# MINNESOTA DIVERSIFIED INDUSTRIES INC. AND AFFILIATES

## CONSOLIDATED FINANCIAL STATEMENTS

## YEARS ENDED DECEMBER 31, 2024 AND 2023

**MINNESOTA DIVERSIFIED INDUSTRIES INC. AND AFFILIATES**
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**YEARS ENDED DECEMBER 31, 2024 AND 2023**

# 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, 2024 and 2023, 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, 2024 and 2023, 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 MDI 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.

***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 MDI's 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 MDI's 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
April 10, 2025

**MINNESOTA DIVERSIFIED INDUSTRIES INC. AND AFFILIATES**
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**
**DECEMBER 31, 2024 AND 2023**

| | 2024 | 2023 |
|---|---|---|
| **ASSETS** | | |
| **CURRENT ASSETS** | | |
| Cash and Cash Equivalents | $ 12,596,648 | $ 9,539,444 |
| Cash and Cash Equivalents - Board-Designated | 6,000,000 | 6,000,000 |
| Cash and Cash Equivalents - Restricted | 282,194 | 631,324 |
| Accounts Receivable, Net of Allowance of $251,000 for 2024 and $215,000 for 2023 | 6,370,741 | 4,973,452 |
| Grants Receivable | 68,989 | 339,435 |
| Inventories, Net | 2,916,098 | 1,812,398 |
| Prepaid Expenses and Other Assets | 270,326 | 245,758 |
| Total Current Assets | 28,504,996 | 23,541,811 |
| **OTHER ASSETS** | | |
| Swap Asset | 18,166 | 33,153 |
| Investments | 275,354 | 208,126 |
| Total Other Assets | 293,520 | 241,279 |
| **PROPERTY AND EQUIPMENT, Net** | 16,339,910 | 16,941,489 |
| Total Assets | $ 45,138,426 | $ 40,724,579 |
| **LIABILITIES AND NET ASSETS** | | |
| **CURRENT LIABILITIES** | | |
| Current Portion of Long-Term Debt | $ 356,591 | $ 344,619 |
| Current Portion of Lease Liability | 414,056 | 207,300 |
| Accounts Payable | 1,068,003 | 1,051,121 |
| Accrued Personnel Expenses | 1,498,167 | 1,314,072 |
| Deferred Revenue | 599,662 | 89,797 |
| Other Current Liabilities | 1,320,609 | 1,058,263 |
| Total Current Liabilities | 5,257,088 | 4,065,172 |
| **OTHER LIABILITIES** | | |
| Long-Term Debt | 1,443,064 | 1,799,655 |
| Long-Term Lease Liability | 612,595 | 1,102,003 |
| Retirement Benefit Liability | 276,665 | 208,969 |
| Total Other Liabilities | 2,332,324 | 3,110,627 |
| **NET ASSETS** | | |
| Without Donor Restrictions: | | |
| Undesignated | 14,926,910 | 9,975,967 |
| Net Investment in Property and Equipment | 16,339,910 | 16,941,489 |
| Board-Designated: | | |
| Operating Fund | 4,000,000 | 4,000,000 |
| IT Software Project Fund | 1,000,000 | 1,000,000 |
| Major Building Repair Fund | 1,000,000 | 1,000,000 |
| Total Board-Designated | 6,000,000 | 6,000,000 |
| Total Without Donor Restrictions | 37,266,820 | 32,917,456 |
| With Donor Restrictions | 282,194 | 631,324 |
| Total Net Assets | 37,549,014 | 33,548,780 |
| Total Liabilities and Net Assets | $ 45,138,426 | $ 40,724,579 |

*See accompanying Notes to Consolidated Financial Statements.*

**MINNESOTA DIVERSIFIED INDUSTRIES INC. AND AFFILIATES**
**CONSOLIDATED STATEMENTS OF ACTIVITIES**
**YEARS ENDED DECEMBER 31, 2024 AND 2023**

| | 2024 | 2023 |
|---|---|---|
| **CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS** | | |
| **SALES** | $ 46,723,012 | $ 41,704,567 |
| **COST OF GOODS SOLD** | | |
| Variable Manufacturing Costs | (23,894,862) | (20,776,752) |
| Fixed Manufacturing Costs | (10,974,308) | (10,568,285) |
| Total Cost of Goods Sold | (34,869,170) | (31,345,037) |
| **GROSS MARGIN** | 11,853,842 | 10,359,530 |
| **OPERATING EXPENSE** | | |
| Selling and Administrative | (6,952,595) | (6,631,840) |
| Commissions | (494,173) | (346,222) |
| Total Operating Expense | (7,446,768) | (6,978,062) |
| **NET MANUFACTURING GAIN** | 4,407,074 | 3,381,468 |
| **OTHER OPERATING REVENUE, SUPPORT, AND DEVELOPMENT** | | |
| Training and Service Grants | 1,085,825 | 594,588 |
| Other Contributions and Grants | 165,798 | 150,824 |
| Net Assets Released from Restriction | 884,130 | 367,859 |
| Training and Service Expenses | (1,797,039) | (1,027,933) |
| Fundraising Expenses | (420,685) | (316,986) |
| Total Other Operating Revenue, Support, and Development | (81,971) | (231,648) |
| **NET OPERATING GAIN** | 4,325,103 | 3,149,820 |
| **OTHER INCOME (EXPENSE)** | | |
| Interest Income | 676,420 | 595,727 |
| Change in Value of Swap/Hedge | (14,987) | (19,768) |
| Other Income | 51,399 | 149,576 |
| Contributions Expense | (51,000) | (51,000) |
| Real Estate Expense | (583,991) | (629,315) |
| Credit Loss Expense | (36,000) | (60,895) |
| Interest and Other Finance Related Expense | (17,580) | (45,845) |
| Total Other Income (Expense) | 24,261 | (61,520) |
| Total Changes in Net Assets Without Donor Restrictions | 4,349,364 | 3,088,300 |
| **CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS** | | |
| Contributions | 535,000 | 543,635 |
| Net Assets Released from Restriction | (884,130) | (367,859) |
| Total Changes in Net Assets With Donor Restrictions | (349,130) | 175,776 |
| **TOTAL CHANGE IN NET ASSETS** | 4,000,234 | 3,264,076 |
| Net Assets - Beginning of Year | 33,548,780 | 30,284,704 |
| **NET ASSETS - END OF YEAR** | $ 37,549,014 | $ 33,548,780 |

*See accompanying Notes to Consolidated Financial Statements.*

**MINNESOTA DIVERSIFIED INDUSTRIES INC. AND AFFILIATES**
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**
**YEAR ENDED DECEMBER 31, 2024**

| | Program Services | Management and General | Fundraising | Total |
|---|---|---|---|---|
| Salaries | $ 11,312,658 | $ 2,270,582 | $ 221,052 | $ 13,804,292 |
| Employee Benefits | 2,201,340 | 678,237 | 12,753 | 2,892,330 |
| Payroll Taxes | 763,538 | 127,630 | 11,816 | 902,984 |
| Total Personnel Costs | 14,277,536 | 3,076,449 | 245,621 | 17,599,606 |
| Cost of Goods Sold | 11,702,752 | - | - | 11,702,752 |
| Source America Fees | 494,173 | - | - | 494,173 |
| Contract Services | 6,336,052 | 669,183 | 102,680 | 7,107,915 |
| Advertising Expense | 369,020 | 190,150 | 8,874 | 568,044 |
| Office Expenses | 93,769 | 306,881 | 380 | 401,030 |
| Occupancy | 1,784,859 | 452,567 | - | 2,237,426 |
| Information Technology | 17,057 | 459,414 | - | 476,471 |
| Supplies | 1,636,856 | 28,697 | - | 1,665,553 |
| Travel | 174,308 | 94,217 | 3,218 | 271,743 |
| Interest | - | 63,471 | - | 63,471 |
| Insurance | - | 242,155 | - | 242,155 |
| Equipment Rental | 7,110 | 30,193 | - | 37,303 |
| Other Expenses | 752,915 | 23,931 | 59,912 | 836,758 |
| Depreciation and Amortization | 1,161,738 | 356,095 | - | 1,517,833 |
| Total Expenses by Function | $ 38,808,145 | $ 5,993,403 | $ 420,685 | $ 45,222,233 |

*See accompanying Notes to Consolidated Financial Statements.*

# MINNESOTA DIVERSIFIED INDUSTRIES INC. AND AFFILIATES
# CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
# YEAR ENDED DECEMBER 31, 2023

| | Program Services | Management and General | Fundraising | Total |
|---|---|---|---|---|
| Salaries | $ 9,870,761 | $ 2,532,408 | $ 160,378 | $ 12,563,547 |
| Employee Benefits | 1,795,720 | 768,198 | 15,831 | 2,579,749 |
| Payroll Taxes | 670,688 | 148,131 | 9,888 | 828,707 |
| Total Personnel Costs | 12,337,169 | 3,448,737 | 186,097 | 15,972,003 |
| Cost of Goods Sold | 9,782,171 | - | - | 9,782,171 |
| Source America Fees | 346,222 | - | - | 346,222 |
| Contract Services | 5,749,768 | 963,073 | 58,934 | 6,771,775 |
| Advertising Expense | 294,896 | 187,083 | 5,030 | 487,009 |
| Office Expenses | 54,586 | 244,316 | 605 | 299,507 |
| Occupancy | 1,901,841 | 517,778 | - | 2,419,619 |
| Information Technology | 15,297 | 315,769 | - | 331,066 |
| Supplies | 1,261,568 | 14,575 | 178 | 1,276,321 |
| Travel | 130,366 | 120,625 | 3,616 | 254,607 |
| Interest | - | 75,004 | - | 75,004 |
| Insurance | - | 202,800 | - | 202,800 |
| Equipment Rental | 14,361 | 30,564 | - | 44,925 |
| Other Expenses | 407,944 | 24,159 | 62,526 | 494,629 |
| Depreciation and Amortization | 1,324,251 | 373,164 | - | 1,697,415 |
| Total Expenses by Function | $ 33,620,440 | $ 6,517,647 | $ 316,986 | $ 40,455,073 |

*See accompanying Notes to Consolidated Financial Statements.*

# MINNESOTA DIVERSIFIED INDUSTRIES INC. AND AFFILIATES
## CONSOLIDATED STATEMENTS OF CASH FLOWS
## YEARS ENDED DECEMBER 31, 2024 AND 2023

| | 2024 | 2023 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Change in Net Assets | $ 4,000,234 | $ 3,264,076 |
| Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities: | | |
| Depreciation | 1,517,833 | 1,697,415 |
| Noncash Fixed Asset Additions | - | (124,000) |
| Allowance for Doubtful Accounts | 36,000 | 60,895 |
| Change in Value of Swap/Hedge | 14,987 | 19,768 |
| (Gain) Loss on Sale of Fixed Assets | (11,776) | (16,872) |
| Unrealized Loss on Investments | 468 | 28 |
| Loan Forgiveness Income | - | (53,352) |
| Changes in Assets and Liabilities: | | |
| Prepaid Expenses and Other Assets | (24,568) | (77,563) |
| Accounts Receivable | (1,433,289) | 2,830,834 |
| Grants Receivable | 270,446 | (334,435) |
| Inventories | (1,103,700) | 1,027,847 |
| Accounts Payable | 16,882 | 51,124 |
| Accrued Expenses | 184,095 | 73,222 |
| Deferred Revenue | 509,865 | (169,231) |
| Lease Liability | (11,976) | (36,607) |
| Other Liabilities | 262,346 | 253,245 |
| Net Cash Provided by Operating Activities | 4,227,847 | 8,466,394 |
| | | |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Purchase of Property and Equipment | (1,175,154) | (1,386,684) |
| Proceeds from Sale of Fixed Assets | - | 117,968 |
| Net Cash Used by Investing Activities | (1,175,154) | (1,268,716) |
| | | |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Principal Payments on Long-Term Debt | (344,619) | (333,048) |
| Net Cash Used by Financing Activities | (344,619) | (333,048) |
| | | |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | 2,708,074 | 6,864,630 |
| | | |
| Cash and Cash Equivalents - Beginning of Year | 16,170,768 | 9,306,138 |
| | | |
| **CASH AND CASH EQUIVALENTS - END OF YEAR** | $ 18,878,842 | $ 16,170,768 |
| | | |
| **CASH AND CASH EQUIVALENTS - STATEMENTS OF FINANCIAL POSITION** | | |
| Cash and Cash Equivalents | $ 12,596,648 | $ 9,539,444 |
| Cash and Cash Equivalents - Board-Designated | 6,000,000 | 6,000,000 |
| Cash and Cash Equivalents - Restricted | 282,194 | 631,324 |
| Total | $ 18,878,842 | $ 16,170,768 |
| | | |
| **SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION** | | |
| Cash Payments for Interest | $ 63,471 | $ 75,004 |

*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 the 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 five locations in Minnesota – Minneapolis, Hibbing, Grand Rapids, Cohasset, and Roseville – and pays its 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 and Allowance for Credit Losses

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 and the allowance for credit losses were made up of the following:

| | 2024 | 2023 |
|---|---|---|
| Accounts Receivable - Commercial | $ 2,652,246 | $ 2,136,002 |
| Accounts Receivable - USPS | 3,360,069 | 2,382,286 |
| Accounts Receivable - Hired Hands | 33,743 | 66,802 |
| Accounts Receivable - MDI Real Estate | 10,436 | 13,691 |
| Accounts Receivable - Other | 565,247 | 589,671 |
| Less: Allowance for Current Expected Credit Losses | (251,000) | (215,000) |
| Total Accounts Receivable, Net | $ 6,370,741 | $ 4,973,452 |

MDI extends credit based on an evaluation of the customer’s financial condition, generally without requiring collateral. Normal trade receivables are due 60 days after the date of sale. MDI establishes an allowance for credit losses to present the net amount of accounts receivable expected to be collected. The allowance represents the estimate of expected credit losses based on historical experience, current economic conditions, and certain forward-looking information. Management will review on an annual basis the producer price index to identify any anticipated changes in future collectability. Balances that are still outstanding after MDI has used reasonable collection efforts are written off through charges to the allowance for credit losses and credits to receivable accounts. The allowance for credit losses was $251,000 and $215,000 at December 31, 2024 and 2023, 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:

| | 2024 | 2023 |
|---|---|---|
| Raw Materials | $ 2,368,798 | $ 1,532,243 |
| Finished Goods | 842,300 | 604,135 |
| Reserve | (295,000) | (323,980) |
| Total | $ 2,916,098 | $ 1,812,398 |

### 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.

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Investments (Continued)**

Investments consist of the following as of December 31:

| | 2024 | 2023 |
|---|---|---|
| Cash | $ - | $ 37,160 |
| Bond Mutual Funds | 190,085 | 65,484 |
| Equity Mutual Funds | 85,269 | 105,482 |
| Total | $ 275,354 | $ 208,126 |

**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.

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Leases (Continued)

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.

### 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 and trays 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. 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.

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Revenue Recognition (Continued)

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. MDI received cost-reimbursable grants of $527,642 that have not been recognized at December 31, 2024 because qualifying expenditures have not yet been incurred. These grants have various expiration dates and run through June 2025.

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:

| | 2024 | 2023 | 2022 |
|---|---|---|---|
| Contract Assets: | | | |
| Accounts Receivable | $ 6,370,741 | $ 4,973,452 | $ 7,865,181 |
| Contract Liabilities: | | | |
| Deferred Revenue | $ 599,662 | $ 89,797 | $ 259,028 |

### Functional Expenses

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

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 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.

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.

### Subsequent Events

In preparing these consolidated financial statements, MDI has evaluated for recognition or disclosure the events or transactions that occurred through April 10, 2025, 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:

| | 2024 | 2023 |
|---|---|---|
| Cash and Cash Equivalents | $ 12,596,648 | $ 9,539,444 |
| Accounts Receivable, Net | 6,370,741 | 4,973,452 |
| Total | $ 18,967,389 | $ 14,512,896 |

In addition to the financial assets available noted in the table above, MDI has as of December 31, 2024 and 2023, $2,916,098 and $1,812,398, 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 deposit 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 $4,000,000 could be utilized for liquidity purposes upon board resolution.

## NOTE 3 PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of December 31:

| | 2024 | 2023 |
|---|---|---|
| Land, Buildings, and Improvements | $ 16,355,150 | $ 16,359,248 |
| Machinery and Equipment | 21,053,643 | 21,129,444 |
| Fleet Vehicles | 645,655 | 680,564 |
| Right-of-Use Lease Asset | 2,262,875 | 2,217,889 |
| Office and Computer Equipment | 942,366 | 824,160 |
| Total | 41,259,689 | 41,211,305 |
| Less: Accumulated Depreciation | (24,919,779) | (24,269,816) |
| Property and Equipment, Net | $ 16,339,910 | $ 16,941,489 |

## NOTE 4 LONG-TERM DEBT

Long-term debt is as follows:

| Description | 2024 | 2023 |
|---|---|---|
| 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. | $ 946,655 | $ 1,291,274 |
| 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 |
| Subtotal | 1,799,655 | 2,144,274 |
| Less: Amount Due Within One Year | (356,591) | (344,619) |
| Net Long-Term Debt | $ 1,443,064 | $ 1,799,655 |

The scheduled maturities of long-term debt were as follows at December 31, 2024:

| Year Ending December 31, | Amount |
|---|---|
| 2025 | $ 356,591 |
| 2026 | 368,980 |
| 2027 | 221,084 |
| Thereafter | 853,000 |
| Total | $ 1,799,655 |

## 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/SOFR + 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/SOFR index, 4.40% as of December 31, 2024. As of December 31, 2024, the notional amount of the swap agreement was consistent with the outstanding amount of the loan noted in the table above. At December 31, 2024 and 2023, the fair value of the swap agreement (asset) liability was $(18,166) and $(33,153), 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, 2025. There were no outstanding draws on this line of credit as of December 31, 2024. The line bears interest at prime of 8.25%.

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 quarterly 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 $-0- in both 2024 and 2023.

MDI has a 403(b) 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 $203,647 in 2024 and $200,527 in 2023.

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 $34,813 in 2024 and $25,316 in 2023. The total value of investments, at fair market value, held for the participants’ benefit and the related vested deferred liability, is $276,665 and $208,969 at December 31, 2024 and 2023, 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:

| | 2024 | 2023 |
|---|---|---|
| Plastic Production Overhead | $ 12,907,270 | $ 11,928,763 |
| Twin Cities Overhead (Excluding Plastic Production) | 1,504,786 | 2,382,189 |
| Cohasset Overhead (Excluding Plastic Production) | 708,229 | 706,521 |
| Total Overhead | $ 15,120,285 | $ 15,017,473 |
| | | |
| Allowable General and Administrative | $ 5,432,190 | $ 4,771,321 |
| Marketing and Advertising | 2,471,263 | 2,584,622 |
| Total Selling, Administrative, Advertising, and Fundraising | $ 7,903,453 | $ 7,355,943 |

## NOTE 7 MAJOR CUSTOMERS AND CREDIT RISK CONCENTRATIONS

The USPS is a major customer of MDI. Sales to the USPS accounted for $31,223,345 (63%) and $24,901,667 (57%) of total revenue for the years ended December 31, 2024 and 2023, respectively.

As of December 31, 2024 and 2023, 83% of total customer accounts receivable were from two customers and 82% of total accounts receivable were from two customers, respectively.

As of December 31, 2024 and 2023, 9% and 11%, respectively, 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 tables present 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, 2024 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Investments: | | | | |
| Bond Mutual Funds | $ 190,085 | $ - | $ - | $ 190,085 |
| Equity Mutual Funds | 85,269 | - | - | 85,269 |
| Total | 275,354 | - | - | 275,354 |
| Swap Asset (Liability) | - | 18,166 | - | 18,166 |
| Total Fair Value Assets | $ 275,354 | $ 18,166 | $ - | $ 293,520 |

## NOTE 8 FAIR VALUE MEASUREMENTS (CONTINUED)

| | December 31, 2023 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Investments: | | | | |
| Bond Mutual Funds | $ 65,484 | $ - | $ - | $ 65,484 |
| Equity Mutual Funds | 105,482 | - | - | 105,482 |
| Total | 170,966 | - | - | 170,966 |
| Swap Asset (Liability) | - | 33,153 | - | 33,153 |
| Total Fair Value Assets | $ 170,966 | $ 33,153 | $ - | $ 204,119 |

## 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 August 2027. The space leases require monthly payments ranging from $7,170 to $25,804 for a term of 42 to 105 months that runs through August 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, | Total Amount |
|---|---|
| 2025 | $ 414,056 |
| 2026 | 416,036 |
| 2027 | 283,368 |
| Total Payments | 1,113,460 |
| Less: Interest Portion | (86,809) |
| Total Lease Obligation | $ 1,026,651 |

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

| | 2024 | 2023 |
|---|---|---|
| Operating Lease Cost | $ 387,058 | $ 313,116 |
| Other Information: | | |
| Operating Cash Flows from Operating Leases | $ 11,976 | $ 36,607 |
| Weighted-Average Remaining Lease Term | 3.46 Years | 3.7 Years |
| Weighted-Average Discount Rate | 5.79% | 5.92% |

## NOTE 10 BOARD-DESIGNATED NET ASSETS

As of December 31, 2024, the board of directors has designated net assets without donor restrictions of $4,000,000 for the Operating Fund, $1,000,000 for the Major Building Repair Fund, and $1,000,000 for the IT Software Project 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 purpose of the IT Software Project Fund is to pay for the implementation of a new Enterprise Resource Program (ERP). The three funds will be reevaluated annually to determine if fund balance should be increased or decreased.

Distributions from and additions to the Operating Fund, Major Building Repair Fund, and IT Software Project 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:

| | 2024 | 2023 |
|---|---|---|
| Unified Work/Careers Skills Program | $ 279,911 | $ 631,324 |
| Equipment | 2,283 | - |
| Total Net Assets With Donor Restrictions | $ 282,194 | $ 631,324 |

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

| | 2024 | 2023 |
|---|---|---|
| Unified Work/Careers Skills Program | $ 736,413 | $ 287,073 |
| Equipment | 147,717 | 80,786 |
| Total Net Assets Released from Donor Restrictions | $ 884,130 | $ 367,859 |

## NOTE 12 COMMITMENTS AND CONTINGENCIES

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 has been included in these consolidated financial statements as of December 31, 2024.

## 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 statements 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. As of December 31, 2024, the remaining receivable balance associated with ERC was $589,671. This balance was collected subsequent to year-end.