

ANNUAL REPORT

FY19

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1994-2019 / MINNCOR Industries
Celebrating 25 Years of Transformation




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Dear Friends and Stakeholders of MINNCOR Industries:

Thanks to the hard work, creativity, and dedication of MINNCOR employees we have navigated through a very difficult year. While a few programmatic areas were untouched by an agency tragedy, the impact of this tragedy created a dynamic changing environment that greatly affected many MINNCOR operations in our facilities.

There were many actions taken to respond to our changing environment but I will highlight just a couple. We increased staffing levels of Corrections Manufacturing Specialists to ensure adequate coverage during program hours. We moved the upholstery operation from Stillwater to Moose Lake due to shop closures.

For the first time in many years, we did not reach our financial goals. The closing of the metals shop had significant financial impact as well as the Stillwater facility being in lock down status for several months.

We continue to thrive in our EMPLOY and BRIDGE programs. EMPLOY assisted over 900 participants and experienced an 81.25% overall employment rate with the average hourly wage of \$14.21. Participants found employment in various sectors such as manufacturing, food service, and retail to name a few.

Other successes included our 25-year anniversary, launching a new website, and increasing sustainability efforts.

Focusing our efforts on providing job skills to the incarcerated men and women in Minnesota will continue, and enhance, over the next few years. Partnerships with education, labor unions, and other stakeholders will bring great value to our program.

I cannot express enough my thanks to each, and every, employee within our program. They are dedicated to our vision of transforming lives for community success and safety and our mission of providing offender job skills training to support positive behavior and successful transition into the community, at no cost to taxpayers.

Lisa Wojcik
Chief Executive Officer



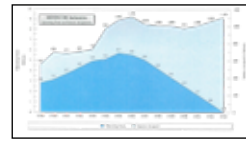
History of MINNCOR - 25 Years

MINNCOR's story begins well before 1994, with the production of twine in the 1870s. While prison industries have a long history within Minnesota, emphasis was placed on training and employing as many inmates as possible in these programs.

START
HERE

MINNCOR Industries was formed by the MN DOC to consolidate and centralize its individual facility programs into a single statewide business.

1994



Five-year business plan was created to reduce the \$6.2 million operating grant.

1995

Carlson School of Management consultants provided recommendations for MINNCOR critical issues.

1996

Conversion of the Moose Lake Regional Treatment Center to Moose Lake Correctional Facility was completed.

1997

MINNCOR Advisory Board was created.

1998

MINNCOR became financially self-sufficient. Other major infrastructure accomplishments included a new showroom, 14 newly redesigned product lines, and a new website.

2003



Oak Park Heights established a centralized canteen operation.

2002

Sales revenue reached \$21.4 million.

2001



MCF-Rush City opened its doors to house 965 male offenders.

2000

Financial goals were exceeded, reducing operating grant by 20% and ahead of schedule.

1999

Custodial Products were introduced to MCF-Faribault. New printing equipment was purchased for MCF-Moose Lake and MCF-Rush City.

2004

A Customer Relationship Management (CRM) software was introduced and implemented.

2005

The EMPLOY Program was created to provide participants with the necessary tools to locate, gain, and retain employment.

2006

Lean training was provided and lean principles were implemented, resulting in cost reductions of over \$1 million.

2007

MINNCOR Industries was awarded a contract with a major housing agency to build cabinets over 2 years. Contract award was worth \$1.2 million.

2008

A new 3,000 square foot showroom was added to the St. Paul location.

2013

MINNCOR began using Microsoft Dynamics AX, a new ERP system.

2012

Partnering with DOC Work Release, Hennepin County and a customer, MINNCOR established the first 'outside the walls' pilot program Fast-Track.

2011

MINNCOR hosted the National Correctional Industries Association Central Region conference.

2010

License plates were converted from embossed to flat plates and production moved from St. Cloud to Rush City.

2009

MINNCOR-Bridge was established.

2014

MINNCOR-Moose Lake Garment Shop developed a Career Technical Sewing program that provides offenders with a strategic and purposeful exposure to critical elements of production sewing.

2015

MINNCOR moved its headquarters to Roseville.

2016

MINNCOR delivered the first-ever Marina project for the City of White Bear Lake.

2017

Exceeded \$50 million in sales revenue. MINNCOR-Stillwater launched an on-site chair service and repair program.

2018

MINNCOR celebrates its 25th Anniversary and receives ACA accreditation with 100% compliance.

2019

LOCATIONS

Moose Lake



Operations:
Printing
Firewood
High Visibility
Garments
Seating/Upholstery
Subcontract Labor

Industry Started: **1997**
Square Feet: **72,000 SqFt**
Population: **1,067**
MINNCOR Assignments: **316**

Stillwater



Operations:
Mattresses
Warehouse
Logistics
Subcontract Labor

Industry Started: **1914**
Square Feet: **464,000 SqFt**
Population: **1,582**
MINNCOR Assignments: **219**

Faribault



Operations:
Wood furniture
Custodial Products
Subcontract Labor
Laundry
Plastics

Industry Started: **1990**
Square Feet: **114,000 SqFt**
Population: **2,028**
MINNCOR Assignments: **566**

Oak Park Heights



Operations:
Centralized Canteen

Industry Started: **1982**
Square Feet: **30,000 SqFt**
Population: **404**
MINNCOR Assignments: **86**

LOCATIONS

Rush City



Industry Started: **2001**
Square Feet: **38,000 SqFt**
Population: **1,029**
MINNCOR Assignments: **354**

Operations:
License plates
Stickers
Subcontract Labor

Operations:
Safety products
Textiles
Subcontract Labor

Shakopee



Industry Started: **1986**
Square Feet: **29,000 SqFt**
Population: **653**
MINNCOR Assignments: **125**

Roseville



Industry Started: **2016**
Square Feet: **50,000 SqFt**
MINNCOR Assignments: **33 (Bridge)**

Operations:
Administration
EMPLOY Program
Bridge

Central Office



MINNCOR Through the Years

Products/Facilities Through the Years

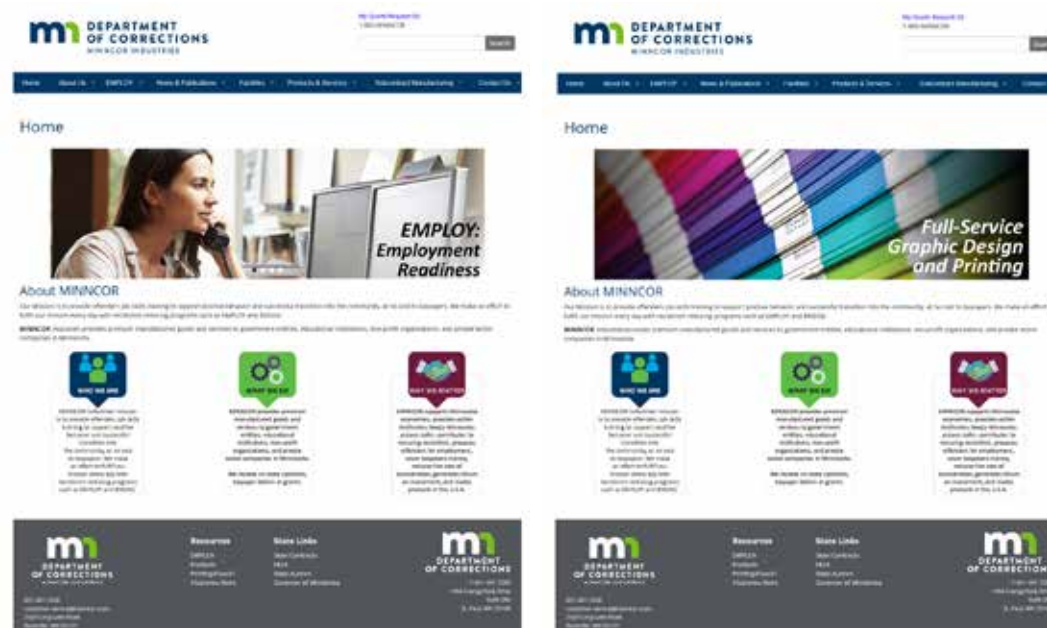


MINNCOR FY19 HIGHLIGHTS

- MINNCOR LAUNCHED A NEW WEBSITE
- SUSTAINABILITY
- UPHOLSTERY SHOP TRANSITION
- NCIA 2019
- ADDITIONAL HIGHLIGHTS

MINNCOR LAUNCHED A NEW WEBSITE

MINNCOR's new website provides a secure platform, ADA compliance, mobile device compatibility and more flexibility for staff to make changes! The previous site was obsolete and no longer in compliance with State of Minnesota security standards or the American Disability Act. For the last several years, MINNCOR marketing has been working with MNIT to create requirements, select a vendor and work on the redesign and creation of the site together with the vendor.



The upgraded MINNCOR site benefits MINNCOR in the following ways:

- **Security:** A secure system that is compliant with MNIT security standards, providing a safe customer experience and reliable solution for MINNCOR.
- **ADA Compliance:** Meet ADA standards, providing an environment that is easy to manage for all of our customers.
- **Professionalism and Credibility:** In today's world, if you don't have a good website, there is a large portion of the market that will not even consider you as an option when they are looking to buy. A good website provides the opportunity to tell customers why they should trust you and the testimonials and facts to support those opportunities.
- **SEO Optimization:** Improved SEO capabilities that increase web site visibility during general web site searches for products MINNCOR sells.
- **Ease for Customers:** Improved search capabilities that will allow a user on the site to easily search for products they are interested in and accessibility on both a traditional workstation and a mobile platform. This includes the ability for the user to interact with the site via touchscreen.
- **Staff Administration:** Improved staff efficiency by simplifying content management administration.

SUSTAINABILITY

GREEN CHEMICAL LAUNCH

Governor Tim Walz signed an executive order directing the Minnesota government to adopt sustainable practices on April 4, 2019, which replaced the previous order issued by former Governor Mark Dayton. Sustainable practices can positively impact the environment, human health, and the economy. Sustainable procurement is one of the goals that Governor Walz has enacted, ensuring that 25% of total spend on priority contracts are sustainable purchases by 2025.

Subsequently, MINNCOR is now able to provide chemical products to state agencies and cooperative purchasing ventures to support their goal of purchasing environmentally sustainable products.



FURNITURE

On March 7th, 2019, MINNCOR Industries partnered with the Minnesota Pollution Control Agency and the Center for Environmental Health to present a sustainability webinar to the state correctional industries of Washington and Oregon. The webinar highlighted the journey that MINNCOR took to provide sustainable, environmentally friendly office seating, fabrics, and furniture. MINNCOR took the time to survey each supplier to ensure that hazardous or unsustainable chemicals were not used during the manufacturing process.

With the assistance of the Center for Environmental Health, MINNCOR was able to confidently certify that our products do not include any hazardous or unsustainable chemicals.

UPHOLSTERY SHOP TRANSITION

The upholstery shop was successfully relocated from Stillwater to Moose Lake after unexpected work program changes occurred in July of 2018.

Staff from Stillwater Upholstery and Moose Lake Garment shop worked together to transition the business unit. Moose Lake jumped at the chance, seeing this as an opportunity of growth for both staff and incarcerated individuals. As luck would have it, one of the garment shop's incarcerated workers had worked in the Stillwater upholstery for fifteen years. His experience and knowledge were invaluable in setting up the shop.



On October 15th, 2018 the new Upholstery Shop in Moose Lake was fully operational, ready to fulfill orders. MINNCOR staff and participants were able to quickly develop the skills needed to deliver high quality, well-crafted products. The MINNCOR staff of Moose Lake and ROSCO provided full support throughout the entire process. The former staff supervisor of

Upholstery at Stillwater traveled to Moose Lake on several occasions to assist with the transition as well.

As a result of this transition, the new Upholstery shop has increased in efficiency, organization, accuracy, and custom re-upholstery assignments. Shipment times and errors have decreased. Moose Lake staff and workers took on a new challenge that proved to have clear benefits for all involved.

Most importantly, it has provided the opportunity for incarcerated individuals to acquire new job skills that can lead to a successful transition into the community.



NCIA 2019



MINNCOR Industries hosted the 2019 National Correctional Industries Association (NCIA) conference in Minneapolis, MN from April 14th-18th. NCIA is an international nonprofit professional association whose members represent federal, state, county and international Correctional Industry agencies, as well as suppliers and partners in apprenticeships and work programs.

NCIA keeps up-to-date on reentry strategies, emerging technologies, best practices, as well as the many success stories of offenders whose lives have been transformed by Correctional Industries.

Highlights from the event are included below:



Brenda Chandler, MINNCOR Vice President, was sworn in as the NCIA President. While maintaining her MINNCOR responsibilities, as the NCIA President, Brenda will oversee NCIA's mission, vision, strategic plan, bylaws, legislative policies, and many other guiding principles. Brenda has been involved with NCIA since 2004, and has served as the 2011-2012 NCIA Central Region president, two terms as an at-large board member, Marketing VP and has been a member of the NCIA audit committee, program development committee, marketing committee, reentry task force and the best practices committee.



Dennis Knudtson was this year's recipient of the Central Region Staff Award. The Staff Award recognizes the superior performance and supervisory excellence of a correctional industries staff member who has made a significant contribution to a CI program. Dennis has primary responsibility for operations support for all eight MINNCOR facilities, which encompass more than a dozen different industrial lines of business. He optimizes production workflows, establishes product quality assurance processes, performs data analytics, new business evaluation, setup and integration, capital investment justification, internal controls systems, process mapping, and scheduling optimization.



From Incarceration to Community Success, four EMPLOY alumni participants were invited to be on a panel of speakers for the session, "What has Working In Correctional Industries Done for Me? Real Stories of Success from Released CI Participants". Each participant shared their unique story about their journey from being inside to succeeding on the outside. Correctional Industries staff from country attended the event and spoke positively after hearing the success stories.



ADDITIONAL HIGHLIGHTS



Several large orders for Faribault wood were won, including a large order for Camp Ripley, residential cabinetry for Dorothy Day, and a \$350,000 project for St. Paul public housing.



MINNCOR was featured in the May/June 2019 issue of Roseville's City News as a business success story.



MINNCOR earned 100% compliance during ACA audit. Two auditors shared what a great job MINNCOR has done and it is one of the best industries they have ever seen.



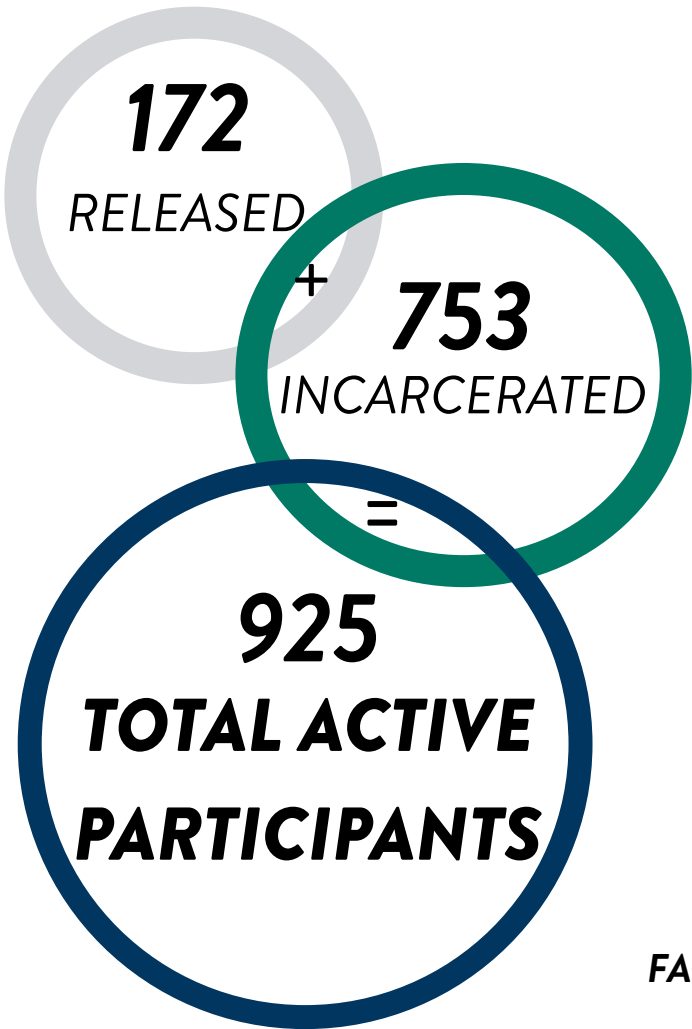
MINNCOR received a thank you letter from the Bureau of Criminal Apprehension's superintendent. MINNCOR staff and participants manufactured conference room furniture for BCA and left them thoroughly impressed and appreciative.



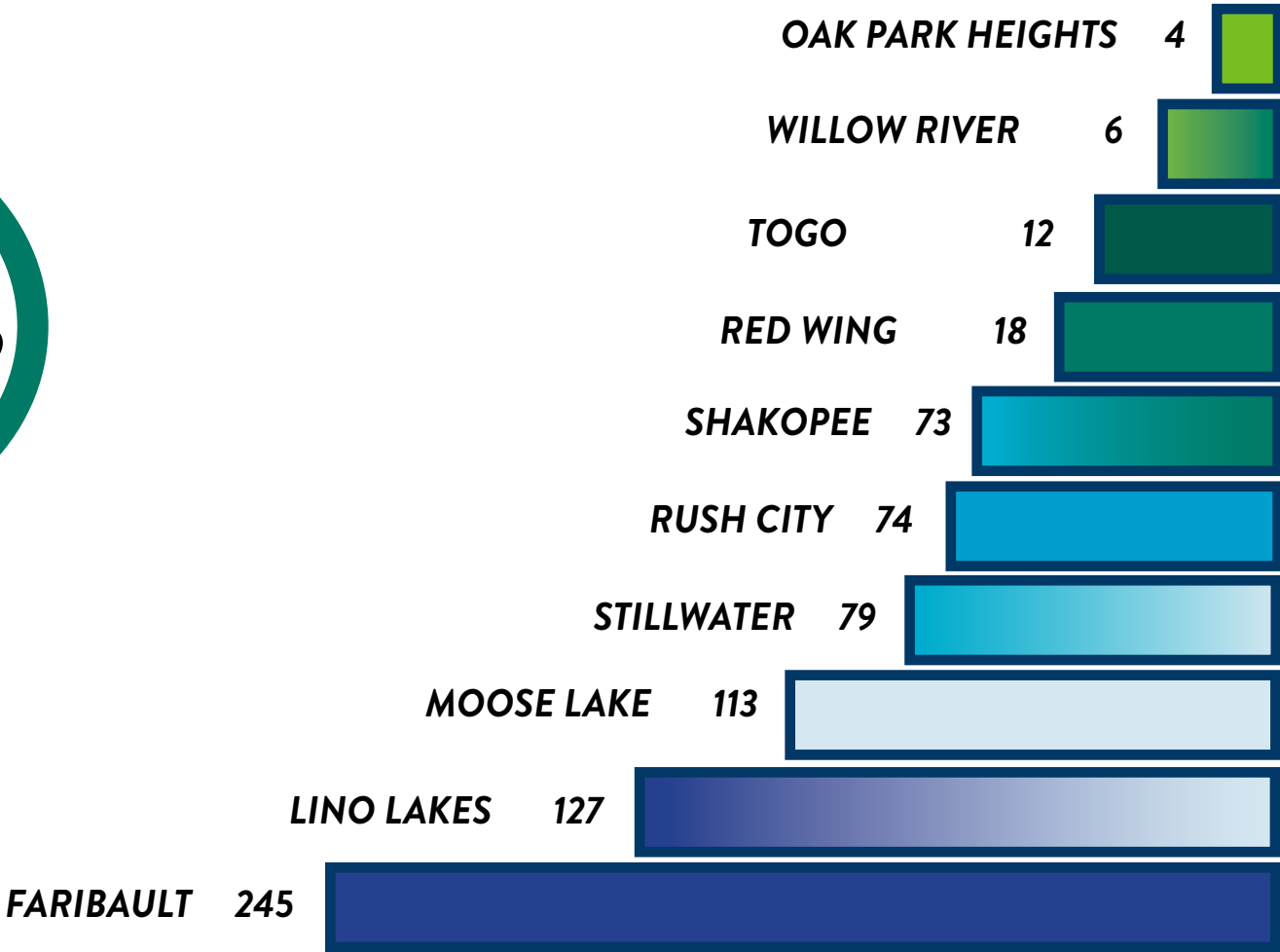
EMPLOY



EMPLOY PARTICIPANT BREAKDOWN

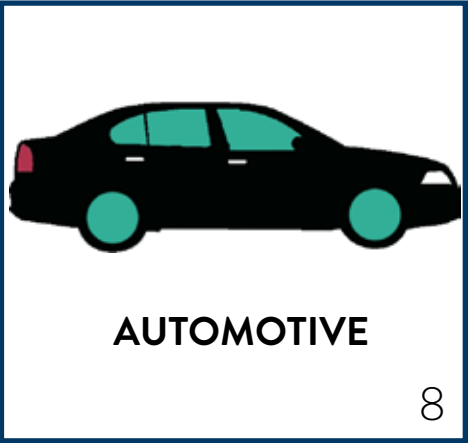


ENROLLMENT BY FACILITY

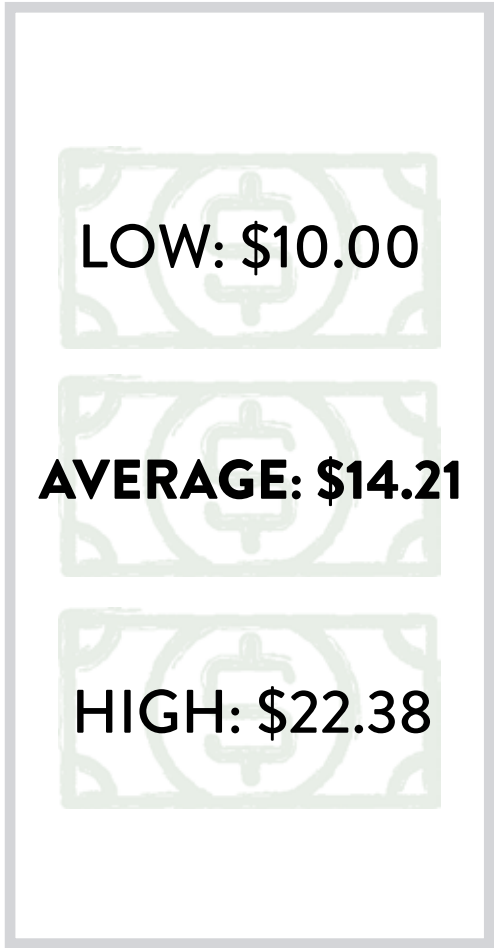


EMPLOY

TOP INDUSTRIES OF EMPLOYMENT FOR RELEASED PARTICIPANTS



SELF-REPORTED WAGES



EMPLOY SUCCESS STORIES

The EMPLOY Program helps participants gain and retain employment through hands on training and community based support.

One former participant of EMPLOY is working in a Food Service position for a local non-profit. “Not only am I working a job that I love, I have a purpose and feel like I’m making a difference in the lives of others.” It is their goal to soon begin a new career path as a Program Coordinator/Manager at the same organization upon completion of work release. Having stable employment has also been an inspiration to re-connect with his family and is grateful to have them back in his life.

Recently, the participant was invited to be a panel speaker at the American Corrections Association Conference where he had the opportunity to share his experience with hundreds of professionals. He links his success to his involvement in the EMPLOY Program and the ardent people he has been working with. To him, having a “Pro-Social” network has been key. “Everyone in this journey has been amazing to work with and very helpful!”

He also spoke about what he did differently that helped him land his job, and how he started preparing for the job search before leaving prison. He talked to staff in the facility and began networking with organizations out in the community. One of the biggest things he had to plan for and overcome was being ready to make decisions that had previously been made for him. He knows that in order to stay successful he has to keep to his plan, remember not to get ahead of himself, and to stay in the moment.

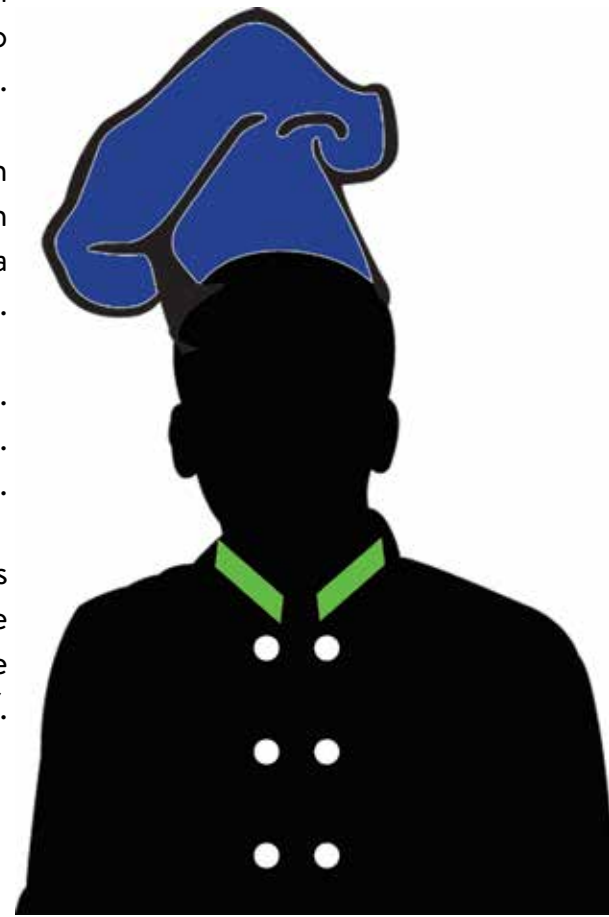
When asked if he could give advice to current participants in the EMPLOY program, he states: “Take the program seriously; some things may seem petty, but the system works. To get the full benefit, take it seriously and put in the work. Make a plan, work the plan. It will pay off in the long run.”

A former EMPLOY participant who used to work in the Garment shop at Moose Lake, reached out to EMPLOY to give an update and express his gratitude.

He obtained his CDL in January and is driving for Magnum and working as a cook at The News Room downtown Minneapolis on Sundays. He has his own apartment and a car. He said, “I appreciate y’all’s help when I first came home”.

He went through an apprenticeship program that Magnum has. “They taught me how to drive a semi and train me for my test”. He’s making \$21 an hour and enjoys working for Magnum.

It can be very motivating to hear stories like this when EMPLOY participants are doing well. He reiterated that he is very appreciative of his time with MINNCOR and the assistance from EMPLOY.





FINANCIAL OVERVIEW

- FINANCIAL STATEMENTS
- FINANCIAL STATEMENTS NOTES

FINANCIAL STATEMENTS

STATE OF MINNESOTA

NONMAJOR ENTERPRISE FUNDS

COMBINING STATEMENT OF REVENUES, EXPENSES

AND CHANGES IN NET POSITION

YEAR ENDED JUNE 30, 2019

(IN THOUSANDS)

	MINNESOTA CORRECTIONAL INDUSTRIES
Operating Revenues:	
Net Sales	\$ 44,988
Insurance Premiums	—
Other Income	3,598
Total Operating Revenues	\$ 48,586
Less: Cost of Goods Sold	28,669
Gross Margin	\$ 19,917
Operating Expenses:	
Purchased Services	\$ 5,230
Salaries and Fringe Benefits	(1,587)
Claims	—
Depreciation and Amortization	1,245
Supplies and Materials	—
Repairs and Maintenance	199
Indirect Costs	1,959
Other Expenses	56
Total Operating Expenses	\$ 7,102
Operating Income (Loss)	\$ 12,815
Nonoperating Revenues (Expenses):	
Investment Income	\$ 262
Other Nonoperating Revenues	—
Interest and Financing Costs	—
Grants, Aids and Subsidies	—
Other Nonoperating Expenses	—
Gain (Loss) on Disposal of Capital Assets	—
Total Nonoperating Revenues (Expenses)	\$ 262
Income (Loss) Before Transfers and Contributions	\$ 13,077
Transfers-In	—
Transfers-Out	—
Change in Net Position	\$ 13,077
Net Position, Beginning, as Reported	\$ (5,541)
Net Position, Ending	\$ 7,536

FINANCIAL STATEMENTS

STATE OF MINNESOTA

NONMAJOR ENTERPRISE FUNDS

COMBINING STATEMENT OF NET POSITION

JUNE 30, 2019

(IN THOUSANDS)

	MINNESOTA CORRECTIONAL INDUSTRIES
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 12,921
Accounts Receivable	5,131
Interfund Receivables	—
Inventories	6,513
Prepaid Expenses	—
Total Current Assets	<u>\$ 24,565</u>
Noncurrent Assets:	
Accounts Receivable	\$ —
Depreciable Capital Assets (Net)	6,625
Nondepreciable Capital Assets	—
Total Noncurrent Assets	<u>\$ 6,625</u>
Total Assets	<u>\$ 31,190</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Pension Outflows	\$ 10,531
Deferred Other Postemployment Benefits Outflows	88
Total Deferred Outflows of Resources	<u>\$ 10,619</u>
LIABILITIES	
Current Liabilities:	
Accounts Payable	\$ 1,554
Interfund Payables	—
Due to Component Units	—
Unearned Revenue	—
Accrued Interest Payable	—
Bonds and Notes Payable	—
Claims Payable	—
Compensated Absences Payable	180
Total Current Liabilities	<u>\$ 1,734</u>
Noncurrent Liabilities:	
Unearned Revenues	\$ —
Bonds and Notes Payable	—
Compensated Absences Payable	1,152
Other Postemployment Benefits	1,237
Net Pension Liability	9,424
Total Noncurrent Liabilities	<u>\$ 11,813</u>
Total Liabilities	<u>\$ 13,547</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred Pension Inflows	\$ 20,587
Deferred Other Postemployment Benefits Inflows	139
Total Deferred Inflows of Resources	<u>\$ 20,726</u>
NET POSITION	
Net Investment in Capital Assets	<u>\$ 6,625</u>
Restricted for:	
Develop Economy and Workforce	\$ —
Enhance 911 Services and Increase Safety	911
Other Purposes	—
Total Restricted	<u>\$ 911</u>
Unrestricted	<u>\$ —</u>
Total Net Position	<u><u>\$ 7,536</u></u>

FINANCIAL STATEMENTS NOTES

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 19, MINNCOR's current Compensated Absence balance was \$108 thousand, and the noncurrent Compensated Absence balance was \$1.2 million.

NOTE 4: SIGNIFANCT ACCOUNT VARIANCES

In Fiscal Year 19 MINNCOR had a \$4.1 million net pension liability, a \$10.5 million Deferred Pension Outflow and \$20.6 million Deferred Pension Inflow, based on MMB Analysis and GASB 68.