

EM
BRO
IDE
RY

RUSH CITY

EMPLOY

QUALITY
CONTROL

WELDING

ASSEMBLY
HIGH VISIBILITY
LICENSE PLATES
SEWING

MANUFACTURING

SHAKOPEE WAREHOUSING

CARPENTRY

BRIDGE FARIBAULT

MOOSE LAKE PIERS
DOCS

MINNCOR INDUSTRIES



FY17
Annual Report

PRINTING

TOGO PACKAGING

STILLWATER TEXTILES

OAK PARK HEIGHTS

SEATING



Table of Contents

2	Letter from CEO
3	About MINNCOR Industries
4	MINNCOR's Vision and Mission
5	MINNCOR Executive Team
6	MINNCOR Locations
8	FY17 Highlights
10	The EMPLOY Program
11	Financial Overview



Letter from our CEO

Dear Friends and Stakeholders of MINNCOR Industries:

Thanks to the commitment, hard work and relentless pursuit of positive outcomes, we have realized another great year of performance. We continue to increase industry work assignments, now over 1,700, or 26.5% of the facility populations where we have an industry presence.

The EMPLOY Program provided job search services to just under 1,000 participants (pre and post release) in FY17. This year, we have been able to confirm 367 EMPLOY graduates (69%) having secured employment since completing the program in FY17. We also tracked 70 Bridge work-release graduates securing employment (92%), upon completion of their program throughout the year.

We are proud of the results and many ways that MINNCOR non-taxpayer subsidized programming has impacted lives and Minnesota communities. Our skills-based training, motivation and support systems play a meaningful role in assisting participants to secure livable wage jobs upon completion of a MINNCOR Program. Since inception, MINNCOR programming has made a difference in the lives of over 3,985 EMPLOY participants and 466 Bridge participants!

Such results directly support our Mission and Vision, developed in August 2016:

MISSION: Provide offenders job skills training to support positive behavior and successful transition into the community, at no cost to taxpayers.

Vision: Transforming lives for community success and safety.

I encourage you to read the FY17 Highlights section carefully. There were numerous monumental customer, product, service, and skills-based innovations accomplished in FY17. MINNCOR is evolving as a mature organization and we are making strategic investments in safety, job market relevant technologies and personal development. Beyond quality products, we strive to mold community leaders at all levels of staff and participants.

I humbly thank the hardworking, dedicated staff that contribute to MINNCOR's continued success. I am grateful to our customers, partners, suppliers and supporters who help us sustain our mission.

Thank you for your invaluable support.

Sincerely,

David O. Milton, CEO
MINNCOR Industries



About our Company

Correctional Industries have been at work in Minnesota for over 100 years. MINNCOR was established in 1994 as part of an initiative to centralize the program and achieved financial self-sufficiency in 2003. Today MINNCOR operates in six state prisons, providing work opportunities to over 1,700 offenders daily.

MINNCOR strives to make a positive difference in the lives of offenders who are provided this work opportunity. The EMPLOY Program, as part of MINNCOR's mission, was developed in 2006 to provide released offenders the necessary tools to locate, gain and retain employment. Offenders with MINNCOR and EMPLOY gain technical skills, on-the-job experience, and training in employment readiness.

Correctional Industries (CI) have had a consistent presence in the United States. CI programs have proven that recidivism is reduced from 40 percent to 24.2 percent, as calculated by the National Correctional Industries Association using median recidivism calculated from self-reported statistics submitted by state and federal CI agencies.

CI programs have also been shown to save taxpayers money. Over 90 percent of CI programs are self-funded and operate solely from the revenue they generate from products and services they provide.

MINNCOR Industries runs a successful operation all at no cost to taxpayers. Since 2015, MINNCOR has given back \$3.3 Million to Minnesota's General Fund.

In 2017, MINNCOR procured close to \$20 Million of raw materials, goods, and services, a majority of which came from local Minnesota businesses. CI programs nation-wide support local businesses and the economy by purchasing \$1.3 Billion in raw materials, supplies, component parts, equipment and services to support its operations.

Offenders who participate in CI programs are able to contribute to their financial obligations from their earnings. Over \$82 Million, based on the PIECP Quarterly Statistics, 2nd Quarter 2017 study, has been contributed to Victim Compensation and Restitution Funds. In addition, CI programs generate significant savings of taxpayer dollars. Based on recent research, the benefit-cost ratio of EMPLOY is \$15.90 over a 5-year time period; meaning, in five years, every dollar invested in The EMPLOY Program has led to an estimated \$15.90 overall, with \$5.10 benefiting the taxpayers and \$10.80 benefiting other societal outcomes. These estimates are based on findings from a national clearinghouse of rigorous evaluations of criminal justice practices.



Vision and Mission

VISION STATEMENT

Transforming lives for community success and safety.

MISSION STATEMENT

Provide offenders job skills training to support positive behavior and successful transition into the community, at no cost to taxpayers

ANNUAL STRATEGIC GOALS

- 1. Inmate Assignments:** Maintain an average of 1,500 total offender assignments.
 - 1st Qtr: 1,722
 - 2nd Qtr: 1,720
 - 3rd Qtr: 1,706
 - 4th Qtr: 1,730

- 2. Net Income:** End of the year with a minimum net income profit of \$2.5 million.
 - 1st Qtr: \$1,617,806
 - 2nd Qtr: \$869,258
 - 3rd Qtr: \$767,209
 - 4th Qtr: \$1,200,462**FY17 Year end total: \$4.45 million**

- 3. EMPLOY:** Add 115 new participants per quarter. Increase the percentage of employed participants from 70% to 75%.
 - 1st Qtr: 128 new participants were added during Q1. 74% were employed.
 - 2nd Qtr: 133 new participants were added during Q2. 71% were employed.
 - 3rd Qtr: 128 new participants were added during Q3. 63% were employed.
 - 4th Qtr: 142 new participants were added during Q4. 69% were employed.

- 4. Bridge:** Maintain 95% Bridge participant private sector employment following 90 day program completion.
 - 1st Qtr: 95% Bridge participants were employed following completion.
 - 2nd Qtr: 98% Bridge participants were employed following completion.
 - 3rd Qtr: 93% Bridge participants were employed following completion.
 - 4th Qtr: 83% Bridge participants were employed following completion.

MINNCOR

Executives

David O. Milton

CEO

David O. Milton is MINNCOR's Chief Executive Officer, with experience in leading planning, analysis, budgeting, controllership, cost accounting, operations, and internal control across a variety of industries. He has proven results in cost management, strategic planning, business development, valuation, acquisition, integration, change management, talent development, IT optimization and Six Sigma. He holds a Masters of Business Administration from the University of Chicago and earned his Bachelor of Science in Accounting from DePaul University.

Jeff Lonsky

Vice President

Jeff Lonsky is the Vice President of Operations. During his 28+ year career with MINNCOR, Jeff has held positions in both sales and in operations. His current responsibilities include the management of all production activities for MINNCOR. Management of MINNCOR's production efforts includes 1700+ offender workers, 100+ supervisory/management staff, and production efforts in six state correctional facilities. Prior to MINNCOR, Jeff spent seven years in the private sector as a business owner of a casework manufacturing company.

Brenda Chandler

Vice President

Brenda Chandler has worked in various roles for MINNCOR for over 18 years. She is currently the Vice-President, overseeing the Sales and Business Development, Marketing, Customer Service, Administration, EMPLOY and Bridge Departments. Brenda has a bachelor's degree in Criminal Justice and Business Administration and has furthered her education with Master's degree courses including Marketing Management and Organizational Management. She has enjoyed being involved in the NCIA and has served as the Central Region Chair. She is currently serving as the President-Elect and will serve a two-year term as President in 2019.

Joseph Bjelland

Chief Financial Officer

As CFO, Joe is responsible for the management, administration, and planning of the Finance Department. Joe focuses on the financial infrastructure at MINNCOR to ensure efficiencies, reduce costs, and increase revenues. Joe has more than 20 years experience in a financial management role, and a Masters degree in Public and Non Profit Administration. Joe's responsibilities include providing accurate Financial Statements that comply with generally accepted accounting principles for stakeholders, and management of the internal controls to ensure the validity of MINNCOR assets.

MINNCOR Locations



MCF-Faribault

Year Built: 1990

Custody: Minimum-Level 2, Medium-Level 3

Population: 2,053 Adult Males

MINNCOR Offender Assignments: 555

Industry Footprint: 114,000 square feet

MINNCOR Industries Operations:

- Laundry
- Plastics
- Subcontract
- Custodial Products
- Wood Furniture



MCF-Moose Lake

Year Built: 1994

Custody: Maximum-Level 3

Population: 1,051 Male Offenders

MINNCOR Offender Assignments: 283

Industry Footprint: 72,000 square feet

MINNCOR Industries Operations:

- Printing
- Textiles
- Subcontract



MCF-Oak Park Heights

Year Built: 1982

Custody: Maximum-Level 5

Population: 433 Adult Males

MINNCOR Offender Assignments: 93

Industry Footprint: 30,000 square feet

MINNCOR Industries Operations:

- Centralized Canteen



MINNCOR-Roseville (central office)

Year Built: 2016

MINNCOR Offender Assignments: 36 (Bridge)

Industry Footprint: 50,000 square feet

MINNCOR Industries Operations:

- Administration
- The EMPLOY Program
- Bridge



MCF-Rush City

Year Built: 2001

Custody: Close-Level 4

Population: 1,020 Adult Males

MINNCOR Offender Assignments: 352

Industry Footprint: 38,000 square feet

MINNCOR Industries Operations:

- License Plates
- Stickers
- Subcontract



MCF-Shakopee

Year Built: 1986

Custody: All Levels (Female)

Population: 657 Adult Females

MINNCOR Offender Assignments: 111

Industry Footprint: 29,000 square feet

MINNCOR Industries Operations:

- Textiles
- Safety Products
- Subcontract



MCF-Stillwater

Year Built: 1914

Custody: Minimum-Level 2, Close-Level 4

Population: 1,644 Adult Males

MINNCOR Offender Assignments: 300

Industry Footprint: 464,000 square feet

MINNCOR Industries Operations:

- Metal
- Mattresses
- Subcontract
- Upholstery
- Warehousing, Logistics, and Distributing



FY17 Highlights



Grand Opening

To celebrate a beginning at a new location, MINNCOR-Roseville hosted a grand opening. Over 300 guests were in attendance.



Beehives

Stillwater's diversified division expanded its sub-contract business unit with the addition of Bee-Hive frames and boxes for Miller Manufacturing. The initial work cell is comprised of 4 offender assignments with an opportunity to expand as customer demand increases.



Strategic Planning

MINNCOR went through a strategic planning with a diversified group consisting of MINNCOR, EMPLOY, DOC Education, Facility staff, Correctional staff, TPC staff, and Work Release staff. The strategic planning efforts resulted in a new Mission and Vision statement for the organization, and laid out a formalized plan for the organization to follow to increase communication efforts.



Shakoep Subcontract

The Shakopee Sub-contract business unit has expanded through both existing and new customer activity. Rubber industries has introduced several new projects to complement existing work we do for them and two new customers have brought work on to the shop floor. These additional opportunities are keeping our assignment numbers near capacity at Shakopee.



Stillwater Outdoor Recreation

Stillwater Metals engineered a 160 boat slip Marina for White Bear Lake Municipal Docks. The project started in May 2016 and was finalized and installed in April 2017. The Marina project assigned close to 100 offenders, who learned valuable manufacturing skills, including CAD, welding, painting, machining, metal forming, and logistics management.



Winter Road and Sidewalk Salt

Salt packaging successfully moved to Bridge warehouse located in Roseville, MN.

FY17 sales revenue totaled \$87,000.



Oak Park Heights Canteen

Canteen reported inventory accuracy of 99.8% - quite an achievement for a \$10 Million business unit that handles millions of products throughout the year.



Faribault Casework and Cabinetry

The Casework/Cabinetry division received large orders from Austin Minnesota Housing and Redevelopment Authority for \$440K. A new edge bander was purchased and installed as well as a vertical CNC processing center. The new equipment will provide a needed throughput increase of precision cabinet parts.



Moose Lake Print Shop

The Print Division added two new equipment additions. A large format printer/scanner to provide a more diverse offering of media and launch document digitizing, and a new envelope press allowing us to bring typically outsourced work in house to support offender assignments. Strategic partnerships with preferred vendors will bolster printed envelope sales to state agencies.



Faribault Laundry

Faribault laundry roof was completed, the repair addressed safety concerns and eliminated weather-induced work stoppages.



Rush City License Plates

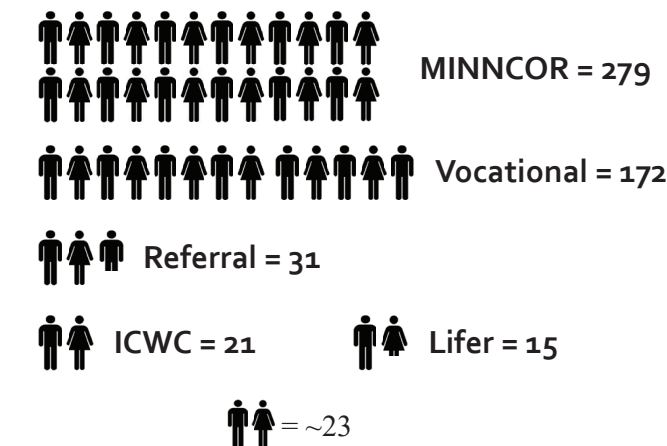
The Rush City license plate division produced over 1.3 million license plates and over 5 million registration renewal stickers during the FY. In addition, they worked with the Minnesota Department of Vehicle Services on the design and introduction of the new Law Enforcement Memorial Association (LEMA) plate and the Start Seeing Motorcycle plate all during the transition to the Minnesota License and Registration System (MNLARS).



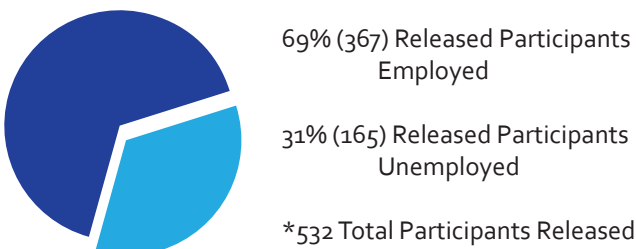
EMPLOY Program

The EMPLOY Program works with participants to reduce recidivism by providing participants with the necessary tools to locate, gain and retain employment. We accomplish this through trainings, providing employer connections and encouraging positive change. We work with participants to develop the ability to market their skills and work experience acquired prior to and during incarceration to potential employers. Additionally, we offer our participants employment support services for up to one year following release.

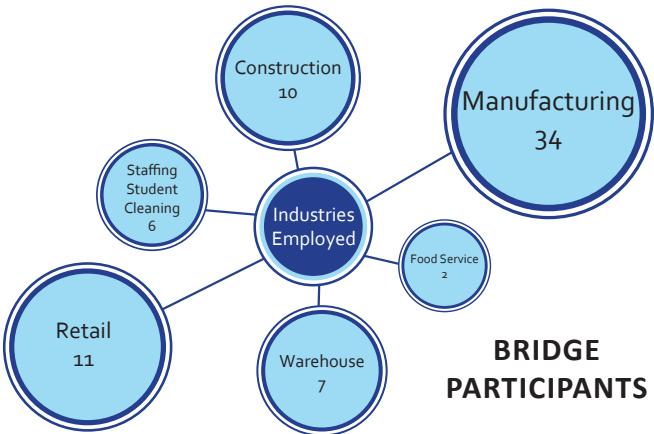
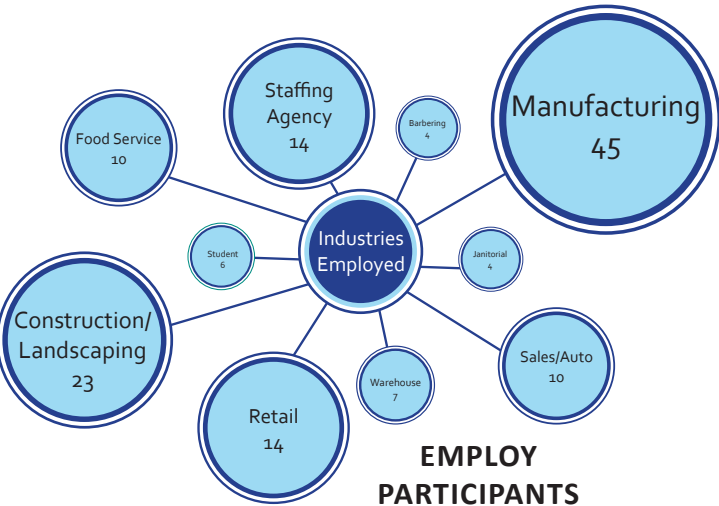
HOW EMPLOY PARTICIPANTS QUALIFIED



RELEASED EMPLOYED PARTICIPANTS



WHERE PARTICIPANTS ARE EMPLOYED





Financial Overview

- 12 - Balance Sheet
- 13 - Income Statement
- 14 - Statement of Cash Flows
- 15 - Notes on the Financial Statements



Balance Sheet

	<u>FY17</u>	<u>FY16</u>
<u>Assets</u>		
Cash	\$13,589,843	\$13,443,609
Receivables (net)	6,111,097	5,860,800
Inventory	6,311,615	7,123,143
Prepays	561,651	544,132
Other Current Assets	0	(5,956,107)
Fixed Assets	19,291,784	16,950,301
Accumulated Depreciation	(11,764,796)	(10,719,506)
Total Assets	\$34,101,194	\$27,246,372
<u>Liabilities</u>		
Accounts Payable	127,373	249,557
Accrued Liabilities	681,035	1,168,388
Accrued Payroll	976,854	844,315
Total Short Term Liabilities	1,785,262	2,262,260
Total Long Term Liabilities	19,803,000	17,077,000
Total Liabilities	21,588,262	19,339,260
<u>Equity</u>		
Contributed Capital	6,552,957	6,552,957
Contributions - Government	(18,395,000)	(21,750,000)
Retained Earnings	18,988,670	18,740,685
Current Year Net Income	5,366,305	4,363,469
Total Equity	\$12,512,932	\$7,907,111
Total Liabilities & Equity	\$34,101,194	\$27,246,372

*****These financial statements are unaudited*****

Income Statement

	<u>FY17</u>	<u>FY16</u>
<u>Sales</u>		
Customer Sales	49,094,881	47,664,873
MINNCOR Sales	455,615	421,531
Sales Returns	(677,776)	(638,610)
Sales Discounts	(24,237)	(23,155)
Customer Restocking Charge	<u>156</u>	<u>3,200</u>
Total Sales	48,848,639	47,427,839
<u>Cost of Goods Sold</u>		
Cost of Goods Sold	21,729,007	21,344,014
Cost of Goods Sold-Non Inventory	794,532	1,032,487
Intra Industry Cost of Goods Sold	11	(11,565)
Obsolete, Scrap	40,699	23,753
Overhead Variances	(2,847,421)	(2,936,483)
Cost of Goods Sold Quality	16,589	32,522
Inventory Variances	<u>147,819</u>	<u>140,914</u>
Total Cost of Goods Sold	19,881,235	19,625,642
Gross Margin	28,967,404	27,802,197
Total Manufacturing Costs	14,644,681	14,081,708
Facility Income	14,322,723	13,720,489
Total G&A Costs	<u>8,956,417</u>	<u>9,357,020</u>
Net Income	<u>5,366,305</u>	<u>4,363,469</u>

*****These financial statements are unaudited*****



Statement of Cash Flows

	<u>FY17</u>	<u>FY16</u>
Cash Flows from Operating Activities		
Receipts from Customers	\$48,848,639	\$47,427,839
Receipts from Other Revenues	4,561,924	3,712,452
Payments to Suppliers	35,040,471	34,333,914
Payments to Employees	11,855,301	11,435,532
Payments to Others	<u>3,121,485</u>	<u>-</u>
Net Cash Flow from Operating Activities	3,393,306	5,370,846
Cash Flows from Noncapital Financing Activities		
Transfers Out	<u>1,000,000</u>	<u>-</u>
Net Cash Flow from Noncapital Financing Activities	1,000,000	-
Cash Flows from Capital and Related Financing Activities		
Investment in Capitol Assets	(2,341,483)	(3,095,328)
Proceeds/(Loss) from Disposal of Capitol Assets	(149)	-
Payments of Interest	<u>-</u>	<u>-</u>
Net Cash Provided by (used for) Capital Activities	(2,341,632)	(3,095,328)
Cash Flows from Investing Activities		
Investment Earnings	<u>119,349</u>	<u>91,595</u>
Net Cash Flows from Investing Activities	119,349	91,595
Net Increase (Decrease) in Cash and Cash Equilient	171,023	2,367,113
Cash and Cash Equivalents - Prior Month	13,443,609	16,244,085
Cash and Cash Equivalents - YTD	13,586,843	13,433,609
Reconciliation of Operating Income (Loss) to Net Cash Flows from Op. Activities		
Operating Income (Loss)	6,634,289	5,462,441
Adjustments to reconcile Operating Income to Net Cash Flows from Op. Activities		
Depreciation	(1,267,686)	(1,098,972)
Misc Non-Operating Expenses	-	-
Changes in Assests, Liabilities, Deferred Outflows, and Inflows		
Accounts Receivable	(250,297)	(1,335,537)
Inventory	811,528	437,018
Change in Accounting Principals	3,355,000	-
Contributed Capital	-	-
Other Current Assets	53,374	94,341
Other Non-Current Assets	-	-
Accumulated Depreciation	1,045,290	1,045,664
Deferred Pension Outflows	(24,427,000)	(3,916,000)
Retained Earnings	-	(4,810,318)
Accounts Payable	(510,998)	243,228
Compensated Absences Payable	40,000	4,210
Net Pension Liability	36,089,000	4,972,000
Other Liabilities	(8,936,000)	737,777
Deferred Pension Inflows	(6,027,000)	(1,541,000)
Net Reconciling Items to be Addedd to (Deducted from) Operating Income	(24,789)	(5,167,589)
Net Cash Flows from Operating Activities	(24,789)	(5,167,589)



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.



Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation and amortization is charged to operations and respective business units 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 vehicles.

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 17, MINNCOR's current Compensated Absence balance was \$200 thousand, and the noncurrent Compensated Absence balance was \$1.2 million.

NOTE 4: SIGNIFANCT ACCOUNT VARIANCES

In Fiscal Year 17 MINNCOR paid \$3.64 million in DOC Expenses not related to MINNCOR activities. These DOC expenses incurred include re-entry/transition program costs, education costs for offenders and facility improvements.

In Fiscal Year 17 Minncor had a \$55.66 million net pension liability, a \$29.44 million Deferred Pension Outflow and a \$3.36 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 \$1.0 million to the State General Fund in Fiscal Year 17, which affected retained earnings on the Fiscal Year 17 financial statements.