MINNESOTA DIVERSIFIED INDUSTRIES INC.
AND AFFILIATES

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

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CliftonLarsonAllen LLP
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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, 2019 and 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, 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.

A member of Nexia International

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, 2019 and 2018, 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.

Change in Accounting Principal (Emphasis-of-Matter)

As discussed in Note 1 to the consolidated financial statements, in 2019 MDI adopted new accounting guidance for leases. The guidance requires lessees to recognize a right-of-use (ROU) asset and corresponding liability for all operating and finance leases with lease terms greater than one year. As a result MDI recognized approximately $2,000,000 as a ROU asset and related lease liability on January 1, 2019 which had not been previously recorded prior to this adoption. Our opinion is not modified with respect to this matter.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
March 18, 2020

MINNESOTA DIVERSIFIED INDUSTRIES INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2019 AND 2018

	2019	2018
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 4,271,648	$ 2,965,574
Cash and Cash Equivalents - Board Designated	3,750,000	3,750,000
Accounts Receivable, Net	2,402,483	3,837,741
Inventories	1,806,452	1,683,144
Prepaid Expenses and Other Assets	157,495	94,130
Total Current Assets	12,388,078	12,330,589
OTHER ASSETS		
Swap Asset	-	37,466
Investments	178,395	130,299
Total Other Assets	178,395	167,765
PROPERTY AND EQUIPMENT, NET	16,500,017	15,217,486
Total Assets	$ 29,066,490	$ 27,715,840
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current Portion of Long-Term Debt	$ 300,646	$ 299,962
Current Portion of Lease Liability	189,657	-
Accounts Payable	502,924	891,991
Accrued Personnel Expenses	980,994	1,034,826
Deferred Revenue	46,800	666,834
Other Current Liabilities	221,934	323,549
Total Current Liabilities	2,242,955	3,217,162
OTHER LIABILITIES		
Long-Term Debt	3,331,488	3,626,181
Lease Liability	1,705,784	-
Deferred Rent	-	118,226
Retirement Benefit Liability	178,395	130,299
Swap Liability	28,158	-
Total Other Liabilities	5,243,825	3,874,706
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Undesignated	17,829,710	16,873,972
Board Designated:		
Operating Fund	3,000,000	3,000,000
Major Building Repair Fund	750,000	750,000
Total Board Designated	3,750,000	3,750,000
Total Net Assets	21,579,710	20,623,972
Total Liabilities and Net Assets	$ 29,066,490	$ 27,715,840

See accompanying Notes to Consolidated Financial Statements.

MINNESOTA DIVERSIFIED INDUSTRIES INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
SALES	$ 29,384,505	$ 24,759,519
COST OF GOODS SOLD		
Variable Manufacturing Costs	(15,043,469)	(14,736,852)
Fixed Manufacturing Costs	(7,844,292)	(7,259,535)
Total Cost of Goods Sold	(22,887,761)	(21,996,387)
GROSS MARGIN	6,496,744	2,763,132
OPERATING EXPENSE		
Selling and Administrative	(4,789,348)	(4,355,981)
Commissions	(224,408)	(198,967)
Total Operating Expense	(5,013,756)	(4,554,948)
NET MANUFACTURING GAIN (LOSS)	1,482,988	(1,791,816)
OTHER OPERATING REVENUE (EXPENSE), SUPPORT AND DEVELOPMENT		
Training and Service Grants	288,990	691,045
Other Contributions and Grants	490,685	305,223
Training and Service Expenses	(552,685)	(585,991)
Fundraising Expenses	(213,407)	(209,875)
Total Other Operating Revenue (Expense), Support and Development	13,583	200,402
NET OPERATING GAIN (LOSS)	1,496,571	(1,591,414)
OTHER INCOME (EXPENSE)		
Interest Income	88,435	72,093
Change in Value of Swap	(65,624)	23,252
Other Income	63,557	42,419
Contributions Expense	(1,000)	(4,500)
Real Estate Expense	(492,141)	(460,637)
Bad Debt Expense	(12,000)	(18,000)
Interest and Other Finance Related Expense	(122,060)	(123,212)
Total Other Expense	(540,833)	(468,585)
CHANGE IN NET ASSETS	955,738	(2,059,999)
Net Assets - Beginning of Year	20,623,972	22,683,971
NET ASSETS - AT END OF YEAR	$ 21,579,710	$ 20,623,972

See accompanying Notes to Consolidated Financial Statements.

MINNESOTA DIVERSIFIED INDUSTRIES INC. AND AFFILIATES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2019

	Program Services	Management and General	Fundraising	Total
Salaries	$ 7,997,713	$ 1,682,810	$ 131,960	$ 9,812,483
Employee Benefits	1,873,052	586,136	13,350	2,472,538
Payroll Taxes	493,966	114,080	8,778	616,824
Total Personnel Costs	10,364,731	2,383,026	154,088	12,901,845
Cost of Goods Sold	7,510,857	-	-	7,510,857
NISH Fees	224,408	-	-	224,408
Contract Services	2,678,723	308,217	26,981	3,013,921
Advertising Expense	139,617	66,329	4,274	210,220
Office Expenses	68,836	190,312	2,130	261,278
Occupancy	1,268,068	382,003	-	1,650,071
Information Technology	5,950	198,714	-	204,664
Supplies	648,302	7,598	3,511	659,411
Travel	115,140	115,081	1,315	231,536
Interest	-	122,060	-	122,060
Insurance	36	256,011	-	256,047
Equipment Rental	22,986	28,000	-	50,986
Other Expenses	355,975	78,401	21,108	455,484
Depreciation	1,259,655	282,367	-	1,542,022
Total Expense	$ 24,663,284	$ 4,418,119	$ 213,407	$ 29,294,810

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, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$ 955,738	$ (2,059,999)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation	1,542,022	1,400,651
Lease Expense	293,961	-
Noncash Fixed Asset Additions	-	(75,695)
Amortization of Deferred Rent	-	8,542
Allowance for Doubtful Accounts	9,312	20,203
Reserve for Obsolete Inventory	15,000	16,026
Change in Value of Swap	65,624	(23,252)
Loss on Sale of Fixed Assets	13,465	-
Changes in Assets and Liabilities:		
Prepaid Expenses and Other Assets	(63,365)	54,187
Accounts Receivable	1,425,946	208,825
Inventories	(138,308)	(115,108)
Accounts Payable	(389,067)	512,789
Accrued Expenses	(53,832)	354,139
Deferred Revenue	(620,034)	(582,107)
Lease Liability	(268,356)	-
Other Liabilities	(101,615)	(573,677)
Net Cash Provided (Used) by Operating Activities	2,686,491	(854,476)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	(1,087,908)	(1,202,543)
Proceeds from Sale of Fixed Assets	1,500	-
Net Cash Used by Investing Activities	(1,086,408)	(1,202,543)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal Payments on Long-Term Debt	(294,009)	(284,255)
Proceeds from Long-Term Debt	-	1,000,000
Net Cash Provided (Used) by Financing Activities	(294,009)	715,745
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,306,074	(1,341,274)
Cash and Cash Equivalents - Beginning of Year	6,715,574	8,056,848
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 8,021,648	$ 6,715,574
CASH AND CASH EQUIVALENTS - STATEMENT OF FINANCIAL POSITION		
Cash and Cash Equivalents	$ 4,271,648	$ 2,965,574
Cash and Cash Equivalents - Board Designated	3,750,000	3,750,000
Total	$ 8,021,648	$ 6,715,574
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Payments for Interest	$ 122,060	$ 123,212
Noncash Property and Equipment Purchases	$ 1,946,240	$ 75,695

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, 2019 and 2018.

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 without donor restricted and highly liquid investments available for current use with an initial maturity of six months or less to be cash equivalents.

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 accounts receivables was made up of the following:

	2019	2018
Accounts Receivables - Commercial	$ 1,518,202	$ 1,105,303
Accounts Receivables - USPS	862,750	2,615,548
Accounts Receivables - Recycling	90,251	131,109
Accounts Receivables - Other	44,870	90,059
Less: Allowance for Doubtful Accounts	(113,590)	(104,278)
Total Accounts Receivables (Net)	$ 2,402,483	$ 3,837,741

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 $113,590 and $104,278 at December 31, 2019 and 2018, respectively.

Inventories

Inventories are stated at the lower of cost, determined using the first-in/ first-out method, or net realizable value. Work in process and finished goods include materials, labor and allocated overhead. A reserve for obsolete inventory has been recorded for books that may be unsaleable based on historical data.

Inventories consist of the following as of December 31:

	2019	2018
Raw Materials	$ 1,385,174	$ 1,360,076
Finished Goods	652,416	539,234
Reserve	(231,138)	(216,166)
Total	$ 1,806,452	$ 1,683,144

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:

	2019	2018
Cash	$ 48,909	$ 42,398
Bond Mutual Funds	35,317	24,891
Equity Mutual Funds	94,169	63,010
Total	$ 178,395	$ 130,299

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

Leases

MDI determines if an arrangement is a lease at inception. Operating leases are defined as right-of-use (ROU) assets and classified with property plant and equipment and a related lease liability in the consolidated statements of financial position.

ROU assets represent MDI’s right to use an underlying asset for the lease term and lease liabilities represent MDI’s obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. Lease terms may include options to extend or terminate the lease when it is reasonably certain that MDI will exercise that option. Lease expense for operating lease payments is recognized on a straight-line basis over the lease term. MDI has elected to recognize payments for short-term leases with a lease term of 12 months or less as expense as incurred and these leases are not included as lease liabilities or property and equipment (i.e. right-of-use assets) on the consolidated statements of financial position.

The individual lease contracts do not provide information about the discount rate implicit in the lease. Therefore, MDI has elected to use discount rate comparable with its incremental borrowing rate at the inception of the lease for computing the present value of lease liabilities. MDI has elected not to separate nonlease components from lease components and instead accounts for each separate lease component and the nonlease component as a single lease component.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, trays and stamps in the United States. The USPS commits to an annual order of products subject to contract modifications and amendments. Plastics revenue is recognized when product is shipped. Stamp production revenue is recognized as production is completed. Fulfillment revenue is recognized as the customer product is shipped or as other fulfillment services are performed.

All sales revenue whether tied to a contract or sales order is based on unit pricing and is recognized as performance obligations are satisfied. Performance obligations are determined based on the nature of the services provided by MDI. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. MDI 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. Payment terms are generally due within 30 days upon shipping receipt. Any refunds or returns are a result of product not meeting the specifications outlined in the purchase order. Under certain circumstances rebate units are provided to customers as an incentive to purchase at higher volumes.

MDI 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

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. 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.

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 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 18, 2020, the date the consolidated financial statements were available to be issued.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Change in Accounting Principles

The consolidated financial statements of MDI reflect the adoption of the following accounting standards beginning in 2019:

In February 2016, the Financial Accounting Standards Board (FASB) issued ASC 842 – *Leases*. This new standard increases transparency and comparability among organizations by requiring the recognition of right-of-use (ROU) assets and lease liabilities on the balance sheet. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases.

Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. MDI utilized the modified retrospective approach and utilize the option to apply the provisions of this standard to the beginning of the period of adoption (i.e. January 1, 2019). Furthermore MDI has elected to adopt the package of practical expedients available in the year of adoption.

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:

	2019	2018
Cash and Cash Equivalents	$ 4,271,648	$ 2,965,574
Accounts Receivable (Net)	2,402,483	3,837,741
Total	$ 6,674,131	$ 6,803,315

In addition to the financial assets available noted in the table above, MDI has as of December 31, 2019 and 2018, $1,806,452, and $1,683,144, respectively, 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 (see Note 4), 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 as of December 31:

	2019	2018
Land, Buildings, and Improvements	$ 15,595,841	$ 15,151,597
Machinery and Equipment	16,037,460	15,712,740
Fleet Vehicles	531,819	518,149
Right-of-Use Lease Asset	1,946,240	-
Office and Computer Equipment	554,036	421,134
Total	34,665,396	31,803,620
Less: Accumulated Depreciation	(18,165,379)	(16,586,134)
Net	$ 16,500,017	$ 15,217,486

NOTE 4 LONG-TERM DEBT

Long-term debt is as follows:

Description	2019	2018
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.	$ 2,557,864	$ 2,848,387
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	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.	20,918	24,404
Subtotal	3,632,134	3,926,143
Less: Amount Due Within One Year	(300,646)	(299,962)
Net Long-Term Debt	$ 3,331,488	$ 3,626,181

NOTE 4 LONG-TERM DEBT (CONTINUED)

The scheduled maturities of long-term debt were as follows at December 31, 2019:

Year Ending December 31,	Amount
2020	$ 300,646
2021	319,880
2022	330,688
2023	341,869
2024	353,440
Thereafter	1,985,611
Total	$ 3,632,134

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, 1.75% as of December 31, 2019. As of December 31, 2019, the notional amount of the swap agreement was consistent with the outstanding amount of the loan noted in the table above. At December 31, 2019 and 2018, the fair value of the swap agreement (asset) liability was $28,158 and $(37,466), 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, 2021. There were no outstanding draws on this line of credit as of December 31, 2019. The line bears interest at prime of 4.75%.

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 $30,230 in 2019 and $37,580 in 2018.

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 $163,989 in 2019 and $135,155 in 2018.

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 $21,875 in 2019 and $17,853 in 2018. The total value of investments, at fair market value, held for the participants' benefit and the related vested deferred liability is $178,395 and $130,299 at December 31, 2019 and 2018, 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:

	2019	2018
Plastic Production Overhead	$ 6,908,182	$ 7,697,193
Twin Cities Overhead (Excluding Plastic Production)	1,926,024	990,283
Cohasset Overhead (Excluding Plastic Production)	1,317,485	1,314,485
Total Overhead	$ 10,151,691	$ 10,001,961
Allowable General and Administrative	$ 3,247,318	$ 2,962,949
Marketing and Advertising	1,991,845	1,819,874
Total Selling, Administrative, Advertising, and Fundraising	$ 5,239,163	$ 4,782,823

NOTE 7 MAJOR CUSTOMERS AND CREDIT RISK CONCENTRATIONS

The USPS is a major customer of MDI. Sales to the USPS accounted for $16,451,019 (54%) and $13,610,283 (52%) of total revenue for the years ended December 31, 2019 and 2018, respectively.

As of December 31, 2019 and 2018, 36% and 68%, 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:

	2019			
	Level 1	Level 2	Level 3	Total
Investments:				
Bond Mutual Funds	$ 35,317	$ -	$ -	$ 35,317
Equity Mutual Funds	94,169	-	-	94,169
Total	129,486	-	-	129,486
Swap Asset (Liability)	-	(28,158)	-	(28,158)
Total Fair Value Assets	$ 129,486	$ (28,158)	$ -	$ 101,328

	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

NOTE 9 LEASES

MDI leases equipment and office space for various terms under long-term, non-cancelable lease arrangements. The equipment lease requires monthly payments of $1,464 for a term of 48 months through October 2022. The space lease requires monthly payments that escalate from $21,708 to $25,804 over the course of the lease, and expires in September 2027. In the normal course of business, it is expected that these leases will be renewed or replaced by similar leases.

NOTE 9 LEASES (CONTINUED)

Both the equipment and facility leases are classified as operating leases. Future minimum lease payments for these lease arrangements during the years ending December 31 are:

Year Ending December 31,	Equipment Lease	Facility Lease	Total Amount
2020	$ 17,568	$ 270,906	$ 288,474
2021	17,568	277,679	295,247
2022	14,640	284,621	299,261
2023	-	291,736	291,736
2024	-	299,030	299,030
Thereafter	-	848,397	848,397
Total Payments	49,776	2,272,369	2,322,145
Less: Interest Portion	(3,782)	(422,922)	(426,704)
Total Lease Obligation	$ 45,994	$ 1,849,447	$ 1,895,441

The following table provides additional quantitative information concerning MDI's operating leases.

	2019	2018
Operating Lease Cost:		
Equipment Lease Cost:		
Amortization of Right-to-Use Asset	$ 14,877	$ -
Interest on Lease Liability	2,691	-
Facility Lease Cost:		
Amortization of Right-to-Use Asset	179,753	-
Interest on Lease Liability	96,641	-
Total Operating Lease Cost	$ 293,962	$ -
Other Information:		
Operating Cash Flows from Operating Leases	$ 281,867	$ -
Weighted Average Remaining Lease Term	6.5 Years	N/A
Weighted Average Discount Rate	5.50%	N/A

NOTE 10 BOARD DESIGNATED NET ASSETS

As of December 31, 2019, 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.

NOTE 10 BOARD DESIGNATED NET ASSETS (CONTINUED)

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

NOTE 11 SUBSEQUENT EVENTS

Subsequent to year-end, a pandemic of the Corona Virus (COVID-19) was declared by the World Health Organization. Future revenues from customers and related expenses of MDI are uncertain due to the potential economic impact. In addition, both domestic and international equity markets have experienced significant declines since December 31, 2019. As of March 18, 2020, the amount and likelihood of loss relating to these events is not determined.