

APPLE TREE DENTAL

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

For The Years Ended
December 31, 2021 and 2020

APPLE TREE DENTAL
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Apple Tree Dental
Minneapolis, Minnesota

Opinion

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, 2021 and 2020, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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, 2021 and 2020, 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.

Basis for Opinion

We conducted our December 31, 2021 audit in accordance with auditing standards generally accepted in the United States of America (GAAS). We conducted our December 31, 2020 audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Apple Tree Dental and to meet our other ethical responsibilities in accordance with the relevant ethical requirements related 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 Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

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

Auditor's Responsibilities for the Audit of Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 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 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 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 Apple Tree Dental'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 financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Apple Tree Dental'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.

Redpath and Company Ltd.

REDPATH AND COMPANY, LTD.
St. Paul, Minnesota

April 8, 2022

FINANCIAL STATEMENTS

APPLE TREE DENTAL
STATEMENTS OF FINANCIAL POSITION
December 31, 2021 and 2020

Statement 1

| | 2021 | 2020 |
|---|----------------------------|----------------------------|
| Assets: | | |
| Current assets: | | |
| Cash and cash equivalents | \$4,644,704 | \$2,718,458 |
| Accounts receivable, net | 1,410,070 | 1,224,331 |
| Grants and contributions receivable, current portion | 767,991 | 1,556,232 |
| Prepaid expenses | 18,898 | 17,103 |
| Inventory | - | 29,602 |
| Total current assets | <u>6,841,663</u> | <u>5,545,726</u> |
| Property and equipment, net | <u>12,966,228</u> | <u>12,463,913</u> |
| Other assets: | | |
| Security deposits | 8,480 | 9,180 |
| Grants and contributions receivable, net of current portion | 259,346 | 667,521 |
| Total other assets | <u>267,826</u> | <u>676,701</u> |
| Total assets | <u><u>\$20,075,717</u></u> | <u><u>\$18,686,340</u></u> |
| Liabilities and net assets: | | |
| Current liabilities: | | |
| Current maturities of long-term debt | \$301,555 | \$463,935 |
| Accounts payable | 771,738 | 726,103 |
| Construction costs payable | - | 53,822 |
| Accrued expenses | 1,564,486 | 1,655,193 |
| Deposits payable | 1,038 | 1,038 |
| Deferred revenue | 66,848 | 530,241 |
| Total current liabilities | <u>2,705,665</u> | <u>3,430,332</u> |
| Long-term liabilities: | | |
| Accrued expenses, net of current portion | - | 150,263 |
| Debt payable, net of current portion | 7,006,549 | 7,274,223 |
| Total long-term liabilities | <u>7,006,549</u> | <u>7,424,486</u> |
| Total liabilities | <u>9,712,214</u> | <u>10,854,818</u> |
| Net assets: | | |
| Without donor restrictions | 8,542,919 | 5,317,686 |
| With donor restrictions | 1,820,584 | 2,513,836 |
| Total net assets | <u>10,363,503</u> | <u>7,831,522</u> |
| Total liabilities and net assets | <u><u>\$20,075,717</u></u> | <u><u>\$18,686,340</u></u> |

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

| | 2021 | | | 2020 | | |
|--------------------------------------|----------------------------|-------------------------|--------------|----------------------------|-------------------------|--------------|
| | Without Donor Restrictions | With Donor Restrictions | Total | Without Donor Restrictions | With Donor Restrictions | Total |
| Revenue and support: | | | | | | |
| Net patient service revenue | \$18,332,376 | \$ - | \$18,332,376 | \$12,175,791 | \$ - | \$12,175,791 |
| Dental director fees | 562,135 | - | 562,135 | 534,847 | - | 534,847 |
| Grants and contributions | 331,341 | 1,324,273 | 1,655,614 | 230,464 | 1,006,125 | 1,236,589 |
| COVID-19 grants and contributions | 3,254,342 | - | 3,254,342 | 2,138,100 | 1,563,016 | 3,701,116 |
| Rental income | 176,198 | - | 176,198 | 65,545 | - | 65,545 |
| Interest and dividends | 3,614 | - | 3,614 | 6,233 | - | 6,233 |
| Other income | 378,537 | - | 378,537 | 248,597 | - | 248,597 |
| Subtotal | 23,038,543 | 1,324,273 | 24,362,816 | 15,399,577 | 2,569,141 | 17,968,718 |
| Net assets released from restriction | 2,017,525 | (2,017,525) | - | 3,249,760 | (3,249,760) | - |
| Total revenue and support | 25,056,068 | (693,252) | 24,362,816 | 18,649,337 | (680,619) | 17,968,718 |
| Expenses: | | | | | | |
| Program services: | | | | | | |
| Clinics | 20,003,424 | - | 20,003,424 | 15,468,113 | - | 15,468,113 |
| Innovations | 375,040 | - | 375,040 | 285,962 | - | 285,962 |
| Total program services | 20,378,464 | 0 | 20,378,464 | 15,754,075 | 0 | 15,754,075 |
| Supporting services: | | | | | | |
| Management and general | 1,311,754 | - | 1,311,754 | 1,190,021 | - | 1,190,021 |
| Fundraising | 140,617 | - | 140,617 | 153,806 | - | 153,806 |
| Total supporting services | 1,452,371 | 0 | 1,452,371 | 1,343,827 | 0 | 1,343,827 |
| Total expenses | 21,830,835 | 0 | 21,830,835 | 17,097,902 | 0 | 17,097,902 |
| Revenues over (under) expenses | 3,225,233 | (693,252) | 2,531,981 | 1,551,435 | (680,619) | 870,816 |
| Other changes in net assets: | | | | | | |
| Gain (loss) on disposals | - | - | - | (5,635) | - | (5,635) |
| Change in net assets | 3,225,233 | (693,252) | 2,531,981 | 1,545,800 | (680,619) | 865,181 |
| Net assets - beginning of year | 5,317,686 | 2,513,836 | 7,831,522 | 3,771,886 | 3,194,455 | 6,966,341 |
| Net assets - end of year | \$8,542,919 | \$1,820,584 | \$10,363,503 | \$5,317,686 | \$2,513,836 | \$7,831,522 |

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

APPLE TREE DENTAL
STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended December 31, 2021 and 2020

Statement 3
Page 1 of 2

| | 2021 | | | | Total |
|-------------------------------------|---------------------|------------------|------------------------|------------------|---------------------|
| | Program Services | | Supporting Services | | |
| | Clinics | Innovations | Management and General | Fundraising | |
| Expenses: | | | | | |
| Salaries and wages | \$12,226,062 | \$198,235 | \$897,550 | \$104,163 | \$13,426,010 |
| Payroll taxes and employee benefits | 1,893,534 | 32,714 | 148,915 | 18,567 | 2,093,730 |
| Minnesota Care provider tax | 324,753 | - | - | - | 324,753 |
| Contract services | 697,684 | 136,202 | 29,247 | 2,980 | 866,113 |
| Professional services | 42,335 | - | 71,733 | - | 114,068 |
| Office supplies | 47,241 | - | 6,732 | 1,275 | 55,248 |
| Postage and printing | 89,531 | 112 | 1,314 | - | 90,957 |
| Dental supplies | 1,607,174 | - | - | - | 1,607,174 |
| Lab fees | 390,735 | - | - | - | 390,735 |
| Marketing | 9,513 | 221 | 1,651 | 15 | 11,400 |
| Telephone | 76,651 | 1,680 | 3,953 | - | 82,284 |
| Travel | 19,413 | 153 | 3,493 | - | 23,059 |
| Vehicle | 40,576 | - | - | - | 40,576 |
| Dues and registration | 47,982 | 7,647 | 4,035 | 754 | 60,418 |
| Education and employee development | 42,412 | - | 2,738 | 552 | 45,702 |
| Meetings | 2,414 | 191 | 1,550 | - | 4,155 |
| Equipment rental and repair | 211,344 | - | 19,383 | 5,934 | 236,661 |
| Depreciation | 1,006,593 | 1,040 | 5,649 | 384 | 1,013,666 |
| Occupancy costs | 401,555 | - | 40,941 | 4,995 | 447,491 |
| Building maintenance and utilities | 299,638 | - | - | - | 299,638 |
| Bad debt | 83,908 | - | - | - | 83,908 |
| Bank and finance charges | 6,043 | - | 56,460 | 998 | 63,501 |
| Interest | 288,376 | - | - | - | 288,376 |
| Insurance | 122,877 | (3,155) | 14,510 | - | \$134,232 |
| Miscellaneous | 25,080 | - | 1,900 | - | 26,980 |
| Total expenses | <u>\$20,003,424</u> | <u>\$375,040</u> | <u>\$1,311,754</u> | <u>\$140,617</u> | <u>\$21,830,835</u> |

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

APPLE TREE DENTAL
STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended December 31, 2021 and 2020

Statement 3
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| | 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.

APPLE TREE DENTAL

STATEMENTS OF CASH FLOWS

Statement 4

For the Years Ended December 31, 2021 and 2020

| | 2021 | 2020 |
|---|---------------------------|---------------------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$2,531,981 | \$865,181 |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: | | |
| Depreciation | 1,013,665 | 755,262 |
| Amortization of financing costs presented as interest expense | 35,636 | 35,636 |
| (Gain) loss on disposal of property and equipment | - | 5,635 |
| Noncash contribution of property and equipment | 19,652 | (44,388) |
| Grants and contributions restricted for capital expenditure | (773,646) | (681,573) |
| Changes in assets and liabilities, net: | | |
| Accounts receivable | (185,739) | (13,301) |
| Grants and contributions receivable, operating | 607,086 | (583,987) |
| Prepaid expenses | (1,795) | 4,569 |
| Inventory | 29,602 | 24,747 |
| Security deposits | 700 | (1,450) |
| Accounts payable | 45,635 | (67,978) |
| Construction costs payable | (53,822) | (84,543) |
| Accrued expenses | (463,393) | 70,710 |
| Deferred revenue | (240,970) | 544,435 |
| Net cash provided by operating activities | <u>2,564,592</u> | <u>828,955</u> |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | <u>(1,535,632)</u> | <u>(4,699,695)</u> |
| Cash flows from financing activities: | | |
| Debt issuance costs | - | (39,046) |
| Proceeds from debt issuance | - | 3,576,980 |
| Principal payments on long-term debt | (465,690) | (505,776) |
| Proceeds from grants and contributions restricted for capital expenditure | 1,362,976 | 1,315,851 |
| Net cash provided by financing activities | <u>897,286</u> | <u>4,348,009</u> |
| Net increase in cash and cash equivalents | 1,926,246 | 477,269 |
| Cash and cash equivalents - beginning of year | <u>2,718,458</u> | <u>2,241,189</u> |
| Cash and cash equivalents - end of year | <u><u>\$4,644,704</u></u> | <u><u>\$2,718,458</u></u> |
| Supplemental information: | | |
| Cash payments for interest | <u>\$253,318</u> | <u>\$193,059</u> |
| Noncash investing and financing transactions: | | |
| Noncash contribution of property and equipment | <u>\$19,652</u> | <u>\$44,388</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 2021, 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. In 2021 the Organization received a second PPP loan. While patient service revenues increased, there were a lot of missed appointments and providers out due to the pandemic. Services at Long-Term Care facilities were sporadic due to outbreaks and cautions.

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 AND CASH EQUIVALENTS

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.

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 \$106,776 and \$90,451 as of December 31, 2021 and 2020, respectively. For the years ended December 31, 2021 and 2020, bad debt expense was \$83,908 and \$78,091, 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, 2021 and 2020, 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 without 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 \$0 and \$10,530 at December 31, 2021 and 2020, 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, 2021 and 2020.

H. INVENTORY

At December 31, 2020, inventory consisted of contributed level 2 masks and were recorded at the estimated fair value. There was no inventory at December 31, 2021.

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.

APPLE TREE DENTAL
NOTES TO FINANCIAL STATEMENTS
December 31, 2021 and 2020

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. DONATED SERVICES, GOODS, AND FACILITIES

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.

Donated goods and use of facilities are recorded and reflected in the financial statements at their fair values at the date of receipt. Generally, such materials and supplies would need to be purchased if not received by donation.

The Organization has recognized contributed services, goods, and facilities for the following, with like amounts included in expenses:

| | <u>2021</u> | <u>2020</u> |
|------------|------------------|------------------|
| Services | \$72,424 | \$36,823 |
| Goods | 31,519 | 75,632 |
| Facilities | <u>73,524</u> | <u>19,694</u> |
| Total | <u>\$177,467</u> | <u>\$132,149</u> |

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.

APPLE TREE DENTAL
NOTES TO FINANCIAL STATEMENTS
December 31, 2021 and 2020

As of December 31, 2021 and 2020, the Organization did not have any restrictions that were perpetual in nature. The Organization has chosen to report contributions restricted by donors that are met in the same reporting period they are received as contributions without donor 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 \$11,400 and \$14,013 for the years ended December 31, 2021 and 2020, 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.

P. RECLASSIFICATIONS

Certain prior period financial statement amounts have been reclassified to conform to current period presentation. The reclassifications had no impact on previously reported net assets.

APPLE TREE DENTAL
NOTES TO FINANCIAL STATEMENTS
December 31, 2021 and 2020

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>2021</u> | <u>2020</u> |
|--|-------------------------------|-------------------------------|
| Cash and cash equivalents | \$4,644,704 | \$2,718,458 |
| Accounts receivable | 1,410,070 | 1,224,331 |
| Grants and contributions receivable | <u>1,027,337</u> | <u>2,223,753</u> |
| Total financial assets | 7,082,111 | 6,166,542 |
| Less: amounts unavailable for general expenditure | | |
| Restricted by donor for non-operating purposes | (1,561,239) | (1,710,373) |
| Deferred revenue for non-operating purposes | - | (282,000) |
| Long-term portion of grants and contributions receivable | <u>(259,346)</u> | <u>(667,521)</u> |
| Total | <u><u>\$5,261,526</u></u> | <u><u>\$3,506,648</u></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, 2021 and 2020 is as follows:

| | <u>2021</u> | <u>2020</u> |
|------------------------------------|--------------------------------|--------------------------------|
| Land | \$849,500 | \$849,500 |
| Building and building improvements | 9,804,066 | 9,761,063 |
| Leasehold improvements | 745,783 | 249,583 |
| Dental equipment | 7,271,166 | 6,856,977 |
| Vehicles | 235,112 | 235,112 |
| Office equipment and furniture | <u>999,425</u> | <u>841,860</u> |
| Total | 19,905,052 | 18,794,095 |
| Less: accumulated depreciation | <u>(6,938,824)</u> | <u>(6,330,182)</u> |
| Net property and equipment | <u><u>\$12,966,228</u></u> | <u><u>\$12,463,913</u></u> |

Total property and equipment not placed into service as of December 31, 2021 and 2020 was \$54,678 and \$135,819, respectively.

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Note 4 UNCONDITIONAL GRANTS AND CONTRIBUTIONS

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

| | <u>2021</u> | <u>2020</u> |
|---|--------------------|--------------------|
| Due in one year | \$767,991 | \$1,556,232 |
| Due in two to five years | <u>259,346</u> | <u>678,051</u> |
| Total | 1,027,337 | 2,234,283 |
| Less: discount to net present value at a rate of 1.69% | <u>-</u> | <u>(10,530)</u> |
| Total | <u>\$1,027,337</u> | <u>\$2,223,753</u> |
| Net short-term portion | \$767,991 | \$1,556,232 |
| Net long-term portion | <u>259,346</u> | <u>667,521</u> |
| Total | <u>\$1,027,337</u> | <u>\$2,223,753</u> |

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NOTES TO FINANCIAL STATEMENTS
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Note 5 LONG-TERM DEBT

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

| | <u>2021</u> | <u>2020</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. * | \$2,720,430 | \$2,849,462 |
| 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. ** | 3,352,897 | 3,454,129 |
| 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.*** | 778,968 | 807,414 |
| 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.*** | 420,875 | 436,244 |
| 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. *** | 137,841 | 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 |
| 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 |
| Note payable to Patterson Dental bearing zero interest with monthly installments of \$10,698. Matures December 2021. | - | 106,980 |
| Total | 7,411,011 | 7,876,701 |
| Less: current maturities | (301,555) | (463,935) |
| Less: unamortized financing costs | (102,907) | (138,543) |
| Long-term portion | <u>\$7,006,549</u> | <u>\$7,274,223</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

APPLE TREE DENTAL
NOTES TO FINANCIAL STATEMENTS
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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 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, 2021 and 2020.

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

| Year Ending December 31, | Total |
|-----------------------------|---------------------------|
| 2022 | \$301,555 |
| 2023 | 307,980 |
| 2024 | 1,370,848 |
| 2025 | 269,519 |
| 2026 | 274,414 |
| Thereafter | <u>4,886,695</u> |
| Total | <u><u>\$7,411,011</u></u> |

Total interest expense for the years ended December 31, 2021 and 2020 was \$288,376 and \$202,557, respectively.

Note 6 LINE OF CREDIT

The Organization has a revolving credit line agreement with Bremer that matures on October 15, 2022. The agreement provides for borrowing up to \$700,000, subject to a borrowing base maximum as determined by the bank. The credit line bears interest at the prime rate, 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, 2021 and 2020 was 4% and 4%, respectively. The outstanding line of credit balance at December 31, 2021 and 2020 was \$0.

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NOTES TO FINANCIAL STATEMENTS
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Note 7 NET ASSETS WITH DONOR RESTRICTIONS

As of December 31, 2021, and 2020, net assets with donor restrictions consist of the following:

| | <u>2021</u> | <u>2020</u> |
|--|--------------------|--------------------|
| Fairmont Capital and Startup | \$676,569 | \$1,817,506 |
| Little Falls | 634,955 | 297,500 |
| Hygiene Outreach/Mobile Eq - Hawley | 186,345 | - |
| Retention - Fergus Falls | 59,160 | - |
| Startup and Recruitment - Fergus Falls | - | 150,673 |
| Mounds View Amb Surgery Center | - | 65,800 |
| Morrison County Recruitment | 22,000 | 38,000 |
| Rochester Construction | 45,000 | 36,250 |
| Health Information Exchange Project | - | 25,000 |
| Documentary on Oral Health | - | 22,695 |
| COVID-19/PPE | - | 21,424 |
| Dental Safety Net Salaries | 9,906 | 13,321 |
| Medtronic Equipment | - | 6,920 |
| Mayo Clinic In-Kind Rent | - | 6,565 |
| Longevity Program in Assisted Living | - | 5,420 |
| Hawley equipment | - | 5,000 |
| SHIP Grant | - | 1,762 |
| Med/Dental Integration | 49,885 | - |
| Teledentistry - Little Falls | 40,916 | - |
| AEGD Program - Fergus Falls | 37,405 | - |
| Mounds View Peds Center | 25,000 | - |
| Research Capabilities | 18,186 | - |
| Career Pathway Project | 7,500 | - |
| Mobile Equipment | 6,354 | - |
| Tooth Fairy | 1,403 | - |
| | <u>1,820,584</u> | <u>2,513,836</u> |
| Total | <u>\$1,820,584</u> | <u>\$2,513,836</u> |

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NOTES TO FINANCIAL STATEMENTS
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Note 8 OTHER COVID-19 INCOME

As of December 31, 2021, and 2020, other COVID-19 income consists of the following:

| | <u>2021</u> | <u>2020</u> |
|--------------------------------|--------------------|--------------------|
| PPP loan forgiveness | \$2,000,000 | \$2,138,100 |
| Employee retention tax credits | 78,428 | - |
| Unemployment claims relief | 393,728 | - |
| Provider relief funds | 782,186 | 1,353,408 |
| Other | - | 209,608 |
| | <u> </u> | <u> </u> |
| Total | <u>\$3,254,342</u> | <u>\$3,701,116</u> |

Note 9 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, 2021 and 2020, the Organization’s gross billings and net patient service revenue after adjustments were as follows:

| | <u>2021</u> | | <u>2020</u> | |
|-----------------------------|---------------------|---------------------|---------------------|---------------------|
| | <u>Gross</u> | <u>Net</u> | <u>Gross</u> | <u>Net</u> |
| | <u>Billings</u> | <u>Revenue</u> | <u>Billings</u> | <u>Revenue</u> |
| Medical assistance patients | \$29,689,543 | \$14,489,390 | \$19,669,249 | \$9,495,669 |
| Private pay patients | 1,738,899 | 1,489,432 | 1,327,733 | 1,160,278 |
| Other patients | 4,619,493 | 3,389,655 | 3,087,132 | 2,262,453 |
| Service adjustments | - | (1,036,101) | - | (742,609) |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total | <u>\$36,047,935</u> | <u>\$18,332,376</u> | <u>\$24,084,114</u> | <u>\$12,175,791</u> |

Note 10 OPERATING LEASES

The Organization is obligated under a long-term lease for its Coon Rapids Center space, expiring May 31, 2024. Monthly minimum payments increase in May of each year and range from \$12,470-\$14,789 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.

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The Organization is obligated under an operating lease for its Little Falls dental office space expiring on December 31, 2023. 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 \$1,961, which includes repairs and maintenance. Lease payments are subject to periodic adjustments.

At December 31, 2021, the Organization was the lessee of nine automobiles under operating leases. Under these leases, the total monthly lease payments were \$5,492 as of December 31, 2021.

Total rental expense, including the Organization’s share of operating costs, under these leases for 2021 and 2020 was \$429,843 and \$379,053, respectively.

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

| <u>Year Ending</u> <u>December 31,</u> | <u>Total</u> |
|---|-------------------------|
| 2022 | \$272,102 |
| 2023 | 258,971 |
| 2024 | 98,624 |
| 2025 | 23,532 |
| 2026 | 23,532 |
| Thereafter | - |
| Total | <u><u>\$676,761</u></u> |

Note 11 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 12 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, 2021 and 2020 was \$176,278 and \$132,100, respectively.

Note 13 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 14 UNEMPLOYMENT LIABILITY

The Organization self-insures for Minnesota unemployment. At December 31, 2021 and 2020, the Organization had recorded an estimated claims liability of \$3,855 and \$394,197, respectively, which is reported within accrued expenses. The liability recorded at December 31, 2020 was reported net of expected governmental relief assistance of 50%. COVID-19 grants and contributions revenue for 2021 reflects additional governmental relief funding applied of \$393,728.

Note 15 PAYCHECK PROTECTION PROGRAM LOANS

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 recognized the full amount as revenue in 2020. The Organization received full forgiveness from the SBA on June 11, 2021.

On April 5, 2021, the Organization obtained a second draw PPP Loan with Bremer Bank for \$2,000,000, subject to the terms noted above. The Organization elected to account for this loan as a conditional contribution under FASB ASC 958-605 and recognized the full amount as revenue in 2021. The Organization received full forgiveness from the SBA on August 17, 2021.

Note 16 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 17 SUBSEQUENT EVENTS

Management has evaluated subsequent events for potential recognition or disclosure through April 8, 2022, the date that the financial statements were available to be issued.

On March 17, 2022, the Organization entered into a \$1,600,000 agreement to purchase real property in New Brighton, Minnesota.