



Annual Financial Report

Family Tree, Inc. dba Family Tree Clinic
Minneapolis, Minnesota

For the years ended December 31, 2022 and 2021



Edina Office

5201 Eden Avenue, Ste 250
Edina, MN 55436
P 952.835.9090

Mankato Office

100 Warren Street, Ste 600
Mankato, MN 56001
P 507.625.2727

Scottsdale Office

14500 N Northsight Blvd, Ste 233
Scottsdale, AZ 85260
P 480.864.5579

Family Tree, Inc.
dba Family Tree Clinic
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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Family Tree, Inc.
dba Family Tree Clinic
Minneapolis, Minnesota

Opinion

We have audited the accompanying financial statements of Family Tree, Inc. dba Family Tree Clinic (the Organization), which comprise the statements of financial position as of December 31, 2022 and 2021, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our 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 the Organization and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization'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 the 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, including omissions, 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 the Organization'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 the Organization'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.



Abdo
Minneapolis, Minnesota
May 31, 2023



FINANCIAL STATEMENTS

Family Tree, Inc.
dba Family Tree Clinic
Statements of Financial Position
December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,756,959	\$ 1,128,508
Accounts receivable, net of allowance for doubtful accounts of \$70,824 and \$72,053 in 2022 and 2021, respectively	113,172	127,428
Grants and pledges receivable, current	380,675	845,588
Inventory	26,090	53,353
Prepaid expenses	10,103	7,865
Total Current Assets	<u>2,286,999</u>	<u>2,162,742</u>
Property and Equipment		
Land and improvements	1,579,512	1,579,512
Building and improvements	5,807,678	-
Furniture and equipment	371,216	130,839
Total Property and Equipment	<u>7,758,406</u>	<u>1,710,351</u>
Less: accumulated depreciation	<u>(272,806)</u>	<u>(89,852)</u>
Property and Equipment, Net	<u>7,485,600</u>	<u>1,620,499</u>
Other Assets		
Grants and pledges receivable, non-current	433,930	453,676
Construction in process	-	4,650,028
Total Other Assets	<u>433,930</u>	<u>5,103,704</u>
Total Assets	<u>\$ 10,206,529</u>	<u>\$ 8,886,945</u>

See Independent Auditor's Report and Notes to the Financial Statements.

Family Tree, Inc.
dba Family Tree Clinic
Statements of Financial Position (Continued)
December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 75,979	\$ 130,428
Accrued wages	43,208	47,997
Accrued vacation	66,945	95,342
Other accrued liabilities	21,815	14,002
Security deposit payable	1,583	1,583
Fiscal sponsorships	767,671	459,780
Current maturities of long-term debt	229,258	-
Total Current Liabilities	<u>1,206,459</u>	<u>749,132</u>
Long-term Debt, net of deferred financing costs of \$88,016 and \$106,485 in 2022 and 2021, respectively	<u>4,852,914</u>	<u>3,569,562</u>
Total Liabilities	<u>6,059,373</u>	<u>4,318,694</u>
Net Assets		
Net assets without donor restrictions	3,141,129	3,368,601
Net assets with donor restrictions	<u>1,006,027</u>	<u>1,199,650</u>
Total Net Assets	<u>4,147,156</u>	<u>4,568,251</u>
Total Liabilities and Net Assets	<u>\$ 10,206,529</u>	<u>\$ 8,886,945</u>

See Independent Auditor's Report and Notes to the Financial Statements.

Family Tree, Inc.
dba Family Tree Clinic
Statements of Activities
For the Year Ended December 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support			
Revenue			
Patient service revenue, net	\$ 921,848	\$ -	\$ 921,848
Rent income	21,663	-	21,663
Other income	55,732	-	55,732
Total Revenue	<u>999,243</u>	<u>-</u>	<u>999,243</u>
Support			
Grants	1,140,219	-	1,140,219
Contributions	1,567,365	140,000	1,707,365
In-kind contributions	4,537	-	4,537
Net assets released from restriction	333,623	(333,623)	-
Total Support	<u>3,045,744</u>	<u>(193,623)</u>	<u>2,852,121</u>
Total Revenue and Support	<u>4,044,987</u>	<u>(193,623)</u>	<u>3,851,364</u>
Expenses			
Program services			
Medical and education			
Clinic	2,399,800	-	2,399,800
Community education	754,194	-	754,194
Hotline	115,464	-	115,464
Deaf education	161,936	-	161,936
Total Program Services	<u>3,431,394</u>	<u>-</u>	<u>3,431,394</u>
Supporting services			
Management and general	538,147	-	538,147
Fundraising	302,918	-	302,918
Total Supporting Services	<u>841,065</u>	<u>-</u>	<u>841,065</u>
Total Expenses	<u>4,272,459</u>	<u>-</u>	<u>4,272,459</u>
Change in Net Assets	(227,472)	(193,623)	(421,095)
Beginning Net Assets	<u>3,368,601</u>	<u>1,199,650</u>	<u>4,568,251</u>
Ending Net Assets	<u>\$ 3,141,129</u>	<u>\$ 1,006,027</u>	<u>\$ 4,147,156</u>

See Independent Auditor's Report and Notes to the Financial Statements.

Family Tree, Inc.
dba Family Tree Clinic
Statements of Activities (Continued)
For the Year Ended December 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support			
Revenue			
Patient service revenue, net	\$ 762,877	\$ -	\$ 762,877
Rent income	1,583	-	1,583
Other income	38,287	-	38,287
Total Revenue	<u>802,747</u>	<u>-</u>	<u>802,747</u>
Support			
Grants	1,186,500	-	1,186,500
Contributions	1,617,186	1,036,959	2,654,145
In-kind contributions	26,652	-	26,652
Net assets released from restriction	780,150	(780,150)	-
Total Support	<u>3,610,488</u>	<u>256,809</u>	<u>3,867,297</u>
Total Revenue and Support	<u>4,413,235</u>	<u>256,809</u>	<u>4,670,044</u>
Expenses			
Program services			
Medical and education			
Clinic	1,752,580	-	1,752,580
Community education	685,829	-	685,829
Hotline	156,991	-	156,991
Deaf education	193,196	-	193,196
Total Program Services	<u>2,788,596</u>	<u>-</u>	<u>2,788,596</u>
Supporting services			
Management and general	348,680	-	348,680
Fundraising	585,335	-	585,335
Total Supporting Services	<u>934,015</u>	<u>-</u>	<u>934,015</u>
Total Expenses	<u>3,722,611</u>	<u>-</u>	<u>3,722,611</u>
Change in Net Assets	690,624	256,809	947,433
Beginning Net Assets	<u>2,677,977</u>	<u>942,841</u>	<u>3,620,818</u>
Ending Net Assets	<u>\$ 3,368,601</u>	<u>\$ 1,199,650</u>	<u>\$ 4,568,251</u>

See Independent Auditor's Report and Notes to the Financial Statements.

Family Tree, Inc.
dba Family Tree Clinic
Statements of Functional Expenses
For the Year Ended December 31, 2022

	Medical	Education			Total Medical and Education	Management and General	Fundraising	Total Expenses
	Clinic	Community	Hotline	Deaf Education				
Personnel Expenses								
Salaries and wages	\$ 1,312,081	\$ 508,913	\$ 76,484	\$ 81,736	\$ 1,979,214	\$ 317,374	\$ 138,752	\$ 2,435,340
Payroll taxes	98,223	37,809	5,886	6,203	148,121	23,840	10,698	182,659
Employee benefits	164,803	66,254	5,373	9,722	246,152	36,611	15,602	298,365
Total Personnel Expenses	1,575,107	612,976	87,743	97,661	2,373,487	377,825	165,052	2,916,364
Professional services	144,077	33,467	4,219	32,524	214,287	74,719	70,613	359,619
Office supplies	19,012	2,033	340	1,237	22,622	4,298	22,445	49,365
Electronic health records	48,097	-	-	-	48,097	-	-	48,097
Medical and lab supplies	175,219	140	-	-	175,359	-	1,437	176,796
Lab test fees	33,325	-	-	-	33,325	-	-	33,325
Printing	5,604	495	2,846	298	9,243	3,958	5,071	18,272
Dues and subscriptions	8,410	195	195	215	9,015	2,384	5,706	17,105
Licenses and fees	781	16	3	5	805	87	49	941
Advertising and publicity	10,966	375	5,869	704	17,914	1,227	458	19,599
Repairs and maintenance	9,038	1,864	301	601	11,804	1,443	1,513	14,760
Travel and meetings	30	4,134	-	369	4,533	22	181	4,736
Minnesota care provider tax	15,390	-	-	-	15,390	-	-	15,390
Miscellaneous	1,005	-	-	-	1,005	38	-	1,043
Insurance	14,104	1,882	359	493	16,838	3,491	372	20,701
Telephone and utilities	37,147	10,014	3,513	2,986	53,660	10,657	1,993	66,310
Property taxes	2,317	579	93	187	3,176	449	112	3,737
Interest expense	109,806	27,452	4,428	8,855	150,541	25,290	7,413	183,244
Provision for bad debts	23,613	-	-	-	23,613	-	-	23,613
Fundraising expenses	-	-	-	-	-	-	2,847	2,847
Staff and board development	17,769	3,558	188	3,502	25,017	4,498	663	30,178
Bank fees	5,937	137	2	2	6,078	18	9,142	15,238
Occupancy	5,738	760	123	245	6,866	588	147	7,601
Program supplies	9,059	23,365	307	869	33,600	-	692	34,292
Total Expenses Before Depreciation and Amortization	2,271,551	723,442	110,529	150,753	3,256,275	510,992	295,906	4,063,173
Depreciation and amortization	128,249	30,752	4,935	11,183	175,119	27,155	7,012	209,286
Total Expenses	\$ 2,399,800	\$ 754,194	\$ 115,464	\$ 161,936	\$ 3,431,394	\$ 538,147	\$ 302,918	\$ 4,272,459

See Independent Auditor's Report and Notes to the Financial Statements.

Family Tree, Inc.
dba Family Tree Clinic
Statements of Functional Expenses (Continued)
For the Year Ended December 31, 2021

	Medical	Education			Total Medical and Education	Management and General	Fundraising	Total Expenses
	Clinic	Community	Hotline	Deaf Education				
Personnel Expenses								
Salaries and wages	\$ 1,108,907	\$ 501,071	\$ 76,153	\$ 97,317	\$ 1,783,448	\$ 215,395	\$ 208,808	\$ 2,207,651
Payroll taxes	81,435	36,973	5,479	6,984	130,871	15,077	15,223	161,171
Employee benefits	94,733	47,165	6,436	11,053	159,387	19,528	17,027	195,942
Total Personnel Expenses	1,285,075	585,209	88,068	115,354	2,073,706	250,000	241,058	2,564,764
Professional services	62,252	26,008	1,774	54,740	144,774	57,398	60,263	262,435
In-kind legal services	-	-	-	-	-	-	22,921	22,921
Office supplies	10,791	5,101	687	451	17,030	4,045	24,215	45,290
Electronic health records	48,669	-	-	-	48,669	-	-	48,669
Medical and lab supplies	172,814	1,222	-	-	174,036	-	1,441	175,477
Lab test fees	32,511	-	-	-	32,511	-	-	32,511
Printing	4,048	1,349	2,962	248	8,607	3,285	5,292	17,184
Dues and subscriptions	11,083	1,484	195	1,035	13,797	1,965	6,932	22,694
Licenses and fees	904	-	-	-	904	-	-	904
Advertising and publicity	3,365	15,020	53,945	659	72,989	1,009	1,029	75,027
Repairs and maintenance	2,025	22	5	6	2,058	11	19	2,088
Travel and meetings	-	1,085	-	319	1,404	-	163	1,567
Minnesota care provider tax	11,705	-	-	-	11,705	-	-	11,705
Miscellaneous	-	72	-	-	72	290	-	362
Insurance	10,780	1,343	295	299	12,717	2,870	8,370	23,957
Telephone and utilities	12,609	3,710	2,402	867	19,588	2,583	5,685	27,856
Property taxes	-	-	-	-	-	-	4,055	4,055
Interest expense	55,829	21,840	4,999	6,157	88,825	16,595	19,955	125,375
Provision for bad debts	4,960	-	-	-	4,960	-	-	4,960
Fundraising expenses	-	-	-	-	-	-	90,611	90,611
Staff and board development	11,112	4,733	1,039	10,600	27,484	6,168	5,439	39,091
Bank fees	5,445	143	-	2	5,590	275	4,869	10,734
Occupancy	1,000	-	-	-	1,000	-	81,620	82,620
Program supplies	2,915	16,760	620	1,145	21,440	-	368	21,808
Total Expenses Before Depreciation and Amortization	1,749,892	685,101	156,991	191,882	2,783,866	346,494	584,305	3,714,665
Depreciation and amortization	2,688	728	-	1,314	4,730	2,186	1,030	7,946
Total Expenses	\$ 1,752,580	\$ 685,829	\$ 156,991	\$ 193,196	\$ 2,788,596	\$ 348,680	\$ 585,335	\$ 3,722,611

See Independent Auditor's Report and Notes to the Financial Statements.

Family Tree, Inc.
dba Family Tree Clinic
Statements of Cash Flows
For the Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash Flows from Operating Activities		
Change in net assets	\$ (421,095)	\$ 947,433
Adjustment to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	190,817	6,916
Amortization	18,469	1,030
Bad debts	23,613	4,960
Changes in assets and liabilities:		
Accounts receivable	(9,357)	(16,593)
Grants and pledges receivable	484,659	(345,782)
Inventory	27,263	(5,345)
Prepaid expenses	(2,238)	15,401
Accounts payable	(54,449)	46,129
Accrued wages	(4,789)	13,654
Accrued vacation	(28,397)	18,020
Other accrued liabilities	7,813	10,779
Security deposit payable	-	1,583
Fiscal sponsorships	307,891	137,423
Net Cash Provided By Operating Activities	<u>540,200</u>	<u>835,608</u>
Cash Flows from Investing Activities		
Purchase of property and equipment	(32,849)	(31,663)
Purchase of construction in progress	(1,373,040)	(787,379)
Net Cash Used by Investing Activities	<u>(1,405,889)</u>	<u>(819,042)</u>
Cash Flows from Financing Activities		
Debt issuance costs	-	(11,324)
Proceeds from long-term debt	1,679,140	-
Payments of long-term debt	(185,000)	-
Net Cash Provided (Used) by Financing Activities	<u>1,494,140</u>	<u>(11,324)</u>
Net Change in Cash and Cash Equivalents	628,451	5,242
Cash and Cash Equivalents at Beginning of Year	<u>1,128,508</u>	<u>1,123,266</u>
Cash and Cash Equivalents at End of Year	<u>\$ 1,756,959</u>	<u>\$ 1,128,508</u>
Supplemental Disclosures of Cash Flow Information:		
Cash paid for interest	<u>\$ 183,244</u>	<u>\$ 125,375</u>
Supplemental Disclosure of Non-Cash Transactions		
Disposal of fully depreciated fixed assets	<u>\$ 7,863</u>	<u>\$ 142,510</u>
Purchase of construction in progress using long-term debt	<u>\$ 1,379,140</u>	<u>\$ 3,571,047</u>

See Independent Auditor's Report and Notes to the Financial Statements.

Family Tree, Inc.
dba Family Tree Clinic
Notes to the Financial Statements
December 31, 2022 and 2021

Note 1: Summary of Significant Accounting Policies

A. Nature of Activities

Family Tree, Inc. dba Family Tree Clinic (the Organization) operates a medical clinic and education center. The Organization's mission is to cultivate a healthy community through comprehensive sexual health care and education. A major source of revenue is funding from the State of Minnesota. The Organization charges on a sliding fee scale to medical patients, located mainly in the St. Paul and Minneapolis areas, based on their self-reported income. The Organization also bills insurance and public assistance programs.

As of September 25, 2020, the Organization formed Family Tree Real Estate Holding LLC, a related building company. The Organization is the sole member of Family Tree Real Estate Holding LLC.

B. Basis Presentation

The accompanying financial statements have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets and revenue, expenses, gains, and losses are classified based on the existence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Net Assets Without Donor Restriction

Net assets without donor restrictions are resources available to support operations, over which the Board of Directors has discretionary control. Designated amounts represent those net assets which the Board has set aside for a particular purpose.

Net Assets With Donor Restriction

Net assets with donor restrictions are resources that are restricted by a donor for use for a particular purpose or in a particular future period. Some donor-imposed restrictions are temporary in nature, and the restriction will expire when the resources are used in accordance with the donor's instructions or when the stipulated time has passed. Other donor-imposed restrictions are perpetual in nature; the Organization must continue to use the resources in accordance with the donor's instructions.

C. Use of 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 disclosures. Accordingly, actual results could differ from those estimates.

D. Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers short-term, highly liquid investments and investments purchased with a maturity of three months or less to be cash equivalents. The Organization's cash balances held in bank depositories may exceed federally insured limits at times.

Family Tree, Inc.
dba Family Tree Clinic
Notes to the Financial Statements
December 31, 2022 and 2021

Note 1: Summary of Significant Accounting Policies (Continued)

E. Accounts Receivable

Accounts receivable consist primarily of amounts billed for medical appointments. Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Organization analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the Organization analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Organization records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts. At December 31, 2022 and 2021, the allowance for doubtful accounts was \$70,824 and \$72,053, respectively.

F. Grants and Pledges Receivable

Grants and pledges receivable consist of unconditional promises to give and are recognized as revenue in the period made. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions to be received after one year are discounted using present value of future cash flows. Amortization of discounts is recorded as additional contribution revenue. An allowance for uncollectible contributions receivable is provided based upon management's judgement including such factors as prior collection history.

G. Inventory

Inventory consists of goods held for resale such as various medical devices and are recorded at the lower of cost or net realizable value. Cost is determined using the first-in, first-out (FIFO) method. Net realizable value is the estimated selling price in the ordinary course of business.

H. Property and Equipment

The Organization considers items with a cost greater than \$1,000 and a useful life greater than one year to be property and equipment. Items below \$1,000 are expensed when purchased. Property and equipment are capitalized at cost. Depreciation is provided for using the straight-line method over the following useful lives:

Asset	Useful Life in Years
Land Improvements	5 - 20
Buildings and Improvements	7 - 40
Furniture and Equipment	3 - 10

Depreciation expense for 2022 and 2021 was \$190,817 and \$6,916 respectively.

Family Tree, Inc.
dba Family Tree Clinic
Notes to the Financial Statements
December 31, 2022 and 2021

Note 1: Summary of Significant Accounting Policies (Continued)

I. Debt Issuance Costs

On October 3, 2018, the Organization entered into one new loan with Venn Foundation which was received in October 2018. On November 20, 2020, the Organization entered into two new construction loans with Sunrise Banks, which were received in January 2021. The Organization incurred debt issuance costs for these three loans stated previously. As of December 31, 2022 and 2021, the total debt issuance costs were \$109,575 and \$109,575 respectively. The total debt issuance costs are included in Note 4.

J. Revenue Recognition

Fee for service revenue is recorded net of contractual adjustments and related discounts upon completion of the related service. Contractual discounts and adjustments represent estimated differences between service revenue at established rates and amounts expected to be realized from third-party payers under contractual agreements. Certain managed care organizations may refund amounts previously withheld from the Organization based upon managed care performance.

The Organization provides charity care to patients meeting certain established criteria which is provided without charge or at amounts less than established rates. The Organization does not pursue collection of amounts determined to qualify as charity care.

Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets. The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the assets, or if they are designated as support for future periods. 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 statement of activities as net assets released from restrictions. Donor-imposed contributions are reported as net assets with donor restrictions, even if it is anticipated such restrictions will be met in the current reporting period.

Government grants and contract revenue are recognized when earned. Revenue is earned when eligible expenditures, as defined in each grant or contract, are made. Deferred revenue consists of contract revenue received but not yet expended. Expenditures under government contracts are subject to review by the granting authority. To the extent, if any, that such a review reduces expenditures allowable under these contracts, the Organization will record such disallowances, they would not have a significant effect on the statement of financial position.

K. In-kind Contributions

In-kind contributions are recognized for services that create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would ordinarily be purchased if not provided by donation. Contributed services, including promises to give, that do not meet these criteria are not recognized.

Many individuals have donated time and services to advance the Organization's programs and objectives. The value of these services has not been recorded in the financial statements because it does not meet the definition of recognition under generally accepted accounting principles.

L. Advertising Expense

The Organization's advertising costs are expensed as incurred. Advertising expense was \$19,600 and \$75,027 for the years ended December 31, 2022 and 2021, respectively.

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Note 1: Summary of Significant Accounting Policies (Continued)

M. Functional Allocation of Expenses

The cost of providing the Organization's programs and other activities is summarized on a functional basis in the statement of activities and statement of functional expenses. Expenses that can be identified with a specific program or support service are charged directly to that program or support service. Costs common to multiple functions have been allocated among the various functions benefited using a reasonable allocation method that is consistently applied, as follows:

- Salaries and wage, benefits, and payroll taxes are allocated based on the amounts of time spent by employees performing those functions.
- Occupancy and other expenses that cannot be directly identified are allocated on the basis of salaries and wages.

General and administrative expenses include those costs that are not directly identifiable with any specific program, but which provide for the overall support and direction of the Organization. Fundraising costs are expensed as incurred, even though they may result in support received in future years.

N. Income Taxes

The Organization is exempt from Federal and State income taxes under Section 501(c)(3) of the Internal Revenue Code, but is subject to income tax on net unrelated business income. The Organization had income tax expense of \$0 in 2022 and 2021. Cash payments for income taxes were \$0 and \$0 in 2022 and 2021, respectively.

O. New Accounting Pronouncements

In September 2020, the FASB issued ASU No. 2020-07 Not-for-Profit Entities (Topic 958): *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which is intended to improve the transparency in the reporting of contributed nonfinancial assets, also known as gifts-in-kind, for not-for-profit organizations. This ASU requires not-for-profit organizations to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash or other financial assets. In addition to separate presentation on the statement of activities, this amendment requires enhanced disclosures around each category of contributed nonfinancial assets for donor-imposed restrictions, valuation techniques, description of programs or activities in which the assets were used, and if monetized a policy about monetizing rather than utilizing the asset(s). The amendments in this ASU should be applied on a retrospective basis and are effective for annual reporting periods beginning after June 15, 2021. Early adoption is permitted. The new guidance is effective for the Organization on January 1, 2022.

In March 2016, the FASB issued ASU No. 2016-02, *Leases*, as a new topic, Accounting Standards Codification 842. The objective of ASU No. 2016-02 is to increase transparency and comparability among organizations by reorganizing lease assets and lease liabilities on the statement of financial position and disclosing key information about leasing arrangements. ASU No. 2016-02 is effective for annual reporting periods beginning after December 15, 2021 and shall be applied using either a full retrospective or modified retrospective approach. Early adoption is permitted. The new guidance is effective for the Organization on January 1, 2022.

P. Subsequent Events

Subsequent events were evaluated through May 31, 2023, which is the date the financial statements were available to be issued.

In January 2023, \$37,500 of the loan with Propel Nonprofits was forgiven.

Beginning January 2023, the Organization made additional draws on their construction loan described in Note 4.

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Note 2: Grants and Pledges Receivable

Grants and pledges are due as of December 31, 2022 as follows:

For the Year Ended December 31,	Amount
2023	\$ 380,675
2024	422,204
2025	6,726
2026	5,000
Total	<u>\$ 814,605</u>

Note 3: Paycheck Protection Program Loan Payable

In January 2021, the Organization entered into a second promissory note agreement with Sunrise Banks in the amount of \$399,800 pursuant to the second Paycheck Protection Program (PPP) created by the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) and governed by the Small Business Administration (SBA). The note accrues interest at 1 percent per annum and is scheduled to mature January 2026. Up to 100 percent of the loan is forgivable when used to pay specified payroll and other costs within the qualified period (generally 24 weeks after receiving the funds). At December 31, 2021, the note was fully forgiven and was classified as contributions revenue.

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Note 4: Long-term Debt

The Organization had long-term debt at December 31, 2022 and 2021 as follows:

	2022	2021
Note payable in annual interest only payments, at 1% for the first three years and 2% after. Principal payments are due in 1/3 installments, 30, 120 and 180 day after the 5th anniversary, October 2023 through March 2024. The note is secured by substantially all organization assets.	\$ 105,000	\$ 105,000
In January 2021, the Organization received two construction loans totaling \$3,500,000. Loan A, amount of \$2,767,959 matures on January 12, 2028. Loan B, amount of \$732,041 matures on January 12, 2051. Both loans require interest only payments at a rate of 3.4476% and are collateralized by the underlying property.	3,500,000	3,500,000
In December 2021, the Organization entered into a construction loan of \$1,500,000. As of December 31, 2022, \$1,265,188 has been drawn for construction. The loan accrued interest at 4.15%, due January 12, 2048, and is collateralized by the underlying property.	1,265,188	71,047
In January 2022, the Organization entered into a Recovery Capital Loan of \$300,000 with Propel Nonprofits. The loan is 59 months long and has payments of \$4,100 a month. The loan requires interest payments at a rate of 3%. The Loan is set to mature on December 31, 2027.	300,000	-
Debt Issuance Costs	(109,575)	(109,575)
Amortized Loan Costs	21,559	3,090
Total	5,082,172	3,569,562
Less: Current Portion	(229,258)	-
Long-term Note Payable	<u>\$ 4,852,914</u>	<u>\$ 3,569,562</u>

Future debt maturities as of December 31, 2022 are as follows:

For the Year Ended December 31,	Principal Portion	Less Loan Costs	Total
2023	\$ 229,258	\$ (18,500)	\$ 210,758
2024	194,317	(17,379)	176,938
2025	88,401	(17,379)	71,022
2026	91,624	(17,379)	74,245
2027	88,562	(17,379)	71,183
Thereafter	4,440,526	-	4,440,526
Total	<u>\$ 5,132,688</u>	<u>\$ (88,016)</u>	<u>\$ 5,044,672</u>

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Note 5: Major Grantor

The Organization received four grants from the Minnesota Department of Health for the year ended December 31, 2022, making up 78% of its grant revenues and 23% of its total revenues in 2022. The Organization received five grants from the Minnesota Department of Health for the year ended December 31, 2021, making up 88% of its grant revenues and 22% of its total revenues in 2021.

Note 6: Net Patient Service Revenue

Net patient service revenue is recorded net of contractual adjustments and related discounts upon completion of the related service. Contractual discounts and adjustments represent estimated differences between service revenue at established rates and amounts expected to be realized from third-party payers under contractual agreements. Certain managed care organizations may refund amounts previously withheld from the Organization based upon managed care performance. Net patient service revenue consists of the following for the years ended December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Gross Patient Fees	\$ 1,612,470	\$ 1,278,780
Contractual Adjustments	<u>(690,622)</u>	<u>(515,903)</u>
Total	<u>\$ 921,848</u>	<u>\$ 762,877</u>

Note 7: In-kind Contributions

In-kind contributions consists of the following for the years ended December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>	<u>Usage in Programs/ Activities</u>	<u>Donor Restriction</u>	<u>Fair Value Techniques</u>
Transaction Fees	\$ 4,537	\$ 3,731	Management and General	None	Estimated wholesale prices of identical or similar products if purchased in the region
Legal	<u>-</u>	<u>22,921</u>	Capital campaign	None	Estimated based on time rates for each practitioner
	<u>\$ 4,537</u>	<u>\$ 26,652</u>			

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Note 8: Net Assets with Donor Restrictions

Net assets with donor restrictions were restricted for the following purposes at December 31, 2022 and 2021:

	2022	2021
Time Restricted	\$ 738,300	\$ 757,000
Capital Campaign	242,628	325,916
We Are Family Fund	25,099	32,633
Education	-	84,101
	<u> </u>	<u> </u>
Total	<u>\$ 1,006,027</u>	<u>\$ 1,199,650</u>

Net assets with donor restrictions were released from restrictions for the following purposes for the years ended December 31, 2022 and 2021:

	2022	2021
Capital Campaign	\$ 198,288	\$ 625,141
Education	84,101	87,876
Time Restricted	43,700	56,913
We Are Family Fund	7,534	10,220
	<u> </u>	<u> </u>
Total	<u>\$ 333,623</u>	<u>\$ 780,150</u>

Note 9: Rent Commitments

In March 2019, the Organization began leasing its clinic and office space at 1619 Dayton Avenue. Under the lease agreement, the Organization was not required to pay rent the first year of the lease. From March 2020 through August 2021, the Organization paid a monthly rate of \$10,203. During the final three months of the lease, the Organization was not required to pay rent. This lease was not renewed after the expiration date of November 30, 2021.

In October 2021, the Organization began leasing parking lot stalls, commencing on December 1, 2021. The lease is on a month-to-month basis with a monthly rate of \$500. In September 2022, the Organization extended this lease, commencing on October 1, 2022. The lease is on a month-to-month basis with a monthly rate of \$900.

In 2022 and 2021, the Organization had rent expense of \$7,600 and \$82,620, respectively.

Note 10: Retirement Plan

The Organization has a defined contribution profit sharing 401(k) plan in effect for its employees who meet certain age and service requirements. Employees may elect to contribute up to IRS limits. The Organization's contributions to the plan are a dollar-for-dollar match up to a max of 2% of qualified employee salaries. For the years ended December 31, 2022 and 2021, employer contributions were \$38,302 and \$32,658, respectively.

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Note 11: Commitments and Contingencies

A. Compliance

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violation of these laws and regulations could result in expulsion from government healthcare programs together with imposition of significant fines and penalties, as well as significant repayments for patient services billed.

Management believes that the Organization is in substantial compliance with fraud and abuse, as well as other applicable government laws and regulations. While no regulatory inquiries have been made, compliance with such laws and regulations is subject to government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

B. Other

The Organization is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. There has been no significant reduction in insurance coverage from the previous year in any of the Organization's policies.

The Organization is subject to legal proceedings which arise in the normal course of providing health care services. The Organization maintains malpractice insurance on a claims-made basis for claims made during the term of the policy. The potential loss related to any potential claims cannot currently be estimated; however, in management's opinion, adequate provision has been made for any amounts that it may require to be paid under the policy's deductible limits.

The Organization has committed to the construction of a new facility on the property purchased in 2019. As of December 31, 2021, the Organization has incurred \$4,650,028 in expense for architectural design and construction costs that has been capitalized and reflected as construction in process on the statement of financial position. As of December 31, 2022, the construction of the new facility has been completed. The total costs have been be capitalized and reflected as building and improvements on the statement of financial position.

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Note 12: Liquidity and Availability of Financial Assets

The Organization has a goal to maintain financial assets, which consist of cash and short-term investments, on hand to meet 45 days of normal operating expenses, which are, on average, approximately \$527,000. The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

	2022	2021
Financial Assets		
Cash and cash equivalents	\$ 1,756,959	\$ 1,128,508
Accounts receivable, net	113,172	127,428
Grants and pledges receivable	814,605	1,299,264
Total Financial Assets	<u>2,684,736</u>	<u>2,555,200</u>
Less Financial Assets Unavailable for General Expenditures Within One Year		
Cash and cash equivalents - fiscal sponsor	(729,743)	(467,523)
Grants and pledges receivable, non-current	(433,930)	(453,676)
Donor restricted net assets	(797,329)	(817,650)
Total Unavailable Financial Assets	<u>(1,961,002)</u>	<u>(1,738,849)</u>
Total Amounts Available for General Expenditures Within One Year	<u>\$ 723,734</u>	<u>\$ 816,351</u>