

Family Tree, Inc.
d/b/a Family Tree Clinic

Financial Statements
Together with
Independent Auditors' Report

December 31, 2017

FAMILY TREE CLINIC

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Family Tree, Inc.
St. Paul, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of Family Tree, Inc. d/b/a Family Tree Clinic (a nonprofit organization), which comprise the statement of financial position as of December 31, 2017 and 2016 and the related statement of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Family Tree, Inc. as of December 31, 2017 and 2016, 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.



Eden Prairie, Minnesota
June 4, 2018

FAMILY TREE CLINIC

STATEMENT OF FINANCIAL POSITION DECEMBER 31, 2017 AND 2016

ASSETS		
	2017	2016
CURRENT ASSETS:		
Cash	\$ 132,526	\$ 133,049
Certificates of Deposit	-	62,887
Accounts Receivable, Net	198,417	267,869
Grants Receivable	103,129	145,089
Inventory	62,925	44,301
Prepaid Expenses	2,743	24,667
Total Current Assets	499,740	677,862
PROPERTY AND EQUIPMENT:		
Land and Improvements	408,234	403,339
Building and Improvements	2,096,954	2,076,009
Furniture and equipment	311,000	305,016
Total Property and Equipment	2,816,188	2,784,364
Less Accumulated Depreciation	(1,926,400)	(1,856,613)
Net Property and Equipment	889,788	927,751
OTHER ASSETS:		
Lease Acquisition Costs, Net	14,071	15,936
Total Other Assets	14,071	15,936
TOTAL ASSETS	\$ 1,403,599	\$ 1,621,549

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

FAMILY TREE CLINIC

STATEMENT OF FINANCIAL POSITION (Continued) DECEMBER 31, 2017 AND 2016

LIABILITIES AND NET ASSETS		
	2017	2016
CURRENT LIABILITIES:		
Current Maturities of Long-Term Debt	\$ 1,138,019	\$ 43,155
Accounts Payable	119,144	224,529
Tenant Security Deposits	21,460	19,090
Accrued Wages	56,143	52,906
Accrued Vacation	53,827	35,628
Accrued Interest	4,956	3,822
Deferred Rent Revenue	5,210	29,788
Accrued Income Taxes	27,700	33,207
Other Liabilities	5,218	2,205
Total Current Liabilities	1,431,677	444,330
 LONG-TERM DEBT	 -	 1,138,677
 NET ASSETS:		
Unrestricted	(52,360)	(38,754)
Temporarily Restricted	24,282	77,296
Total Net Assets	(28,078)	38,542
 TOTAL LIABILITIES AND NET ASSETS	 \$ 1,403,599	 \$ 1,621,549

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

FAMILY TREE CLINIC

STATEMENT OF ACTIVITIES YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017		
	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE:			
Net Patient Service Revenue	\$ 887,446	\$ -	\$ 887,446
Rent Revenue	497,272	-	497,272
Grant Revenue	1,027,930	-	1,027,930
Contributions	316,931	22,386	339,317
Other Revenue	70,603	1,896	72,499
Net Assets Released from Restriction	77,296	(77,296)	-
Total Support and Revenue	2,877,478	(53,014)	2,824,464
EXPENSES:			
Salaries and Employee Benefits	1,712,678	-	1,712,678
Purchased Services	85,040	-	85,040
Medical Supplies and Drugs	372,343	-	372,343
Depreciation and Amortization	87,319	-	87,319
Interest Expense	72,704	-	72,704
Provision for Bad Debts	7,859	-	7,859
Supplies and Other Expenses	553,141	-	553,141
Total Expenses	2,891,084	-	2,891,084
CHANGE IN NET ASSETS	(13,606)	(53,014)	(66,620)
NET ASSETS at Beginning of Year	(38,754)	77,296	38,542
NET ASSETS at End of Year	\$ (52,360)	\$ 24,282	\$ (28,078)

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

FAMILY TREE CLINIC

STATEMENT OF ACTIVITIES (Continued) YEARS ENDED DECEMBER 31, 2017 AND 2016

	2016		
	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE:			
Net Patient Service Revenue	\$ 901,178	\$ —	\$ 901,178
Rent Revenue	442,332	—	442,332
Grant Revenue	895,998	—	895,998
Contributions	205,447	65,720	271,167
Other Revenue	113,800	2,500	116,300
Net Assets Released from Restriction	92,286	(92,286)	—
Total Support and Revenue	2,651,041	(24,066)	2,626,975
EXPENSES:			
Salaries and Employee Benefits	1,504,914	—	1,504,914
Purchased Services	80,253	—	80,253
Medical Supplies and Drugs	374,425	—	374,425
Depreciation and Amortization	82,427	—	82,427
Interest Expense	67,419	—	67,419
Provision for Bad Debts	50,547	—	50,547
Supplies and Other Expenses	500,682	—	500,682
Total Expenses	2,660,667	—	2,660,667
CHANGE IN NET ASSETS	(9,626)	(24,066)	(33,692)
NET ASSETS at Beginning of Year	(29,128)	101,362	72,234
NET ASSETS at End of Year	\$ (38,754)	\$ 77,296	\$ 38,542

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

FAMILY TREE CLINIC

STATEMENT OF CASH FLOWS YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ (66,620)	\$ (33,692)
Adjustments to Reconcile Change in Net Assets to Net Cash Flows From Operating Activities:		
Depreciation	78,077	76,373
Amortization	9,242	6,054
Amortization of Debt Issuance Costs	497	497
Changes in Assets and Liabilities:		
Grants Receivable	41,960	(15,888)
Accounts Receivables	69,452	(116,403)
Inventory	(18,624)	(11,456)
Prepaid Expenses	21,924	(5,963)
Accounts Payable	(105,385)	140,729
Accrued Wages	3,237	11,168
Accrued Vacation	18,199	595
Accrued Real Estate Taxes	-	(7,734)
Accrued Interest	1,134	(132)
Tenant Security Deposits	2,370	5,588
Deferred Rent Revenue	(24,578)	15,171
Accrued Income Taxes	(5,507)	(60,176)
Other Liabilities	3,013	(3,984)
Net Cash Flows From Operating Activities	28,391	747
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Property and Equipment	(40,114)	(45,427)
Redemption of Certificates of Deposits	62,887	50,728
Lease Acquisition Costs	(7,377)	(15,135)
Net Cash Flows From Investing Activities	15,396	(9,834)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net Advances on Long-Term Debt	-	100,000
Payments of Long-Term Debt	(44,310)	(37,630)
Net Cash Flows From Financing Activities	(44,310)	62,370
NET CHANGE IN CASH	(523)	53,283
CASH at Beginning of Year	133,049	79,766
CASH at End of Year	\$ 132,526	\$ 133,049
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash Paid for Interest	\$ 71,073	\$ 67,054
Cash Paid for Income Taxes	\$ 37,183	\$ 87,808

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

FAMILY TREE CLINIC
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Family Tree, Inc. d/b/a 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 area, based on their self-reported income. The Organization also bills insurance and public assistance programs.

The Organization owns the land and building located at 1619 Dayton Avenue in St. Paul. At December 31, 2017 and 2016, the clinic occupied approximately 25% of the building. The remaining space was leased to other tenants, primarily nonprofit organizations.

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Revenues, expenses, gains and losses, and net assets are classified based on the existence or absence of donor imposed restrictions. Accordingly, net assets of the Organization and related changes are classified and reported as follows:

Unrestricted Net Assets - Resources 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.

Temporarily Restricted Net Assets - Resources 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, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

The Organization has no permanently restricted net assets.

Accounting Estimates

The presentation 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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

In preparing these financial statements, the Organization has evaluated for recognition or disclosure the events or transactions that occurred through June 4, 2018, the date the financial statements were available to be issued. Except as noted below in Note 5 and 13, there were no subsequent events that required recognition or disclosure in the financial statements.

FAMILY TREE CLINIC

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Certificates of Deposit

Short-term interest bearing investments are those with maturities of less than one year but greater than three months when purchased. Certificates with maturity dates beyond one year are classified as noncurrent assets. These investments are readily convertible to cash and are stated at cost plus accrued interest, which approximates fair value.

Accounts Receivables

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, 2017 and 2016 the allowance for uncollectible accounts was \$105,149 and \$140,046, respectively.

Grants Receivable

Grants receivable consists 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 judgment including such factors as prior collection history.

Inventories

Inventories are recorded at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method.

FAMILY TREE CLINIC
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Property Equipment and Depreciation

Property and equipment are carried at cost or, if donated, at the approximated fair value at the date of donation. Additions, improvements or major renewals are capitalized. If items of property are sold, retired or otherwise disposed of, they are removed from the asset and accumulated depreciation accounts and any gain or loss thereon is reflected in the statement of activities.

Depreciation is computed using the straight-line method at rates based on the estimated service lives of the various assets as follows:

Land Improvements	5-20 Years
Buildings and Improvements	7-40 Years
Furniture and Equipment	3-10 Years

Intangible Assets

Intangible assets consist of lease acquisition costs and are amortized on a straight-line basis.

Recoverability of Long-Lived Assets

The Organization reviews its long-lived assets whenever events or changes in circumstances indicate the carrying amount of the assets may not be recoverable. The Organization determines potential impairment by comparing the carrying value of its assets with the sum of the undiscounted cash flows expected to be provided by operating and eventually disposing of the asset. Should the sum of the expected future net cash flows be less than carrying values, the Organization would determine whether an impairment loss should be recognized. No impairment losses have been identified in the financial statements.

Net Patient Service 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.

FAMILY TREE CLINIC
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Contribution and Grant Revenue Recognition

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, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Donor-imposed contributions are reported as temporarily restricted net assets, 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 disallowance at the time the final assessment is made. Management believes that if there were any disallowances, they would not have a significant effect on the statement of financial position.

Donated Services

Donated services 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.

Volunteers provided approximately 4,000 service hours to the Organization during the years ended December 31, 2017 and 2016.

Functional Allocation of Expense

The Organization allocates its expenses on a functional basis among its various programs and support services. Expenses that can be identified with a specific program are allocated directly according to their natural expenditure classification. General and administrative that are common to several functions are allocated based on the proportion of each program's direct and personnel expenses to the total program direct and personnel expenses.

FAMILY TREE CLINIC
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)

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 expenses of \$24,780 and \$19,713 in 2017 and 2016. Cash payments for income taxes were \$37,183 and \$87,808 in 2017 and 2016.

The Organization reviews income tax positions taken or expected to be taken in income tax returns to determine if there are any income tax uncertainties. This includes positions that the entity is exempt from income taxes or not subject to income taxes on unrelated business income. The Organization recognizes tax benefits from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by taxing authorities, based on the technical merits of the positions. The Organization has identified no income tax uncertainties.

The Organization's federal tax returns are open to examination for tax years 2014 through 2016.

There was a state income tax audit completed in February 2016 for the years 2012 through 2014.

This is a federal income tax audit in progress in 2018 for the 2016 return.

Advertising

Advertising costs are expensed as incurred. Total advertising expenses were \$25,885 and \$24,600 for 2017 and 2016.

Reclassifications

Certain amounts in the 2016 financial statements and notes have been reclassified to conform to the 2017 presentation. This reclassification had no effect on net assets for either period.

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which provides guidance for accounting for revenue from contracts with customers. The new guidance outlines a single comprehensive model for organizations to use in accounting for revenue from contracts with customers. This ASU is effective for annual and interim periods beginning after December 15, 2018 with early adoption permitted. It can be adopted using either a retrospective approach or a modified retrospective approach. The Organization is currently evaluating this guidance to determine the impact it may have on its financial statements.

FAMILY TREE CLINIC

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued Accounting Pronouncements (Continued)

In February 2016, FASB issued ASU 2016-02, *Leases (Topic 842)*, which provides guidance for accounting for leases. The new guidance requires companies to recognize the assets and liabilities for the rights and obligations created by leased assets, initially measured at the present value of the lease payments. The accounting guidance for lessors is largely unchanged. This ASU is effective for annual and interim periods beginning after December 15, 2019 with early adoption permitted. It is to be adopted using the modified retrospective approach. The Organization is currently evaluating this guidance to determine the impact it may have on its financial statements.

In August 2016, FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*, which provides guidance for presentation of financial statements of not-for-profit entities. The new guidance requires a number of changes in the financial statement presentation including presenting two classes of net assets, presentation of underwater endowments, presentation of investment return, enhanced disclosures on board designations and management of liquid resources for cash flows, and present expenses by their natural and functional classification. The ASU will be effective for financial statements for fiscal years beginning after December 15, 2017 with early adoption permitted. The amendments in this update should be applied on a retrospective basis. However, if presenting comparative financial statements, the Organization has the option to omit the following information for any periods presented before the period of adoption: analysis of expenses by both natural classification and functional classification and disclosures about liquidity and availability of resources. The Organization is currently evaluating the impact that the adoption of this guidance will have on the Organization's financial statements.

NOTE 2 - GRANTS RECEIVABLE

The breakdown for the grants receivable expected to be collected in less than one year is as follows:

	<u>2017</u>	<u>2016</u>
Minnesota Dept of Health Family Planning		
Special Projects	\$ 39,275	\$ 41,560
Minnesota Dept of Health PREP Grant	-	18,816
Minnesota Dept of Health Community Clinic Grant	8,743	7,384
Minnesota Dept of Health Community Initiative Grant	19,676	20,241
Seattle and King County Grant	12,367	31,046
Foundations and Other Grants	15,682	14,936
Ramsey County	7,386	11,106
Grants Receivable	<u>\$ 103,129</u>	<u>\$ 145,089</u>

Grants receivable are expected to be collected in 2018.

FAMILY TREE CLINIC
NOTES TO FINANCIAL STATEMENTS

NOTE 3 - INTANGIBLE ASSETS

Intangible assets subject to amortization are as follows at December 31, 2017 and 2016:

	<u>Life</u>	<u>2017</u>	<u>2016</u>
Lease Acquisition Costs	1-5 Years	<u>\$ 69,713</u>	<u>\$ 62,336</u>
Total Gross Carrying Amount		<u>69,713</u>	<u>62,336</u>
Accumulated Amortization – Lease Acquisition Costs		<u>(55,642)</u>	<u>(46,400)</u>
Net Amortizable Intangible Assets		<u>\$ 14,071</u>	<u>\$ 15,936</u>

Amortization expense was \$9,242 in 2017 and \$6,054 in 2016.

Estimated amortization expense for each of the succeeding three years is as follows: 2018 - \$7,143; 2019 - \$4,114; and 2020 - \$2,814.

NOTE 4 - LINE OF CREDIT

In March 2016, the Organization established a line of credit with the Minnesota Nonprofits Assistance Fund which enables the Organization to borrow up to \$100,000 at 7% interest. The line of credit is secured by the certificate of deposit. The line of credit matured April 2017.

In May 2017, the Organization restructured the line of credit into a term note. The note is due in monthly installments of \$1,000 beginning June 2017, including interest at 6.5%, to June 2018. The note is secured by substantially all of the organizations assets. See Note 5.

NOTE 5 - LONG-TERM DEBT

Long-term debt is as follows:

	<u>2017</u>	<u>2016</u>
Mortgage note payable in monthly installments of \$8,290, including interest at 5.5% to May 2018. The note is secured by the property.	<u>\$ 1,046,529</u>	<u>\$ 1,087,707</u>
Note payable in monthly installments of \$1,000, including interest at 6.5% to June 2018. The note is secured by substantially all organization assets.	<u>96,868</u>	<u>100,000</u>
Debt Issuance Costs	<u>(5,378)</u>	<u>(5,875)</u>
Total	<u>1,138,019</u>	<u>1,181,832</u>
Less Current Maturities	<u>(1,138,019)</u>	<u>(43,155)</u>
Total Long-Term Debt	<u>\$ —</u>	<u>\$ 1,138,677</u>

FAMILY TREE CLINIC
NOTES TO FINANCIAL STATEMENTS

NOTE 5 - LONG-TERM DEBT (Continued)

Cash payments for interest were \$71,073 in 2017 and \$67,054 in 2016.

Principal payments required during the next year is:

2018		<u>\$ 1,138,019</u>
Total		<u>\$ 1,138,019</u>

In February 2018, the Organization entered into a \$100,000 term note. The note is due in monthly interest only payments until August 2018, when the entire unpaid principal and all accrued and unpaid interest is due and payable. The note bears an interest rate of 6.5%. The note is secured by substantially all organization assets.

NOTE 6 - NET ASSETS

Temporarily restricted net assets at December 31, 2017 and 2016 consist of the following:

	Balance January 1, 2017	Support Revenue Grants Transfers	Release from Restriction	Balance December 31, 2017
Clinic Operations/Community Education	\$ 31,325	\$ 5,600	\$ (31,325)	\$ 5,600
Comprehensive Sex Education in the Public Schools	8,000	8,600	(8,000)	8,600
Trans Hormone Expansion Project Grants	17,500	-	(17,500)	-
Health Education	5,535	-	(5,535)	-
Other Miscellaneous Grants	<u>14,936</u>	<u>10,082</u>	<u>(14,936)</u>	<u>10,082</u>
	<u>\$ 77,296</u>	<u>\$ 24,282</u>	<u>\$ (77,296)</u>	<u>\$ 24,282</u>

NOTE 7 - RENT REVENUE COMMITMENTS

The Organization leases office units under various terms to its tenants. Lease terms vary between 12 months and 5 years. Future minimum lease commitments for the next four years are as follows:

2018		\$ 404,000
2019		168,000
2020		<u>112,000</u>
Total Commitments		<u>\$ 684,000</u>

FAMILY TREE CLINIC

NOTES TO FINANCIAL STATEMENTS

NOTE 8 - 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 2% of qualified employee salaries. Plan expense was \$18,554 for 2017 and \$12,108 for 2016.

NOTE 9 - NET PATIENT SERVICE REVENUE

Net patient service revenue consist of the following for the years ended December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Gross Patient Fees	\$ 1,410,235	\$ 1,308,463
Contractual Adjustments	<u>(522,789)</u>	<u>(407,285)</u>
Total	<u>\$ 887,446</u>	<u>\$ 901,178</u>

NOTE 10 - FUNCTIONAL EXPENSES

Functional expenses at December 31, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Program	\$ 2,487,749	\$ 2,267,639
Management and General	193,303	270,788
Fundraising	<u>210,032</u>	<u>122,240</u>
Total	<u>\$ 2,891,084</u>	<u>\$ 2,660,667</u>

NOTE 11 - MAJOR CUSTOMER

The Organization derived 74% of its grant revenues from the Minnesota Department of Health for the year ended December 31, 2017 and 72% for the year ended December 31, 2016.

FAMILY TREE CLINIC
NOTES TO FINANCIAL STATEMENTS

NOTE 12 - COMMITMENTS AND CONTINGENCIES

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.

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 outstanding 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 policies deductible limits.

NOTE 13 - SUBSEQUENT EVENT

Subsequent to December 31, 2017, the Organization entered into a purchase agreement to sell the land and building it owns located at 1619 Dayton Avenue in St. Paul to an investment management company for \$3,600,000. If the Organization facilitates a 1031 exchange in connection with the closing, the purchase price will automatically increase by \$50,000. The closing is expected to occur on the earlier of July 3, 2018 or a mutually agreeable date.

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

Board of Directors
Family Tree, Inc.
St. Paul, Minnesota

We have audited the financial statements of Family Tree, Inc. as of and for the years ended December 31, 2017 and 2016, and our report thereon dated June 4, 2018, which expressed an unmodified opinion on those financial statements, appears on page 1. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole.

The supplementary information on page 18 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Olson Thiel & Co., Ltd

Eden Prairie, Minnesota
June 4, 2018

FAMILY TREE CLINIC

SCHEDULE OF FUNCTIONAL EXPENSES YEAR ENDED DECEMBER 31, 2017

(With Summarized Totals for the Year Ended December 31, 2016)

	Medical		Education		Total Medical and Education	Management and General	Fund Raising	Total Expenses	
	Clinic	Community	Hotline	Deaf Education				2017	2016
OPERATING FUND:									
Personnel Expenses:									
Salaries and Wages	\$ 785,592	\$ 341,530	\$ 78,312	\$ 68,207	\$ 1,273,641	\$ 87,299	\$ 90,953	\$ 1,451,893	\$ 1,278,560
Employee Benefits	66,147	40,209	7,011	21,546	134,913	6,469	11,068	152,450	128,589
Payroll Taxes	59,027	26,051	5,880	5,256	96,214	5,309	6,812	108,335	97,765
Total Personnel Expenses	910,766	407,790	91,203	95,009	1,504,768	99,077	108,833	1,712,678	1,504,914
Professional Services	107,349	34,671	5,112	10,678	157,810	41,162	50,408	249,380	213,419
Office Supplies	12,655	2,682	1,152	281	16,770	1,920	4,042	22,732	17,971
Data Processing	31,918				31,918			31,918	40,390
Medical and Lab Supplies	303,140				303,140			303,140	303,893
LabTest Fees	50,190				50,190			50,190	58,386
Printing	2,791	2,582	301	176	5,850	264	5,881	11,995	17,329
Dues and Subscriptions	9,479	97	97	65	9,738	3,003	1,712	14,453	18,073
Licenses and Fees	822	73	16	17	928	822	35	1,785	2,610
Advertising and Publicity	17,448	4,814	3,704	867	26,833	249	1,839	28,921	25,906
Repairs and Maintenance	13,865	4,233	910	970	19,978	1,465	1,594	23,037	29,445
Travel and Meetings	1,033	27,448	78	2,997	31,556	784	2,398	34,738	10,155
Minnesota Care Provider Tax	13,585				13,585			13,585	10,755
Rental Income Tax	14,413	4,784	1,110	1,015	21,322	1,831	1,627	24,780	19,713
Miscellaneous	8,354	13,436	103	828	22,721	718	962	24,401	18,145
Insurance	13,175	1,913	647	456	16,191	2,884	575	19,650	18,928
Telephone and Utilities	52,068	17,018	5,100	6,785	80,971	6,206	6,106	93,283	91,251
Property Taxes	13,676	4,540	976	1,041	20,233	1,571	1,710	23,514	18,785
Interest Expense	34,697	11,489	2,470	2,634	51,290	17,087	4,327	72,704	67,419
Provision for Bad Debt	7,859				7,859			7,859	50,547
Fundraising Expenses					-		11,669	11,669	20,057
Staff and Board Development	12,640	3,381	3,744	508	20,273	6,626	454	27,353	20,149
Total Expenses Before Depreciation	1,631,923	540,951	116,723	124,327	2,413,924	185,669	204,172	2,803,765	2,578,240
Depreciation	49,689	17,223	3,345	3,568	73,825	7,634	5,860	87,319	82,427
Total Operating Fund Expenses	\$ 1,681,612	\$ 558,174	\$ 120,068	\$ 127,895	\$ 2,487,749	\$ 193,303	\$ 210,032	\$ 2,891,084	\$ 2,660,667