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ANNUAL REPORT

Fiscal Year 2023

Annual Report for MINNCOR Industries
July 1, 2022 through June 30, 2023

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INTRODUCTION

MINNCOR Industries is a unique program under the Minnesota Department of Corrections. We provide incarcerated individuals with valuable job training and experience. We manufacture various products and deliver services directly within Minnesota correctional facilities. This innovative approach contributes to Minnesota's reputation as a leader in correctional rehabilitation, fostering successful reintegration for those returning to their communities.

WHO WE ARE

MINNCOR Industries provides incarcerated individuals job skill development for a successful community transition.

MINNCOR MISSION

Transforming lives for a safer Minnesota.

WORK THAT MATTERS

Our work helps make Minnesota a safer place to live and work.



Correctional Industries (CI) is a unique blend of programming within a correctional facility and a business that provides real-world work experience and training to incarcerated individuals to prepare them for successful reentry and employment post-release.

Many CI programs are self-sufficient, something MINNCOR has been proud of since 2003. CI programs demonstrate their ability to coordinate and maintain prison industries that are efficient, productive, and safe. MINNCOR receives no state subsidies, taxpayer dollars, or grants and exists primarily to provide incarcerated persons (IP) job skill training, meaningful employment, and teaching proper work habits- without burdening the taxpayer. CI programs provide a means to minimize IP idleness and reduce costly disruptive behavior, thereby significantly contributing to maintaining a safe and secure environment for both staff and IPs.



Letter from MINNCOR Chief Executive Officer

MINNCOR invested in several initiatives this fiscal year that will position the program for success in the years to come. With the tremendous effort put forth by staff at all levels, we launched a new enterprise resource planning (ERP) software to replace a system that had reached its end of life. To strategically grow our business, we filled the Vice President of Business Development position. The operations division designed a capital investment plan that will meet future operational needs and planning was set in motion to reconfigure our operational footprint to better meet the needs of our centralized canteen business.

There continued to be challenges, most notably with security staffing shortages which resulted in the loss of a significant number of programming hours throughout the year. MINNCOR staff went over and above to meet customer expectations during these difficult times. The hard work of staff and the program participants earned customer confidence and provided stability and growth of business, all of which contributed to our goal of maintaining financial self-sufficiency.

Our mission to help others has never been more in focus. Whether it be inside a correctional facility, at our Bridge program or through our financial support for EMPLOY, we are making a positive difference to the people we serve. I am incredibly proud of the good work that the MINNCOR team has done to provide the incarcerated population the opportunity to transform their lives for success.

Jeff Lonsky
MINNCOR Chief Executive Officer

MINNCOR Products

MINNCOR Industries successfully operates 15 business units that serve government entities, educational institutions, non-profit organizations, and private sector companies in Minnesota. Our products include Casework and Cabinetry, Correctional Garments, Custodial and Chemicals, High Visibility Clothing, Mattresses and Pillows, Office, Classroom, and Library Furniture, Outdoor Recreational Products, Residence Furniture, Safety Products, Seating and Upholstery, Snow and Ice Melt Products, and Transportation Products.



MINNCOR Services

MINNCOR offers state-of-the-art equipment, flexibility, and an adaptable workforce that meets the ever-changing needs of local businesses. Some of the state's most successful companies have partnered with MINNCOR, utilizing our expanded and diverse production facilities, cost-saving mechanisms, flexible production schedules, and reliable, consistent workforce.

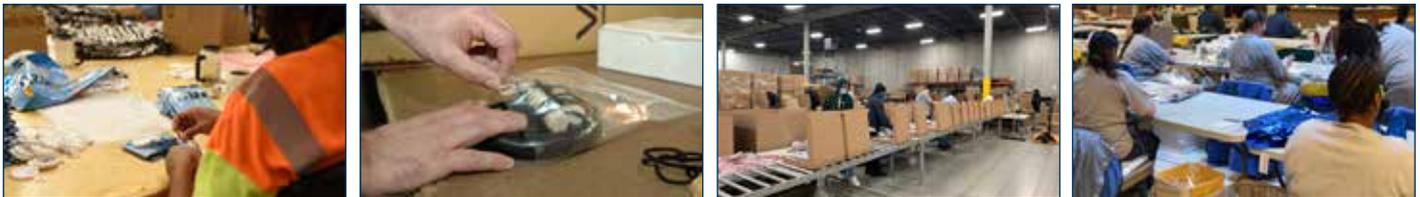
ASSEMBLY

MINNCOR assembles high-quality products for Minnesota's leading manufacturers, from complex wiring harnesses to marine equipment. Our skilled workforce gains valuable experience while contributing to safer communities through reduced recidivism.



PACKAGING

We have the expertise and experience to successfully manage any job. Packaging services include Bagging, Box Sealing, Shrink Wrapping, Back Card Sealing, Automated Gluing, and Bottling.



SEWING

MINNCOR delivers various custom-sewn components, from foul weather gear for the U.S. military to high-end consumer goods. Our expertise ensures a perfect fit and function for all your sewn product needs.



WOOD FABRICATION

For more than 30 years, MINNCOR has provided commercial-grade cabinets, furniture, and custom casework to state agencies, non-profit and higher-ed markets.



FY23 HIGHLIGHTS

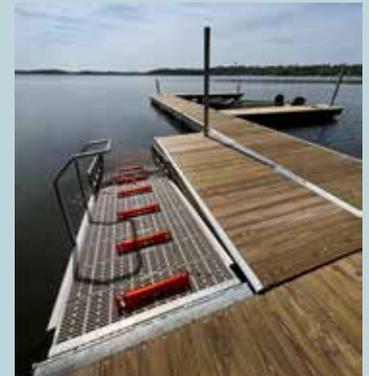
MINNCOR-Moose Lake facility designed, with input from customers, three new Safety Products: Opioid bags, First-Aid bags, and a Spit Hood. These new products are designed for use in settings such as treatment facilities, prisons, jails, security, and other law enforcement.



MINNCOR designed, delivered, and installed six office layouts for two Scott County Community Development Authority (CDA) offices in Minnesota. This partnership is a direct result of MINNCOR's membership with the Minnesota National Association of Housing and Redevelopment Officials (NAHRO).

In June, 2023, MINNCOR launched a new Enterprise Resource Planning (ERP) program to help streamline the business process management system. The new program manages and integrates MINNCOR's financials, supply chain, operations, commerce, reporting, and manufacturing activities.

In May 2023, MINNCOR delivered and installed a six-slip boating dock, kayak launch, and maintenance dock at Lake Waconia's Coney Island. The partnership with Carver County provides employment assignments to IPs, great opportunities for further education, and building skills needed to find meaningful employment.



New variations of bunk beds, single beds, and full beds were designed with the Minnesota Department of Natural Resources (DNR). These new beds will be dispersed throughout all the state parks in Minnesota.

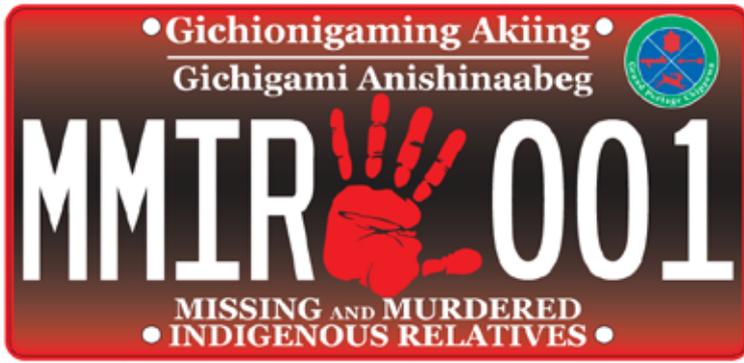


A contract was given to MINNCOR to build new Cabinets for a RS Eden Property that is used to temporarily house 47 residents who had recently completed prison sentences. The renovations will result in permanent housing for 17 people in the area of St. Paul.

MINNCOR was awarded a contract from Scott County Juvenile Alternative Facility to build beds, dressers, desks, mattresses, and chairs for a 16-bed facility in Shakopee. The project benefits multiple locations and IPs.



The MINNCOR Connection, MINNCOR's first quarterly newsletter, was created to recognize and share success stories demonstrating how we are transforming lives for a safer Minnesota. The first issue highlighted the connection with Faribault Mill, Carver County Parks and Recreation, as well as insight to Moral Recognition Therapy at MINNCOR-Bridge.



MINNESOTA LICENSE PLATES

MINNCOR continues its long-standing partnership with the Minnesota Departments of Public Safety, Driver and Vehicle Services (DVS) division, which provides license plates, registration stickers, and various vehicle management products. We have collaborated on the design, production, and distribution of several new and exciting plates, including the blackout plate and plates for the foundations of the Minnesota Vikings, Minnesota Twins, Minnesota Wild, Minnesota United, Minnesota Timberwolves, and Minnesota Lynx. In addition, we collaborated on the Minnesota 100 Club's plates supporting First Responders and their families.

In August of 2022, MINNCOR representatives met with and began a professional relationship with five of the eleven American Indian tribes in Minnesota by designing and personalizing license plates for each tribe. Each license plate design is tailored to the Tribe and ensures each culture is represented respectfully and appropriately.

The five tribes include the White Earth Nation, Red Lake Nation, the Leech Lake Band of Ojibwe, the Grand Portage Band of Lake Superior Chippewa, and the Mille Lacs Band of Ojibwe. The license plates include General Issue (standard vehicle), RV/Trailer, Handicap, and Veteran plates. American Indian tribes are sovereign nations, and the Minnesota Legislature does not participate or approve them.

MINNCOR was also asked to help design a Missing and Murdered Indigenous Relatives (MMIR) plate for the Grand Portage Band of Lake Superior Chippewa and is working with other tribes on designs for their own MMIR plate. Additionally, MINNCOR has worked with DVS and the Minnesota MMIR Office to design a plate for state-wide issues. The overall goal of issuing these plates is to raise awareness of missing and murdered Indigenous persons in Minnesota. These new plates are another important piece in Minnesota's strive to prevent violence against Indigenous people.

+372

Total Pairs of new License Plates printed for the American Indian Tribes of Minnesota.

18

Average number of Incarcerated Persons assigned to the Rush City License Plate Department.

.33 pounds

Total amount of aluminum used to create one new set of License Plates.

BRIDGE PARTICIPANTS GAIN INSIGHT THROUGH MRT

During their reintegration period between prison and community life, MINNCOR Bridge participants gain valuable skills through Moral Recognition Therapy (MRT). This evidence-based behavioral program empowers individuals with substance use disorders to break free from addiction by focusing on moral reasoning and the impact of their choices.

The MRT curriculum at Bridge delves into three key areas:

self-assessment, goal setting, and

developing strong work habits. This fosters a culture of self-governance and mutual accountability among participants. They not only complete homework together but also hold each other responsible for positive behavior even outside Bridge. MRT allows participants to openly discuss past traumas, both diagnosed and undiagnosed, and understand how their actions affect themselves and their loved ones.

The implementation of MRT in January 2023 has yielded impressive results. All 12 graduates have secured employment with an average starting wage of \$25 per hour in promising fields like warehouse work, landscaping, and roadside assistance.

About Bridge

Established in 2013, the Bridge Program is a collaborative effort between MINNCOR Industries and the Minnesota Department of Corrections (DOC) Work Release Unit. This three-month program provides transitional employment and work skills training in a warehouse setting, including opportunities for forklift certification and job search preparation.



ANNUAL FINANCIALS

Statement of Net Position

(in Thousands)

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Statement of Revenues, Expenses and Changes in Net Position

(in Thousands)

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Statement of Cash Flows

(in Thousands)

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Statement of Net Position

(in Thousands)

| ASSETS | FY23 | FY22 |
|---|---------------|---------------|
| Current Assets: | | |
| Cash and Cash Equivalents | 13,702 | 13,719 |
| Accounts Receivable | 4,621 | 7,669 |
| Interfund Receivables | -- | -- |
| Inventories | 4,411 | 7,067 |
| Prepaid Expenses | = | = |
| Total Current Assets | <u>22,734</u> | <u>28,455</u> |
| Noncurrent Assets: | | |
| Accounts Receivable | -- | -- |
| Right-To-Use Assets (Net)/Leased Assets (Net) | 182 | 243 |
| Depreciable Capital Assets (Net) | 3,285 | 3,917 |
| Nondepreciable Capital Assets | = | = |
| Total Noncurrent Assets | <u>3,467</u> | <u>4,160</u> |
| Total Assets | <u>26,201</u> | <u>32,615</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Deferred Pension Outflows | 5,938 | 6,981 |
| Deferred Other Postemployment Benefits Outflows | <u>1,072</u> | <u>963</u> |
| Total Deferred Outflows of Resources | <u>7,010</u> | <u>7,944</u> |
| LIABILITIES | | |
| Current Liabilities: | | |
| Accounts Payable | 3,590 | 5,934 |
| Interfund Payables | -- | -- |
| Unearned Revenue | -- | -- |
| Leases Payable | 62 | 60 |
| Claims Payable | -- | -- |
| Compensated Absences Payable | <u>159</u> | <u>153</u> |
| Total Current Liabilities | <u>3,811</u> | <u>6,147</u> |
| Noncurrent Liabilities: | | |
| Leases Payable | 186 | 186 |
| Unearned Revenues | -- | -- |
| Compensated Absences Payable | 865 | 859 |
| Other Postemployment Benefits | 5,446 | 6,268 |
| Net Pension Liability | <u>12,610</u> | <u>9,026</u> |
| Total Noncurrent Liabilities | <u>19,046</u> | <u>16,339</u> |
| Total Liabilities | <u>22,857</u> | <u>22,486</u> |
| DEFERRED INFLOWS OF RESOURCES | | |
| Deferred Pension Inflows | 1,507 | 9,160 |
| Deferred Other Postemployment Benefits Inflows | <u>894</u> | <u>762</u> |
| Total Deferred Inflows of Resources | <u>2,401</u> | <u>9,922</u> |
| NET POSITION | | |
| Net Investment in Capital Assets | <u>3,280</u> | <u>3,914</u> |
| Restricted for: | | |
| Develop Economy and Workforce | -- | -- |
| Enhance 911 Services and Increase Safety | 4,673 | 4,237 |
| Other Purposes | = | = |
| Total Restricted | <u>4,673</u> | <u>4,237</u> |
| Unrestricted | = | = |
| Total Net Position | <u>7,953</u> | <u>8,151</u> |

Statement of Revenue, Expenses and Changes in Net Position

(in Thousands)

| | | |
|--|---------------|---------------|
| OPERATING REVENUES: | FY23 | FY22 |
| Net Sales | 40,015 | 41,112 |
| Insurance Premiums | -- | -- |
| Other Income | <u>2,292</u> | <u>2,375</u> |
| Total Operating Revenues | 42,307 | 43,487 |
| Less: Cost of Goods Sold | <u>24,925</u> | <u>25,883</u> |
| Gross Margin | <u>17,382</u> | <u>17,654</u> |
| | | |
| OPERATING EXPENSES: | | |
| Purchased Services | 4,663 | 2,713 |
| Salaries and Fringe Benefits | 8,360 | 4,814 |
| Claims | -- | -- |
| Depreciation and Amortization | 1,032 | 1,300 |
| Supplies and Materials | 37 | 246 |
| Repairs and Maintenance | 6 | 269 |
| Indirect Costs | 3,206 | 3,638 |
| Other Expenses | <u>58</u> | -- |
| Total Operating Expenses | <u>17,934</u> | <u>12,980</u> |
| Operating Income (Loss) | <u>(552)</u> | <u>4,674</u> |
| | | |
| NONOPERATING REVENUES (EXPENSES): | | |
| Investment Income | 352 | 53 |
| Other Nonoperating Revenues | -- | -- |
| Interest and Financing Costs | (1) | (1) |
| Grants, Aids and Subsidies | -- | (999) |
| Other Nonoperating Expenses | -- | -- |
| Gain (Loss) on Disposal of Capital Assets | <u>3</u> | <u>(371)</u> |
| Total Nonoperating Revenues (Expenses) | <u>354</u> | <u>(518)</u> |
| | | |
| Income (Loss) Before Transfers and Contributions | (198) | 4,156 |
| Transfers-In | -- | -- |
| Transfers-Out | -- | -- |
| Change in Net Position | <u>(198)</u> | <u>4,156</u> |
| | | |
| Net Position, Beginning, as Reported | <u>8,151</u> | <u>3,995</u> |
| Net Position, Ending | <u>7,953</u> | <u>8,151</u> |

Statement of Cash Flows

(in Thousands)

| | FY23 | FY22 |
|--|----------------|----------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Receipts from Customers | 43,063 | 44,962 |
| Receipts from Other Revenues | 2,292 | 2,375 |
| Payments to Claimants | -- | -- |
| Payments to Suppliers | (33,155) | (31,977) |
| Payments to Employees | (12,173) | (11,981) |
| Payments to Others | -- | -- |
| Net Cash Flows from Operating Activities | <u>27</u> | <u>379</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 | (339) | (263) |
| Proceeds from Disposal of Capital Assets | 3 | -- |
| Lease Payments | (59) | (58) |
| Interest Paid | (1) | (1) |
| Net Cash Flows from Capital and Related Financing Activities | <u>(396)</u> | <u>(322)</u> |
| Cash Flows from Investing Activities: | | |
| Investment Earnings | <u>352</u> | <u>53</u> |
| Net Cash Flows from Investing Activities | <u>352</u> | <u>53</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | <u>(17)</u> | <u>(89)</u> |
| Cash and Cash Equivalents, Beginning, as Reported | <u>13,719</u> | <u>13,808</u> |
| Cash and Cash Equivalents, Ending | <u>13,702</u> | <u>13,719</u> |
| Reconciliation of Operating Income (Loss) to Net Cash Flows from Operating Activities: | | |
| Operating Income (Loss) | <u>(552)</u> | <u>4,674</u> |
| Adjustments to Reconcile Operating Income to Net Cash Flows from Operating Activities: | | |
| Depreciation and Amortization | 1,032 | 1,300 |
| Miscellaneous Nonoperating Revenues | -- | -- |
| Miscellaneous Nonoperating Expenses | -- | -- |
| Change in Assets, Liabilities, Deferred Outflows and Inflows: | | |
| Accounts Receivable | 3,048 | 850 |
| Inventories | 2,656 | (771) |
| Other Assets | -- | -- |
| Deferred Outflows | 934 | (5,118) |
| Accounts Payable | (2,344) | 1,493 |
| Claims Payable | -- | -- |
| Compensated Absences Payable | 12 | (95) |
| Unearned Revenues | -- | -- |
| Other Postemployment Benefits | (822) | 265 |
| Net Pension Liability | 3,584 | (1,992) |
| Deferred Inflows | <u>(7,521)</u> | <u>(227)</u> |
| Net Reconciling Items to be Added to (Deducted from) Operating Income | <u>579</u> | <u>(4,295)</u> |
| Net Cash Flows from Operating Activities | <u>27</u> | <u>379</u> |

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 23, MINNCOR's current Compensated Absence balance was \$159 thousand, and the noncurrent Compensated Absence balance was \$865 thousand.

Note 4: Significant Account Variances

In Fiscal Year 23 MINNCOR had a \$12.6 million net pension liability, a \$5.9 million Deferred Pension Outflow and \$1.5 million Deferred Pension Inflow, based on MMB Analysis and GASB 68.



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