

APPLE TREE DENTAL

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

For The Years Ended
December 31, 2023 and 2022

APPLE TREE DENTAL
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Apple Tree Dental
Minneapolis, Minnesota

Qualified Opinion on 2023 and Unmodified Opinion on 2022

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, 2023 and 2022, 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, except for the effects on the 2023 financial statements of not consolidating the financial statements of Ready, Set, Smile as described in the Basis for Qualified Opinion section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of Apple Tree Dental as of December 31, 2023 and 2022, 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 Qualified Opinion on 2023 and Unmodified Opinion on 2022

As described in Note 1A to the financial statements, during 2023 the Organization obtained majority voting interest in the board of Ready, Set, Smile, a nonprofit organization incorporated under the laws of the State of Minnesota, via the right to elect and remove members of its board of directors. In our opinion, accounting principles generally accepted in the United States of America require such controlled entities to be consolidated with the controlling organization. If the financial statements of Ready, Set, Smile had been consolidated with those of the Organization, total assets and liabilities would be increased by approximately \$530,000 and \$13,000, respectively, as of December 31, 2023 and revenues and expenses would be increased by approximately \$720,000 and \$600,000, respectively, for the year then ended (based on Ready, Set, Smile's unaudited financial information for the year ended June 30, 2023).

We conducted our December 31, 2023 audit in accordance with auditing standards generally accepted in the United States of America. We conducted our December 31, 2022 audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 qualified audit opinion on the 2023 financial statements and our unmodified audit opinion on the 2022 financial statements.

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 generally accepted auditing standards 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 generally accepted auditing standards and *Government 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.



REDPATH AND COMPANY, LLC
St. Paul, Minnesota

May 31, 2024

FINANCIAL STATEMENTS

APPLE TREE DENTAL
STATEMENTS OF FINANCIAL POSITION
December 31, 2023 and 2022

Statement 1

	<u>2023</u>	<u>2022</u>
Assets:		
Current assets:		
Cash and cash equivalents	\$1,995,013	\$2,589,777
Accounts receivable, net	2,457,994	2,222,578
Grants and contributions receivable, current portion	890,589	785,106
In-kind contributions receivable	66,367	66,367
Prepaid expenses	66,931	86,571
Total current assets	<u>5,476,894</u>	<u>5,750,399</u>
Property and equipment, net	<u>14,971,876</u>	<u>15,591,586</u>
Other assets:		
Security deposits	7,485	7,485
Grants and contributions receivable, net of current portion	-	132,394
Operating lease right-of-use assets	2,034,057	2,316,233
Goodwill	740,208	822,453
Total other assets	<u>2,781,750</u>	<u>3,278,565</u>
Total assets	<u><u>\$23,230,520</u></u>	<u><u>\$24,620,550</u></u>
Liabilities and net assets:		
Current liabilities:		
Current maturities of long-term debt	\$1,476,933	\$493,461
Lines of credit	261,773	-
Accounts payable	956,992	913,197
Construction costs payable	14,716	44,285
Accrued expenses	1,899,561	1,666,625
Deposits payable	1,038	1,038
Deferred revenue	181,034	170,335
Operating lease liability, current	294,116	425,063
Total current liabilities	<u>5,086,163</u>	<u>3,714,004</u>
Long-term liabilities:		
Operating lease liability, net of current portion	1,508,383	1,644,332
Debt payable, net of current portion	7,209,086	9,029,730
Total long-term liabilities	<u>8,717,469</u>	<u>10,674,062</u>
Total liabilities	<u>13,803,632</u>	<u>14,388,066</u>
Net assets:		
Without donor restrictions	8,310,937	9,130,002
With donor restrictions	1,115,951	1,102,482
Total net assets	<u>9,426,888</u>	<u>10,232,484</u>
Total liabilities and net assets	<u><u>\$23,230,520</u></u>	<u><u>\$24,620,550</u></u>

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

	2023			2022		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support:						
Net patient service revenue	\$24,776,846	\$ -	\$24,776,846	\$21,009,755	\$ -	\$21,009,755
Dental director fees	580,683	-	580,683	607,700	-	607,700
Grants and contributions	261,884	1,543,398	1,805,282	321,053	792,119	1,113,172
In-kind contributions	202,593	-	202,593	257,423	-	257,423
Rental income	173,677	-	173,677	169,280	-	169,280
Interest income	49,331	-	49,331	12,770	-	12,770
Loss on disposal of property and equipment	(10,233)	-	(10,233)	-	-	-
Other income	688,845	-	688,845	338,787	-	338,787
Subtotal	26,723,626	1,543,398	28,267,024	22,716,768	792,119	23,508,887
Net assets released from restriction	1,529,929	(1,529,929)	-	1,510,221	(1,510,221)	-
Total revenue and support	28,253,555	13,469	28,267,024	24,226,989	(718,102)	23,508,887
Expenses:						
Program services:						
Clinics	26,098,365	-	26,098,365	21,217,111	-	21,217,111
Innovations	857,164	-	857,164	579,868	-	579,868
Total program services	26,955,529	0	26,955,529	21,796,979	0	21,796,979
Supporting services:						
Management and general	1,921,742	-	1,921,742	1,651,357	-	1,651,357
Fundraising	195,349	-	195,349	191,570	-	191,570
Total supporting services	2,117,091	0	2,117,091	1,842,927	0	1,842,927
Total expenses	29,072,620	0	29,072,620	23,639,906	0	23,639,906
Change in net assets	(819,065)	13,469	(805,596)	587,083	(718,102)	(131,019)
Net assets - beginning of year	9,130,002	1,102,482	10,232,484	8,542,919	1,820,584	10,363,503
Net assets - end of year	\$8,310,937	\$1,115,951	\$9,426,888	\$9,130,002	\$1,102,482	\$10,232,484

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

	2023				Total
	Program Services		Supporting Services		
	Clinics	Innovations	Management and General	Fundraising	
Expenses:					
Salaries and wages	\$16,126,538	\$606,638	\$1,051,011	\$154,650	\$17,938,837
Payroll taxes and employee benefits	2,489,470	84,682	284,583	24,987	2,883,722
Minnesota Care provider tax	388,310	-	-	-	388,310
Contract services	1,317,276	81,264	49,560	500	1,448,600
Professional services	30,989	236	106,412	-	137,637
Office supplies	57,678	128	9,310	1,197	68,313
Postage and printing	84,535	392	2,132	25	87,084
Dental supplies	1,616,149	-	-	-	1,616,149
Lab fees	435,350	-	-	-	435,350
Marketing	5,617	-	10,814	-	16,431
Telephone	94,834	2,400	7,990	1,079	106,303
Travel	29,248	27,609	4,955	141	61,953
Vehicle	61,924	-	32	-	61,956
Dues and registration	54,893	13,710	4,856	1,497	74,956
Education and employee development	93,875	40	4,864	368	99,147
Meetings	2,537	3,073	3,015	-	8,625
Equipment rental and repair	224,430	22,169	95,060	4,103	345,762
Depreciation	1,343,396	3,364	45,533	750	1,393,043
Amortization of goodwill	82,245	-	-	-	82,245
Occupancy costs	226,057	150	40,294	5,441	271,942
Operating lease expenses	406,101	-	-	-	406,101
Building maintenance and utilities	378,309	-	19,877	-	398,186
Bad debt	59,563	-	-	-	59,563
Bank and finance charges	25,832	-	65,215	611	91,658
Interest	290,423	-	92,096	-	382,519
Insurance	141,329	11,309	24,001	-	176,639
Miscellaneous	31,457	-	132	-	31,589
Total expenses	\$26,098,365	\$857,164	\$1,921,742	\$195,349	\$29,072,620

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

	2022				
	Program Services		Supporting Services		Total
	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	-	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	<u>\$21,217,111</u>	<u>\$571,126</u>	<u>\$1,651,357</u>	<u>\$191,570</u>	<u>\$23,639,906</u>

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, 2023 and 2022

	2023	2022
Cash flows from operating activities:		
Change in net assets	(\$805,596)	(\$131,019)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,393,043	1,074,755
Amortization of goodwill	82,245	-
Loss on disposal of property and equipment	10,233	-
Amortization of financing costs presented as interest expense	39,141	37,388
Noncash contribution of property and equipment	(85,087)	(50,324)
Grants and contributions restricted for capital expenditure	(600,000)	(154,672)
Initial rent payment due on operating lease	-	(259,375)
Noncash operating lease expense	15,280	12,537
Changes in assets and liabilities, net:		
Accounts receivable	(235,416)	(737,695)
Grants and contributions receivable, operating	489,516	150,608
Prepaid expenses	19,640	(67,673)
Security deposits	-	995
Accounts payable	43,795	141,459
Accrued expenses	10,699	103,487
Deferred revenue	232,936	102,139
Net cash provided by operating activities	<u>610,429</u>	<u>222,610</u>
Cash flows from investing activities:		
Cash paid for business acquisition	-	(1,149,530)
Purchase of property and equipment	(674,469)	(3,353,240)
Net cash used in investing activities	<u>(674,469)</u>	<u>(4,502,770)</u>
Cash flows from financing activities:		
Debt issuance costs	-	(35,052)
Proceeds from lines of credit	261,773	-
Proceeds from debt issuance	155,000	2,529,530
Principal payments on long-term debt	(1,084,892)	(316,779)
Proceeds from grants and contributions restricted for capital expenditure	137,395	47,534
Net cash (used in) provided by financing activities	<u>(530,724)</u>	<u>2,225,233</u>
Net decrease in cash and cash equivalents	(594,764)	(2,054,927)
Cash and cash equivalents - beginning of year	<u>2,589,777</u>	<u>4,644,704</u>
Cash and cash equivalents - end of year	<u>\$1,995,013</u>	<u>\$2,589,777</u>
Supplemental information:		
Cash payments for interest	<u>\$339,602</u>	<u>\$285,321</u>
Noncash investing and financing transactions:		
Noncash contribution of property and equipment	<u>(\$85,087)</u>	<u>\$50,324</u>
Property and equipment acquired through financing	<u>\$53,579</u>	<u>\$0</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 6.

In January 2023, Apple Tree Dental entered into an integrated partnership with Ready, Set, Smile, a nonprofit organization incorporated under the laws of the State of Minnesota. The partnership will facilitate scaling and expanding high impact programs, succession planning, and deepening the provider pipeline to increase capacity. As part of the agreement, the Organization may elect or remove members of the board of directors of Ready, Set, Smile. Under U.S. GAAP, this is considered "control" and thus consolidation is required. The Organization has opted to not consolidate Ready, Set, Smile as it was not deemed practical to do so. Transactions with Ready, Set, Smile are described in Note 2.

B. FINANCIAL STATEMENTS PRESENTATION

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

C. ACCOUNTING ESTIMATES

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

D. CASH AND CASH EQUIVALENTS

For purposes of the statements 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.

E. ACCOUNTS RECEIVABLE

The Organization grants credit to its customers who are located in the Midwest. Accounts receivable outstanding more than 30 days are considered past due and delinquent. No interest is charged on receivables 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 management's prior experience, analysis of individual accounts, and other reasonable and supportable forward-looking information.

APPLE TREE DENTAL
NOTES TO FINANCIAL STATEMENTS
December 31, 2023 and 2022

Accounts receivable are presented net of allowances for bad debts of \$89,984 and \$154,313 as of December 31, 2023 and 2022, respectively. For the years ended December 31, 2023 and 2022, bad debt expense was \$59,563 and \$3,485, respectively.

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

F. GRANTS AND CONTRIBUTIONS

Grants and contributions are recognized as cash, securities or other assets; or an unconditional promise to give is received. Conditional promises to give, that is, those with a measurable performance or other barrier and a right of return, are not recognized until the conditions on which they depend have been substantially met. At December 31, 2023 and 2022, the Organization had conditional grants approximating \$109,000 and \$198,000, respectively. 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, 2023 and 2022.

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, 2023 and 2022.

G. 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	3-10 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.

H. 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.

I. 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 2023 or 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.

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>2023</u>	<u>2022</u>
Services	\$34,819	\$34,516
Goods	101,407	69,063
Facilities	<u>66,367</u>	<u>153,844</u>
Total	<u>\$202,593</u>	<u>\$257,423</u>

J. NET ASSETS

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

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

APPLE TREE DENTAL
NOTES TO FINANCIAL STATEMENTS
December 31, 2023 and 2022

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, 2023 and 2022, 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.

K. 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.

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. The 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 \$16,431 and \$27,693 for the years ended December 31, 2023 and 2022, 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. RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

The Organization adopted the provisions of FASB Accounting Standards Codification (FASB ASC) 326: *Financial Instruments—Credit Losses* as of January 1, 2023, which replaced the incurred loss impairment method with a method that reflects lifetime expected credit losses. Adoption of the new standard did not impact Organization's financial statements.

Q. RECLASSIFICATIONS

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

Note 2 RELATED PARTY TRANSACTIONS

As described in Note 1A, the Organization entered into an agreement, effective January 2023, with Ready, Set, Smile. The agreement includes provisions for the Organization to elect and remove members of the board of directors, effectively exercising control over Ready, Set, Smile.

Transactions during 2023 with Ready, Set, Smile include revenue of \$59,376 for staff time, transporting equipment, and supplies. Expenses include payments of \$9,743 for a sub-grant for salaries and equipment.

Accounts receivable from Ready, Set, Smile totaled \$9,702 as of December 31, 2023.

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NOTES TO FINANCIAL STATEMENTS
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Note 3 LIQUIDITY AND AVAILABILITY

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

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$1,995,013	\$2,589,777
Accounts receivable	2,457,994	2,222,578
Grants and contributions receivable	890,589	917,500
Total financial assets	<u>5,343,596</u>	<u>5,729,855</u>
Less: amounts unavailable for general expenditure		
Restricted by donor for non-operating purposes	(622,279)	(851,972)
Long-term portion of grants and contributions receivable	<u>-</u>	<u>(132,394)</u>
Total	<u>\$4,721,317</u>	<u>\$4,745,489</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 lines of credit of \$1,200,000 and \$700,000 as disclosed in Note 7. The Organization monitors its cash balance, as well as the availability on the lines of credit, very closely.

Note 4 PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2023 and 2022 is as follows:

	<u>2023</u>	<u>2022</u>
Land	\$1,087,600	\$1,087,600
Building and building improvements	11,602,094	11,223,070
Leasehold improvements	1,769,094	1,757,149
Dental equipment	8,034,318	7,898,971
Vehicles	295,704	242,777
Office equipment and furniture	1,114,515	1,133,557
Total	<u>23,903,325</u>	<u>23,343,124</u>
Less: accumulated depreciation	<u>(8,931,449)</u>	<u>(7,751,538)</u>
Net property and equipment	<u>\$14,971,876</u>	<u>\$15,591,586</u>

Total property and equipment not placed into service as of December 31, 2023 and 2022 was \$391,667 and \$1,753,932, respectively.

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Note 5 UNCONDITIONAL GRANTS AND CONTRIBUTIONS

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

	<u>2023</u>	<u>2022</u>
Due in one year	\$890,589	\$785,106
Due in two to five years	-	132,394
Total	<u>\$890,589</u>	<u>\$917,500</u>
Net short-term portion	\$890,589	\$785,106
Net long-term portion	-	132,394
Total	<u>\$890,589</u>	<u>\$917,500</u>

Note 6 LONG-TERM DEBT

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

	<u>2023</u>	<u>2022</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. *	\$2,462,366	\$2,591,398
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. **	3,140,010	3,248,205
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.	185,628	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.***	1,552,818	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.***	718,269	749,271

APPLE TREE DENTAL
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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.***	388,081	404,830
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. ***	92,750	115,752
Note payable to the Venn Foundation bearing interest at 3% with annual installments of \$22,143 plus accrued interest. Matures in June 2030.	155,000	-
Equipment note payable to Midwest Motors bearing interest at 5.49% with monthly installments of \$442. Matures October 2029, secured by equipment purchased under the note agreement.	26,442	-
Equipment note payable to Midwest Motors bearing interest at 9.73% with monthly installments of \$490. Matures October 2029, secured by equipment purchased under the note agreement.	<u>26,085</u>	<u>-</u>
Total	8,747,449	9,623,762
Less: current maturities	(1,476,933)	(493,461)
Less: unamortized financing costs	<u>(61,430)</u>	<u>(100,571)</u>
Long-term portion	<u>\$7,209,086</u>	<u>\$9,029,730</u>

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

** 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.

APPLE TREE DENTAL
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The Organization intends to refinance the Rochester and Hawley notes payable before the balloon payments are due in October 2024. However, due to these notes being considered current liabilities as of December 31, 2023, the Organization was not in compliance with their debt service coverage ratio covenant. The Organization received a bank waiver dated May 31, 2024.

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

Years Ending December 31,	Total
2024	\$1,476,933
2025	380,462
2026	390,364
2027	392,468
2028	331,166
Thereafter	<u>5,776,056</u>
Total	<u><u>\$8,747,449</u></u>

Total interest expense for the years ended December 31, 2023 and 2022 was \$382,519 and \$323,329, respectively.

Note 7 LINES OF CREDIT

The Organization has a revolving line of credit with Bremer Bank that matures on October 15, 2024. 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 6% 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, 2023 and 2022 was 8.5% and 7.5%, respectively. The outstanding balance on the revolving line of credit at December 31, 2023 and 2022 was \$89,500 and \$0, respectively.

In 2023, the Organization obtained a construction line of credit with Bremer Bank that matures on June 15, 2024. The agreement provides for borrowing up to \$1,200,000, subject to a borrowing base maximum as determined by the bank. The credit line bears interest at .5% in excess of the prime rate, with a minimum interest rate of 6% 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 and outstanding balance at December 31, 2023 was 9% and \$172,273, respectively.

APPLE TREE DENTAL
NOTES TO FINANCIAL STATEMENTS
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Note 8 NET ASSETS WITH DONOR RESTRICTIONS

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

	<u>2023</u>	<u>2022</u>
Fairmont capital and startup	\$317,758	\$461,147
Recruitment	150,000	75,000
Research capabilities	66,800	20,000
Dental Safety Net salaries	12,043	2,158
Retention - Fergus Falls	7,917	22,450
Morrison County recruitment	6,000	6,000
Research dissemination	4,602	25,000
New Brighton capital project	441,713	-
Dental Home demonstration project	62,475	-
Technology implementation	12,836	-
Becker County outreach	10,530	-
Remodeling	5,000	-
Dental expansion/HIPAA compliance	5,000	-
Rochester construction	5,492	-
Mounds View special needs	4,252	-
Childrens' dental care	2,170	1,000
IV Sedation	1,364	-
Acquire/Launch Mpls Clinic	-	310,000
Mobile Hygiene, equipment	-	90,741
Med/Dental Integration	-	38,927
AEGD Program - Fergus Falls	-	16,272
IV Sedation Startup - Fergus	-	12,225
Teledentistry - Little Falls	-	7,986
Mounds View Peds Center	-	6,000
Policy map	-	5,100
School Visits - Fergus Falls	-	2,476
	<u>\$1,115,951</u>	<u>\$1,102,482</u>
Total		

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.

APPLE TREE DENTAL
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For the years ended December 31, 2023 and 2022, the Organization's gross billings and net patient service revenue after adjustments were as follows:

	2023		2022	
	Gross Billings	Net Revenue	Gross Billings	Net Revenue
Medical assistance patients	\$34,146,503	\$18,358,483	\$29,635,881	\$16,856,737
Private pay patients	2,604,486	2,317,372	1,530,979	1,314,895
Other patients	7,520,813	5,498,304	5,134,004	3,860,044
Service adjustments	-	(1,397,313)	-	(1,021,921)
Total	\$44,271,802	\$24,776,846	\$36,300,864	\$21,009,755

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 years ended December 31, 2023 and 2022 was \$451,985 and \$299,394, respectively.

The following table summarizes the supplemental cash flow information for the years ended December 31:

	2023	2022
Cash paid for amounts included in measurement of lease liabilities:		
Operating cash flows from operating leases	\$427,952	\$279,766
Right-of-use assets obtained in exchange for lease liabilities:		
Operating leases	\$697,773	\$2,328,073

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

	2023	2022
Weighted average remaining lease term	10.99	11.49
Weighted average discount rate	3.28%	2.89%

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The maturities of lease liabilities at December 31, 2023 were as follows:

Years Ending December 31,	Total
2024	\$348,094
2025	268,115
2026	256,421
2027	172,716
2028	124,547
Thereafter	<u>1,011,633</u>
Total lease payment	2,181,526
Less: present value discount	<u>(379,027)</u>
Present value of operating lease liabilities	<u>\$1,802,499</u>

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, 2023 and 2022 was \$361,192 and \$276,275, respectively.

Note 13 COMMITMENTS AND CONTINGENCIES

A. 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.

B. UNEMPLOYMENT LIABILITY

The Organization self-insures for Minnesota unemployment. At December 31, 2023 and 2022, the Organization had recorded an estimated claims liability of \$6,407 and \$0, respectively.

C. 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 draws. 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 14 SUBSEQUENT EVENTS

Management has evaluated subsequent events for potential recognition or disclosure through May 31, 2024, the date that the financial statements were available to be issued.

In February 2024, the Organization entered into a loan agreement with the Otto Bremer Trust for \$500,000 at an interest rate of 3.75%, with interest only payments for the first two years and then annual installments of \$100,000, maturing March 2031.

In April 2024, the Organization was awarded \$3,690,000 in congressional-directed spending for capital improvements and equipment for the Hawley center through the Department of Health Resources and Services Administration.