrections

TERRY CARLSON  
Deputy Commissioner - Facility

RON SOLHEID  
Deputy Commissioner - Community Services

LISA WOJCIK  
Assistant Commissioner - Operations

BRUCE REISER  
Assistant Commissioner - Facility



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