

APPLE TREE DENTAL

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

For The Years Ended
December 31, 2020 and 2019

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



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Apple Tree Dental
Minneapolis, Minnesota

Report on the Financial Statement

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, 2020 and 2019, 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 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. For the year ended December 31, 2020, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. For the year ended December 31, 2019, we conducted our audit 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 from 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, 2020 and 2019, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 28, 2021 and on our tests of compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of Apple Tree Dental's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Apple Tree Dental's internal control over financial reporting and compliance.



REDPATH AND COMPANY, LTD.
St. Paul, Minnesota

April 28, 2021

FINANCIAL STATEMENTS

APPLE TREE DENTAL
STATEMENTS OF FINANCIAL POSITION
December 31, 2020 and 2019

Statement 1

	<u>2020</u>	<u>2019</u>
Assets:		
Current assets:		
Cash and cash equivalents	\$2,718,458	\$1,459,552
Accounts receivable, net	1,224,331	1,211,030
Grants and contributions receivable, current portion	1,556,232	1,018,068
Prepaid expenses	17,103	21,672
Inventory	29,602	54,349
Total current assets	<u>5,545,726</u>	<u>3,764,671</u>
Property and equipment, net	<u>12,463,913</u>	<u>8,314,742</u>
Other assets:		
Security deposits	9,180	7,730
Grants and contributions receivable, net of current portion	667,521	1,255,976
Cash limited as to use	-	781,637
Total other assets	<u>676,701</u>	<u>2,045,343</u>
Total assets	<u><u>\$18,686,340</u></u>	<u><u>\$14,124,756</u></u>
Liabilities and net assets:		
Current liabilities:		
Current maturities of long-term debt	\$463,935	\$429,887
Accounts payable	726,103	794,081
Construction costs payable	53,822	138,365
Accrued expenses	1,655,193	1,261,021
Deposits payable	1,038	1,038
Deferred revenue	530,241	459,531
Total current liabilities	<u>3,430,332</u>	<u>3,083,923</u>
Long-term liabilities:		
Accrued expenses, net of current portion	150,263	-
Debt payable, net of current portion	<u>7,274,223</u>	<u>4,074,492</u>
Total long-term liabilities	<u>7,424,486</u>	<u>4,074,492</u>
Total liabilities	<u>10,854,818</u>	<u>7,158,415</u>
Net assets:		
Without donor restrictions	5,317,686	3,771,886
With donor restrictions	<u>2,513,836</u>	<u>3,194,455</u>
Total net assets	<u>7,831,522</u>	<u>6,966,341</u>
Total liabilities and net assets	<u><u>\$18,686,340</u></u>	<u><u>\$14,124,756</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, 2020 and 2019

Statement 2

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support:						
Net patient service revenue	\$12,175,791	\$ -	\$12,175,791	\$16,564,364	\$ -	\$16,564,364
Dental director fees	534,847	-	534,847	626,374	-	626,374
Grants and contributions	230,464	2,569,141	2,799,605	167,938	3,357,526	3,525,464
PPP loan forgiveness	2,138,100	-	2,138,100	-	-	-
Rental income	65,545	-	65,545	11,640	-	11,640
Interest and dividends	6,233	-	6,233	6,844	-	6,844
Other income	248,597	-	248,597	177,211	-	177,211
Subtotal	15,399,577	2,569,141	17,968,718	17,554,371	3,357,526	20,911,897
Net assets released from restriction	3,249,760	(3,249,760)	-	1,595,321	(1,595,321)	-
Total revenue and support	18,649,337	(680,619)	17,968,718	19,149,692	1,762,205	20,911,897
Expenses:						
Program services:						
Clinics	15,468,113	-	15,468,113	16,135,097	-	16,135,097
Innovations	285,962	-	285,962	174,669	-	174,669
Total program services	15,754,075	0	15,754,075	16,309,766	-	16,309,766
Supporting services:						
Management and general	1,190,021	-	1,190,021	1,315,337	-	1,315,337
Fundraising	153,806	-	153,806	198,276	-	198,276
Total supporting services	1,343,827	0	1,343,827	1,513,613	0	1,513,613
Total expenses	17,097,902	0	17,097,902	17,823,379	0	17,823,379
Revenues over (under) expenses	1,551,435	(680,619)	870,816	1,326,313	1,762,205	3,088,518
Other changes in net assets:						
Gain (loss) on disposals	(5,635)	-	(5,635)	-	-	-
Change in net assets	1,545,800	(680,619)	865,181	1,326,313	1,762,205	3,088,518
Net assets - beginning of year	3,771,886	3,194,455	6,966,341	2,445,573	1,432,250	3,877,823
Net assets - end of year	\$5,317,686	\$2,513,836	\$7,831,522	\$3,771,886	\$3,194,455	\$6,966,341

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

APPLE TREE DENTAL
STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended December 31, 2020 and 2019

Statement 3
Page 1 of 2

	2020				Total
	Program Services		Supporting Services		
	Clinics	Innovations	Management and General	Fundraising	
Expenses:					
Salaries and wages	\$9,051,283	\$152,136	\$767,644	\$119,794	\$10,090,857
Payroll taxes and employee benefits	1,968,282	36,742	162,619	18,477	2,186,120
Minnesota Care provider tax	215,937	-	-	-	215,937
Contract services	499,397	78,290	34,544	150	612,381
Professional services	24,822	-	74,791	-	99,613
Office supplies	41,553	319	4,002	839	46,713
Postage and printing	55,605	26	847	9	56,487
Dental supplies	1,281,396	70	-	-	1,281,466
Lab fees	232,502	-	-	-	232,502
Marketing	8,494	200	5,319	-	14,013
Telephone	75,836	2,053	3,675	-	81,564
Travel	10,346	4,462	1,586	12	16,406
Vehicle	28,768	-	-	-	28,768
Dues and registration	35,570	5,074	2,778	150	43,572
Education and employee development	9,221	-	449	750	10,420
Meetings	1,671	1,584	412	-	3,667
Equipment rental and repair	101,713	293	14,249	5,743	121,998
Depreciation	745,148	1,308	8,423	384	755,263
Occupancy costs	357,029	-	39,176	6,688	402,893
Building maintenance and utilities	332,284	-	18	-	332,302
Bad debt	78,091	-	-	-	78,091
Bank and finance charges	4,867	-	54,530	810	60,207
Interest	202,542	-	15	-	202,557
Insurance	88,303	3,305	14,655	-	106,263
Miscellaneous	17,453	100	289	-	17,842
Total expenses	\$15,468,113	\$285,962	\$1,190,021	\$153,806	\$17,097,902

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.

APPLE TREE DENTAL

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2020 and 2019

Statement 4

	2020	2019
Cash flows from operating activities:		
Change in net assets	\$865,181	\$3,088,518
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	755,262	645,519
Amortization of financing costs presented as interest expense	35,636	21,677
(Gain) loss on disposal of property and equipment	5,635	(1,200)
Noncash contribution of property and equipment	(44,388)	(70,714)
Grants and contributions restricted for capital expenditure	(681,573)	(2,295,840)
Changes in assets and liabilities, net:		
Accounts receivable	(13,301)	150,921
Grants and contributions receivable, operating	(583,987)	(711,607)
Prepaid expenses	4,569	(17,592)
Inventory	24,747	(52,891)
Security deposits	(1,450)	-
Accounts payable	(67,978)	(11,081)
Construction costs payable	(84,543)	138,365
Accrued expenses	70,710	371,705
Deferred revenue	544,435	198,800
Net cash provided by operating activities	<u>828,955</u>	<u>1,454,580</u>
Cash flows from investing activities:		
Purchase of property and equipment	(4,699,695)	(1,416,349)
Proceeds from sale of equipment	-	1,200
Net cash used in investing activities	<u>(4,699,695)</u>	<u>(1,415,149)</u>
Cash flows from financing activities:		
Net decrease on line of credit	-	(602,380)
Debt issuance costs	(39,046)	(138,656)
Proceeds from debt issuance	3,576,980	4,340,001
Principal payments on long-term debt	(505,776)	(4,932,238)
Proceeds from grants and contributions restricted for capital expenditure	1,315,851	1,444,228
Net cash provided by financing activities	<u>4,348,009</u>	<u>110,955</u>
Net increase in cash, cash equivalents, and restricted cash	477,269	150,386
Cash, cash equivalents, and restricted cash - beginning of year	<u>2,241,189</u>	<u>2,090,803</u>
Cash, cash equivalents, and restricted cash - end of year	<u><u>\$2,718,458</u></u>	<u><u>\$2,241,189</u></u>
Supplemental information:		
Cash payments for interest	<u>\$193,059</u>	<u>\$216,519</u>
Noncash investing and financing transactions:		
Noncash contribution of property and equipment	<u>\$44,388</u>	<u>\$70,714</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. COVID-19 PANDEMIC

The COVID-19 pandemic was a significant event in fiscal year 2020 and the Organization's patient service revenue was negatively impacted. The Organization had to curtail its operations dramatically starting March 17, 2020 and was only able to provide emergency services through May 15, 2020. These services were provided at a substantial loss purposefully, allowing the Organization to serve not only its own patients with emergency care, but those of other dentists who were closed. The Organization was a major referral source for hospital emergency rooms within its geographies allowing hospitals to focus their efforts on non-dental emergencies. This resulted in the furlough of approximately 80% of its workforce initially. After May 15, 2020, patient care consistently ramped up to near-normal levels by December, however mobile dentistry was at 26% of normal levels at year end due to the impact of COVID-19 at Long-Term Care facilities and Head Start schools. During 2020, the Organization did receive a PPP loan, HHS Federal Provider Relief Grants and other COVID-19 relief funding to help offset the reduction of patient service revenue. Additionally, in 2021 the Organization received a second PPP loan and is expected to be eligible for Employee Retention Tax Credits.

C. 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*.

D. 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.

E. 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 included bank accounts held in escrow that had been restricted by Bremer bank in coordination with the Fergus Falls project. Bremer bank released these funds to the Organization as qualified project expenditures were incurred.

APPLE TREE DENTAL
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

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>2020</u>	<u>2019</u>
Cash and cash equivalents	\$2,718,458	\$1,459,552
Cash limited as to use	<u>-</u>	<u>781,637</u>
Total	<u><u>\$2,718,458</u></u>	<u><u>\$2,241,189</u></u>

F. 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 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 \$90,451 and \$93,018 as of December 31, 2020 and 2019, respectively. For the years ended December 31, 2020 and 2019, bad debt expense was \$78,091 and \$95,794, 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.

G. 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, 2020 and 2019, the Organization had conditional grants approximating \$81,000 and \$68,000. These grants are conditional upon the incurrence of allowable qualifying expenditures and will be recorded as revenue with donor restrictions when the conditions have been met.

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 \$10,530 and \$36,408 at December 31, 2020 and 2019, 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, 2020 and 2019.

H. INVENTORY

In 2019, inventory consisted of mobile equipment in progress as well as dental supplies and instruments that were reserved for the opening of the new Fergus Falls center and were recorded at cost. As of December 31, 2020, inventory consisted of contributed level 2 masks and were recorded at the estimated fair value.

I. 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

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.

J. 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, 2020 and 2019, there were \$36,823 and \$48,044, respectively, of contributed services that met these requirements.

K. 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.

As of December 31, 2020 and 2019, the Organization did not have any restrictions that were perpetual in nature.

APPLE TREE DENTAL
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

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.

L. 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.

M. 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.

N. MARKETING AND ADVERTISING

Marketing and advertising costs are expensed as incurred and totaled \$14,013 and \$14,177 for the years ended December 31, 2020 and 2019, respectively.

O. 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.

APPLE TREE DENTAL
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

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>2020</u>	<u>2019</u>
Cash and cash equivalents	\$2,718,458	\$1,459,552
Accounts receivable	1,224,331	1,211,030
Grants and contributions receivable	2,223,753	2,274,044
Assets limited as to use	-	781,637
Total financial assets	<u>6,166,542</u>	<u>5,726,263</u>
Less: amounts unavailable for general expenditure		
Restricted by bank for construction purposes	-	(781,637)
Restricted by donor for non-operating purposes	(1,710,373)	(1,239,905)
Deferred revenue for non-operating purposes	(282,000)	-
Long-term portion of grants and contributions receivable	<u>(667,521)</u>	<u>(1,255,976)</u>
Total	<u>\$3,506,648</u>	<u>\$2,448,745</u>

Due to the nature of the restrictions from contributions received from donors, the Organization has omitted only the restrictions for non-operating purposes, which are not considered “general” in nature. The Organization has a line of credit of \$700,000 as disclosed in Note 6. 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, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Land	\$849,500	\$849,500
Building and building improvements	9,761,063	5,932,145
Leasehold improvements	249,583	198,751
Dental equipment	6,856,977	5,542,454
Vehicles	235,112	235,112
Office equipment and furniture	841,860	707,893
Construction in progress	-	709,035
Total	<u>18,794,095</u>	<u>14,174,890</u>
Less: accumulated depreciation	<u>(6,330,182)</u>	<u>(5,860,148)</u>
Net property and equipment	<u>\$12,463,913</u>	<u>\$8,314,742</u>

Total property and equipment not placed into service as of December 31, 2020 and 2019 was \$135,819 and \$381,920, respectively.

APPLE TREE DENTAL
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

Note 4 UNCONDITIONAL GRANTS AND CONTRIBUTIONS

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

	<u>2020</u>	<u>2019</u>
Due in one year	\$1,556,232	\$1,018,068
Due in two to five years	<u>678,051</u>	<u>1,292,384</u>
Total	2,234,283	2,310,452
Less: discount to net present value at a rate of 1.69%	<u>(10,530)</u>	<u>(36,408)</u>
Total	<u>\$2,223,753</u>	<u>\$2,274,044</u>
Net short-term portion	\$1,556,232	\$1,018,068
Net long-term portion	<u>667,521</u>	<u>1,255,976</u>
Total	<u>\$2,223,753</u>	<u>\$2,274,044</u>

APPLE TREE DENTAL
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

Note 5 LONG-TERM DEBT

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

	<u>2020</u>	<u>2019</u>
City of Mounds View, Minnesota Health Care Facility Revenue Refunding Bonds, Series 2019. Bearing interest at 2.86% with monthly principle installments of \$10,753 plus accrued interest. Matures January 2043. *	\$2,849,462	\$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. **	3,454,129	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. ***	807,414	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. ***	436,244	450,914
Equipment note payable to Bremer Bank bearing interest at 4% with monthly installments of \$2,273. Matures August 2027, secured by equipment purchased under note agreement. ***	159,054	-
Equipment note payable to Patterson Dental bearing interest at 4.95% with monthly installments of \$5,767. Matures August 2021, secured by equipment purchased under note agreement.	46,477	94,711
Equipment note payable to Patterson Dental bearing interest at 4.95% with monthly installments of \$1,307. Matures January 2022, secured by equipment purchased under note agreement.	16,941	27,565
Note payable to Patterson Dental bearing zero interest with monthly installments of \$10,698. Matures December 2021.	<u>106,980</u>	<u>203,261</u>
Total	7,876,701	4,639,512
Less: current maturities	(463,935)	(429,887)
Less: unamortized financing costs	<u>(138,543)</u>	<u>(135,133)</u>
Long-term portion	<u><u>\$7,274,223</u></u>	<u><u>\$4,074,492</u></u>

* 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.

APPLE TREE DENTAL
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

** 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 were advanced for payment of construction and related costs upon request from the Organization.

*** 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, 2020 and 2019.

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

Year Ending December 31,	Total
2021	\$463,935
2022	303,310
2023	307,980
2024	1,370,848
2025	269,519
Thereafter	<u>5,161,109</u>
Total	<u><u>\$7,876,701</u></u>

Total interest expense for the years ended December 31, 2020 and 2019 was \$202,557 and \$226,829, respectively.

Note 6 LINE OF CREDIT

The Organization has a credit line available from Bremer for \$700,000 maturing October 15, 2021. The credit line bears interest at .25 percentage point over prime, with a minimum interest rate of 4% 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, 2020 and 2019 was 4% and 5%, respectively. The outstanding line of credit balance at December 31, 2020 and 2019 was \$0 and \$0, respectively.

APPLE TREE DENTAL
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

Note 7 NET ASSETS WITH DONOR RESTRICTIONS

As of December 31, 2020, and 2019, net assets with donor restrictions consist of the following:

	<u>2020</u>	<u>2019</u>
Fairmont Capital and Startup	\$1,817,506	\$2,195,982
Little Falls	297,500	-
Startup and Recruitment - Fergus Falls	150,673	201,000
Mounds View Amb Surgery Center	65,800	-
Morrison County Recruitment	38,000	63,000
Rochester Construction	36,250	-
Health Information Exchange Project	25,000	25,000
Documentary on Oral Health	22,695	100,000
COVID-19/PPE	21,424	-
Dental Safety Net Salaries	13,321	13,658
Medtronic Equipment	6,920	10,809
Mayo Clinic In-Kind Rent	6,565	5,000
Longevity Program in Assisted Living	5,420	10,530
Hawley equipment	5,000	-
SHIP Grant	1,762	-
Construction - Fergus Falls	-	533,078
Mobile & IV Sedation	-	29,933
Higher Education	-	3,008
National Children's Oral Health	-	2,090
State Representative for Oral Health Initiative	-	1,367
	<u> </u>	<u> </u>
Total	<u><u>\$2,513,836</u></u>	<u><u>\$3,194,455</u></u>

APPLE TREE DENTAL
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

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, 2020 and 2019, the Organization's gross billings and net patient service revenue after adjustments were as follows:

	2020		2019	
	Gross Billings	Net Revenue	Gross Billings	Net Revenue
Medical assistance patients	\$19,669,249	\$9,495,669	\$25,487,308	\$12,572,575
Private pay patients	1,327,733	1,160,278	1,939,090	1,736,958
Other patients	3,087,132	2,262,453	4,008,275	3,014,938
Service adjustments	-	(742,609)	-	(760,107)
Total	<u>\$24,084,114</u>	<u>\$12,175,791</u>	<u>\$31,434,673</u>	<u>\$16,564,364</u>

Note 9 OPERATING LEASES

The Organization is obligated under a long-term lease for its Coon Rapids Center 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 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 with payments beginning January 2020. The lease term expires January 2027. The lease requires monthly payments of \$1,873, which includes repairs and maintenance. Lease payments are subject to periodic adjustments.

At December 31, 2020, the Organization was the lessee of eight automobiles under operating leases. Under these leases, the total monthly lease payments were \$2,444 as of December 31, 2020.

Total rental expense, including the Organization's share of operating costs, under these leases for 2020 and 2019 was \$379,053 and \$328,145, respectively.

APPLE TREE DENTAL
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

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

<u>Year Ending</u> <u>December 31,</u>	<u>Total</u>
2021	\$166,663
2022	71,031
2023	64,879
2024	22,480
2025	22,480
Thereafter	<u>22,480</u>
Total	<u><u>\$370,013</u></u>

Note 10 LEASE REVENUE

The Organization leases a portion of their Fergus Falls facility and certain equipment to the Minnesota Department of Human Services. The lease commenced September 1, 2020 and continues through August 31, 2030. The lease requires total monthly payments of \$13,839, which consists of base rent, maintenance cost and equipment rental. Under the terms of the agreement, if the Minnesota State Legislature does not appropriate to the tenant the funds necessary for the continuation of the lease, or in the event that the Federal funds necessary for the continuation of the lease are withheld, the lease may be terminated by the tenant upon giving a 30 day written notice.

Note 11 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 December 31, 2020 and 2019 was \$132,100 and \$148,033, respectively.

Note 12 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 13 UNEMPLOYMENT LIABILITY

The Organization self-insures for Minnesota unemployment. At December 31, 2020 and 2019, the Organization had recorded an estimated claims liability of \$394,197 and \$0, respectively, which is reported within accrued expenses and net of expected governmental relief assistance of 50%. The 2020 estimate reflects COVID-19 impacts and could be subject to significant adjustments in 2021 depending on final determination of governmental funding.

Note 14 PAYCHECK PROTECTION PROGRAM LOAN

On April 8, 2020, the Organization entered into an unsecured loan agreement with Bremer Bank (the Lender) for \$2,138,000, through the U.S. Small Business Administration (SBA) pursuant to the Paycheck Protection Program (PPP) created by section 1102 of the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"). The loan proceeds are to be used for payroll costs, payments on mortgage interest, rent, utilities, and interest on other debt obligations, with at least 60% of the amount to be used for payroll costs. The Organization elected to account for this loan as a conditional contribution under FASB ASC 958-605 and has recognized the full amount as revenue in 2020, since all qualifying expenditures were incurred and the Organization expects full forgiveness. The Organization requested full forgiveness on December 12, 2020, which is pending approval by the SBA.

Note 15 GRANT COMPLIANCE AUDITS

The Organization has received financial assistance from Federal, State and County governmental agencies in the form of grants, which includes the PPP loan. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified within the grant agreements and is subject to audit by the grantor agency. Any disallowed claims resulting from such audit could become a liability of the Organization.

Note 16 SUBSEQUENT EVENTS AND UNCERTAINTIES

Management has evaluated subsequent events through April 28, 2021, the date that the financial statements were available to be issued.

The COVID-19 pandemic continues to cause disruptions world-wide. Management has evaluated these conditions and believes that it is not possible to reasonably estimate the impact of COVID-19, if any, on the Organization's future operations. See Note 1B COVID-19 Pandemic for additional information.

On April 5, 2021, the Organization obtained a Second Draw PPP Loan with Bremer Bank for \$2,000,000. The loan is subject to the forgiveness provisions of Section 1106 of the CARES act and the SBA Interim Final Rule dated April 2, 2020, as further described in Note 14 above.

On April 27, 2021, the Organization executed an amended lease agreement for its Coon Rapids Center space. Under the terms of the addendum, the lease will extend through May 21, 2024 with minimum monthly lease payments ranging from \$14,317 - \$14,779 over the term of the lease.