

APPLE TREE DENTAL

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

For The Years Ended
December 31, 2024 and 2023

APPLE TREE DENTAL
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Apple Tree Dental
Minneapolis, Minnesota

Qualified 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, 2024 and 2023, 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 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, 2024 and 2023, 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

As described in Note 1A to the financial statements, during 2023 the Apple Tree Dental 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 Apple Tree Dental, total assets would be increased by \$750,000 and \$530,000 and liabilities would be increased by approximately \$35,000 and \$13,000, respectively, as of December 31, 2024 and 2023. Total revenues would be increased by approximately \$1,100,000 and \$720,000 and expenses would be increased by approximately \$900,000 and \$600,000, respectively, for the years then ended (based on Ready, Set, Smile's audited financial information for the year ended June 30, 2024 and unaudited financial information for the year ended June 30, 2023).

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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.

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 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, 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.

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

REDPATH AND COMPANY, LLC
St. Paul, Minnesota

May 13, 2025

FINANCIAL STATEMENTS

APPLE TREE DENTAL
STATEMENTS OF FINANCIAL POSITION
December 31, 2024 and 2023

Statement 1

| | <u>2024</u> | <u>2023</u> |
|---|----------------------------|----------------------------|
| Assets: | | |
| Current assets: | | |
| Cash and cash equivalents | \$1,954,003 | \$1,995,013 |
| Accounts receivable, net | 1,586,290 | 2,457,994 |
| Grants and contributions receivable, current portion | 398,556 | 890,589 |
| In-kind contributions receivable | 66,367 | 66,367 |
| Prepaid expenses | 30,814 | 66,931 |
| Total current assets | <u>4,036,030</u> | <u>5,476,894</u> |
| Property and equipment, net | <u>15,710,963</u> | <u>14,971,876</u> |
| Other assets: | | |
| Security deposits | 2,378 | 7,485 |
| Grants and contributions receivable, net of current portion | 55,000 | - |
| Operating lease right-of-use assets | 1,830,982 | 2,034,057 |
| Goodwill | 657,962 | 740,208 |
| Total other assets | <u>2,546,322</u> | <u>2,781,750</u> |
| Total assets | <u><u>\$22,293,315</u></u> | <u><u>\$23,230,520</u></u> |
| Liabilities and net assets: | | |
| Current liabilities: | | |
| Current maturities of long-term debt | \$338,919 | \$1,476,933 |
| Lines of credit | - | 261,773 |
| Accounts payable | 1,006,554 | 956,992 |
| Construction costs payable | 61,069 | 14,716 |
| Accrued expenses | 2,062,071 | 1,899,561 |
| Deposits payable | - | 1,038 |
| Deferred revenue | 299,214 | 181,034 |
| Operating lease liability, current | 261,131 | 294,116 |
| Total current liabilities | <u>4,028,958</u> | <u>5,086,163</u> |
| Long-term liabilities: | | |
| Operating lease liability, net of current portion | 1,350,689 | 1,508,383 |
| Debt payable, net of current portion | 8,558,792 | 7,209,086 |
| Total long-term liabilities | <u>9,909,481</u> | <u>8,717,469</u> |
| Total liabilities | <u>13,938,439</u> | <u>13,803,632</u> |
| Net assets: | | |
| Without donor restrictions | 7,479,827 | 8,310,937 |
| With donor restrictions | 875,049 | 1,115,951 |
| Total net assets | <u>8,354,876</u> | <u>9,426,888</u> |
| Total liabilities and net assets | <u><u>\$22,293,315</u></u> | <u><u>\$23,230,520</u></u> |

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

| | 2024 | | | 2023 | | |
|--|----------------------------|-------------------------|--------------|----------------------------|-------------------------|--------------|
| | Without Donor Restrictions | With Donor Restrictions | Total | Without Donor Restrictions | With Donor Restrictions | Total |
| Revenue and support: | | | | | | |
| Net patient service revenue | \$26,481,057 | \$ - | \$26,481,057 | \$24,776,846 | \$ - | \$24,776,846 |
| Dental director fees | 657,592 | - | 657,592 | 580,683 | - | 580,683 |
| Grants and contributions | 544,675 | 1,017,065 | 1,561,740 | 261,884 | 1,543,398 | 1,805,282 |
| In-kind contributions | 192,640 | - | 192,640 | 202,593 | - | 202,593 |
| Rental income | 165,031 | - | 165,031 | 173,677 | - | 173,677 |
| Interest income | 39,255 | - | 39,255 | 49,331 | - | 49,331 |
| Loss on disposal of property and equipment | (3,588) | - | (3,588) | (10,233) | - | (10,233) |
| Other income | 587,961 | - | 587,961 | 688,845 | - | 688,845 |
| Subtotal | 28,664,623 | 1,017,065 | 29,681,688 | 26,723,626 | 1,543,398 | 28,267,024 |
| Net assets released from restriction | 1,257,967 | (1,257,967) | - | 1,529,929 | (1,529,929) | - |
| Total revenue and support | 29,922,590 | (240,902) | 29,681,688 | 28,253,555 | 13,469 | 28,267,024 |
| Expenses: | | | | | | |
| Program services: | | | | | | |
| Clinics | 27,481,019 | - | 27,481,019 | 26,098,365 | - | 26,098,365 |
| Innovations | 860,851 | - | 860,851 | 857,164 | - | 857,164 |
| Total program services | 28,341,870 | 0 | 28,341,870 | 26,955,529 | 0 | 26,955,529 |
| Supporting services: | | | | | | |
| Management and general | 2,186,651 | - | 2,186,651 | 1,921,742 | - | 1,921,742 |
| Fundraising | 225,179 | - | 225,179 | 195,349 | - | 195,349 |
| Total supporting services | 2,411,830 | 0 | 2,411,830 | 2,117,091 | 0 | 2,117,091 |
| Total expenses | 30,753,700 | 0 | 30,753,700 | 29,072,620 | 0 | 29,072,620 |
| Change in net assets | (831,110) | (240,902) | (1,072,012) | (819,065) | 13,469 | (805,596) |
| Net assets - beginning of year | 8,310,937 | 1,115,951 | 9,426,888 | 9,130,002 | 1,102,482 | 10,232,484 |
| Net assets - end of year | \$7,479,827 | \$875,049 | \$8,354,876 | \$8,310,937 | \$1,115,951 | \$9,426,888 |

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

APPLE TREE DENTAL
STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended December 31, 2024 and 2023

Statement 3
Page 1 of 2

| | 2024 | | | | Total |
|-------------------------------------|------------------|-------------|------------------------|-------------|--------------|
| | Program Services | | Supporting Services | | |
| | Clinics | Innovations | Management and General | Fundraising | |
| Expenses: | | | | | |
| Salaries and wages | \$17,069,569 | \$566,454 | \$1,289,710 | \$160,689 | \$19,086,422 |
| Payroll taxes and employee benefits | 2,718,978 | 94,317 | 283,711 | 52,162 | 3,149,168 |
| Minnesota Care provider tax | 485,711 | - | - | - | 485,711 |
| Contract services | 1,375,347 | 89,463 | 89,761 | 500 | 1,555,071 |
| Professional services | 28,271 | 2,757 | 89,830 | 181 | 121,039 |
| Office supplies | 54,040 | 137 | 8,793 | 1,431 | 64,401 |
| Postage and printing | 89,764 | 231 | 5,861 | 41 | 95,897 |
| Dental supplies | 1,533,615 | 361 | - | - | 1,533,976 |
| Lab fees | 492,790 | - | - | - | 492,790 |
| Marketing | 3,790 | - | 15,556 | - | 19,346 |
| Telephone | 101,816 | 2,400 | 5,579 | 866 | 110,661 |
| Travel | 40,219 | 20,324 | 3,263 | 23 | 63,829 |
| Vehicle | 71,504 | - | - | - | 71,504 |
| Dues and registration | 52,131 | 23,330 | 3,573 | 642 | 79,676 |
| Education and employee development | 37,588 | 212 | 8,871 | 650 | 47,321 |
| Meetings | 1,452 | 3,105 | 3,607 | 199 | 8,363 |
| Equipment rental and repair | 320,549 | 48,967 | 103,740 | 4,444 | 477,700 |
| Depreciation | 1,367,626 | 3,515 | 30,597 | 750 | 1,402,488 |
| Amortization of goodwill | 82,245 | - | - | - | 82,245 |
| Occupancy costs | 127,967 | 5,278 | 70,604 | 2,179 | 206,028 |
| Operating lease expenses | 334,861 | - | - | - | 334,861 |
| Building maintenance and utilities | 382,058 | - | 12,382 | - | 394,440 |
| Bad debt | 130,127 | - | - | - | 130,127 |
| Bank and finance charges | 31,764 | - | 71,660 | 422 | 103,846 |
| Interest | 349,987 | - | 47,226 | - | 397,213 |
| Insurance | 169,075 | - | 42,327 | - | 211,402 |
| Miscellaneous | 28,175 | - | - | - | 28,175 |
| Total expenses | \$27,481,019 | \$860,851 | \$2,186,651 | \$225,179 | \$30,753,700 |

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

| | 2023 | | | | |
|-------------------------------------|---------------------|------------------|------------------------|------------------|---------------------|
| | Program Services | | Supporting Services | | Total |
| | 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.

APPLE TREE DENTAL

STATEMENTS OF CASH FLOWS

Statement 4

For the Years Ended December 31, 2024 and 2023

| | 2024 | 2023 |
|---|---------------------------|---------------------------|
| Cash flows from operating activities: | | |
| Change in net assets | (\$1,072,012) | (\$805,596) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation | 1,402,488 | 1,393,043 |
| Amortization of goodwill | 82,246 | 82,245 |
| Loss on disposal of property and equipment | 3,588 | 10,233 |
| Amortization of financing costs presented as interest expense | 35,141 | 39,141 |
| Noncash contribution of property and equipment | (87,954) | (85,087) |
| Grants and contributions restricted for capital expenditure | (250,000) | (600,000) |
| Noncash operating lease expense | 12,396 | 15,280 |
| Changes in assets and liabilities, net: | | |
| Accounts receivable | 871,704 | (235,416) |
| Grants and contributions receivable, operating | (185,245) | 489,516 |
| Prepaid expenses | 36,117 | 19,640 |
| Security deposits | 5,107 | - |
| Accounts payable | 49,562 | 43,795 |
| Deposit payable | (1,038) | - |
| Accrued expenses | 118,180 | 10,699 |
| Deferred revenue | 162,510 | 232,936 |
| Net cash provided by operating activities | <u>1,182,790</u> | <u>610,429</u> |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | (2,018,764) | (674,469) |
| Proceeds from sales of property and equipment | 7,908 | - |
| Net cash used in investing activities | <u>(2,010,856)</u> | <u>(674,469)</u> |
| Cash flows from financing activities: | | |
| Proceeds from lines of credit | 614,422 | 261,773 |
| Repayments of lines of credit | (876,195) | - |
| Proceeds from debt issuance | 714,000 | 155,000 |
| Principal payments on long-term debt | (537,449) | (1,084,892) |
| Proceeds from grants and contributions restricted for capital expenditure | 872,278 | 137,395 |
| Net cash provided by (used in) financing activities | <u>787,056</u> | <u>(530,724)</u> |
| Net decrease in cash and cash equivalents | (41,010) | (594,764) |
| Cash and cash equivalents - beginning of year | <u>1,995,013</u> | <u>2,589,777</u> |
| Cash and cash equivalents - end of year | <u><u>\$1,954,003</u></u> | <u><u>\$1,995,013</u></u> |
| Supplemental information: | | |
| Cash payments for interest | <u>\$362,072</u> | <u>\$339,602</u> |
| Noncash investing and financing transactions: | | |
| Noncash contribution of property and equipment | <u>(\$87,954)</u> | <u>(\$85,087)</u> |
| Property and equipment acquired through financing | <u>\$64,000</u> | <u>\$53,579</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.

In January 2023, Apple Tree Dental entered into an integrated partnership with Ready, Set, Smile PA, 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 PA. Under U.S. GAAP, this is considered “control” and thus consolidation is required. The Organization has opted to not consolidate Ready, Set, Smile PA, as it was not deemed practical to do so. Transactions with Ready, Set, Smile PA 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.

Accounts receivable are presented net of allowances for bad debts of \$133,777 and \$89,984 as of December 31, 2024 and 2023, respectively. For the years ended December 31, 2024 and 2023, bad debt expense was \$130,127 and \$59,563, 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, 2024 and 2023, the Organization had conditional grants approximating \$3,853,000 and \$109,000, 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, 2024 and 2023.

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, 2024 and 2023.

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 2024 or 2023.

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>2024</u> | <u>2023</u> |
|------------|------------------|------------------|
| Services | \$38,319 | \$34,819 |
| Goods | 87,954 | 101,407 |
| Facilities | <u>66,367</u> | <u>66,367</u> |
| Total | <u>\$192,640</u> | <u>\$202,593</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.

Net Assets With Donor Restrictions – Net assets subject to donor-imposed restrictions. Some donor imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The Organization reports contributions restricted by donors as increases in net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. The Organization reports conditional contributions restricted by donors as increases in net assets without donor restrictions if the restrictions and conditions expire simultaneously in the reporting period.

As of December 31, 2024 and 2023, the Organization did not have any restrictions that were perpetual in nature.

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 statements of activities. The statements 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 \$19,346 and \$16,431 for the years ended December 31, 2024 and 2023, 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.

Note 2 RELATED PARTY TRANSACTIONS

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

Transactions with Ready, Set, Smile PA include revenue for allocated staff time, equipment transportation and sales of supplies of \$65,139 and \$59,376 for the years ended December 31, 2024 and 2023, respectively. Expenses include payments of sub-grants for salaries and equipment of \$14,582 and \$9,743 for the years ended December 31, 2024 and 2023.

Accounts receivable from Ready, Set, Smile PA totaled \$7,311 and \$9,702 as of December 31, 2024 and 2023, respectively.

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>2024</u> | <u>2023</u> |
|--|---------------------------|---------------------------|
| Cash and cash equivalents | \$1,954,003 | \$1,995,013 |
| Accounts receivable | 1,586,290 | 2,457,994 |
| Grants and contributions receivable | <u>453,556</u> | <u>890,589</u> |
| Total financial assets | 3,993,849 | 5,343,596 |
| Less: Amounts unavailable for general expenditure | | |
| Restricted by donor for non-operating purposes | (19,701) | (622,279) |
| Long-term portion of grants and contributions receivable | <u>(55,000)</u> | <u>-</u> |
| Total | <u><u>\$3,919,148</u></u> | <u><u>\$4,721,317</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 lines of credit of \$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 to ensure adequate financial resources are available to meet its obligations as they come due.

APPLE TREE DENTAL
NOTES TO FINANCIAL STATEMENTS
December 31, 2024 and 2023

Note 4 PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2024 and 2023 is as follows:

| | <u>2024</u> | <u>2023</u> |
|------------------------------------|----------------------------|----------------------------|
| Land | \$1,087,600 | \$1,087,600 |
| Building and building improvements | 12,756,610 | 11,602,094 |
| Leasehold improvements | 1,606,229 | 1,769,094 |
| Dental equipment | 8,330,306 | 8,034,318 |
| Vehicles | 408,540 | 295,704 |
| Office equipment and furniture | <u>1,127,423</u> | <u>1,114,515</u> |
| Total | 25,316,708 | 23,903,325 |
| Less: Accumulated depreciation | <u>(9,605,745)</u> | <u>(8,931,449)</u> |
| Net property and equipment | <u><u>\$15,710,963</u></u> | <u><u>\$14,971,876</u></u> |

Total property and equipment not placed into service as of December 31, 2024 and 2023 was \$63,680 and \$391,667, respectively.

Note 5 UNCONDITIONAL GRANTS AND CONTRIBUTIONS

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

| | <u>2024</u> | <u>2023</u> |
|--------------------------|-------------------------|-------------------------|
| Due in one year | \$398,556 | \$890,589 |
| Due in two to five years | <u>55,000</u> | <u>-</u> |
| Total | <u><u>\$453,556</u></u> | <u><u>\$890,589</u></u> |
| Net short-term portion | \$398,556 | \$890,589 |
| Net long-term portion | <u>55,000</u> | <u>-</u> |
| Total | <u><u>\$453,556</u></u> | <u><u>\$890,589</u></u> |

APPLE TREE DENTAL
NOTES TO FINANCIAL STATEMENTS
December 31, 2024 and 2023

Note 6 LONG-TERM DEBT

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

| | 2024 | 2023 |
|---|-------------|-------------|
| City of Mounds View, Minnesota Health Care Facility Revenue Refunding Bonds, Series 2019. Bearing interest of 4.16% at December 31, 2024. Monthly principle installments of \$10,753 plus accrued interest. Matures January 2043. * | \$2,333,334 | \$2,462,366 |
| City of Fergus Falls, Minnesota Health Care Facility Revenue Bonds, Series 2019. Bearing interest of 5.05% at December 31, 2024. Monthly principal and interest payments of \$20,188 through November 2034 and balloon payment due upon maturity in December 2034. ** | 3,028,486 | 3,140,010 |
| 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 |
| Note payable to Bremer Bank bearing fixed 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.*** | 1,519,326 | 1,552,818 |
| Note payable to Bremer Bank with variable interest at an effective rate of 6.73% at December 31, 2024. Monthly principal and interest installments of approximately \$6,100 and a balloon payment due upon maturity in October 2029. Secured by real property located in Rochester, Minnesota.*** | 689,928 | 718,269 |
| Note payable to Bremer Bank with variable interest at an effective rate of 6.73% at December 31, 2024. Monthly principal and interest installments of approximately \$3,300 and a balloon payment due upon maturity in October 2029. Secured by real property located in Hawley, Minnesota.*** | 372,761 | 388,081 |
| 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. *** | 68,808 | 92,750 |
| Note payable to the Venn Foundation bearing interest at 3.75%. Interest only payments through April 2025 with annual installments of \$50,833 plus accrued interest from in April 2026 through April 2030, and remaining unpaid principal and interest due July 2030. | 305,000 | 155,000 |

APPLE TREE DENTAL
NOTES TO FINANCIAL STATEMENTS
December 31, 2024 and 2023

Continued long-term debt at years ended December 31:

| | 2024 | 2023 |
|--|--------------------|--------------------|
| 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. | 22,487 | 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. | 22,589 | 26,085 |
| Note payable to Otto Bremer Trust bearing interest at 3.75%. Interest only payments through March 2026 with annual installments of \$100,000 plus accrued interest beginning March 2027. Matures March 2031. | 500,000 | - |
| Equipment note payable to Bremer Bank bearing interest at 6.65% with monthly installments of \$1,260. Matures September 2028, secured by equipment purchased under the note agreement. | 61,282 | - |
| Total | 8,924,001 | 8,747,449 |
| Less: Current maturities | (338,919) | (1,476,933) |
| Less: Unamortized financing costs | (26,290) | (61,430) |
| Long-term portion | <u>\$8,558,792</u> | <u>\$7,209,086</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 are subject to interest rate adjustments every five years, 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 are subject to interest rate adjustments every five years, 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. Notes payable to Bremer Bank with variable interest rates are adjustable monthly to 2.33% over the *CME one month term SOFR rate*, as published by CME Group Benchmarks Administration Limited.

APPLE TREE DENTAL
NOTES TO FINANCIAL STATEMENTS
December 31, 2024 and 2023

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

| Years Ending December 31, | Total |
|------------------------------|---------------------------|
| 2025 | \$338,919 |
| 2026 | 398,873 |
| 2027 | 499,334 |
| 2028 | 489,846 |
| 2029 | 1,353,694 |
| Thereafter | <u>5,843,335</u> |
| Total | <u><u>\$8,924,001</u></u> |

Total interest expense for the years ended December 31, 2024 and 2023 was \$362,072 and \$382,519 respectively.

Note 7 LINES OF CREDIT

The Organization has a revolving line of credit with Bremer Bank that matures on October 15, 2025. 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 equal to 0.50% 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 at December 31, 2024 and 2023 was 8.0% and 8.5%, respectively. The outstanding balance at December 31, 2024 and 2023 was \$0 and \$89,500, respectively.

The Organization held a construction line of credit with Bremer Bank that matured 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 0.50% 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 and 2023 was 9% and \$172,273. This line of credit was fully repaid and closed during the year 2024.

Note 8 NET ASSETS WITH DONOR RESTRICTIONS

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

| | <u>2024</u> | <u>2023</u> |
|-----------------------------------|-------------------|--------------------|
| Recruitment and retention | \$446,632 | \$150,000 |
| Mounds View pediatric center | 200,000 | - |
| Fairmont capital and startup | 115,660 | 317,758 |
| Becker County outreach | 85,190 | 10,530 |
| Research capabilities | 12,246 | 66,800 |
| Mounds View special needs | 6,000 | 4,252 |
| Uninsured patients | 5,000 | - |
| Dental Safety Net salaries | 4,321 | 12,043 |
| New Brighton capital project | - | 441,713 |
| Dental Home demonstration project | - | 62,475 |
| Technology implementation | - | 12,836 |
| Retention - Fergus Falls | - | 7,917 |
| Morrison County recruitment | - | 6,000 |
| Rochester construction | - | 5,492 |
| Remodeling | - | 5,000 |
| Dental expansion/HIPAA compliance | - | 5,000 |
| Research dissemination | - | 4,602 |
| Children's dental care | - | 2,170 |
| IV Sedation | - | 1,364 |
| | <u> </u> | <u> </u> |
| Total | <u>\$875,049</u> | <u>\$1,115,951</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.

APPLE TREE DENTAL
NOTES TO FINANCIAL STATEMENTS
December 31, 2024 and 2023

For the years ended December 31, 2024 and 2023, the Organization's gross billings and net patient service revenue after adjustments were as follows:

| | 2024 | | 2023 | |
|-----------------------------|---------------------|---------------------|---------------------|---------------------|
| | Gross Billings | Net Revenue | Gross Billings | Net Revenue |
| Medical assistance patients | \$35,927,279 | \$19,512,368 | \$34,146,503 | \$18,358,483 |
| Private pay patients | 2,457,421 | 2,198,318 | 2,604,486 | 2,317,372 |
| Other patients | 8,067,757 | 5,928,737 | 7,520,813 | 5,498,304 |
| Service adjustments | - | (1,158,366) | - | (1,397,313) |
| Total | <u>\$46,452,457</u> | <u>\$26,481,057</u> | <u>\$44,271,802</u> | <u>\$24,776,846</u> |

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, 2024 and 2023 was \$386,600 and \$451,985, respectively.

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

| | 2024 | 2023 |
|--|------------------|------------------|
| Cash paid for amounts included in measurement of lease liabilities | <u>\$368,574</u> | <u>\$427,952</u> |
| Right-of-use assets obtained in exchange for lease liabilities | <u>\$122,810</u> | <u>\$697,773</u> |

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

| | 2024 | 2023 |
|---------------------------------------|-------|-------|
| Weighted average remaining lease term | 10.63 | 10.99 |
| Weighted average discount rate | 3.44% | 3.28% |

APPLE TREE DENTAL
NOTES TO FINANCIAL STATEMENTS
December 31, 2024 and 2023

The maturities of lease liabilities at December 31, 2024 were as follows:

| Years Ending December 31, | Total |
|--|---------------------------|
| 2025 | \$311,570 |
| 2026 | 300,341 |
| 2027 | 193,789 |
| 2028 | 124,547 |
| 2029 | 124,779 |
| Thereafter | <u>886,854</u> |
| Total lease payments | 1,941,880 |
| Less: Present value discount | <u>(330,060)</u> |
| Present value of operating lease liabilities | <u><u>\$1,611,820</u></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, 2024 and 2023 was \$413,554 and \$361,192, 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, 2024 and 2023, the Organization had recorded an estimated claims liability of \$5 and \$6,407, 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 13, 2025, the date that the financial statements were available to be issued.