MINNESOTA DIVERSIFIED INDUSTRIES INC.
AND AFFILIATES

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Minnesota Diversified Industries Inc. and Affiliates
Minneapolis, Minnesota

We have audited the accompanying consolidated financial statements of Minnesota Diversified Industries Inc. and Affiliates (MDI), which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, and the related consolidated statements of activities and cash flows for the years then ended, and the related consolidated statement of functional expenses for the year ended December 31, 2018, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Board of Directors
Minnesota Diversified Industries Inc. and Affiliates

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of MDI as of December 31, 2018 and 2017, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
March 20, 2019

MINNESOTA DIVERSIFIED INDUSTRIES INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2018 AND 2017

	2018	2017
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 2,965,574	$ 8,056,848
Cash and Cash Equivalents - Board Designated	3,750,000	-
Accounts Receivable, Net	3,837,741	4,066,769
Inventories	1,683,144	1,584,062
Prepaid Expenses and Other Assets	94,130	148,317
Total Current Assets	12,330,589	13,855,996
OTHER ASSETS		
Swap Asset	37,466	14,213
Investments	130,299	119,134
Total Other Assets	167,765	133,347
PROPERTY AND EQUIPMENT, NET	15,217,486	15,339,900
Total Assets	$ 27,715,840	$ 29,329,243
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current Portion of Long-Term Debt	$ 299,962	$ 288,892
Accounts Payable	891,991	379,202
Accrued Personnel Expenses	1,034,826	680,687
Deferred Revenue	666,834	1,248,941
Other Current Liabilities	323,549	897,226
Total Current Liabilities	3,217,162	3,494,948
OTHER LIABILITIES		
Long-Term Debt	3,626,181	2,921,506
Deferred Rent	118,226	109,684
Retirement Benefit Liability	130,299	119,134
Total Other Liabilities	3,874,706	3,150,324
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Undesignated	16,873,972	22,683,971
Board Designated:		
Operating Fund	3,000,000	-
Major Building Repair Fund	750,000	-
Total Board Designated	3,750,000	-
Total Net Assets	20,623,972	22,683,971
Total Liabilities and Net Assets	$ 27,715,840	$ 29,329,243

See accompanying Notes to Consolidated Financial Statements.

MINNESOTA DIVERSIFIED INDUSTRIES INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
SALES	$ 24,759,519	$ 19,353,294
COST OF GOODS SOLD		
Variable Manufacturing Costs	14,736,852	10,668,665
Fixed Manufacturing Costs	7,259,535	6,282,798
Total Cost of Goods Sold	21,996,387	16,951,463
GROSS MARGIN	2,763,132	2,401,831
OPERATING EXPENSES		
Selling and Administrative	(4,355,981)	(3,500,079)
Commissions	(198,967)	(130,176)
Total Operating Expenses	(4,554,948)	(3,630,255)
NET MANUFACTURING LOSS	(1,791,816)	(1,228,424)
OTHER OPERATING REVENUE (EXPENSE), SUPPORT AND DEVELOPMENT		
Training and Service Grants	691,045	471,441
Other Contributions and Grants	305,223	721,092
Training and Service Expenses	(585,991)	(613,057)
Fundraising Expenses	(209,875)	(199,673)
Total Other Operating Expense, Support and Development	200,402	379,803
NET OPERATING LOSS	(1,591,414)	(848,621)
OTHER INCOME (EXPENSES)		
Interest Income	72,093	26,171
Change in Value of Swap	23,252	21,641
Other Income	42,419	6,748
Contributions	(4,500)	(1,000)
Real Estate Expenses	(460,637)	(310,495)
Bad Debt Expense	(18,000)	(30,000)
Interest and Other Finance Related Expenses	(123,212)	(111,297)
Total Other Expenses	(468,585)	(398,232)
CHANGE IN NET ASSETS	(2,059,999)	(1,246,853)
Net Assets - Beginning of Year	22,683,971	23,930,824
NET ASSETS - AT END OF YEAR	$ 20,623,972	$ 22,683,971

See accompanying Notes to Consolidated Financial Statements.

MINNESOTA DIVERSIFIED INDUSTRIES INC. AND AFFILIATES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2018

	Program Services	Management and General	Fundraising	Total
Salaries	$ 6,994,060	$ 1,483,561	$ 102,876	$ 8,580,497
Employee Benefits	1,637,745	518,477	15,435	2,171,657
Payroll Taxes	479,451	98,812	7,064	585,327
Total Personnel Costs	9,111,256	2,100,850	125,375	11,337,481
Cost of Goods Sold	7,490,926	-	-	7,490,926
NISH Fees	198,967	-	-	198,967
Contract Services	3,319,366	244,511	33,262	3,597,139
Advertising Expense	182,579	11,806	571	194,956
Office Expenses	34,937	189,027	247	224,211
Occupancy	1,290,474	407,708	-	1,698,182
Information Technology	7,197	205,223	-	212,420
Supplies	569,444	6,514	3,805	579,763
Travel	145,037	113,058	4,903	262,998
Interest	-	123,212	-	123,212
Insurance	-	237,966	-	237,966
Equipment Rental	18,173	25,686	-	43,859
Other Expenses	289,280	19,827	41,712	350,819
Depreciation	1,161,840	238,811	-	1,400,651
Total Expense	$ 23,819,476	$ 3,924,199	$ 209,875	$ 27,953,550

See accompanying Notes to Consolidated Financial Statements.

MINNESOTA DIVERSIFIED INDUSTRIES INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$ (2,059,999)	$ (1,246,853)
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities:		
Depreciation	1,400,651	1,210,609
Noncash Fix Asset Additions	(75,695)	(515,595)
Amortization of Deferred Rent	8,542	13,048
Allowance for Doubtful Accounts	20,203	10,250
Reserve for Obsolete Inventory	16,026	20,000
Change in Value of Swap	(23,252)	(21,641)
Unrealized Gain on Investments	-	-
Changes in Assets and Liabilities:		
Accounts Receivable	208,825	1,010,158
Inventories	(115,108)	(52,121)
Prepaid Expenses and Other Assets	54,187	34,582
Accounts Payable	512,789	(646,282)
Accrued Expenses	354,139	(755,715)
Deferred Revenue	(582,107)	(1,991,754)
Other Liabilities	(573,677)	476,565
Net Cash Used by Operating Activities	(854,476)	(2,454,749)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	(1,202,543)	(5,192,379)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal Payments on Long-Term Debt	(284,255)	(274,827)
Proceeds from Long-Term Debt	1,000,000	53,352
Net Cash Provided (Used) by Financing Activities	715,745	(221,475)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,341,274)	(7,868,603)
Cash and Cash Equivalents - Beginning of Year	8,056,848	15,925,451
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 6,715,574	$ 8,056,848
CASH AND CASH EQUIVALENTS - STATEMENT OF FINANCIAL POSITION		
Cash and Cash Equivalents	$ 2,965,574	$ 8,056,848
Cash and Cash Equivalents - Board Designated	3,750,000	-
	$ 6,715,574	$ 8,056,848
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Payments for Interest	$ 123,212	$ 111,297
Noncash Property and Equipment Purchases	$ 75,695	$ 515,595

See accompanying Notes to Consolidated Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Minnesota Diversified Industries Inc. and Affiliates (MDI or Organization) is a nonprofit social enterprise that exists to serve people with disabilities by offering inclusive employment opportunities and services. MDI provides competitively priced plastic products (totes, trays, etc.) and a variety of assembly, production and packaging services for the United States Postal Service (USPS) and many commercial companies. MDI employs people at four locations in Minnesota – Minneapolis, Hibbing, Grand Rapids and Cohasset – and pays their employees at least minimum wage and benefits.

Basis of Presentation

The accompanying consolidated financial statements have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Revenues, expenses, gains and losses, and net assets are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of MDI and related changes are classified and reported as follows:

Without Donor Restrictions – Undesignated Net Assets – Those resources not subject to donor-imposed restrictions. The board of directors has discretionary control over these resources.

Without Donor Restrictions – Board Designated Net Assets – Those resources not subject to donor-imposed restrictions. The board of directors has discretionary control over these resources and has set them aside for a particular purpose.

With Donor Restrictions – Those resources subject to donor-imposed restrictions which will be satisfied by action of the Organization or passage of time. These resources may also include resources whose use must be held in perpetuity. When a restriction is accomplished within the same year of the donation, the funds are shown as without donor restrictions.

MDI had no net assets with donor restrictions at December 31, 2018 and 2017.

Consolidation

The accompanying consolidated financial statements include the activities of Minnesota Diversified Industries, Inc., MDI Government Services, MDI Commercial Services, MDI Hired Hands and MDI Real Estate, LLC. All significant intercompany accounts and transactions have been eliminated in the consolidation.

Cash and Cash Equivalents

MDI maintains its cash at financial institutions in Minnesota. MDI considers all unrestricted highly liquid investments available for current use with an initial maturity of six months or less to be cash equivalents. At times such deposits at financial institutions may be in excess of Federal Deposit Insurance Corporation insurance limits. MDI has not experienced any losses in such accounts, and does not believe it is exposed to any significant credit risk on cash investments.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable

MDI provides credit to its customers determined on a customer-by-customer basis. Receivables are stated at the amounts MDI expects to collect from outstanding balances. At December 31, 2018 and 2017 accounts receivables was made up of the following:

	2018	2017
Accounts Receivables - Commercial	$ 1,105,303	$ 1,118,530
Accounts Receivables - USPS	2,615,548	2,840,864
Accounts Receivables - Recycling	131,109	123,328
Accounts Receivables - Other	90,059	68,330
Less: Allowance for Doubtful Accounts	(104,278)	(84,283)
Total Accounts Receivables (Net)	$ 3,837,741	$ 4,066,769

MDI provides for probable uncollectible amounts through charges to earnings and credits to the valuation allowance based on management's assessment of the current status of individual accounts. Balances that are still outstanding after MDI has used reasonable collection efforts are written off through charges to the valuation allowance and credits to receivable accounts. The balance in the valuation allowance was $104,278 and $84,283 at December 31, 2018 and 2017, respectively.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out method. Work in process and finished goods include materials, labor and allocated overhead.

Inventories consist of the following:

	2018	2017
Raw Materials	$ 1,360,076	$ 1,336,349
Finished Goods	539,234	447,825
Reserve	(216,166)	(200,112)
Total	$ 1,683,144	$ 1,584,062

Investments

MDI carries its investments at fair market value. Realized and unrealized gains and losses from marketable securities are not material to the consolidated financial statements and are included in the consolidated statement of activities.

Investments consist of the following as of December 31, 2018 and 2017:

	2018	2017
Cash	$ 42,398	$ 37,547
Bond Mutual Funds	24,891	23,487
Equity Mutual Funds	63,010	58,100
Total	$ 130,299	$ 119,134

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements

MDI follows an accounting standard that defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and requires expanded disclosures about fair value measurements. MDI accounts for its investments and swap asset at fair value and has categorized its investments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Property and Equipment

Property and equipment are recorded at original cost. Additions, improvements, or major renewals over $2,500 are capitalized. Any gains or losses on property and equipment retirements are reflected currently in operations.

Depreciation is computed using the straight-line method over the estimated economic lives of the assets as follows:

Buildings and Improvements	5-50 Years
Machinery and Equipment	5-15 Years
Office and Computer Equipment	3-5 Years

Long-Lived Assets

MDI reviews its long-lived assets whenever events or changes in circumstances indicate the carrying amount of the assets may not be recoverable. MDI determines potential impairment by comparing the carrying value of its assets with the sum of the undiscounted cash flows expected to be provided by operating and eventually disposing of the asset. Should the sum of the expected future net cash flows be less than carrying values, MDI would determine whether an impairment loss should be recognized. An impairment loss would be measured by comparing the amount by which the carrying value exceeds the fair value (estimated discounted future cash flows or appraisal of assets). No impairment losses have been identified in the consolidated financial statements.

Revenue Recognition

Revenue recognition treatment is determined on a case-by-case basis in accordance with generally accepted accounting principles. The major revenue streams of MDI and corresponding revenue recognition treatment is as follows:

Sales Revenue – MDI has contracts with the USPS for the production of various products including plastic totes and stamps. The USPS commits to an annual order of products subject to contract modifications and amendments. Plastics and stamp production revenues are recognized when an order is placed and the product is shipped. Fulfillment revenue is recognized as the customer product is shipped or as other fulfillment services are performed.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

All sales revenue – whether tied to a contract or sales order – is recognized as performance obligations are satisfied. Performance obligations are determined based on the nature of the services provided by the Organization. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Organization believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation.

The Organization measures the performance obligations from the start of the contract to the point when it is no longer required to provide services to that customer, which is generally at the time of shipment or completion of services.

Government Grants – Government grants are recognized when earned. Revenue is earned when eligible expenditures, as defined in each grant or contract, are made. Expenditures under government contracts are subject to review by the granting authority. To the extent, if any, that such a review reduces expenditures allowable under these contracts, MDI will record such disallowance at the time the final assessment is made.

Contribution Revenue – Contributions are recognized as revenue in the period received or unconditionally promised, whichever is earlier. They are recorded as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions. Conditional contributions are recorded when the condition has been satisfied.

Functional Expenses

Expenses are specifically identified with, or allocated to, program-related, administrative, and fund-raising functions. Occupancy-related expenses are computed based on occupied space. Quality expenses are allocated to manufacturing departments based on revenue.

Accounting Estimates

The presentation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

MDI is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code. However, MDI is subject to income tax on certain activities not directly related to MDI's tax-exempt purpose as net unrelated business income.

MDI reviews income tax positions taken or expected to be taken in income tax returns to determine if there are any income tax uncertainties. MDI recognizes tax benefits from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by taxing authorities, based on the technical merits of the positions. MDI has identified no income tax uncertainties.

Reclassifications

Certain reclassifications have been made to the prior year consolidated financial statements to agree with the current year presentation. The reclassification had no effect on the change in unrestricted net assets or total net assets as previously reported.

Subsequent Events

In preparing these consolidated financial statements, MDI has evaluated for recognition or disclosure the events or transactions that occurred through March 20, 2019, the date the consolidated financial statements were available to be issued.

Change in Accounting Principles

The consolidated financial statements of MDI reflect the adoption of the following accounting standards beginning in 2018:

ASU 2014-09 – In May 2014, FASB issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606). Subsequent to May 2014, the FASB has issued six ASUs to clarify certain matters related to Topic 606. Topic 606 supersedes the revenue recognition requirements in FASB ASC 605, Revenue Recognition, and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The updates address the complexity and understandability of revenue recognition and provide sufficient information to enable financial statements users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

ASU 2018-08 – In June 2018, FASB issued Accounting Standards (ASU) 2018-08, Accounting Guidance for Contributions Received and Made. This ASU was issued to clarify accounting guidance for contributions received and contributions made. The amendments to this ASU assists entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, *Not-for-Profit Entities*, or as an exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Change in Accounting Principles (Continued)

ASU 2016-04 – The Organization adopted the accounting guidance in Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-04, *Not-for-Profit Entities* (Topic 958): Presentation of Financial Statements of *Not-for-Profit Entities*, which changes presentation and disclosure requirements for nonprofit entities to provide more relevant information about their resources (and the changes in those resources) to donors, granters, creditors, and other users. These include qualitative and quantitative requirements in the following areas: net asset classes, functional expenses and liquidity. MDI has adjusted the presentation in these consolidated financial statements accordingly. Portions of this ASU has been applied retrospectively to all periods presented – for example the classification of net assets – while others have been applied prospectively.

In all instances there was no impact to the total change in net assets as previously reported.

NOTE 2 LIQUIDITY AND AVAILABILITY

MDI's financial assets available within one year of the statement of financial position date for general expenditures are as follows:

Cash and Cash Equivalents	$ 2,965,574
Accounts Receivable (Net)	3,837,741
Total	$ 6,803,315

MDI has $6,803,315 of financial assets available within one year of the statement of financial position date to meet cash needs for general expenditures. Additionally, MDI has $1,683,144 of inventory that is not considered a liquid asset but can be converted to a product sale in approximately 30 days. MDI has a goal to maintain financial assets sufficient to cover 60 days of expenditures including payroll. Financial assets in excess of daily cash requirements are invested in certificates of deposits and short-term investments. In the event of an unanticipated liquidity need, MDI has a committed line of credit in the amount of $5,000,000, which could be drawn upon. Finally, if the need arises, the board-designated operating fund of $3,000,000 could be utilized for liquidity purposes upon board resolution.

NOTE 3 PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	2018	2017
Land, Buildings, and Improvements	$ 15,151,597	$ 14,715,392
Machinery and Equipment	15,712,740	15,200,188
Fleet Vehicles	518,149	519,203
Office and Computer Equipment	421,134	352,082
Total	31,803,620	30,786,865
Less: Accumulated Depreciation	(16,586,134)	(15,446,965)
Net	$ 15,217,486	$ 15,339,900

NOTE 4 LONG-TERM DEBT

Long-term debt is as follows:

Description	2018	2017
City of Hibbing manufacturing facilities revenue note due in monthly installments of $31,951 including fixed interest at 3.42% through July 20, 2027. This note is secured by substantially all assets of MDI.	$ 2,848,387	$ 3,129,156
Department of Iron Range Resources and Rehabilitation loan with a 3% interest rate and a maturity date of April 1, 2030. The loan proceeds were used to help finance the construction of a new facility located in Hibbing, MN (completed in January 2018) and is secured by this property.	1,000,000	-
City of St. Louis County Economic Development Fund deferred loan with a maturity date of May 31, 2027. The loan proceeds were used to help finance the construction of a new facility located in Hibbing, MN and will be forgiven after five years of operating the facility. 0% interest.	53,352	53,352
Cities of Deer River/Kootasca Community Action Small Cities Development Program deferred loan with a ten year term, with 10% forgiven each year. This note is secured by real estate located in Deer River.	24,404	27,890
Subtotal	3,926,143	3,210,398
Less: Amount Due Within One Year	(299,962)	(288,892)
Net Long-Term Debt	$ 3,626,181	$ 2,921,506

NOTE 4 LONG-TERM DEBT (CONTINUED)

The scheduled maturities of long-term debt were as follows at December 31, 2018:

Year Ending December 31,	Amount
2019	$ 299,962
2020	309,437
2021	319,880
2022	330,688
2023	341,869
Thereafter	2,324,307
Total	$ 3,926,143

In conjunction with the loan agreement due on July 20, 2027, MDI entered into an interest rate swap agreement with a financial institution to minimize the risks associated with market rate fluctuations due to the variable rate of the loan (one month LIBOR + 2.04%). Pursuant to the terms of the interest rate swap agreement, MDI pays interest to the financial institution at a fixed rate of 3.42%. The financial institution pays MDI interest at a variable rate equal to 68% of the then current one month LIBOR index, 1.71% as of December 31, 2018. As of December 31, 2018, the notional amount of the swap agreement was consistent with the outstanding amount of the loan noted in the table above. At December 31, 2018 and 2017, the fair value of the swap agreement (asset) liability was $(37,466) and $(14,213), respectively.

MDI must comply with Minnesota Bank & Trust loan covenants including several financial ratios.

MDI has one line of credit for $5,000,000 with a maturity date of June 1, 2019. There were no outstanding draws on this line of credit as of December 31, 2018. The line bears interest at prime of 5.50%.

On September 2, 2015, MDI entered into a deferred loan agreement with the Cities of Deer River/Kootasca Community Action Small Cities Development Program. The loan has a ten-year term with 10% of the loan being forgiven each year with the loan being totally forgiven on the first day of the eleventh year.

In April 2018, MDI entered into a loan agreement with Iron Range Resources and Rehabilitation (IRRB) to fund the construction of a facility in Hibbing. The loan requires monthly interest payments at 3% through maturity of April 1, 2030. The loan has employment goals where MDI will receive debt forgiveness of $10,000 based on annual employment reports submitted to IRRB.

NOTE 5 RETIREMENT BENEFITS

MDI maintains a defined-contribution health and welfare money purchase pension retirement plan covering certain employees. MDI makes contributions to the plan based on the contracts of a specific division. The expense for this plan was $37,580 in 2018 and $44,835 in 2017.

MDI has a 403b retirement plan, which covers substantially all employees. Employees can contribute pretax dollars towards retirement, with the employer providing certain matching contributions. The expense for the plan was $135,155 in 2018 and $94,853 in 2017.

MDI has a nonqualified retirement plan for its management and key employees. Employees can defer income toward retirement. MDI contributes amounts for certain highly compensated employees who do not qualify for contributions under other plans. The expense for the plan was $17,853 in 2018 and $9,924 in 2017. The total value of investments, at fair market value, held for the participants' benefit and the related vested deferred liability is $130,299 and $119,134 at December 31, 2018 and 2017, respectively.

NOTE 6 OVERHEAD EXPENSES

MDI's operations consist of Grand Rapids, Hibbing, and a portion of Minneapolis facilities (plastic production), and Cohasset. Costs for these operations consist of the following:

	2018	2017
Plastic Production Overhead	$ 7,697,193	$ 5,472,297
Twin Cities Overhead (Excluding Plastic Production)	990,283	1,305,149
Cohasset Overhead (Excluding Plastic Production)	1,314,485	1,414,652
Total Overhead	$ 10,001,961	$ 8,192,098
Allowable General and Administrative	$ 2,962,949	$ 2,546,674
Marketing and Advertising	1,819,874	1,313,254
Total Selling, Administrative, Advertising and Fundraising	$ 4,782,823	$ 3,859,928

NOTE 7 MAJOR CUSTOMERS AND CREDIT RISK CONCENTRATIONS

The USPS is a major customer of MDI. Sales to the USPS accounted for $13,610,283 (52%) and $9,755,589 (47%) of total revenue for the years ended December 31, 2018 and 2017, respectively.

As of December 31, 2018 and 2017, 68% and 70%, respectively, of total accounts receivable were from one customer.

NOTE 8 FAIR VALUE MEASUREMENTS

MDI uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. For additional information on how MDI measures fair value refer to Note 1 – Summary of Significant Accounting Policies. The following table presents the fair value hierarchy for the balances of the assets of MDI measured at fair value on a recurring basis as of December 31, 2018 and 2017:

	2018			
	Level 1	Level 2	Level 3	Total
Investments:				
Bond Mutual Funds	$ 24,891	$ -	$ -	$ 24,891
Equity Mutual Funds	63,010	-	-	63,010
Total	87,901	-	-	87,901
Swap Asset (Liability)	-	37,466	-	37,466
Total Fair Value Assets	$ 87,901	$ 37,466	$ -	$ 125,367

	2017			
	Level 1	Level 2	Level 3	Total
Investments:				
Bond Mutual Funds	$ 23,487	$ -	$ -	$ 23,487
Equity Mutual Funds	58,100	-	-	58,100
Total	81,587	-	-	81,587
Swap Asset (Liability)	-	14,213	-	14,213
Total Fair Value Assets	$ 81,587	$ 14,213	$ -	$ 95,800

NOTE 9 FUTURE COMMITMENTS

MDI leases office space under operating leases. On November 12, 2013, MDI entered into a new lease agreement for office space, which expires on May 31, 2026. Rental expense under the leases was $260,101 and $225,515 for the years ended December 31, 2018 and 2017, respectively. In addition, MDI leases various office equipment. Monthly equipment rental payments range from $2,000 to $10,000.

Future minimum lease payments were as follows as of December 31, 2018:

Year Ending December 31,	Amount
2019	$ 290,038
2020	288,885
2021	288,885
2022	285,957
2023	270,640
Thereafter	653,501
Total	$ 2,077,906

NOTE 10 BOARD DESIGNATED NET ASSETS

As of December 31, 2018, the board of directors has designated net assets without donor restrictions of $3,000,000 for the Operating Fund and $750,000 for Major Building Repair Fund. The Operating Fund is established to provide funding for operations in times of adverse cash flow conditions in any given year. The purpose of the Major Building Repair Fund is to have sufficient funds available to pay for the replacement of a building roof or upgrade factory production equipment. The two funds will be reevaluated annually to determine if fund balance should be increased or decreased.

Distributions from the Operating Fund and Major Building Repair Funds are made at the discretion of the board of directors.