MINNESOTA DIVERSIFIED INDUSTRIES INC.
AND AFFILIATES

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2020 AND 2019

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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, 2020 and 2019, 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.

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, 2020 and 2019, 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 17, 2021

MINNESOTA DIVERSIFIED INDUSTRIES INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2020 AND 2019

	2020	2019
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 6,648,877	$ 4,271,648
Cash and Cash Equivalents - Board Designated	6,390,000	3,750,000
Cash and Cash Equivalents - Restricted	575,000	-
Accounts Receivable, Net	4,774,328	2,402,483
Grants Receivable	245,000	-
Inventories	2,189,934	1,806,452
Prepaid Expenses and Other Assets	181,553	157,495
Total Current Assets	21,004,692	12,388,078
OTHER ASSETS		
Investments	224,138	178,395
PROPERTY AND EQUIPMENT, NET	15,875,521	16,500,017
Total Assets	$ 37,104,351	$ 29,066,490
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current Portion of Long-Term Debt	$ 2,844,281	300,646
Current Portion of Lease Liability	207,300	189,657
Accounts Payable	1,204,915	502,924
Accrued Personnel Expenses	1,623,812	980,994
Deferred Revenue	211,500	46,800
Other Current Liabilities	287,589	221,934
Total Current Liabilities	6,379,397	2,242,955
OTHER LIABILITIES		
Long-Term Debt	2,861,151	3,331,488
Lease Liability	1,484,973	1,705,784
Retirement Benefit Liability	224,138	178,395
Swap Liability	90,845	28,158
Total Other Liabilities	4,661,107	5,243,825
NET ASSETS		
Without Donor Restrictions:		
Undesignated	18,853,847	17,829,710
Board Designated:		
Operating Fund	3,500,000	3,000,000
Major Equipment Fund	1,890,000	-
Major Building Repair Fund	1,000,000	750,000
Total Board Designated	6,390,000	3,750,000
Total Net Assets Without Donor Restrictions	25,243,847	21,579,710
With Donor Restrictions	820,000	-
Total Net Assets	26,063,847	21,579,710
Total Liabilities and Net Assets	$ 37,104,351	$ 29,066,490

See accompanying Notes to Consolidated Financial Statements.

MINNESOTA DIVERSIFIED INDUSTRIES INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
SALES	$ 33,939,771	$ 29,384,505
COST OF GOODS SOLD		
Variable Manufacturing Costs	(16,241,523)	(15,043,469)
Fixed Manufacturing Costs	(8,176,693)	(7,844,292)
Total Cost of Goods Sold	(24,418,216)	(22,887,761)
GROSS MARGIN	9,521,555	6,496,744
OPERATING EXPENSE		
Selling and Administrative	(4,832,477)	(4,789,348)
Commissions	(348,940)	(224,408)
Total Operating Expense	(5,181,417)	(5,013,756)
NET MANUFACTURING GAIN (LOSS)	4,340,138	1,482,988
OTHER OPERATING REVENUE (EXPENSE), SUPPORT AND DEVELOPMENT		
Training and Service Grants	158,613	288,990
Other Contributions and Grants	547,546	490,685
Training and Service Expenses	(403,017)	(552,685)
Fundraising Expenses	(236,555)	(213,407)
Total Other Operating Revenue, Support and Development	66,587	13,583
NET OPERATING GAIN	4,406,725	1,496,571
OTHER INCOME (EXPENSE)		
Interest Income	67,293	88,435
Change in Value of Swap	(62,687)	(65,624)
Other Income	94,810	63,557
Contributions Expense	(200,000)	(1,000)
Real Estate Expense	(503,185)	(492,141)
Bad Debt Expense	(12,000)	(12,000)
Interest and Other Finance Related Expense	(126,819)	(122,060)
Total Other Expense	(742,588)	(540,833)
Changes in Net Assets Without Donor Restrictions	3,664,137	955,738
CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS		
Contributions	820,000	-
Changes in Net Assets With Donor Restrictions	820,000	-
TOTAL CHANGE IN NET ASSETS	4,484,137	955,738
Net Assets - Beginning of Year	21,579,710	20,623,972
NET ASSETS - AT END OF YEAR	$ 26,063,847	$ 21,579,710

See accompanying Notes to Consolidated Financial Statements.

MINNESOTA DIVERSIFIED INDUSTRIES INC. AND AFFILIATES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2020

	Program Services	Management and General	Fundraising	Total
Salaries	$ 8,887,783	$ 1,768,031	$ 134,337	$ 10,790,151
Employee Benefits	1,633,864	485,000	16,529	2,135,393
Payroll Taxes	622,962	114,325	9,485	746,772
Total Personnel Costs	11,144,609	2,367,356	160,351	13,672,316
Cost of Goods Sold	7,285,370	-	-	7,285,370
Source America Fees	348,941	-	-	348,941
Contract Services	3,821,444	316,917	33,015	4,171,376
Advertising Expense	113,602	254,629	4,372	372,603
Office Expenses	54,136	181,339	479	235,954
Occupancy	1,249,999	372,211	-	1,622,210
Information Technology	5,147	226,753	-	231,900
Supplies	836,458	12,783	2,651	851,892
Travel	40,315	35,526	1,861	77,702
Interest	-	126,819	-	126,819
Insurance	355	271,356	-	271,711
Equipment Rental	1,165	27,814	-	28,979
Other Expenses	219,642	(5,394)	33,826	248,074
Depreciation	1,220,245	315,117	-	1,535,362
Total Expense	$ 26,341,428	$ 4,503,226	$ 236,555	$ 31,081,209

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	$ 8,134,101	$ 1,682,810	$ 131,960	$ 9,948,871
Employee Benefits	1,630,564	586,136	13,350	2,230,050
Payroll Taxes	571,338	114,080	8,778	694,196
Total Personnel Costs	10,336,003	2,383,026	154,088	12,873,117
Cost of Goods Sold	7,510,857	-	-	7,510,857
Source America Fees	224,408	-	-	224,408
Contract Services	2,707,451	308,217	26,981	3,042,649
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 STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$ 4,484,137	$ 955,738
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	1,535,362	1,542,022
Lease Expense	293,961	293,961
Noncash Fixed Asset Additions	(20,000)	-
Allowance for Doubtful Accounts	(11,249)	9,312
Reserve for Obsolete Inventory	-	15,000
Change in Value of Swap	62,687	65,624
(Gain) Loss on Sale of Fixed Assets	(11,190)	13,465
Changes in Assets and Liabilities:		
Prepaid Expenses and Other Assets	(24,058)	(63,365)
Accounts Receivable	(2,360,596)	1,425,946
Grants Receivable	(245,000)	-
Inventories	(383,482)	(138,308)
Accounts Payable	701,991	(389,067)
Accrued Expenses	642,818	(53,832)
Deferred Revenue	164,700	(620,034)
Lease Liability	(301,985)	(268,356)
Other Liabilities	65,655	(101,615)
Net Cash Provided by Operating Activities	4,593,751	2,686,491
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	(1,146,574)	(1,087,908)
Proceeds from Sale of Fixed Assets	71,754	1,500
Net Cash Used by Investing Activities	(1,074,820)	(1,086,408)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal Payments on Long-Term Debt	(451,102)	(294,009)
Proceeds from Long-Term Debt	2,524,400	-
Net Cash Provided (Used) by Financing Activities	2,073,298	(294,009)
NET INCREASE IN CASH AND CASH EQUIVALENTS	5,592,229	1,306,074
Cash and Cash Equivalents - Beginning of Year	8,021,648	6,715,574
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 13,613,877	$ 8,021,648
CASH AND CASH EQUIVALENTS - STATEMENT OF FINANCIAL POSITION		
Cash and Cash Equivalents	$ 6,648,877	$ 4,271,648
Cash and Cash Equivalents - Board Designated	6,390,000	3,750,000
Cash and Cash Equivalents - Restricted	575,000	-
Total	$ 13,613,877	$ 8,021,648
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Payments for Interest	$ 126,819	$ 122,060
Noncash Property and Equipment Purchases	$ 20,000	$ 1,946,240

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.

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:

	2020	2019
Accounts Receivables - Commercial	$ 1,529,354	$ 1,518,202
Accounts Receivables - USPS	3,310,145	862,750
Accounts Receivables - Hired Hands	13,014	90,251
Accounts Receivables - Other	46,654	44,870
Less: Allowance for Doubtful Accounts	(124,839)	(113,590)
Total Accounts Receivables (Net)	$ 4,774,328	$ 2,402,483

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 $124,839 and $113,590 at December 31, 2020 and 2019, 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:

	2020	2019
Raw Materials	$ 1,671,054	$ 1,385,174
Finished Goods	750,019	652,416
Reserve	(231,139)	(231,138)
Total	$ 2,189,934	$ 1,806,452

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:

	2020	2019
Cash	$ 54,807	$ 48,909
Bond Mutual Funds	45,174	35,317
Equity Mutual Funds	124,157	94,169
Total	$ 224,138	$ 178,395

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	5-40 Years
Machinery and Equipment	5-15 Years
Fleet Vehicles	5-7 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 and Grant Revenue – Contributions and grants 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.

All grant receivables are due within one year and considered current. No allowance has been recorded.

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.

Risks and Uncertainties

During March 2020, 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 fluctuations. As of March 17, 2021, the amount and likelihood of loss relating to these events is not determined.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassifications

Certain reclassifications have been made to the prior year consolidated financial statements to agree with the current 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 17, 2021, the date the consolidated financial statements were available to be issued.

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:

	2020	2019
Cash and Cash Equivalents	$ 6,648,877	$ 4,271,648
Accounts Receivable (Net)	4,774,328	2,402,483
Total	$ 11,423,205	$ 6,674,131

In addition to the financial assets available noted in the table above, MDI has as of December 31, 2020 and 2019, $2,189,934 and $1,806,452, 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 $3,500,000 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:

	2020	2019
Land, Buildings, and Improvements	$ 15,802,267	$ 15,595,841
Machinery and Equipment	16,512,995	16,037,460
Fleet Vehicles	657,469	531,819
Right-of-Use Lease Asset	1,946,240	1,946,240
Office and Computer Equipment	650,911	554,036
Total	35,569,882	34,665,396
Less: Accumulated Depreciation	(19,694,361)	(18,165,379)
Net	$ 15,875,521	$ 16,500,017

NOTE 4 LONG-TERM DEBT

Long-term debt is as follows:

Description	2020	2019
Minnesota Bank and Trust Payroll Protection Program loan with a 1% interest rate and eligible for full forgiveness from the Small Business Administration	$ 2,524,400	$ -
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.	2,257,248	2,557,864
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.	853,000	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.	17,432	20,918
Subtotal	5,705,432	3,632,134
Less: Amount Due Within One Year	(2,844,281)	(300,646)
Net Long-Term Debt	$ 2,861,151	$ 3,331,488

NOTE 4 LONG-TERM DEBT (CONTINUED)

The scheduled maturities of long-term debt were as follows at December 31, 2020:

Year Ending December 31,	Amount
2021	$ 2,844,281
2022	330,687
2023	341,869
2024	353,440
2025	365,414
Thereafter	1,469,741
Total	$ 5,705,432

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, 0.14% as of December 31, 2020. As of December 31, 2020, the notional amount of the swap agreement was consistent with the outstanding amount of the loan noted in the table above. At December 31, 2020 and 2019, the fair value of the swap agreement (asset) liability was $90,845 and $28,158, 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, 2020. 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 (IRRRB) 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 for every new job created based on annual employment reports submitted to IRRRB.

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 $18,003 in 2020 and $30,230 in 2019.

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 $169,621 in 2020 and $163,989 in 2019.

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 $21,572 in 2020 and $21,875 in 2019. The total value of investments, at fair market value, held for the participants' benefit and the related vested deferred liability is $224,138 and $178,395 at December 31, 2020 and 2019, 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:

	2020	2019
Plastic Production Overhead	$ 9,269,401	$ 6,908,182
Twin Cities Overhead (Excluding Plastic Production)	1,549,509	1,926,024
Cohasset Overhead (Excluding Plastic Production)	1,196,181	1,317,485
Total Overhead	$ 12,015,091	$ 10,151,691
Allowable General and Administrative	$ 3,319,265	$ 3,247,318
Marketing and Advertising	2,110,707	1,991,845
Total Selling, Administrative, Advertising, and Fundraising	$ 5,429,972	$ 5,239,163

NOTE 7 MAJOR CUSTOMERS AND CREDIT RISK CONCENTRATIONS

The USPS is a major customer of MDI. Sales to the USPS accounted for $21,628,735 (60%) and $16,228,251 (54%) of total revenue for the years ended December 31, 2020 and 2019, respectively.

As of December 31, 2020 and 2019, 66% and 36%, 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:

	2020			
	Level 1	Level 2	Level 3	Total
Investments:				
Bond Mutual Funds	$ 45,174	$ -	$ -	$ 45,174
Equity Mutual Funds	124,157	-	-	124,157
Total	169,331	-	-	169,331
Swap Asset (Liability)	-	(90,845)	-	(90,845)
Total Fair Value Assets	$ 169,331	$ (90,845)	$ -	$ 78,486

	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

NOTE 9 LEASES

MDI leases equipment and office space for various terms under long-term, noncancelable 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
2021	17,568	277,679	$ 295,247
2022	14,640	284,621	299,261
2023	-	291,736	291,736
2024	-	299,030	299,030
2025	-	306,506	306,506
Thereafter	-	541,891	541,891
Total Payments	32,208	2,001,463	2,033,671
Less: Interest Portion	(1,637)	(339,761)	(341,398)
Total Lease Obligation	$ 30,571	$ 1,661,702	$ 1,692,273

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

	2020	2019
Operating Lease Cost:		
Equipment Lease Cost:		
Amortization of Right-to-Use Asset	$ 15,424	$ 14,877
Interest on Lease Liability	2,145	2,691
Facility Lease Cost:		
Amortization of Right-to-Use Asset	179,721	179,753
Interest on Lease Liability	96,672	96,641
Total Operating Lease Cost	$ 293,962	$ 293,962
Other Information:		
Operating Cash Flows from Operating Leases	$ 288,474	$ 281,867
Weighted Average Remaining Lease Term	5.5 Years	6.5 Years
Weighted Average Discount Rate	5.50%	5.50%

NOTE 10 BOARD DESIGNATED NET ASSETS

As of December 31, 2020, the board of directors has designated net assets without donor restrictions of $3,500,000 for the Operating Fund, $1,890,000 for the Major Equipment Fund and $1,000,000 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 Equipment and Major Building Repair Funds is to have sufficient funds available to pay for the replacement of a building roof or upgrade factory production equipment. The three 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, Major Equipment Fund and Major Building Repair Funds are made at the discretion of the board of directors.

NOTE 11 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes at December 31:

	2020	2019
Extruder Project	$ 760,000	$ -
Careers Skills Program	60,000	-
Total Net Assets With Donor Restrictions	$ 820,000	$ -

NOTE 12 COMMITMENTS

During November 2020, MDI signed a purchase agreement for equipment that is expected to be built and delivered in October 2021. The approximate cost of this equipment is $1,900,000. As part of this commitment, MDI has entered into foreign currency hedge contracts in November as the equipment is being built in Italy. MDI has entered into two hedges to lock in the exchange rate to euros as of December 31, 2020. The two hedges total $829,865 and will be paid in April and October 2021.