

APPLE TREE DENTAL

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT**

For The Years Ended
December 31, 2019 and 2018

- This page intentionally left blank -

APPLE TREE DENTAL
TABLE OF CONTENTS

		<u>Page Number</u>
Independent Auditor's Report		1
FINANCIAL STATEMENTS		
Statements of Financial Position	Statement 1	4
Statements of Activities	Statement 2	5
Statements of Functional Expenses	Statement 3	6
Statements of Cash Flows	Statement 4	8
Notes to Financial Statements		9

- This page intentionally left blank -



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Apple Tree Dental
Minneapolis, Minnesota

We have audited the accompanying financial statements of Apple Tree Dental (a not-for-profit corporation), which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

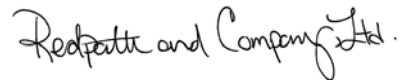
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Apple Tree Dental as of December 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in cursive script that reads "Redpath and Company Ltd.".

REDPATH AND COMPANY, LTD.
St. Paul, Minnesota

April 24, 2020

FINANCIAL STATEMENTS

APPLE TREE DENTAL
STATEMENTS OF FINANCIAL POSITION
December 31, 2019 and 2018

Statement 1

	<u>2019</u>	<u>2018</u>
Assets:		
Current assets:		
Cash and cash equivalents	\$1,459,552	\$1,087,152
Accounts receivable, net	1,211,030	1,361,951
Grants and contributions receivable, current portion	1,018,068	460,825
Prepaid expenses	21,672	4,080
Inventory	54,349	1,458
Total current assets	<u>3,764,671</u>	<u>2,915,466</u>
Property and equipment, net	<u>8,314,742</u>	<u>7,473,198</u>
Other assets:		
Security deposits	7,730	7,730
Grants and contributions receivable, net of current portion	1,255,976	250,000
Cash limited as to use	781,637	1,003,651
Total other assets	<u>2,045,343</u>	<u>1,261,381</u>
Total assets	<u><u>\$14,124,756</u></u>	<u><u>\$11,650,045</u></u>
Liabilities and net assets:		
Current liabilities:		
Current maturities of long-term debt	\$429,887	\$4,855,535
Accounts payable	794,081	805,162
Construction costs payable	138,365	-
Accrued expenses	1,261,021	1,062,221
Deposits payable	1,038	1,038
Deferred revenue	459,531	87,826
Line of credit	-	602,380
Total current liabilities	<u>3,083,923</u>	<u>7,414,162</u>
Long-term liabilities:		
Debt payable, net of current portion	<u>4,074,492</u>	<u>358,060</u>
Total liabilities	<u>7,158,415</u>	<u>7,772,222</u>
Net assets:		
Without donor restrictions	3,771,886	2,445,573
With donor restrictions	3,194,455	1,432,250
Total net assets	<u>6,966,341</u>	<u>3,877,823</u>
Total liabilities and net assets	<u><u>\$14,124,756</u></u>	<u><u>\$11,650,045</u></u>

The accompanying notes are an integral part of these financial statements.

APPLE TREE DENTAL
STATEMENTS OF ACTIVITIES
For The Years Ended December 31, 2019 and 2018

Statement 2

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support:						
Net patient service revenue	\$16,564,364	\$ -	\$16,564,364	\$15,714,800	\$ -	\$15,714,800
Dental director fees	626,374	-	626,374	607,209	-	607,209
Grants and contributions	167,938	3,357,526	3,525,464	234,860	1,645,325	1,880,185
Rental income	11,640	-	11,640	20,421	-	20,421
Medical records incentive	-	-	-	136,000	-	136,000
Interest and dividends	6,844	-	6,844	720	-	720
Other income	177,211	-	177,211	34,599	-	34,599
Subtotal	17,554,371	3,357,526	20,911,897	16,748,609	1,645,325	18,393,934
Net assets released from restriction	1,595,321	(1,595,321)	-	656,575	(656,575)	-
Total revenue and support	19,149,692	1,762,205	20,911,897	17,405,184	988,750	18,393,934
Expenses:						
Program services:						
Clinics	16,135,097	-	16,135,097	15,190,750	-	15,190,750
Innovations	174,669	-	174,669	226,827	-	226,827
Total program services	16,309,766	0	16,309,766	15,417,577	-	15,417,577
Supporting services:						
Management and general	1,315,337	-	1,315,337	1,222,072	-	1,222,072
Fundraising	198,276	-	198,276	159,073	-	159,073
Total supporting services	1,513,613	0	1,513,613	1,381,145	0	1,381,145
Total expenses	17,823,379	0	17,823,379	16,798,722	0	16,798,722
Change in net assets	1,326,313	1,762,205	3,088,518	606,462	988,750	1,595,212
Net assets - beginning of year	2,445,573	1,432,250	3,877,823	1,839,111	443,500	2,282,611
Net assets - end of year	\$3,771,886	\$3,194,455	\$6,966,341	\$2,445,573	\$1,432,250	\$3,877,823

The accompanying notes are an integral part of these financial statements.

	2019				Total
	Program Services		Supporting Services		
	Clinics	Innovations	Management and General	Fundraising	
Expenses:					
Salaries and wages	\$10,225,056	\$135,282	\$810,807	\$102,345	\$11,273,490
Payroll taxes and employee benefits	1,606,500	21,255	125,354	18,115	1,771,224
Minnesota Care provider tax	327,408	-	-	-	327,408
Contract services	473,430	6,997	40,817	61,856	583,100
Professional services	9,669	-	82,479	-	92,148
Office supplies	50,277	65	9,659	1,477	61,478
Postage and printing	74,613	38	1,670	-	76,321
Dental supplies	1,164,210	-	-	-	1,164,210
Lab fees	280,274	-	-	-	280,274
Marketing	10,916	-	3,261	-	14,177
Telephone	73,034	966	6,523	-	80,523
Travel	27,134	359	1,647	776	29,916
Vehicle	63,077	-	-	-	63,077
Dues and registration	45,263	599	1,666	2,376	49,904
Education and employee development	28,032	-	1,160	208	29,400
Meetings	5,504	73	341	151	6,069
Equipment rental and repair	97,438	1,289	7,876	826	107,429
Depreciation	585,486	7,746	51,972	315	645,519
Occupancy costs	278,329	-	64,316	8,993	351,638
Building maintenance and utilities	295,893	-	-	-	295,893
Bad debt	95,794	-	-	-	95,794
Bank and finance charges	7,223	-	69,815	838	77,876
Interest	206,347	-	20,482	-	226,829
Insurance	86,111	-	15,482	-	101,593
Miscellaneous	18,079	-	10	-	18,089
Total expenses	\$16,135,097	\$174,669	\$1,315,337	\$198,276	\$17,823,379

The accompanying notes are an integral part of these financial statements.

	2018				Total
	Program Services		Supporting Services		
	Clinics	Innovations	Management and General	Fundraising	
Expenses:					
Salaries and wages	\$9,459,826	\$115,440	\$720,236	\$104,142	\$10,399,644
Payroll taxes and employee benefits	1,434,053	34,067	149,394	107	1,617,621
Minnesota Care provider tax	305,916	-	-	-	305,916
Contract services	426,506	56,435	88,277	44,787	616,005
Professional services	10,498	-	67,111	-	77,609
Office supplies	45,452	-	6,789	634	52,875
Postage and printing	69,841	-	1,330	77	71,248
Dental supplies	1,167,616	-	-	-	1,167,616
Lab fees	274,187	-	-	-	274,187
Marketing	11,539	-	1,623	-	13,162
Telephone	80,571	1,715	3,863	360	86,509
Travel	25,365	10,920	5,602	1,185	43,072
Vehicle	51,064	-	61	-	51,125
Dues and registration	32,641	5,685	5,788	802	44,916
Education and employee development	11,389	-	3,033	-	14,422
Meetings	5,190	432	1,898	76	7,596
Equipment rental and repair	86,614	610	6,064	1,790	95,078
Depreciation	635,564	1,523	3,279	306	640,672
Occupancy costs	257,136	-	38,248	3,824	299,208
Building maintenance and utilities	311,981	-	-	-	311,981
Bad debt	79,535	-	-	-	79,535
Bank and finance charges	6,807	-	69,019	879	76,705
Interest	248,753	-	37,789	-	286,542
Insurance	72,187	-	12,561	104	84,852
Miscellaneous	80,519	-	107	-	80,626
Total expenses	\$15,190,750	\$226,827	\$1,222,072	\$159,073	\$16,798,722

The accompanying notes are an integral part of these financial statements.

APPLE TREE DENTAL

STATEMENTS OF CASH FLOWS

For The Years Ended December 31, 2019 and 2018

Statement 4

	2019	2018
Cash flows from operating activities:		
Change in net assets	\$3,088,518	\$1,595,212
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	645,519	640,672
Amortization of financing costs presented as interest expense	21,677	38,815
(Gain) loss on sale of fixed assets	(1,200)	-
Noncash contribution	(70,714)	(117,450)
Grants and contributions restricted for capital expenditure	(2,295,840)	(1,284,086)
Changes in assets and liabilities, net:		
Accounts receivable	150,921	(126,915)
Grants and contributions receivable, operating	(711,607)	32,507
Prepaid expenses	(17,592)	2,158
Inventory	(52,891)	93,670
Security deposits	-	100
Accounts payable	(11,081)	136,919
Construction costs payable	138,365	-
Accrued expenses	371,705	71,408
Deposits payable	-	(855)
Deferred revenue	198,800	(26,556)
Net cash provided by operating activities	<u>1,454,580</u>	<u>1,055,599</u>
Cash flows from investing activities:		
Purchase of property and equipment	(1,416,349)	(219,977)
Proceeds from sale of equipment	1,200	-
Net cash used in investing activities	<u>(1,415,149)</u>	<u>(219,977)</u>
Cash flows from financing activities:		
Net decrease on line of credit	(602,380)	(31,285)
Debt issuance costs	(138,656)	-
Proceeds from debt issuance	4,340,001	-
Principal payments on long-term debt	(4,932,238)	(950,473)
Proceeds from grants and contributions restricted for capital expenditure	1,444,228	870,086
Net cash used in financing activities	<u>110,955</u>	<u>(111,672)</u>
Net increase in cash, cash equivalents, and restricted cash	150,386	723,950
Cash, cash equivalents, and restricted cash - beginning of year	<u>2,090,803</u>	<u>1,366,853</u>
Cash, cash equivalents, and restricted cash - end of year	<u><u>\$2,241,189</u></u>	<u><u>\$2,090,803</u></u>
Supplemental information:		
Cash payments for interest	<u>\$216,519</u>	<u>\$251,760</u>
Noncash investing and financing transactions:		
Noncash contribution of property and equipment	<u>\$70,714</u>	<u>\$117,450</u>

The accompanying notes are an integral part of these financial statements.

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. NATURE OF ORGANIZATION

Apple Tree Dental (the Organization) is a not-for-profit organization incorporated under the laws of the State of Minnesota. Its purpose is to provide dental care to those who lack access, including low income families, persons with disabilities, long-term care residents and Head Start schools. Apple Tree Dental also works to improve the general provision of dental care through educational and research activities.

B. FINANCIAL STATEMENT PRESENTATION

The financial statements of the Organization have been prepared on the accrual basis of accounting and are presented in accordance with the FASB Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*.

C. ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and related disclosures. Accordingly, actual results could differ from those estimates.

D. CASH, CASH EQUIVALENTS, AND RESTRICTED CASH

For purposes of the statement of cash flows, the Organization considers all highly liquid debt investments with an original maturity of three months or less to be cash equivalents. At times, bank balances may be in excess of the Federal Deposit Insurance Corporation (FDIC) limit. The Organization has not experienced any losses in such accounts. Management believes it is not exposed to any significant credit risk on cash and cash equivalents.

Cash limited as to use includes bank accounts held in escrow that have been restricted by Bremer bank in coordination with the Fergus Falls project. Bremer bank will release these funds to the Organization as qualified project expenditures are incurred.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the statements of financial position that sum to the total of the same such amounts shown in the statements of cash flows.

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$1,459,552	\$1,087,152
Cash limited as to use	<u>781,637</u>	<u>1,003,651</u>
Total	<u>\$2,241,189</u>	<u>\$2,090,803</u>

E. ACCOUNTS RECEIVABLE

The Organization grants credit to its customers who are located in the Midwest. Accounts receivable outstanding more than 30 days are considered past due and delinquent. No interest is charged on receivables

APPLE TREE DENTAL
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

past due. Accounts are written-off at the discretion of management after all efforts to collect have been exhausted. The Organization utilizes the allowance method to account for bad debts. The allowance is based on prior years' experience and management's analysis of specific amounts due. Accounts receivable are presented net of allowances for bad debts of \$93,018 and \$77,128 as of December 31, 2019 and 2018, respectively. For the years ended December 31, 2019 and 2018, bad debt expense was \$95,794 and \$79,535, respectively.

Receivables from contracts with customers are reported as accounts receivable, net in the accompanying statements of financial position. Contract liabilities are reported as deferred revenue in the statements of financial position and will be recognized as performance obligations are met.

F. GRANTS AND CONTRIBUTIONS

Grants and contributions are recognized as cash, securities or other assets; or an unconditional promise to give is received. Conditional promises to give, that is, those with a measurable performance or other barrier and a right of return, are not recognized until the conditions on which they depend have been substantially met. At December 31, 2019 the Organization has a conditional grant from the Minnesota Department of Health of which \$68,259 has not been recognized in the accompanying financial statements. The grant is conditional upon the incurrence of allowable qualifying expenditures and will be recorded as revenue when the conditions have been met. There were no conditional grants that existed at December 31, 2018.

Grants and contributions receivable are measured at present value of estimated future cash flows. Long-term grants and contributions receivables are discounted using the federal mid-term AFR. Grants and contributions receivable are presented net of discounts of \$36,408 and \$0 at December 31, 2019 and 2018, respectively.

The Organization uses the allowance method to determine uncollectible unconditional grants and contributions receivable. The allowance is based on prior years' experience and management's analysis of specific promises made. Grants and contributions receivable are presented net of allowances for bad debts of \$0 as of December 31, 2019 and 2018.

G. INVENTORY

Inventory consists of mobile equipment in progress as well as dental supplies and instruments that are reserved for the opening of the new Fergus Falls center and is recorded at cost.

H. PROPERTY AND EQUIPMENT

Property and equipment are stated at cost if purchased by the Organization or at the fair value of the asset at the date of the gift if received by donation. Depreciation is provided on the straight-line method over the estimated useful lives of the assets. Estimated useful lives are as follows:

Buildings and building improvements	7-39 years
Leasehold improvements	5-39 years
Dental equipment	3-10 years
Vehicles	5-7 years
Office equipment and furniture	3-7 years

APPLE TREE DENTAL
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

The Organization uses a capitalization threshold of \$1,000. Maintenance and repairs of property and equipment are charged to operations, and major renewals are capitalized.

Donations of property and equipment are reported as support without donor restrictions unless the donor has restricted the donated asset for a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as support with donor restrictions.

I. CONTRIBUTED SERVICES

Contributions of services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation and recorded at their fair values at the date of the service.

For the years ended December 31, 2019 and 2018, there were \$48,044 and \$46,650, respectively, of contributed services that met these requirements.

J. NET ASSETS

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor-imposed restrictions. Some donor imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

The Organization has chosen to report contributions restricted by donors that are met in the same reporting period they are received as contributions with donor restrictions with an accompanying reclassification for net assets released from restrictions.

K. INCOME TAXES

The Organization was granted tax-exempt status under Section 501(c) (3) of the Internal Revenue Code and comparable Minnesota Statutes. The Organization has been classified as an organization that is not a private foundation.

Audit standards provide that a tax expense or benefit from an uncertain income tax position (including tax-exempt status) may be recognized only when it is more likely than not that the position will be sustained upon examination by taxing authorities. Management believes the Organization has no uncertain income tax positions that would result in an accrual, expense or benefit under the more likely than not standard.

APPLE TREE DENTAL
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

L. FUNCTIONAL EXPENSES

The costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses present the natural classification detail of expenses by function.

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Those expenses include salaries and wages, legal fees, utilities, insurance, telephone, postage and delivery, printing and copying, and advertising and marketing. Certain salary expenses are allocated based on estimates of time and effort. Remainder of costs are allocated based on the allocation of salary expenses.

M. MARKETING AND ADVERTISING

Marketing and advertising costs are expensed as incurred and totaled \$14,177 and \$13,162 for the years ended December 31, 2019 and 2018, respectively.

N. REVENUE AND REVENUE RECOGNITION

Net patient service revenue is recognized at the time the services are provided, at estimated net realizable amounts from patients, third-party payers, and others for services rendered. To arrive at net patient service revenue, the Organization adjusts its gross billings to the actual or estimated amount allowed for payment by the payer. For payers whose actual payment is not known at the time of billing, the Organization estimates adjustments based on its discount policies and historical experience.

Dental director fee revenue is recognized for services provided by the Organization to long-term care facilities. The Organization has determined that the services included under the long-term care agreements have the same timing and pattern of transfer and the performance obligations are satisfied over time.

O. PRIOR YEAR RECLASSIFICATION

Certain prior year amounts were reclassified to conform with current year presentation.

Note 2 LIQUIDITY AND AVAILABILITY

The following represents the Organization's financial assets available to meet cash needs for general expenditures within one year of December 31:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$892,073	\$291,589
Accounts receivable	1,211,030	1,361,951
Grants and contributions receivable	<u>345,642</u>	<u>285,825</u>
	<u>\$2,448,745</u>	<u>\$1,939,365</u>

APPLE TREE DENTAL
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

Due to the nature of the restrictions from contributions received from donors, the Organization has omitted only the restrictions that were not deemed “general” in nature. The Organization has a line of credit of \$700,000 as disclosed in Note 7. The Organization monitors its cash balance, as well as the availability on the line of credit, very closely.

Note 3 PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
Land	\$849,500	\$624,500
Construction in progress	709,035	-
Building and building improvements	5,932,145	5,922,016
Leasehold improvements	198,751	198,751
Dental equipment	5,542,454	5,236,062
Vehicles	235,112	253,893
Office equipment and furniture	707,893	699,926
Total	<u>14,174,890</u>	<u>12,935,148</u>
Less: accumulated depreciation	<u>(5,860,148)</u>	<u>(5,461,950)</u>
Net property and equipment	<u><u>\$8,314,742</u></u>	<u><u>\$7,473,198</u></u>

Total property and equipment not placed into service as of December 31, 2019 and 2018 were \$381,920 and \$181,777, respectively.

APPLE TREE DENTAL
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

Note 4 UNCONDITIONAL GRANTS AND CONTRIBUTIONS

Collection of unconditional grants and contributions receivable is expected as follows:

	<u>2019</u>	<u>2018</u>
Due in one year	\$1,018,068	\$460,825
Due in two to five years	<u>1,292,384</u>	<u>250,000</u>
Total	2,310,452	710,825
Less: discount to net present value at a rate of 1.69%	<u>(36,408)</u>	<u>-</u>
Total	<u>\$2,274,044</u>	<u>\$710,825</u>
Net short-term portion	\$1,018,068	\$460,825
Net long-term portion	<u>1,255,976</u>	<u>250,000</u>
Total	<u>\$2,274,044</u>	<u>\$710,825</u>

At December 31, 2018, the discount to net present value was determined to be immaterial and was not recorded.

APPLE TREE DENTAL
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

Note 5 LONG-TERM DEBT

Long-term debt consists of the following at December 31:

	2019	2018
City of Mounds View, Minnesota Health Care Facility Revenue Bonds, Series 2013A. Stated maturity date of October 2043. Bearing interest at 3.5% with monthly installments of \$16,997 and balloon payment due upon mandatory tender date of October 2019. *	\$ -	\$3,020,831
City of Mounds View, Minnesota Health Care Facility Revenue Bonds, Series 2013B. Bearing interest at 3.5% with monthly installments of \$27,284 and balloon payment due upon maturity in April 2019. *	-	188,788
City of Mounds View, Minnesota Health Care Facility Revenue Refunding Bonds, Series 2019. Bearing interest at 2.86% with monthly principle intallments of \$10,753 plus accrued interest. Matures January 2043. **	2,978,495	-
City of Fergus Falls, Minnesota Health Care Facility Revenue Bonds, Series 2019. Bearing interest at 3.25% with interest only payments through September 2020, principal and interest payments of \$17,800 from October 2020 through November 2034 and balloon payment due upon maturity in December 2034. ***	50,001	-
Note payable to Bremer Bank bearing interest at 4.25% with monthly installments of \$5,223 and balloon payment due upon maturity in October 2024. Secured by real property located in Rochester, Minnesota. ****	834,565	-
Note payable to Bremer Bank bearing interest at 4.25% with monthly installments of \$2,822 and balloon payment due upon maturity in October 2024. Secured by real property located in Hawley, Minnesota. ****	450,914	-
Note payable to Greater Minnesota Housing Fund bearing interest at 6% with minimum monthly installments of \$5,650, with balloon payment due upon maturity in October 2019. Secured by Mortgage, Security agreement and Fixture Financing Statement and Assignment of Leases and Rents.	-	838,769
Note payable to Greater Minnesota Housing Fund bearing interest at 5% with monthly installments of \$3,224 through April 2019 and \$13,000 thereafter with balloon payment due upon maturity in October 2019. Secured by real property located in Hawley, Minnesota.	-	518,257
Equipment note payable to Patterson Dental bearing interest at 4.95% with monthly installments of \$5,767. Matures May 2021, secured by equipment purchased under note agreement.	94,711	157,604
Equipment note payable to Patterson Dental bearing interest at 4.95% with monthly installments of \$1,307. Matures October 2021, secured by equipment purchased under note agreement.	27,565	41,521
Note payable to Patterson Dental bearing zero interest with monthly installments of \$10,698. Matures September 2021.	203,261	331,637
Note payable to Propel Nonprofits bearing interest at 6.5% with monthly installments of \$7,500. Matures August 2020, secured by equipment.	-	134,341
Total	4,639,512	5,231,748
Less: current maturities	(429,887)	(4,855,535)
Less: unamortized financing costs	(135,133)	(18,153)
Long-term portion	<u>\$4,074,492</u>	<u>\$358,060</u>

APPLE TREE DENTAL
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

*The City of Mounds View, Minnesota Health Care Facility Revenue bonds Series 2013A and 2013B were issued to finance the acquisition, construction and equipping of an approximately 16,000 square foot building located in Mounds View, Minnesota to be used as a new clinic and headquarters facility. The Series 2013A and 2013B bonds have an initial interest rate of 3.5% and are subject to adjustments as defined in the debt documents. A first mortgage and security agreement has been placed on all land, buildings and structures, fixtures and equipment acquired with proceeds of the bonds in favor of the bond trustee. The provisions of the loan agreements contain restrictive covenants pertaining to financial and operational requirements of the Organization. Other debt issues are subordinate to these bonds. During 2019, Series 2013A bonds were refunded by Series 2019 bonds and the Series 2013B bonds were paid in full upon maturity in April 2019.

** The City of Mounds View, Minnesota Health Care Facility Revenue Refunding bonds Series 2019 were issued to refund the City of Mounds View, Minnesota Health Care Facility Revenue bonds Series 2013A. The Series 2019 bonds have an initial rate of 2.86% and is subject to adjustments as defined in the debt documents. A first mortgage and security agreement has been placed on all land, buildings and structures, fixtures and equipment acquired with proceeds of the bonds in favor of the bond trustee. The provisions of the loan agreements contain prepayment penalties and restrictive covenants pertaining to financial and operational requirements of the Organization.

*** The City of Fergus Falls, Minnesota Health Care Facility Revenue bonds Series 2019 were issued to finance the acquisition, construction and equipping of an approximately 11,400 square foot building located in Fergus Falls, Minnesota. The Series 2019 bonds have an initial interest rate of 3.25% and are subject to adjustments as defined in the debt documents. A first mortgage and security agreement has been placed on all land, buildings and structures, fixtures and equipment acquired with proceeds of the bonds in favor of the bond trustee. The provisions of the loan agreements contain prepayment penalties and restrictive covenants pertaining to financial and operational requirements of the Organization. Proceeds of the \$3,500,000 bonds will be advanced for payment of construction and related costs upon request from the Organization. As of December 31, 2019, total advances under the agreement were \$50,001.

**** The notes payable to Bremer Bank are secured by a Mortgage and Security agreement, Fixture Financing Statement and Assignment of Leases and Rents. Notes are subject to prepayment penalties as defined in the debt documents and are restricted covenants pertaining to financial and operational requirements of the Organization.

The Organization was not aware of any noncompliance with covenants as of December 31, 2019 and 2018.

The aggregate annual maturities of long-term debt are as follows:

2020	\$429,887
2021	289,353
2022	174,774
2023	176,784
2024	1,235,381
Thereafter	<u>2,333,333</u>
Total	<u>\$4,639,512</u>

Total interest expense for the years ended December 31, 2019 and 2018 was \$226,829 and \$286,543, respectively.

APPLE TREE DENTAL
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

Note 6 LINE OF CREDIT

The Organization has a credit line available from Bremer for \$700,000 maturing October 15, 2020. The credit line bears interest at .25 percentage point over prime, with a minimum interest rate of 5% and is secured by inventory, equipment and accounts. The credit line is subject to restrictive covenants pertaining to financial and operational requirements of the Organization. The effective interest rate at December 31, 2019 was 5%. The outstanding line of credit balance at December 31, 2019 was \$0. During 2018, the Organization had a line of credit available from Wells Fargo bank for \$700,000. The outstanding line of credit balance at December 31, 2018 was \$602,380.

Note 7 NET ASSETS WITH DONOR RESTRICTIONS

As of December 31, 2019 and 2018, net assets with donor restrictions consist of the following:

	<u>2019</u>	<u>2018</u>
Fairmont Capital and Startup	\$2,195,982	\$ -
Construction - Fergus Falls	533,078	1,100,000
Startup and Recruitment - Fergus Falls	201,000	-
Documentary on Oral Health	100,000	-
Morrison County Recruitment	63,000	71,000
Mobile & IV Sedation	29,933	-
Health Information Exchange Project	25,000	-
Dental Safety Net Salaries	13,658	10,360
Medtronic Equipment	10,809	-
Longevity Program in Assisted Living	10,530	25,000
Mayo Clinic	5,000	-
Higher Education	3,008	-
National Children's Oral Health	2,090	333
State Representative for Oral Health Initiative	1,367	1,250
Martin County Dental Services	-	67,079
Financing and Fundraising - Fergus Falls	-	63,821
CDEI Clinical Innovations	-	49,250
Dental Sedation Equipment	-	36,360
Mayo Mobile Equipment	-	5,703
Time restricted	-	1,225
Zumbro Salaries	-	869
	<u>-</u>	<u>869</u>
Total	<u>\$3,194,455</u>	<u>\$1,432,250</u>

APPLE TREE DENTAL
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

Note 8 CONCENTRATION OF CREDIT RISK AND SOURCE OF REVENUE

The Organization's primary source of revenue is from the performance of dental services for patients who lack access to dental care from traditional providers. Accounts receivable arise from the normal course of providing these services and are not secured.

The Organization contracts with the Minnesota Department of Human Services and several state-contracted prepaid health plans to provide dental services. Reimbursement rates are subject to change, and if decreased, result in a reduction of income when their effect becomes reasonably determinable. Revenue is recognized as services are performed.

For the years ended December 31, 2019 and 2018, the Organization's gross billings and net patient service revenue after adjustments were as follows:

	<u>2019</u>		<u>2018</u>	
	<u>Gross</u> <u>Billings</u>	<u>Net</u> <u>Revenue</u>	<u>Gross</u> <u>Billings</u>	<u>Net</u> <u>Revenue</u>
Medical assistance patients	\$25,487,308	\$12,572,575	\$23,291,777	\$11,688,305
Private pay patients	1,939,090	1,736,958	2,070,161	1,875,511
Other patients	4,008,275	3,014,938	3,763,510	2,827,545
Service adjustments	-	(760,107)	-	(676,561)
Total	<u>\$31,434,673</u>	<u>\$16,564,364</u>	<u>\$29,125,448</u>	<u>\$15,714,800</u>

Note 9 OPERATING LEASES

The Organization is obligated under a long-term lease for its Twin Cities office space, expiring May 31, 2021. Monthly minimum payments increase in May of each year and range from \$12,008 - \$12,470 over the remaining life of the lease. In addition, the Organization is required to pay its pro rata share of all real estate taxes, personal property taxes, special assessments, and interest thereon on the leased premises and common areas. The Organization must also pay all charges for utilities.

The Organization is obligated under an operating lease for its Madelia dental office space expiring on August 31, 2020. The lease requires monthly payments of \$2,427.

The Organization is obligated under an operating lease for its Fergus Falls dental office space expiring on June 30, 2020. Effective January 1, 2019, the lease may be terminated with a 60 day notice. The lease requires monthly payments of \$2,648.

The Organization is obligated under an operating lease for its Little Falls dental office space expiring on December 31, 2021. The lease requires monthly payments of \$3,533.

The Organization is obligated under an operating lease agreement for a Freightliner truck. The lease term began March 2013 and expires February 2020. The lease required initial monthly payments of \$1,669, which includes repairs and maintenance. Lease payments are subject to periodic adjustments. Monthly payments as of December 31, 2019 were \$1,909. The Organization is obligated under an operating lease agreement for a second Freightliner truck with payments beginning January 2020. The lease term expires January 2027. The lease requires initial

APPLE TREE DENTAL
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

monthly payments of \$1,850, which includes repairs and maintenance. Lease payments are subject to periodic adjustments.

At December 31, 2019, the Organization was the lessee of seven automobiles under operating leases. Under these leases, the total monthly lease payments were \$3,139 as of December 31, 2019.

Total rental expense, including the Organization’s share of operating costs, under these leases for 2019 and 2018 was \$328,145 and \$273,380, respectively.

The following is a schedule of future minimum lease payments under operating leases:

2020	\$276,109
2021	145,955
2022	68,501
2023	64,600
2024	22,200
Thereafter	<u>44,400</u>
Total	<u>\$621,765</u>

Note 10 RETIREMENT PLAN

The Organization sponsors a 401(k) retirement plan. Under this plan, employees can defer up to 15% of their compensation, not to exceed statutory limits. The Organization makes a contribution equal to 50% of the employee’s salary reduction, up to 4% of employee’s compensation. Total retirement expense for 2019 and 2018 was \$148,033 and \$131,229, respectively.

Note 11 CONTINGENT LIABILITIES

The Organization entered into a Commercial Rehabilitation Program contract with Clay County HRA under the Small Cities Development Program on February 4, 2015, to finance the rehabilitation of its real estate situated in the City of Hawley, Clay County, Minnesota. As a part of this contract, Clay County HRA provided a deferred loan in the amount of \$20,695 to the Organization. Generally, the loan will be fully forgiven after 10 years (2025) provided the Organization complies with the conditions of the agreement. The Organization’s management believes it is unlikely that any amounts will need to be repaid and therefore recorded the full amount as contribution revenue in 2015.

Note 12 CHANGE IN ACCOUNTING PRINCIPLE

The Organization implemented the provisions of Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606), ASU 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made, and ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. The intent of the new standards is to improve the usefulness and understandability of the Organization’s financial reporting.

ASU 2014-09 provides new revenue recognition standards, eliminating the transaction and industry-specific revenue recognition guidance and replaces it with a principle-based approach for determining revenue recognition. ASU 2018-08 clarifies and improves existing guidance related to contributions received and

APPLE TREE DENTAL
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

contributions made. The presentation and disclosures of revenue have been enhanced in accordance with the standard. Analysis of various provisions of these two ASUs resulted in no significant changes in the way the Organization recognizes revenue, and therefore no changes to the 2018 financial statements were required on a retrospective basis.

ASU 2016-18 requires that restricted cash and restricted cash equivalents be included as components of total cash and cash equivalents as presented on the statement of cash flows. The 2018 statement of cash flows has been modified retrospectively. The provisions of ASU 2016-18 have been applied retrospectively for all prior periods presented.

Note 13 SUBSEQUENT EVENTS AND UNCERTAINTIES

In preparing these financial statements, the Organization has evaluated for recognition or disclosure the events or transactions that occurred through April 24, 2020, the date the financial statements were available to be issued.

The COVID-19 pandemic continues to cause rapidly changing disruptions world-wide. Management has evaluated these conditions and believes that it is not possible to reasonably estimate the financial impact of COVID-19 on the Organization's future operations.

Subsequent to December 31, 2019, the Organization has obtained a loan under the provisions of the Paycheck Protection Program. The amount of the loan is approximately \$2,138,000 of which the Organization anticipates that a significant portion of this amount will be forgiven under the terms of the agreement. The Organization has not determined the exact amount to be forgiven, but any portion not forgiven will be payable over two years including interest at 1.00%.