

APPLE TREE DENTAL

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

For The Years Ended
December 31, 2022 and 2021

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 nonprofit organization), which comprise the statements of financial position as of December 31, 2022 and 2021, 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, 2022 and 2021, 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, 2022 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. We conducted our December 31, 2021 audit in accordance with GAAS. 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 and *Government Auditing Standards* 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 and *Governmental Auditing Standards*, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 28, 2023, on our consideration of Apple Tree Dental's internal control over financial reporting and on our tests of its 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, 2023

FINANCIAL STATEMENTS

APPLE TREE DENTAL
STATEMENTS OF FINANCIAL POSITION
December 31, 2022 and 2021

Statement 1

	<u>2022</u>	<u>2021</u>
Assets:		
Current assets:		
Cash and cash equivalents	\$2,589,777	\$4,644,704
Accounts receivable, net	2,222,578	1,410,070
Grants and contributions receivable, current portion	785,106	767,991
In-kind contributions receivable	66,367	-
Prepaid expenses	86,571	18,898
Total current assets	<u>5,750,399</u>	<u>6,841,663</u>
Property and equipment, net	<u>15,591,586</u>	<u>12,966,228</u>
Other assets:		
Security deposits	7,485	8,480
Grants and contributions receivable, net of current portion	132,394	259,346
Operating lease right-of-use assets	2,316,233	-
Goodwill	822,453	-
Total other assets	<u>3,278,565</u>	<u>267,826</u>
Total assets	<u><u>\$24,620,550</u></u>	<u><u>\$20,075,717</u></u>
Liabilities and net assets:		
Current liabilities:		
Current maturities of long-term debt	\$493,461	\$301,555
Accounts payable	913,197	771,738
Construction costs payable	44,285	-
Accrued expenses	1,666,625	1,564,486
Deposits payable	1,038	1,038
Deferred revenue	170,335	66,848
Operating lease liability, current	425,063	-
Total current liabilities	<u>3,714,004</u>	<u>2,705,665</u>
Long-term liabilities:		
Operating lease liability, net of current portion	1,644,332	-
Debt payable, net of current portion	9,029,730	7,006,549
Total long-term liabilities	<u>10,674,062</u>	<u>7,006,549</u>
Total liabilities	<u>14,388,066</u>	<u>9,712,214</u>
Net assets:		
Without donor restrictions	9,130,002	8,542,919
With donor restrictions	1,102,482	1,820,584
Total net assets	<u>10,232,484</u>	<u>10,363,503</u>
Total liabilities and net assets	<u><u>\$24,620,550</u></u>	<u><u>\$20,075,717</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, 2022 and 2021

Statement 2

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support:						
Net patient service revenue	\$21,009,755	\$ -	\$21,009,755	\$18,332,376	\$ -	\$18,332,376
Dental director fees	607,700	-	607,700	562,135	-	562,135
Grants and contributions	321,053	792,119	1,113,172	331,341	1,324,273	1,655,614
COVID-19 grants and contributions	-	-	-	3,076,875	-	3,076,875
In-kind contributions	257,423	-	257,423	177,467	-	177,467
Rental income	169,280	-	169,280	176,198	-	176,198
Interest and dividends	12,770	-	12,770	3,614	-	3,614
Other income	338,787	-	338,787	378,537	-	378,537
Subtotal	22,716,768	792,119	23,508,887	23,038,543	1,324,273	24,362,816
Net assets released from restriction	1,510,221	(1,510,221)	-	2,017,525	(2,017,525)	-
Total revenue and support	24,226,989	(718,102)	23,508,887	25,056,068	(693,252)	24,362,816
Expenses:						
Program services:						
Clinics	21,217,111	-	21,217,111	20,003,424	-	20,003,424
Innovations	579,868	-	579,868	375,040	-	375,040
Total program services	21,796,979	0	21,796,979	20,378,464	0	20,378,464
Supporting services:						
Management and general	1,651,357	-	1,651,357	1,311,754	-	1,311,754
Fundraising	191,570	-	191,570	140,617	-	140,617
Total supporting services	1,842,927	0	1,842,927	1,452,371	0	1,452,371
Total expenses	23,639,906	0	23,639,906	21,830,835	0	21,830,835
Change in net assets	587,083	(718,102)	(131,019)	3,225,233	(693,252)	2,531,981
Net assets - beginning of year	8,542,919	1,820,584	10,363,503	5,317,686	2,513,836	7,831,522
Net assets - end of year	\$9,130,002	\$1,102,482	\$10,232,484	\$8,542,919	\$1,820,584	\$10,363,503

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

APPLE TREE DENTAL
STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended December 31, 2022 and 2021

Statement 3
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	2022				Total
	Program Services		Supporting Services		
	Clinics	Innovations	Management and General	Fundraising	
Expenses:					
Salaries and wages	\$13,169,496	\$391,767	\$981,299	\$130,398	\$14,672,960
Payroll taxes and employee benefits	1,982,660	52,793	219,611	20,184	2,275,248
Minnesota Care provider tax	359,989	-	-	-	359,989
Contract services	905,021	99,683	57,123	25,000	1,086,827
Professional services	37,428	42	102,764	-	140,234
Office supplies	56,562	279	7,523	1,371	65,735
Postage and printing	84,503	25	3,267	689	88,484
Dental supplies	1,448,099	-	-	-	1,448,099
Lab fees	346,195	-	-	-	346,195
Marketing	10,550	42	17,101	-	27,693
Telephone	77,231	1,980	5,210	653	85,074
Travel	27,751	8,279	2,556	4	38,590
Vehicle	46,433	-	41	-	46,474
Dues and registration	45,512	8,742	5,533	1,364	61,151
Education and employee development	136,366	4,024	3,070	165	143,625
Meetings	4,203	952	2,862	-	8,017
Equipment rental and repair	121,231	8,643	45,093	4,985	179,952
Depreciation	1,055,226	2,617	16,162	750	1,074,755
Occupancy costs	233,232	-	49,160	5,097	287,489
Operating lease expenses	299,394	-	-	-	299,394
Building maintenance and utilities	333,127	-	11,269	-	344,396
Bad debt	3,485	-	-	-	3,485
Bank and finance charges	8,114	-	59,707	910	68,731
Interest	277,375	-	45,954	-	323,329
Insurance	123,998	-	17,029	-	141,027
Miscellaneous	23,930	-	(977)	-	22,953
Total expenses	\$21,217,111	\$579,868	\$1,651,357	\$191,570	\$23,639,906

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

APPLE TREE DENTAL
STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended December 31, 2022 and 2021

Statement 3
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	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	\$20,003,424	\$375,040	\$1,311,754	\$140,617	\$21,830,835

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

APPLE TREE DENTAL
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2022 and 2021

Statement 4

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Change in net assets	(\$131,019)	\$2,531,981
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,074,755	1,013,665
Amortization of financing costs presented as interest expense	37,388	35,636
Noncash contribution of property and equipment	50,324	19,652
Grants and contributions restricted for capital expenditure	(154,672)	(773,646)
Initial rent payment due on operating lease	(259,375)	-
Noncash operating lease expense	12,537	-
Changes in assets and liabilities, net:		
Accounts receivable	(737,695)	(185,739)
Grants and contributions receivable, operating	150,608	607,086
Prepaid expenses	(67,673)	(1,795)
Inventory	-	29,602
Security deposits	995	700
Accounts payable	141,459	45,635
Construction costs payable	44,285	(53,822)
Accrued expenses	103,487	(463,393)
Deferred revenue	102,139	(240,970)
Net cash provided by operating activities	<u>367,543</u>	<u>2,564,592</u>
Cash flows from investing activities:		
Cash paid for business acquisition	(1,149,530)	-
Purchase of property and equipment	(3,498,173)	(1,535,632)
Net cash provided by (used in) investing activities	<u>(4,647,703)</u>	<u>(1,535,632)</u>
Cash flows from financing activities:		
Debt issuance costs	(35,052)	-
Proceeds from debt issuance	2,529,530	-
Principal payments on long-term debt	(316,779)	(465,690)
Proceeds from grants and contributions restricted for capital expenditure	47,534	1,362,976
Net cash provided by financing activities	<u>2,225,233</u>	<u>897,286</u>
Net increase (decrease) in cash and cash equivalents	(2,054,927)	1,926,246
Cash and cash equivalents - beginning of year	<u>4,644,704</u>	<u>2,718,458</u>
Cash and cash equivalents - end of year	<u>\$2,589,777</u>	<u>\$4,644,704</u>
Supplemental information:		
Cash payments for interest	<u>\$285,321</u>	<u>\$253,318</u>
Noncash investing and financing transactions:		
Noncash contribution of property and equipment	<u>\$50,324</u>	<u>\$19,652</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.

To expand its ability to meet their strategic and mission-related goals, on December 30, 2022, the Organization entered into an asset purchase agreement with ADT Dental, Ltd. to purchase the dental practice including its equipment, accounts, supplies, and intangible business assets for \$1,100,000, plus the value of patient accounts receivable. The Organization paid \$220,000 in cash and executed a note payable for \$929,530 as disclosed in Note 5.

B. COVID-19 PANDEMIC

During 2020 and 2021, the Organization received PPP loans, HHS Federal Provider Relief Grants and other COVID-19 relief funding to help offset the reduction of patient service revenue related to the COVID-19 pandemic. In 2021, while patient service revenue increased, there were a lot of missed appointments and providers out due to the pandemic. Additionally, services at Long-Term Care facilities were sporadic due to outbreaks and cautions. During 2022, patient service activities increased back to near pre-pandemic levels.

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 exceed 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.

APPLE TREE DENTAL
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

Accounts receivable are presented net of allowances for bad debts of \$154,313 and \$106,776 as of December 31, 2022 and 2021, respectively. For the years ended December 31, 2022 and 2021, bad debt expense was \$3,485 and \$83,908, 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, 2022 and 2021, the Organization had conditional grants approximating \$198,000 and \$81,000. 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 as of December 31, 2022 and 2021.

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, 2022 and 2021.

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

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. GOODWILL

The Organization has elected the accounting alternatives provided in Accounting Standards Update (ASU) 2014-18, *Business Combinations (Topic 805): Accounting for Identifiable Intangible Assets in a Business Combination*, and ASU 2014-02, *Intangibles – Goodwill and Other (Topic 350): Accounting for Goodwill*, issued by the Financial Accounting Standards Board (FASB). Pursuant to these elections, the Organization: (a) did not separately recognize customer-related intangible assets acquired in business combinations and (b) adopted a method of accounting for goodwill. The Organization is amortizing its goodwill on a straight-line basis over a period of 10 years.

J. DONATED SERVICES, GOODS, AND FACILITIES

The Organization reports gifts of non-cash assets as support without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. No in-kind contributions were reported as contributions with donor restrictions in 2022.

GAAP requires that donated services be recognized only if they would typically need to be purchased, require a specialized skill, and are performed by an individual possessing that skill, or if they create or enhance a nonfinancial asset. In addition to its recorded donated services, the Organization has a dedicated team of volunteers that perform a variety of tasks that assist the Organization with specific programs and supporting services. These services are not recognized in the financial statements since the criteria for recording the services were not met.

Donated marketable securities, use of facilities, and other noncash donations are recorded as contributions at their estimated fair market values at the date of donation, based on the estimated US wholesale prices of identical or similar products or services using pricing data under a ‘like-kind’ methodology considering the goods or services condition and utility for use at the time of the contribution.

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

	<u>2022</u>	<u>2021</u>
Services	\$34,516	\$72,424
Goods	69,063	31,519
Facilities	<u>153,844</u>	<u>73,524</u>
Total	<u>\$257,423</u>	<u>\$177,467</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.

APPLE TREE DENTAL
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

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, 2022 and 2021, 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. LEASES

For any lease with an initial term in excess of 12 months, the related leased asset and liability are recognized on the statements of financial position as either operating or finance leases at the inception of an agreement where it is determined that a lease exists. The Organization has elected to exclude short-term leases for all classes of underlying assets from balance sheet recognition. A lease is considered to be short-term if it contains a lease term of 12 months or less. Lease expense related to short term leases is recognized on a straight-line basis over the term of the lease.

The weighted-average discount rate is based on the discount rate implicit in the lease. The Organization has elected to use the risk-free rate as the discount factor in lieu of determining the incremental borrowing rate for all classes of underlying assets when the implicit rate is not readily determinable.

Operating lease assets are included in operating lease right-of-use (“ROU”) assets. ROU assets represent the right to use an underlying asset for the lease term and operating lease liabilities represent the obligation to make lease payments arising from the related operating lease.

M. 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.

N. 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. The remainder of costs are allocated based on the allocation of salary expenses.

O. MARKETING AND ADVERTISING

Marketing and advertising costs are expensed as incurred and totaled \$27,693 and \$11,400 for the years ended December 31, 2022 and 2021, respectively.

P. 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.

Q. RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

The Organization adopted the provisions of ASC 842, *Leases*, using the modified retrospective approach with January 1, 2022, as the date of initial adoption. The Organization elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed the Organization to carry forward the historical lease classification. In addition, the Organization elected the practical expedient to use hindsight in determining the lease term for existing leases, which resulted in shortening the lease terms for certain existing leases. Upon implementation, operating lease right-of-use assets and lease liabilities increased by \$781,001, which resulted in a cumulative effect adjustment to net assets of \$0 as of January 1, 2022. Adoption of the new standard did not materially impact the Organization's net income and had no impact on cash flows.

Effective January 1, 2022, the Organization adopted the provisions of Accounting Standards Update (ASU) 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The new guidance requires nonprofit entities to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash or other financial assets. The standard also increases the disclosure requirements around contributed nonfinancial assets, including disaggregating by category the types of contributed nonfinancial assets a nonprofit entity has received. Adoption of this standard required increased disclosure and a reclassification of prior year information to conform to the new required method of presentation.

R. 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
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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>2022</u>	<u>2021</u>
Cash and cash equivalents	\$2,589,777	\$4,644,704
Accounts receivable	2,222,578	1,410,070
Grants and contributions receivable	917,500	1,027,337
Total financial assets	<u>5,729,855</u>	<u>7,082,111</u>
Less: amounts unavailable for general expenditure		
Restricted by donor for non-operating purposes	(851,972)	(1,561,239)
Long-term portion of grants and contributions receivable	<u>(132,394)</u>	<u>(259,346)</u>
 Total	 <u><u>\$4,745,489</u></u>	 <u><u>\$5,261,526</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, 2022 and 2021 is as follows:

	<u>2022</u>	<u>2021</u>
Land	\$1,087,600	\$849,500
Building and building improvements	11,223,070	9,804,066
Leasehold improvements	1,757,149	745,783
Dental equipment	7,898,971	7,271,166
Vehicles	242,777	235,112
Office equipment and furniture	1,133,557	999,425
Total	<u>23,343,124</u>	<u>19,905,052</u>
Less: accumulated depreciation	<u>(7,751,538)</u>	<u>(6,938,824)</u>
 Net property and equipment	 <u><u>\$15,591,586</u></u>	 <u><u>\$12,966,228</u></u>

Total property and equipment not placed into service as of December 31, 2022 and 2021 was \$1,753,932 and \$54,678, respectively.

APPLE TREE DENTAL
NOTES TO FINANCIAL STATEMENTS
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Note 4 UNCONDITIONAL GRANTS AND CONTRIBUTIONS

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

	<u>2022</u>	<u>2021</u>
Due in one year	\$785,106	\$767,991
Due in two to five years	<u>132,394</u>	<u>259,346</u>
Total	<u>\$917,500</u>	<u>\$1,027,337</u>
Net short-term portion	\$785,106	\$767,991
Net long-term portion	<u>132,394</u>	<u>259,346</u>
Total	<u>\$917,500</u>	<u>\$1,027,337</u>

APPLE TREE DENTAL
NOTES TO FINANCIAL STATEMENTS
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Note 5 LONG-TERM DEBT

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

	<u>2022</u>	<u>2021</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. *	\$2,591,398	\$2,720,430
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. **	3,248,205	3,352,897
Note Payable to ADT Dental, Ltd. bearing interest at 5.00% with monthly principal and interest installments of \$17,541 beginning February 2023 and balloon payment due upon maturity in December 2028. Secured by purchased assets.	929,530	-
Note payable to Bremer Bank bearing interest at 5.34% with monthly installments of \$9,748 and balloon payment due upon maturity in June 2032. Secured by real property located in New Brighton and Mounds View Minnesota. ***	1,584,776	-
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. ***	749,271	778,968
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. ***	404,830	420,875
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. ***	<u>115,752</u>	<u>137,841</u>
Total	9,623,762	7,411,011
Less: current maturities	(493,461)	(301,555)
Less: unamortized financing costs	<u>(100,571)</u>	<u>(102,907)</u>
Long-term portion	<u><u>\$9,029,730</u></u>	<u><u>\$7,006,549</u></u>

APPLE TREE DENTAL
NOTES TO FINANCIAL STATEMENTS
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* 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 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, 2022 and 2021.

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

Year Ending December 31,	Total
2023	\$493,461
2024	1,580,036
2025	489,783
2026	506,103
2027	515,121
Thereafter	<u>6,039,258</u>
Total	<u><u>\$9,623,762</u></u>

Total interest expense for the years ended December 31, 2022 and 2021 was \$323,329 and \$288,376, respectively.

Note 6 LINE OF CREDIT

The Organization has a revolving credit line agreement with Bremer that matures on October 15, 2023. 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, 2022 and 2021 was 7.5% and 4%, respectively. The outstanding line of credit balance at December 31, 2022 and 2021 was \$0.

APPLE TREE DENTAL
NOTES TO FINANCIAL STATEMENTS
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Note 7 NET ASSETS WITH DONOR RESTRICTIONS

As of December 31, 2022, and 2021, net assets with donor restrictions consist of the following:

	<u>2022</u>	<u>2021</u>
Fairmont Capital and Startup	\$461,147	\$676,569
Little Falls	-	634,955
Hygiene Outreach/Mobile Eq - Hawley	-	186,345
Retention - Fergus Falls	22,450	59,160
Recruitment - Fergus Falls	75,000	-
Morrison County Recruitment	6,000	22,000
Rochester Construction	-	45,000
Dental Safety Net Salaries	2,158	9,906
Med/Dental Integration	38,927	49,885
Teledentistry - Little Falls	7,986	40,916
AEGD Program - Fergus Falls	16,272	37,405
Acquire/Launch Mpls Clinic	310,000	-
Mounds View Peds Center	6,000	25,000
School Visits - Fergus Falls	2,476	-
IV Sedation Startup - Fergus	12,225	-
Research Capabilities	20,000	18,186
Research Dissemination	25,000	-
Career Pathway Project	-	7,500
Mobile Hygiene, Equipment	90,741	6,354
Childrens' Dental Care	1,000	-
Policy Map	5,100	-
Tooth Fairy	-	1,403
	<u> </u>	<u> </u>
Total	<u><u>\$1,102,482</u></u>	<u><u>\$1,820,584</u></u>

APPLE TREE DENTAL
NOTES TO FINANCIAL STATEMENTS
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Note 8 OTHER COVID-19 INCOME

As of December 31, 2022, and 2021, other COVID-19 income consists of the following:

	<u>2022</u>	<u>2021</u>
PPP loan forgiveness	\$ -	\$2,000,000
Employee retention tax credits	-	78,428
Unemployment claims relief	-	393,728
Provider relief funds	-	782,186
	<u>-</u>	<u>3,254,342</u>
Total	<u>\$ -</u>	<u>\$3,254,342</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, 2022 and 2021, the Organization's gross billings and net patient service revenue after adjustments were as follows:

	<u>2022</u>		<u>2021</u>	
	<u>Gross Billings</u>	<u>Net Revenue</u>	<u>Gross Billings</u>	<u>Net Revenue</u>
Medical assistance patients	\$29,635,881	\$16,856,737	\$29,689,543	\$14,489,390
Private pay patients	1,530,979	1,314,895	1,738,899	1,489,432
Other patients	5,134,004	3,860,044	4,619,493	3,389,655
Service adjustments	-	(1,021,921)	-	(1,036,101)
	<u>-</u>	<u>(1,021,921)</u>	<u>-</u>	<u>(1,036,101)</u>
Total	<u>\$36,300,864</u>	<u>\$21,009,755</u>	<u>\$36,047,935</u>	<u>\$18,332,376</u>

APPLE TREE DENTAL
NOTES TO FINANCIAL STATEMENTS
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Note 10 LEASING ACTIVITY

The Organization leases certain office facilities and equipment at various terms under long-term non-cancelable operating leases. The leases expire at various dates through 2042. The Organization includes in the termination of the right-of-use assets and lease liabilities any renewal options when the options are reasonably certain to be exercised. The Organization's operating leases provide for increases in future minimum annual rental payments. Additionally, some of the operating lease agreements require the Organization to pay real estate taxes, insurance, and other common area expenses.

Operating lease expense for the year ended December 31, 2022 was \$299,394.

The following table summarizes the supplemental cash flow information for the year ended December 31, 2022:

<u>Cash paid for amounts included in measurement of lease liabilities:</u>	
Operating cash flows from operating leases	<u>\$279,766</u>
<u>Right-of-use assets obtained in exchange for lease liabilities:</u>	
Operating leases	<u>\$2,328,073</u>

The following summarizes the weighted average remaining lease term and discount rate as of December 31, 2022:

Weighted average remaining lease term	11.49
Weighted average discount rate	2.89%

The maturities of lease liabilities at December 31, 2022 were as follows:

<u>Year Ending December 31,</u>	<u>Total</u>
2023	\$425,063
2024	309,630
2025	228,881
2026	229,919
2027	172,716
Thereafter	<u>1,135,085</u>
Total lease payment	2,501,294
Less: present value discount	<u>(431,899)</u>
Present value of operating lease liabilities	<u>\$2,069,395</u>

APPLE TREE DENTAL
NOTES TO FINANCIAL STATEMENTS
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Note 11 LEASE REVENUE

The Organization sub 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 75% of the employee's salary reduction, up to 4% of employee's compensation. Total retirement expense for December 31, 2022 and 2021 was \$276,275 and \$176,278 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, 2022 and 2021, the Organization had recorded an estimated claims liability of \$0 and \$3,855, respectively, which is reported within accrued expenses.

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.

APPLE TREE DENTAL
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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 28, 2023, the date that the financial statements were available to be issued.

In February 2023, the Organization entered into an amended lease agreement to extend the lease term and expand into an additional space at their Little Falls location. Effective as of July 31, 2023, monthly lease payments will increase by \$3,230, with annual step increases through July 31, 2027.

In January 2023, the Organization entered into an integrated partnership with Ready, Set, Smile, PA (RSS) a nonprofit corporation. Both the Organization and RSS will maintain their respective Boards of Directors; however, the Organization will acquire governing control through the authority to appoint and remove members of the RSS board. The partnership will facilitate scaling and expanding high impact programs, succession planning, and deepening the provider pipeline to increase capacity.

In April 2023, the Organization entered into a Program-Related Investment loan agreement with the Venn Foundation with a minimum aggregate principal amount of \$155,000 and a maximum aggregate principal amount of \$1,300,000, subject to meeting certain conditions. Interest will accrue at a rate of 3% and interest only payments will be made through April 2024. Thereafter, principal and interest payments will be made annually, with a final maturity date of July 2030.

In March 2023, the Organization amended the note payable with ADT Dental, Ltd (ADT). The amended note payable of \$407,137 reflects the principal payments made under the previous agreement. The original payee shall be replaced by the direct owners of ADT and future payments shall be split evenly between the two owners. The note will accrue interest at 5% and monthly principal and interest payments are due through maturity of December 31, 2028.