

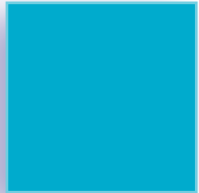
# ANNUAL REPORT

FY2022



DEPARTMENT  
OF CORRECTIONS  
MINNCOR INDUSTRIES

# About MINNCOR Industries



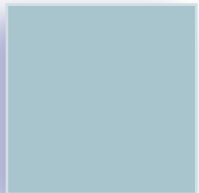
## MISSION Statement

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



## VISION Statement

Transforming lives for community success and safety.



## Value Proposition

MINNCOR Industries helps you transform your business model to compete more effectively in today's marketplace by becoming your indispensable growth partner.



## 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 incarcerated individual employment and financial self-sufficiency through diverse business units, MINNCOR benefits the Minnesota correctional facilities, incarcerated people, 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 incarcerated people and support finding employment following release so they can become productive, contributing citizens.

## A message from our Chief Executive Officer

Dear friends and stakeholders of MINNCOR Industries:

Once again, we began a fiscal year navigating our way through an ongoing global pandemic, which continued to present challenges that affected our program. Safety protocols and staffing shortages reduced the number of industry assignments and increased lost programming time which negatively impacted production capacity. These and other factors tested the fortitude of the incarcerated population, staff, and our customers.

With challenges come opportunity. We capitalized on the opportunity to grow business with a number of our existing customers, as well as build new relationships with companies who could not secure the workforce resources they needed to grow their businesses. We also minimized the impact of various unstable supply chains by investing wisely in raw material inventory for many of our products. This allowed us to continue to meet customer expectations and avoid escalating prices, which had a positive impact to our financial bottom line.

Through the hard work of all our incredible staff, we were able to stay true to our mission by providing opportunities to develop life changing skills to hundreds of the people we serve, at no cost to Minnesota's taxpayers.

A handwritten signature in black ink, appearing to read "Jeff Lonsky". The signature is stylized with a large, looped "J" and a cursive "Lonsky".

Jeff Lonsky  
MINNCOR Chief Executive Officer

# MINNCOR Industries

## Locations, Products and Services

### Minnesota Correctional Facility - Moose Lake

- MINNCOR IP Assignment Numbers: 300
- Industry Footprint: 114,000 square feet
- MINNCOR Operations: Textiles, Printing, Bindery, High Visibility Garments, PPE, Seating/Upholstery, Firewood, and Subcontract Labor Services

### Minnesota Correctional Facility - Rush City

- MINNCOR IP Assignment Numbers: 130
- Industry Footprint: 38,000 square feet
- MINNCOR Operations: License Plates, Stickers, and Subcontract Labor Services

### Minnesota Correctional Facility - Oak Park Heights

- MINNCOR IP Assignment Numbers: 78
- Industry Footprint: 30,000 square feet
- MINNCOR Operations: Centralized Canteen

### Minnesota Correctional Facility - Stillwater

- MINNCOR IP Assignment Numbers: 200
- Industry Footprint: 464,000 square feet
- MINNCOR Operations: Mattresses, Outdoor Recreation (docks and piers), Warehousing, Logistics, and Subcontract Labor Services

### Minnesota Correctional Facility - Shakopee

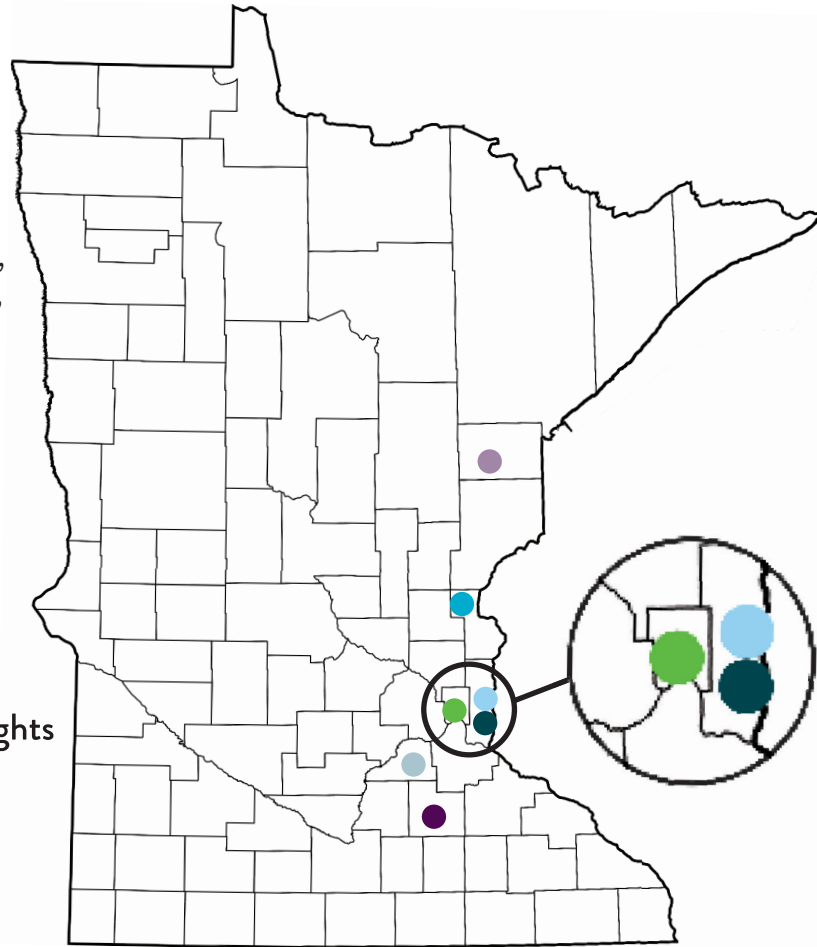
- MINNCOR IP Assignment Numbers: 120
- Industry Footprint: 29,000 square feet
- MINNCOR Operations: Textiles, Safety Products, and Subcontract Labor Services

### MINNCOR Industries Roseville - Bridge

- MINNCOR Participant Assignment Numbers: 30
- Industry Footprint: 51,000 square feet
- MINNCOR Operations: Ice Melt Packaging, Warehousing, Logistics, and Subcontract Labor Services
- Also home to Central Office, Administration, Customer Service, Finance, Marketing, and Sales

### Minnesota Correctional Facility - Faribault

- MINNCOR IP Assignment Numbers: 380
- Industry Footprint: 114,000 square feet
- MINNCOR Operations: Textiles, Printing, Bindery, High Visibility Garments, PPE, Seating/Upholstery, and Subcontract Labor Services



# FY22 Highlights

An Email Blast campaign was created and sent out to customers showcasing products under the Personal Protective Equipment (PPE) line.

Email is shown to the right.



The Bridge Program continued to stay ahead on all orders coming in from Anagram, Garments, Department of Health, Department of Public Safety, Department of Natural Resources, and the Department of Corrections for products in the Personal Protective Equipment category.

Quick Ship chairs were added back into the product offering and listed on the public website. MINNCOR customers can choose a chair from eight styles, with black fabric, and receive their chair within a matter of weeks.

A second license plate printer was purchased and installed at Rush City. Demand for license plates has been on the rise over the last year and MINNCOR was at capacity without adding another shift. The second printer is beneficial to meet the increased demand and maximize our blanking capacity.



A key core group of 15 MINNCOR staff began the process of changing over the current Enterprise Resource Planning (ERP) system with that of Epicor. The new ERP system will help guide MINNCOR in its day-to-day business operations, including financials, supply chain, operations, sales management, reporting, and manufacturing activities. The system also provides Business Intelligence and Analytics (dashboards, trackers, and data visualization tools) to better help us understand what is happening within MINNCOR.

Oak Park Heights Canteen has maintained a near-100% on-time delivery for the Fiscal Year. This is due in large part to the staff and incarcerated population workforce who worked hard to reach this goal.

The Job Market for released Bridge participants was stable throughout the Fiscal Year. Participants continued to find employment with a 92% placement rate or better.



An additional Email Blast campaign was created and sent out to customers showcasing products under the Salt and Ice Melt line.

Email is shown to the left.

## FY22 Highlights

MINNCOR was awarded a construction contract with Maplewood Gardens (owned by Twin Cities Housing Development Corporation and contracted to Watson-Forsberg). Both are long-time partners and advocates for MINNCOR. Contract value is \$110K, and we will be producing 29 new units of housing for low- to moderate-income residents of Ramsey County.

MINNCOR also won a construction contract with Sierra Townhomes (owned by the Housing Authority of Cass County). The General Contractor and Owner are both new to working with MINNCOR. Value of contract is \$120K, and the project will create 38 new housing units with nine of the units being supportive housing for families at risk of becoming homeless. This win is contributing to the connections staff made through our membership with the Minnesota Chapter of the National Association of Housing and Redevelopment Officials.

In May, MINNCOR delivered and installed residential furniture to Touchstone Mental Health in Minneapolis, MN. Touchstone renovated a church and turned it into a residential treatment center for 16 people. The delivery and install was a huge success, with special thanks to Ike Speedling for designing a full-sized captains bed made in Faribault, and to Jeremy Schwartz for assisting Jared Rothe and John Stachowski in assembling the products.

With the assistance of Stillwater transportation, we successfully delivered furniture to Cochran Recovery, a program under the NuWay House umbrella. This is a residential treatment facility on the grounds of the Veteran's Home in Hastings, MN. The three-day delivery was the first part of a two-phase project that will allow Cochran to expand their capacity and serve more people in need. Two of the three days required both drivers and four incarcerated people (IP) and the third day both drivers and two IPs doing final assembly on the solid-end single bed and wardrobes.

## Financial Statements

Statement of Net Position  
(in Thousands)

Statement of Revenues, Expenses  
and Changes in Net Position  
(in Thousands)

Statement of Cash Flows  
(in Thousands)

Notes on the Financial Statements

# Statement of Net Position

(in Thousands)

ASSETS	FY22	FY21
Current Assets:		
Cash and Cash Equivalents .....	13,719	13,808
Accounts Receivable .....	7,669	8,519
Interfund Receivables .....	--	--
Inventories .....	7,067	6,296
Prepaid Expenses .....	--	--
Total Current Assets .....	<u>28,455</u>	<u>28,623</u>
Noncurrent Assets:		
Accounts Receivable .....	--	--
Leased Assets (Net)	243	--
Depreciable Capital Assets (Net) .....	3,917	4,893
Nondepreciable Capital Assets .....	--	<u>371</u>
Total Noncurrent Assets .....	<u>4,160</u>	<u>5,264</u>
Total Assets .....	<u>32,615</u>	<u>33,887</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Pension Outflows .....	6,981	1,813
Deferred Other Postemployment Benefits Outflows .....	<u>963</u>	<u>1,013</u>
Total Deferred Outflows of Resources .....	<u>7,944</u>	<u>2,826</u>
LIABILITIES		
Current Liabilities:		
Accounts Payable .....	5,934	4,441
Interfund Payables .....	--	--
Unearned Revenue .....	--	--
Leases Payable	60	--
Claims Payable .....	--	--
Compensated Absences Payable .....	<u>153</u>	<u>160</u>
Total Current Liabilities .....	<u>6,147</u>	<u>4,601</u>
Noncurrent Liabilities:		
Leases Payable	186	--
Unearned Revenues .....	--	947
Compensated Absences Payable .....	859	--
Other Postemployment Benefits .....	6,268	6,003
Net Pension Liability .....	<u>9,026</u>	<u>11,018</u>
Total Noncurrent Liabilities .....	<u>16,339</u>	<u>17,968</u>
Total Liabilities .....	<u>22,486</u>	<u>22,569</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred Pension Inflows .....	9,160	9,176
Deferred Other Postemployment Benefits Inflows .....	<u>762</u>	<u>973</u>
Total Deferred Inflows of Resources .....	<u>9,922</u>	<u>10,149</u>
NET POSITION		
Net Investment in Capital Assets .....	<u>3,914</u>	<u>5,264</u>
Restricted for:		
Develop Economy and Workforce .....	--	--
Enhance 911 Services and Increase Safety .....	4,237	--
Other Purposes .....	--	--
Total Restricted .....	<u>4,237</u>	--
Unrestricted .....	--	<u>(1,269)</u>
Total Net Position .....	<u>8,151</u>	<u>3,995</u>



# Statement of Revenues, Expenses and Changes in Net Position (in Thousands)

<b>OPERATING REVENUES:</b>	<b>FY22</b>	<b>FY21</b>
Net Sales .....	41,112	43,181
Insurance Premiums .....	--	--
Other Income .....	<u>2,375</u>	<u>2,472</u>
Total Operating Revenues .....	43,487	45,653
Less: Cost of Goods Sold .....	<u>25,883</u>	<u>24,411</u>
Gross Margin .....	<u>17,654</u>	<u>21,242</u>
 <b>OPERATING EXPENSES:</b>		
Purchased Services .....	2,713	2,528
Salaries and Fringe Benefits .....	4,814	15,476
Claims .....	--	--
Depreciation and Amortization .....	1,300	1,155
Supplies and Materials .....	246	--
Repairs and Maintenance .....	269	160
Indirect Costs .....	3,638	1,477
Other Expenses .....	--	--
Total Operating Expenses .....	<u>12,980</u>	<u>20,796</u>
Operating Income (Loss) .....	<u>4,674</u>	<u>446</u>
 <b>NONOPERATING REVENUES (EXPENSES):</b>		
Investment Income .....	53	51
Other Nonoperating Revenues .....	--	--
Interest and Financing Costs .....	(1)	--
Grants, Aids and Subsidies .....	(999)	--
Other Nonoperating Expenses .....	--	--
Gain (Loss) on Disposal of Capital Assets .....	<u>(371)</u>	--
Total Nonoperating Revenues (Expenses) .....	<u>(518)</u>	<u>51</u>
 Income (Loss) Before Transfers and Contributions .....	4,156	497
Transfers-In .....	--	--
Transfers-Out .....	--	<u>(567)</u>
Change in Net Position .....	<u>4,156</u>	<u>(70)</u>
 Net Position, Beginning, as Reported .....	<u>3,995</u>	<u>4,065</u>
Net Position, Ending .....	<u>8,151</u>	<u>3,995</u>

# Statement of Cash Flows

(in Thousands)

<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	<b>FY22</b>	<b>FY21</b>
Receipts from Customers .....	44,962	40,516
Receipts from Other Revenues .....	2,375	2,472
Payments to Claimants .....	--	--
Payments to Suppliers .....	(31,977)	(27,398)
Payments to Employees .....	(11,981)	(12,295)
Payments to Others .....	--	--
Net Cash Flows from Operating Activities .....	<u>379</u>	<u>3,295</u>
Cash Flows from Noncapital Financing Activities:		
Grant Disbursements .....	(199)	--
Transfers-In .....	--	--
Transfers-Out .....	--	--
Net Cash Flows from Noncapital Financing Activities .....	<u>(199)</u>	--
Cash Flows from Capital and Related Financing Activities:		
Investment in Capital Assets .....	(263)	(88)
Proceeds from Disposal of Capital Assets .....	--	25
Lease Payments .....	(58)	--
Interest Paid .....	<u>(1)</u>	--
Net Cash Flows from Capital and Related Financing Activities .....	<u>(322)</u>	<u>(63)</u>
Cash Flows from Investing Activities:		
Investment Earnings .....	<u>53</u>	<u>51</u>
Net Cash Flows from Investing Activities .....	<u>53</u>	<u>51</u>
Net Increase (Decrease) in Cash and Cash Equivalents .....	<u>(89)</u>	<u>3,283</u>
Cash and Cash Equivalents, Beginning, as Reported .....	<u>13,808</u>	<u>10,525</u>
Cash and Cash Equivalents, Ending .....	<u>13,719</u>	<u>13,808</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Flows from Operating Activities:</b>		
Operating Income (Loss) .....	<u>4,674</u>	<u>446</u>
Adjustments to Reconcile Operating Income to Net Cash Flows from Operating Activities:		
Depreciation and Amortization .....	1,300	1,155
Miscellaneous Nonoperating Revenues .....	--	--
Miscellaneous Nonoperating Expenses .....	--	--
Change in Assets, Liabilities, Deferred Outflows and Inflows:		
Accounts Receivable .....	850	(2,665)
Inventories .....	(771)	176
Other Assets .....	--	--
Deferred Outflows .....	(5,118)	3,811
Accounts Payable .....	1,493	1,002
Claims Payable .....	--	--
Compensated Absences Payable .....	(95)	(260)
Unearned Revenues .....	--	--
Other Postemployment Benefits .....	265	4,927
Net Pension Liability .....	(1,992)	473
Deferred Inflows .....	<u>(227)</u>	<u>(45,770)</u>
Net Reconciling Items to be Added to (Deducted from) Operating Income .....	<u>(4,295)</u>	<u>2,849</u>
Net Cash Flows from Operating Activities .....	<u>379</u>	<u>3,295</u>
<b>Noncash Investing, Capital and Financing Activities:</b>		
Capital Assets Transferred Out .....	--	567
Bond Premium Amortization .....	--	--

# 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.

MINNCOR is funding part of the EMPLOY program.

## **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 22, MINNCOR's current Compensated Absence balance was \$153 thousand, and the noncurrent Compensated Absence balance was \$859 thousand.

**Note 4: Significant Account Variances**

In Fiscal Year 22 MINNCOR had a \$9.0 million net pension liability, a \$6.9 million Deferred Pension Outflow and \$9.1 million Deferred Pension Inflow, based on MMB Analysis and GASB 68.