ANNUAL REPORT FY18

24

24th ANNUAL REPORT
2017-2018

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About MINNCOR

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 not only funded the EMPLOY Program and contributed financial support to the Minnesota Department of Corrections education, but also 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.

Locations

<u>Faribault</u>
Square Footage: 114,000
Offender Assignments: 570
Chemicals, Casework,
Wood Manufacturing

<u>Moose Lake</u>
Square Footage: 72,000
Offender Assignments: 297
Printing, Sewing, HiVis,
Subcontract Manufacturing

<u>Oak Park Heights</u>
Square Footage: 30,000
Offender Assignments: 91
Centralized Canteen

<u>Roseville</u>
Square Footage: 50,000
Participant Assignments: 33
Central Office, EMPLOY
Program, MINNCOR-Bridge

<u>Rush City</u>
Square Footage: 38,000
Offender Assignments: 342
License Plates and Stickers,
Subcontract Manufacturing

<u>Shakopee</u>
Square Footage: 29,000
Offender Assignments: 115
Subcontract Manufacturing,
Safety Products

<u>Stillwater</u>
Square Footage: 464,000
Offender Assignments: 353
Seating/Upholstery,
Mattresses, Outdoor
Recreation, Warehouse,
Subcontract Manufacturing

FY18 Highlights

130+
Staff completed leadership training

99%
Accuracy in physical inventory

1,801
Record offender assignments

$50M
Exceeded in annual sales

STW Logistics
Launched on-site chair service and repair program

ML Print
Created an Offender Training Manual

Appreciation
MINNCOR held its first-ever customer appreciation event

PIE Wages
Inmate labor increased 15.5% due to PIE wages

ACA Audit
MINNCOR began a year-long standards audit

EMPLOY Program

Top 5 Industries Released EMPLOY Participants are Employed

Manufacturing

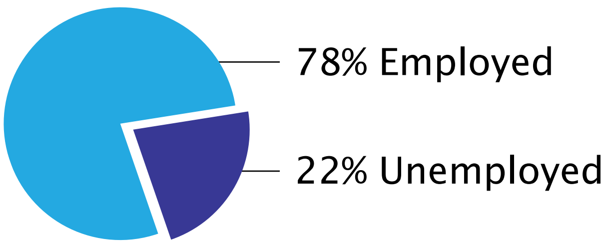
Construction/Landscaping

Retail

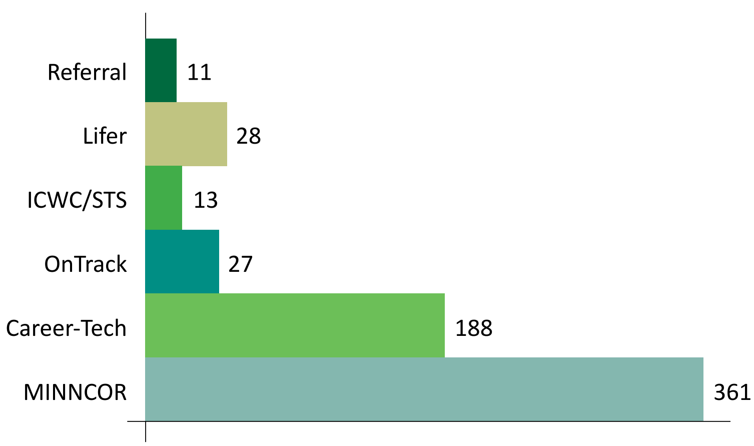
Warehouse

Food Service

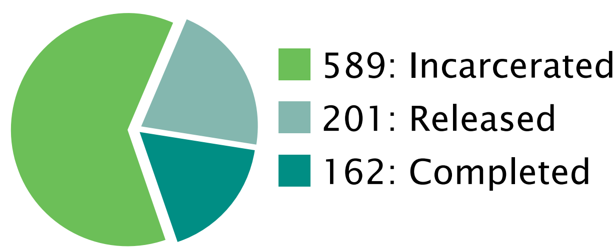
FY18 YearEnd Employed vs Unemployed



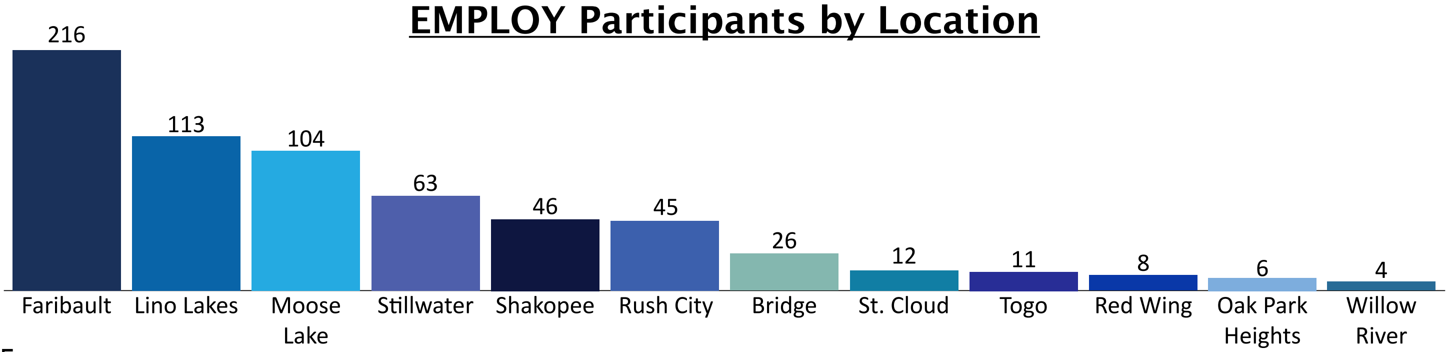
How EMPLOY Participants Qualify



EMPLOY Participant Breakdown



EMPLOY Participants by Location



FY18 Financials

The fiscal year 2015 implementation of GASB Statement No. 68 “Accounting and Financial Reporting for Pensions” required the recording of the net pension liability and the deferred inflows and outflows of resources associated with pensions. The fiscal year 2018 implementation of GASB Statement No. 75 “Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions” required the recording of the other postemployment benefits liability and the deferred inflows and outflows of resources associated with other postemployment benefits.

The actuarially determined amounts are likely to vary significantly from year to year and are managed by the retirement systems and the Minnesota Legislature to ensure the defined benefit plans are adequately funded to pay plan benefits to employees participating as they become due. For these reasons, the state does not include the pension and other postemployment benefits-related liabilities or deferred inflows and outflows of resources in the rate-setting process for managing proprietary funds as long as the funds are contributing the statutory required contributions. The amounts will continue to be monitored by the retirement systems administering these plans and the Minnesota Legislature.

To view the full State of Minnesota FY18 CAFR Financial Statements, please visit the following website:
https://mn.gov/mmb/accounting/reports/comprehensive-annual.jsp

NONMAJOR ENTERPRISE FUNDS
COMBINING STATEMENT OF NET POSITION
JUNE 30, 2018
(IN THOUSANDS)

		MINNESOTA CORRECTIONAL INDUSTRIES
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	12,676
Accounts Receivable		8,025
Interfund Receivables		—
Inventories		6,865
Prepaid Expenses		—
Total Current Assets	$	27,566
Noncurrent Assets:		
Accounts Receivable	$	—
Depreciable Capital Assets (Net)		7,280
Nondepreciable Capital Assets		—
Total Noncurrent Assets	$	7,280
Total Assets	$	34,846
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Pension Outflows	$	19,581
Deferred Other Postemployment Benefits Outflows		322
Total Deferred Outflows of Resources	$	19,903
LIABILITIES		
Current Liabilities:		
Accounts Payable	$	2,564
Interfund Payables		—
Due to Component Units		—
Unearned Revenue		—
Accrued Interest Payable		—
Bonds and Notes Payable		—
Claims Payable		—
Compensated Absences Payable		208
Total Current Liabilities	$	2,772
Noncurrent Liabilities:		
Unearned Revenues	$	—
Bonds and Notes Payable		—
Compensated Absences Payable		1,202
Other Postemployment Benefits		4,253
Net Pension Liability		40,284
Total Noncurrent Liabilities	$	45,739
Total Liabilities	$	48,511
DEFERRED INFLOWS OF RESOURCES		
Deferred Pension Inflows	$	11,581
Deferred Other Postemployment Benefits Inflows		198
Total Deferred Inflows of Resources	$	11,779
NET POSITION		
Net Investment in Capital Assets	$	7,280
Restricted for:		
Develop Economy and Workforce	$	—
Enhance 911 Services and Increase Safety		—
Other Purposes		—
Total Restricted	$	—
Unrestricted	$	(12,821)
Total Net Position	$	(5,541)

NONMAJOR ENTERPRISE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2018
(IN THOUSANDS)

	MINNESOTA CORRECTIONAL INDUSTRIES
Operating Revenues:	
Net Sales	$ 50,519
Insurance Premiums	—
Other Income	4,153
Total Operating Revenues	$ 54,672
Less: Cost of Goods Sold	20,443
Gross Margin	$ 34,229
Operating Expenses:	
Purchased Services	$ 2,883
Salaries and Fringe Benefits	16,383
Claims	—
Depreciation and Amortization	1,301
Supplies and Materials	1,051
Repairs and Maintenance	334
Indirect Costs	2,214
Other Expenses	9,428
Total Operating Expenses	$ 33,594
Operating Income (Loss)	$ 635
Nonoperating Revenues (Expenses):	
Investment Income	$ 201
Federal Grants	—
Other Nonoperating Revenues	—
Interest and Financing Costs	—
Grants, Aids and Subsidies	(4,098)
Other Nonoperating Expenses	—
Gain (Loss) on Disposal of Capital Assets	2
Total Nonoperating Revenues (Expenses)	$ (3,895)
Income (Loss) Before Transfers and Contributions	$ (3,260)
Capital Contributions	9
Transfers-In	—
Transfers-Out	—
Change in Net Position	$ (3,251)
Net Position, Beginning, as Reported	$ 1,332
Change in Accounting Principle	(3,622)
Change in Fund Structure	—
Net Position, Beginning, as Restated	$ (2,290)
Net Position, Ending	$ (5,541)

NONMAJOR ENTERPRISE FUNDS
COMBINING STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2018
(IN THOUSANDS)

		MINNESOTA CORRECTIONAL INDUSTRIES
Cash Flows from Operating Activities:		
Receipts from Customers	$	48,594
Receipts from Other Revenues		4,153
Payments to Claimants		—
Payments to Suppliers		(35,365)
Payments to Employees		(13,367)
Payments to Others		—
Net Cash Flows from Operating Activities	$	4,015
Cash Flows from Noncapital Financing Activities:		
Grant Receipts	$	—
Grant Disbursements		(4,098)
Transfers-In		—
Transfers-Out		—
Net Cash Flows from Noncapital Financing Activities	$	(4,098)
Cash Flows from Capital and Related Financing Activities:		
Investment in Capital Assets	$	(1,045)
Proceeds from Disposal of Capital Assets		2
Repayment of Bond Principal		—
Interest Paid		—
Net Cash Flows from Capital and Related Financing Activities	$	(1,043)
Cash Flows from Investing Activities:		
Investment Earnings	$	201
Net Cash Flows from Investing Activities	$	201
Net Increase (Decrease) in Cash and Cash Equivalents	$	(925)
Cash and Cash Equivalents, Beginning, as Reported	$	13,601
Cash and Cash Equivalents, Ending	$	12,676
Reconciliation of Operating Income (Loss) to Net Cash Flows from Operating Activities:		
Operating Income (Loss)	$	635
Adjustments to Reconcile Operating Income to Net Cash Flows from Operating Activities:		
Depreciation and Amortization	$	1,301
Miscellaneous Nonoperating Revenues		—
Miscellaneous Nonoperating Expenses		—
Change in Assets, Liabilities, Deferred Outflows and Inflows:		
Accounts Receivable		(1,925)
Inventories		(553)
Other Assets		—
Deferred Outflows		9,535
Accounts Payable		1,541
Claims Payable		—
Compensated Absences Payable		10
Unearned Revenues		—
Net Pension Liability		(15,376)
Other Liabilities		423
Deferred Inflows		8,424
Net Reconciling Items to be Added to (Deducted from) Operating Income	$	3,380
Net Cash Flows from Operating Activities	$	4,015
Noncash Investing, Capital and Financing Activities:		
Donated Capital Assets	$	—
Bond Premium Amortization		—

Notes on the Financial Statements

<u>NOTE 1: NATURE OF THE BUSINESS</u>
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.

<u>NOTE 2: SUMMARIES OF SIGNIFICANT PRINCIPLES</u>
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.

<u>Inventory Valuations</u>
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 18, MINNCOR's current Compensated Absence balance was $208 thousand, and the noncurrent Compensated Absence balance was $1.2 million.

NOTE 4: SIGNIFANCT ACCOUNT VARIANCES

In Fiscal Year 18 MINNCOR paid $4.1million 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 18 MINNCOR had a $40.2 million net pension liability, a $19.6 million Deferred Pension Outflow and $11.6 million Deferred Pension Inflow, based on MMB Analysis and GASB 68.