MINNESOTA DIVERSIFIED INDUSTRIES INC.
AND AFFILIATES

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021

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INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Consolidated Financial Statements

Opinion

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, 2022 and 2021, 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.

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, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are required to be independent of Minnesota Diversified Industries Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about MDI's ability to continue as a going concern for one year after the date the consolidated financial statements are available to be issued. .

Board of Directors
Minnesota Diversified Industries Inc. and Affiliates

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.

- Obtain an understanding of internal control relevant to the audit 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 Minnesota Diversified Industries Inc. and Affiliates' internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Minnesota Diversified Industries Inc. and Affiliates' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
March 30, 2023

MINNESOTA DIVERSIFIED INDUSTRIES INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2022 AND 2021

	2022	2021
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 4,849,838	$ 4,040,764
Cash and Cash Equivalents - Board-Designated	4,036,000	6,390,000
Cash and Cash Equivalents - Restricted	420,300	623,475
Accounts Receivable, Net	7,865,181	4,192,833
Grants Receivable	5,000	20,000
Inventories	2,840,245	3,060,442
Prepaid Expenses and Other Assets	168,195	142,614
Total Current Assets	20,184,759	18,470,128
OTHER ASSETS		
Swap Asset	52,921	-
Investments	156,224	285,800
Total Other Assets	209,145	285,800
PROPERTY AND EQUIPMENT, Net	17,184,505	15,619,406
Total Assets	$ 37,578,409	$ 34,375,334
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current Portion of Long-Term Debt	$ 338,383	$ 330,687
Current Portion of Lease Liability	247,172	207,300
Accounts Payable	999,997	798,490
Accrued Personnel Expenses	1,240,850	1,190,193
Deferred Revenue	259,028	31,628
Other Current Liabilities	805,018	960,396
Total Current Liabilities	3,890,448	3,518,694
OTHER LIABILITIES		
Long-Term Debt	2,192,291	2,535,798
Lease Liability	1,053,927	1,277,673
Retirement Benefit Liability	157,039	286,578
Swap/ Hedge Liability	-	114,312
Total Other Liabilities	3,403,257	4,214,361
NET ASSETS		
Without Donor Restrictions:		
Undesignated	8,608,651	3,989,398
Net Investment in Property and Equipment	17,184,505	15,619,406
Board-Designated:		
Operating Fund	3,500,000	3,500,000
Major Equipment Fund	-	1,890,000
Major Building Repair Fund	536,000	1,000,000
Total Board-Designated	4,036,000	6,390,000
Total Without Donor Restrictions	29,829,156	25,998,804
With Donor Restrictions	455,548	643,475
Total Net Assets	30,284,704	26,642,279
Total Liabilities and Net Assets	$ 37,578,409	$ 34,375,334

See accompanying Notes to Consolidated Financial Statements.

MINNESOTA DIVERSIFIED INDUSTRIES INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
SALES	$ 36,376,662	$ 24,984,762
COST OF GOODS SOLD		
Variable Manufacturing Costs	(20,426,264)	(14,410,578)
Fixed Manufacturing Costs	(8,551,898)	(7,358,456)
Total Cost of Goods Sold	(28,978,162)	(21,769,034)
GROSS MARGIN	7,398,500	3,215,728
OPERATING EXPENSE		
Selling and Administrative	(5,727,372)	(5,134,089)
Commissions	(279,890)	(123,989)
Total Operating Expense	(6,007,262)	(5,258,078)
NET MANUFACTURING GAIN (LOSS)	1,391,238	(2,042,350)
OTHER OPERATING REVENUE, SUPPORT, AND DEVELOPMENT		
Training and Service Grants	435,104	356,270
Other Contributions and Grants	185,347	221,573
Net assets Released from Restriction	798,486	865,966
Training and Service Expenses	(769,454)	(453,600)
Fundraising Expenses	(268,176)	(236,366)
Total Other Operating Revenue, Support, and Development	381,307	753,843
NET OPERATING GAIN (LOSS)	1,772,545	(1,288,507)
OTHER INCOME (EXPENSE)		
Interest Income	61,731	62,531
Change in Value of Swap/ Hedge	8,146	(23,467)
Loan Forgiveness Income	-	2,524,400
Other Income	2,679,810	78,280
Contributions Expense	(25,200)	(2,000)
Real Estate Expense	(569,007)	(518,315)
Bad Debt Expense	(49,000)	(12,000)
Interest and Other Finance Related Expense	(48,673)	(65,965)
Total Other Expense	2,057,807	2,043,464
Total Changes in Net Assets Without Donor Restrictions	3,830,352	754,957
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS		
Contributions	610,559	689,441
Net Assets Released from Restriction	(798,486)	(865,966)
Total Changes in Net Assets With Donor Restrictions	(187,927)	(176,525)
TOTAL CHANGE IN NET ASSETS	3,642,425	578,432
Net Assets - Beginning of Year	26,642,279	26,063,847
NET ASSETS - AT END OF YEAR	$ 30,284,704	$ 26,642,279

See accompanying Notes to Consolidated Financial Statements.

MINNESOTA DIVERSIFIED INDUSTRIES INC. AND AFFILIATES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2022

	Program Services	Management and General	Fundraising	Total
Salaries	$ 8,980,760	$ 2,200,305	$ 149,343	$ 11,330,408
Employee Benefits	1,681,955	680,101	11,683	2,373,739
Payroll Taxes	607,615	135,189	10,715	753,519
Total Personnel Costs	11,270,330	3,015,595	171,741	14,457,666
Cost of Goods Sold	10,299,144	-	-	10,299,144
Source America Fees	279,890	-	-	279,890
Contract Services	4,577,079	513,073	36,000	5,126,152
Advertising Expense	242,196	150,186	16,200	408,582
Office Expenses	56,732	226,678	252	283,662
Occupancy	1,652,925	465,611	-	2,118,536
Information Technology	18,593	269,425	-	288,018
Supplies	1,006,675	12,104	264	1,019,043
Travel	117,828	62,933	4,854	185,615
Interest	-	168,305	-	168,305
Insurance	-	210,262	-	210,262
Equipment Rental	-	27,896	-	27,896
Other Expenses	323,004	10,949	38,865	372,818
Depreciation and Amortization	1,132,240	337,105	-	1,469,345
Total Expenses	$ 30,976,636	$ 5,470,122	$ 268,176	$ 36,714,934

See accompanying Notes to Consolidated Financial Statements.

MINNESOTA DIVERSIFIED INDUSTRIES INC. AND AFFILIATES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2021

	Program Services	Management and General	Fundraising	Total
Salaries	$ 8,038,523	$ 1,876,753	$ 138,051	$ 10,053,327
Employee Benefits	1,709,592	547,242	12,328	2,269,162
Payroll Taxes	576,101	127,855	9,919	713,875
Total Personnel Costs	10,324,216	2,551,850	160,298	13,036,364
Cost of Goods Sold	7,303,749	-	-	7,303,749
Source America Fees	123,989	-	-	123,989
Contract Services	2,107,036	274,379	37,258	2,418,673
Advertising Expense	135,417	84,540	162	220,119
Office Expenses	47,346	196,821	1,689	245,856
Occupancy	1,303,087	394,552	-	1,697,639
Information Technology	17,793	231,109	-	248,902
Supplies	777,745	10,794	-	788,539
Travel	66,694	33,044	3,160	102,898
Interest	-	97,056	-	97,056
Insurance	285	237,315	-	237,600
Equipment Rental	8,100	28,349	-	36,449
Other Expenses	136,351	80,084	33,799	250,234
Depreciation	1,168,226	339,065	-	1,507,291
Total Expenses	$ 23,520,034	$ 4,558,958	$ 236,366	$ 28,315,358

See accompanying Notes to Consolidated Financial Statements.

MINNESOTA DIVERSIFIED INDUSTRIES INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$ 3,642,425	$ 578,432
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation	1,469,345	1,507,291
Lease Expense	280,433	293,961
Noncash Fixed Asset Additions	(44,095)	-
Allowance for Doubtful Accounts	(35,968)	(11,020)
Reserve for Obsolete Inventory	186,910	30,350
Change in Value of Swap/ Hedge	(8,146)	23,467
(Gain) Loss on Sale of Fixed Assets	137,264	23,092
Unrealized Gain on Investments	37	778
Loan Forgiveness Income	-	(2,524,400)
Changes in Assets and Liabilities:		
Prepaid Expenses and Other Assets	(25,581)	38,939
Accounts Receivable	(3,636,380)	592,515
Grants Receivable	15,000	225,000
Inventories	33,287	(900,858)
Accounts Payable	201,507	(406,425)
Accrued Expenses	50,657	(433,619)
Deferred Revenue	227,400	(179,872)
Lease Liability	(244,911)	(295,248)
Other Liabilities	(155,378)	672,807
Net Cash Provided (Used) by Operating Activities	2,093,806	(764,810)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	(3,587,435)	(1,509,527)
Proceeds from Sale of Fixed Assets	81,339	29,246
Net Cash Used by Investing Activities	(3,506,096)	(1,480,281)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal Payments on Long-Term Debt	(335,811)	(314,547)
Net Cash Used by Financing Activities	(335,811)	(314,547)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,748,101)	(2,559,638)
Cash and Cash Equivalents - Beginning of Year	11,054,239	13,613,877
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 9,306,138	$ 11,054,239
CASH AND CASH EQUIVALENTS - STATEMENTS OF FINANCIAL POSITION		
Cash and Cash Equivalents	$ 4,849,838	$ 4,040,764
Cash and Cash Equivalents - Board-Designated	4,036,000	6,390,000
Cash and Cash Equivalents - Restricted	420,300	623,475
Total	$ 9,306,138	$ 11,054,239
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash Payments for Interest	$ 86,218	$ 97,056

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 (GAAP). 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 are not subject to donor-imposed restrictions. The board of directors has discretionary control over these resources.

Without Donor Restrictions – Net Investment in Property and Equipment – Those resources are not subject to donor-imposed restrictions. This represents the Organization's total investment in property and equipment, net of accumulated depreciation.

Without Donor Restrictions – Board-Designated Net Assets – Those resources are 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 are 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:

	2022	2021
Accounts Receivables - Commercial	$ 1,975,296	$ 2,022,007
Accounts Receivables - USPS	3,216,796	2,230,627
Accounts Receivables - Hired Hands	5,899	6,273
Accounts Receivables - MDI Real Estate	26,606	-
Accounts Receivables - Other	2,812,411	69,785
Less: Allowance for Doubtful Accounts	(171,827)	(135,859)
Total Accounts Receivables (Net)	$ 7,865,181	$ 4,192,833

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 $171,827 and $135,859 at December 31, 2022 and 2021, 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:

	2022	2021
Raw Materials	$ 2,549,051	$ 2,527,437
Finished Goods	739,593	790,183
Reserve	(448,399)	(257,178)
Total	$ 2,840,245	$ 3,060,442

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 statements of activities.

Investments consist of the following as of December 31:

	2022	2021
Cash	$ 36,085	$ 197,046
Bond Mutual Funds	53,394	57,206
Equity Mutual Funds	66,745	31,548
Total	$ 156,224	$ 285,800

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 $5,000 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 to 40 Years
Machinery and Equipment	5 to 15 Years
Fleet Vehicles	5 to 7 Years
Office and Computer Equipment	3 to 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 leases with total payments less than $15,000 or 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 non lease 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 GAAP. 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 for certain customers, MDI will provide a credit for empty plastic pallets that is received from customers.

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.

Contract Assets and Liabilities

The contract assets and liabilities consist of the following at December 31:

	2022	2021	2020
Contract Assets:			
Accounts Receivable	$ 7,865,181	$ 4,192,833	$ 4,774,328
Contract Liabilities:			
Deferred Revenue	$ 259,028	$ 31,628	$ 211,500

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 GAAP 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.

DI 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events

In preparing these consolidated financial statements, MDI has evaluated for recognition or disclosure the events or transactions that occurred through March 30, 2023, 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:

	2022	2021
Cash and Cash Equivalents	$ 4,849,838	$ 4,040,764
Accounts Receivable (Net)	7,865,181	4,192,833
Total	$ 12,715,019	$ 8,233,597

In addition to the financial assets available noted in the table above, MDI has as of December 31, 2022 and 2021, $2,840,245 and $3,060,442, 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:

	2022	2021
Land, Buildings, and Improvements	$ 16,081,839	$ 15,752,588
Machinery and Equipment	20,256,492	17,719,129
Fleet Vehicles	682,529	643,968
Right-of-Use Lease Asset	1,989,951	1,946,240
Office and Computer Equipment	796,182	766,584
Total	39,806,993	36,828,509
Less: Accumulated Depreciation	(22,622,488)	(21,209,103)
Property and Equipment, Net	$ 17,184,505	$ 15,619,406

NOTE 4 LONG-TERM DEBT

Long-term debt is as follows:

Description	2022	2021
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.	$ 1,624,322	$ 1,946,188
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	853,000
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.	-	13,945
Subtotal	2,530,674	2,866,485
Less: Amount Due Within One Year	(338,383)	(330,687)
Net Long-Term Debt	$ 2,192,291	$ 2,535,798

The scheduled maturities of long-term debt were as follows at December 31, 2022:

Year Ending December 31,	Amount
2023	$ 338,383
2024	349,954
2025	361,926
2026	374,315
2027	226,419
Thereafter	879,677
Total	$ 2,530,674

NOTE 4 LONG-TERM DEBT (CONTINUED)

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, 4.40% as of December 31, 2022. As of December 31, 2022, the notional amount of the swap agreement was consistent with the outstanding amount of the loan noted in the table above. At December 31, 2022 and 2021, the fair value of the swap agreement (asset) liability was $(52,921) and $37,312, 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, 2023. There were no outstanding draws on this line of credit as of December 31, 2022. The line bears interest at prime of 7.5%.

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 10-year term with 10% of the loan being forgiven each year with the loan being totally forgiven on the first day of the 11th year. This loan was paid in full in 2022.

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 $2,617 in 2022 and $10,505 in 2021.

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 $180,618 in 2022 and $161,255 in 2021.

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 $22,956 in 2022 and $22,794 in 2021. The total value of investments, at fair market value, held for the participants' benefit and the related vested deferred liability is $157,039 and $286,578 at December 31, 2022 and 2021, 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:

	2022	2021
Plastic Production Overhead	$ 10,452,513	$ 8,151,605
Twin Cities Overhead (Excluding Plastic Production)	2,126,537	2,192,814
Cohasset Overhead (Excluding Plastic Production)	617,672	625,160
Total Overhead	$ 13,196,722	$ 10,969,579
Allowable General and Administrative	$ 3,959,657	$ 3,469,722
Marketing and Advertising	2,364,781	2,036,722
Total Selling, Administrative, Advertising, and Fundraising	$ 6,324,438	$ 5,506,444

NOTE 7 MAJOR CUSTOMERS AND CREDIT RISK CONCENTRATIONS

The USPS is a major customer of MDI. Sales to the USPS accounted for $21,147,677 (52%) and $9,660,656 (33%) of total revenue for the years ended December 31, 2022 and 2021, respectively.

As of December 31, 2022 and 2021, 62% of total customer accounts receivable were from one customer and 60% of total accounts receivable were from two customers, respectively.

As of December 31, 2022, 34% of total accounts receivable were related to amounts to be received for the employee retention credit that was filed and recognized as revenue for the year ended December 31, 2022.

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:

	December 31, 2022			
	Level 1	Level 2	Level 3	Total
Investments:				
Bond Mutual Funds	$ 53,394	$ -	$ -	$ 53,394
Equity Mutual Funds	66,745	-	-	66,745
Total	120,139	-	-	120,139
Swap Asset (Liability)	-	52,921	-	52,921
Total Fair Value Assets	$ 120,139	$ 52,921	$ -	$ 173,060

NOTE 8 FAIR VALUE MEASUREMENTS (CONTINUED)

	December 31, 2021			
	Level 1	Level 2	Level 3	Total
Investments:				
Bond Mutual Funds	$ 57,206	$ -	$ -	$ 57,206
Equity Mutual Funds	31,548	-	-	31,548
Total	88,754	-	-	88,754
Swap Asset (Liability)	-	(114,312)	-	(114,312)
Total Fair Value Assets	$ 88,754	$ (114,312)	$ -	$ (25,558)

NOTE 9 LEASES

MDI leases equipment and office space for various terms under long-term, noncancelable lease arrangements. The equipment leases require monthly payments ranging from $400 to $1,500 for a term of 24 to 36 months that runs through July 2025. 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.

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
2023	$ 20,823	$ 291,736	$ 312,559
2024	18,189	299,030	317,219
2025	2,543	306,506	309,049
2026	-	309,652	309,652
2027	-	232,239	232,239
Total Payments	41,555	1,439,163	1,480,718
Less: Interest Portion	(2,251)	(177,368)	(179,619)
Total Lease Obligation	$ 39,304	$ 1,261,795	$ 1,301,099

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

	2022	2021
Operating Lease Cost:		
Equipment Lease Cost:		
Amortization of Right-to-Use Asset	$ 18,340	$ 16,292
Interest on Lease Liability	580	1,275
Facility Lease Cost:		
Amortization of Right-to-Use Asset	200,672	189,721
Interest on Lease Liability	75,721	86,672
Total Operating Lease Cost	$ 295,313	$ 293,960
Other Information:		
Operating Cash Flows from Operating Leases	$ 244,911	$ 295,248
Weighted Average Remaining Lease Term	3.7 Years	5.5 Years
Weighted Average Discount Rate	5.50%	5.50%

NOTE 10 BOARD-DESIGNATED NET ASSETS

As of December 31, 2022, the board of directors has designated net assets without donor restrictions of $3,500,000 for the Operating Fund and $536,000 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. 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 Fund 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:

	2022	2021
Extruder Project	$ -	$ 114,183
Careers Skills Program	374,762	90,000
Employment Services	-	124,292
Equipment	80,786	315,000
Total Net Assets With Donor Restrictions	$ 455,548	$ 643,475

Net assets released from donor restrictions were as follows for the years ended December 31:

	2022	2021
Extruder Project	$ 234,742	$ 775,258
Careers Skills Program	329,530	-
Employment Services	-	90,708
Equipment	234,214	-
Total Net Assets Released From Donor Restrictions	$ 798,486	$ 865,966

NOTE 12 COMMITMENTS AND CONTINGENCIES

During November 2020, MDI signed a purchase agreement for equipment that was 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 entered into foreign currency hedge contracts in November 2020 as the equipment was being built in Italy. However, due to Corona Virus (COVID-19) and supply chain issues and delays, the equipment was not delivered until June 2022. This did result in MDI extending and combining hedges into one hedge that totaled $1,639,210 which was paid out in May 2022 and resulted in a net loss position of $159,078 of which $77,000 of the loss was recorded in 2021 and the remaining $82,078 was recorded in 2022. The foreign currency losses were reflected on the consolidated statement of activities with the change in value swap/ hedge. As of December 31, 2022, the equipment has been received, installed and paid for.

NOTE 12 COMMITMENTS AND CONTINGENCIES (CONTINUED)

The Organization is subject to certain claims in the ordinary course of business. It is management's belief that should the Organization be found liable, the claims would be covered by insurance. No liability for these claims have been included in these consolidated financial statements as of December 31, 2022.

NOTE 13 COVID RELIEF PROGRAMS

Grants from the government are recognized when all conditions of such grants are fulfilled or there is reasonable assurance that they will be fulfilled. During the year ended December 31, 2022 MDI complied with the conditions of the Employee Retention Credit (ERC) funding from the federal government in the amount of $2,755,262 in compliance with the program. Grants related to this program are recorded as other income on the consolidated statement of activities. MDI recognized $2,755,262 of other income and accounts receivable related to performance requirements being met and costs being incurred in compliance with the program during the year ended December 31, 2022.

MDI also received a $2,524,400 loan under the Paycheck Protection Program created as part of the relief efforts related to COVID-19 and administered by the Small Business Administration (SBA). The loan was received on April 14, 2020 and was eligible for loan forgiveness of up to 100% of the loan, upon meeting certain requirements. This loan was forgiven on July 21, 2021 and recognized as revenue in 2021. The SBA may review funding eligibility and usage of funds for compliance with program requirements based on dollar thresholds and other factors. The amount of liability, if any, from potential noncompliance cannot be determined with certainty; however, management is of the opinion that any review will not have a material adverse impact on MDI's financial position.

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