PROOF ALLIANCE

St. Paul, Minnesota

FINANCIAL STATEMENTS
Including Independent Auditors' Report

As of and for the Years Ended December 31, 2019 and 2018

PROOF ALLIANCE

TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Proof Alliance
St. Paul, Minnesota

We have audited the accompanying financial statements of Proof Alliance (the Organization), which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities, functional expenses 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from 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 auditors' 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 Organization as of December 31, 2019 and 2018, 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.

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
May 28, 2020

PROOF ALLIANCE

STATEMENTS OF FINANCIAL POSITION
As of December 31, 2019 and 2018

ASSETS

	2019	2018
ASSETS		
Cash and cash equivalents	$ 336,202	$ 741,383
Grants and contributions receivable	782,597	615,345
Prepaid expenses	27,868	22,229
Security deposit	9,854	3,734
Equipment and leasehold improvements, net	179,927	20,142
Certificate of deposit	5,520	5,409
TOTAL ASSETS	$ 1,341,968	$ 1,408,242

LIABILITIES AND NET ASSETS

	2019	2018
LIABILITIES		
Accounts payable	$ 295,131	$ 275,258
Accrued payroll	17,838	19,681
Accrued liabilities	10,114	11,915
Deferred lease liability	31,113	-
Total Liabilities	354,196	306,854
NET ASSETS		
Without donor restrictions	872,809	724,678
With donor restrictions	114,963	376,710
Total Net Assets	987,772	1,101,388
TOTAL LIABILITIES AND NET ASSETS	$ 1,341,968	$ 1,408,242

See accompanying notes to financial statements.

PROOF ALLIANCE

STATEMENTS OF ACTIVITIES
For the Years Ended December 31, 2019 and 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
PUBLIC SUPPORT						
Government grants	$ 2,532,182	$ -	$ 2,532,182	$ 2,319,333	$ -	$ 2,319,333
Contributions and grants	97,498	65,025	162,523	205,948	363,850	569,798
In-kind contributions	264,906	-	264,906	448,651	-	448,651
Special events, net of direct costs of $44,538 and $66,430 in 2019 and 2018	140,063	-	140,063	126,549	-	126,549
Return of grant funds	-	(49,161)	(49,161)	-	-	-
Net assets released from restrictions	277,611	(277,611)	-	78,383	(78,383)	-
Total Public Support	3,312,260	(261,747)	3,050,513	3,178,864	285,467	3,464,331
REVENUE						
Program fees	45,039	-	45,039	41,920	-	41,920
Clinical billing	30,086	-	30,086	58,087	-	58,087
Interest income	3,394	-	3,394	3,047	-	3,047
Other	1,084	-	1,084	2,317	-	2,317
Total Revenue	79,603	-	79,603	105,371	-	105,371
Total Public Support and Revenue	3,391,863	(261,747)	3,130,116	3,284,235	285,467	3,569,702
EXPENSES						
Program	2,926,239	-	2,926,239	2,680,437	-	2,680,437
Management and general	163,098	-	163,098	388,800	-	388,800
Development	154,395	-	154,395	75,662	-	75,662
Total Expenses	3,243,732	-	3,243,732	3,144,899	-	3,144,899
CHANGE IN NET ASSETS	148,131	(261,747)	(113,616)	139,336	285,467	424,803
NET ASSETS - Beginning of year	724,678	376,710	1,101,388	585,342	91,243	676,585
NET ASSETS - END OF YEAR	$ 872,809	$ 114,963	$ 987,772	$ 724,678	$ 376,710	$ 1,101,388

See accompanying notes to financial statements.

PROOF ALLIANCE

STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended December 31, 2019 and 2018

	2019				2018			
	Program	Management and General	Development	Total	Program	Management and General	Development	Total
Salaries and wages	$ 640,242	$ 47,692	$ 101,086	$ 789,020	$ 752,433	$ 47,064	$ 45,430	$ 844,927
Taxes	52,128	3,886	8,236	64,250	61,097	3,807	3,636	68,540
Employee benefits	100,452	9,318	9,780	119,550	115,673	8,530	8,001	132,204
Total Salaries and Related Expenses	792,822	60,896	119,102	972,820	929,203	59,401	57,067	1,045,671
Contracted services	1,096,367	2,818	4,710	1,103,895	1,106,537	1,633	185	1,108,355
Professional fees	34,515	73,430	2,950	110,895	30,341	66,661	701	97,703
Training and conference	62,425	2,429	7,427	72,281	94,371	12,461	6,179	113,011
Insurance	16,791	2,200	289	19,280	14,541	1,926	-	16,467
Fees, dues and other	954	2,031	52	3,037	1,951	3,691	521	6,163
Printing	14,376	1,719	2,469	18,564	11,617	399	1,547	13,563
Postage	3,196	171	1,602	4,969	4,054	747	660	5,461
Rental	81,459	4,400	8,598	94,457	52,905	2,303	2,382	57,590
Supplies	122,970	4,329	1,378	128,677	61,865	3,743	382	65,990
Travel expenses	28,643	3,975	1,221	33,839	41,773	4,785	374	46,932
Telephone	8,201	418	822	9,441	4,020	156	162	4,338
Equipment rental and maintenance	10,911	621	466	11,998	5,293	197	214	5,704
In-kind expenses	264,406	500	-	264,906	224,325	224,326	-	448,651
Advertising and promotion	365,180	-	-	365,180	84,035	3,485	1,282	88,802
Interest expense and bank charges	64	1,912	1,867	3,843	196	1,956	3,324	5,476
Depreciation	21,502	383	1,442	23,327	12,757	-	671	13,428
Miscellaneous expense	1,457	866	-	2,323	653	930	11	1,594
TOTAL EXPENSES	$ 2,926,239	$ 163,098	$ 154,395	$ 3,243,732	$ 2,680,437	$ 388,800	$ 75,662	$ 3,144,899

See accompanying notes to financial statements.

PROOF ALLIANCE

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (113,616)	$ 424,803
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	23,327	13,428
Interest income reinvested in certificate of deposit	(111)	(109)
Changes in assets and liabilities		
Grants and contributions receivable	(167,252)	(187,450)
Prepaid expenses and security deposits	(11,759)	4,101
Accounts payable	19,873	(26,808)
Accrued payroll	(1,843)	1,175
Accrued liabilities	(1,801)	48
Deferred lease liability	31,113	-
Deferred revenue	-	(6,619)
Net cash flows from operating activities	(222,069)	222,569
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment	(183,112)	(12,146)
Net cash flows from investing activities	(183,112)	(12,146)
Net Change in Cash and Cash Equivalents	(405,181)	210,423
CASH AND CASH EQUIVALENTS - Beginning of year	741,383	530,960
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 336,202	$ 741,383

See accompanying notes to financial statements.

NOTE 1 - Nature of Activities

In 2019, Proof Alliance (the Organization) continued to advance our mission and vision that we have the proof that FASD is preventable and that all impacted by Fetal Alcohol Syndrome (FASD) can live up to their full potential. Like previous years, Proof Alliance made progress in all of the program areas including diagnosis, family support, community grants, public awareness, and professional education and training. Proof Alliance has a dual role in the state by both preventing prenatal exposure to alcohol, as well as providing support and guidance to individuals with an FASD and their families. As a result of this dual role, Proof Alliance intersects with a wide variety of partners, agencies, and community groups who can impact the mission of the Organization.

Reaching professionals in Minnesota who are providing services and supports to people living with an FASD as well as women who are pregnant or may be pregnant is a priority of the Organization. One of the highlights of 2019 was the 8th Annual Conference “FASD Matters” which focused on opening doors to understanding how FASD impacts multiple systems. Additionally, trainings were held across the state for educators, social service providers, probation officers, medical doctors, nurses, and other allied health professionals. Providing high quality training both in person and virtually is an important component of the work accomplished in 2019.

Proof Alliance has taken the lead in creating more capacity for individuals to be evaluated and potentially diagnosed for a FASD. In order to create more capacity, Proof Alliance continued to expand the capacity of the on-site clinic at our office in St. Paul. Additionally, Proof Alliance worked closely with a network of diagnostic providers across the state through the FASD Diagnostic Consortium. Proof Alliance also continued our role of being a training provider on FASD diagnosis by partnering with the University of Minnesota to have pediatric residents rotate through our clinic.

The goals of the community grants program include increasing early identification of children with an FASD by incorporating screening into standard protocols and increasing access to employment services for individuals with an FASD. The grant program also funds culturally specific programming in American Indian and African American communities, legal advocacy for students with an FASD, programs that provided family support, and opportunities for young adults with an FASD to learn and practice social and life skills. Additionally, the prevention/public awareness grants reached across the state to large and small communities with the prevention message. One of the prevention grant efforts specifically reaches out to women with alcohol and substance use disorders to provide community resources, tool, and supports for the women to become and remain sober while having alcohol-free pregnancies. The community grant program reaches communities all across the state.

Supporting individuals with a FASD and their families and caregivers is a core component of the work that was accomplished at Proof Alliance in 2019. The network of family engagement staff provided support to caregivers across the state. A wide variety of virtual and in-person supports were offered to birth, foster, adoptive and kinship caregivers. Retreats, Virtual Family Center, and Circle of Hope Birth Mom Support groups are just a few examples of the many support options available for caregivers.

NOTE 2 - Summary of Significant Accounting Policies

Cash and Cash Equivalents

The Organization defines cash and cash equivalents as highly liquid, short-term investments with a maturity at the date of acquisition of three months or less. Cash on deposit in excess of the federally insured limits and similar insurance coverages are subject to the usual banking risks of funds in excess of those limits.

Grants and Contributions Receivable

Receivables are stated at net realizable value. The Organization believes that all amounts receivable are fully collectible and, except $15,000 at December 31, 2018, all are due within one year; therefore an allowance for doubtful accounts or discount on the receivable with terms extending beyond one year is not recorded. Receivables are generally unsecured.

Certificate of Deposit

The Organization deposited cash related to a restricted gift into a certificate of deposit which matured in 2020 and accrued interest monthly. The certificate of deposit is recorded at amortized cost, which approximates fair value, and is donor restricted to support families participating in the Organization's programs.

Equipment and Leasehold Improvements, net

Equipment and leasehold improvements purchased with non-grantor funds are capitalized at cost. Donated equipment is capitalized at market value on the date of gift. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Proof Alliance capitalizes additions in excess of $5,000. Maintenance, repairs, and minor improvements are expensed as incurred. When assets are retired or otherwise disposed of, their costs and related accumulated depreciation are removed from Proof Alliance's accounts. If the retirements or disposals result in gains or losses, these are recorded as income in the statement of activities.

For equipment purchased with government funds, the grantor retains title to all equipment acquired under its contracts with the Organization. Therefore, property and equipment purchases are recorded as expense when acquired. There were $24,735 and $0 of such purchases for the years ended December 31, 2019 and 2018, respectively.

In 2019, Proof Alliance paid $183,112 for leasehold improvements in their new office space and website redesign. The new space and website are specifically designed to maximize our capacity to serve our clients. Leasehold improvements will be amortized over the life of the lease.

Net Assets

For purposes of financial reporting, the Organization classifies resources into two net asset categories pursuant to any donor imposed restrictions and applicable law. Accordingly, the net assets of the Organization are classified in the accompanying financial statements in the categories that follow:

Without Donor Restrictions - Net assets that are not subject to donor imposed stipulations.

With Donor Restrictions - Net assets subject to donor imposed stipulations that will be met by action of the Organization and/or the passage of time.

NOTE 2 - Summary of Significant Accounting Policies (Continued)

Revenue Recognition

Revenues from sources other than contributions are generally reported as increases in net assets without donor restrictions. Expenses are reported as decreases in net assets without donor restrictions. The Organization recognizes revenues from program fees and clinical billings during the year in which related services are provided. Clinical billings revenue is reported net of contractual adjustments and amounts due from third-party payers for services rendered. The Organization records special events revenue equal to the fair value of direct benefits to donors, and contribution income for the excess received when the event takes place.

Unconditional contributions are recognized as revenues in the period received and are reported as increases in the appropriate categories of net assets in accordance with donor restrictions. Expirations of donor imposed restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions. Contributions that include a measurable barrier or those for which the Organization has limited discretion over how the contribution should be spent and a right of return or release from future obligations are recorded as conditional contributions. Conditional contributions are not recognized until they become unconditional, that is, when the conditions surrounding the indications of the barrier have been met.

A portion of the Organization’s revenue is derived from cost-reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/ or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific contract or grant provisions. Any amounts received prior to incurring qualifying expenditures are reported as refundable advances in the statement of financial position. The Organization received cost-reimbursable grants of $10,490,000 that have not been recognized at December 31, 2019 because qualifying expenditures have not yet been incurred.

Contributions of materials and services are recognized if the materials and services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Professional materials and services of $264,906 and $448,651 were donated in the years ended December 31, 2019 and December 31, 2018, respectively.

A substantial number of volunteers have made significant contributions of their time for the daily operation of Proof Alliance. The value of these services is not recorded in the financial statements because they do not meet the accounting requirements to be recorded.

NOTE 2 - Summary of Significant Accounting Policies (Continued)

Tax-Exempt Status

The Organization has received notification that it qualifies as a tax-exempt organization under Section 501(c)(3) of the U.S. Internal Revenue Code and corresponding provisions of State law and, accordingly, is not subject to federal or state income taxes. However, unrelated business income may be subject to taxation.

Accounting principles generally accepted in the United States of America requires the Organization to evaluate positions taken and recognize a tax liability (or asset) if they have taken an uncertain position that more likely than not would not be sustained upon examination by applicable tax authorities. Management has analyzed tax positions taken by the Organization, and has concluded that as of December 31, 2019 and 2018, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Organization is subject to routine audits by taxing jurisdictions; however there are currently no audits for any tax periods in progress.

Advertising

Advertising costs are charged to operations when incurred.

Expense Allocation

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Allocations of expenses for salaries and related expenses, rental expenses and facilities expenses are based on management’s best estimates of time and effort.

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 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.

Accounting Pronouncements Adopted in the Current Year

During June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.* The guidance is intended to clarify and improve accounting guidance for contributions received and contributions made. The amendments in this ASU should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. The Organization adopted ASU No. 2018-08 as of January 1, 2019 and the adoption did not have material impact on the Organization’s financial statements for the year ended December 31, 2019.

NOTE 2 - Summary of Significant Accounting Policies (Continued)

In May 2014, FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*. This guidance outlines a single comprehensive model for entities to use in accounting for revenue from contracts with customers. The Organization adopted ASU No. 2014-09 using the modified retrospective method applied to all contracts as of January 1, 2019. Results for reporting periods beginning after January 1, 2019 are presented under ASU No. 2014-09 while prior period amounts continue to be reported in accordance with legacy GAAP. Adoption of the standard did not have material impact on the Organization's financial statements for the year ended December 31, 2019.

Recent Accounting Pronouncement Not Yet Effective

In February 2016, FASB issued ASU No. 2016-02, *Leases*. Accounting Standards Updated (ASU) No. 2016-02 was issued to increase transparency and comparability among entities. Lessees will need to recognize nearly all lease transactions (other than leases that meet the definition of a short-term lease) on the statement of financial position as a lease liability and a right-of-use asset (as defined). Lessor accounting under the new guidance will be similar to the current model. ASU No. 2016-02 is effective for years beginning after December 15, 2021. Early application is permitted. Upon adoption, lessees and lessors will be required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach, which includes a number of optional practical expedients that entities may elect to apply. The Organization is assessing the impact this new standard will have on its financial statements.

NOTE 3 - Liquidity and Availability

The following table reflects the Organization's financial assets as of December 31 2019 and 2018, reduced by amounts not available for general expenditures within one year. Financial assets are considered unavailable when illiquid, not convertible to cash within one year or donor restricted assets whose restrictions are not met in one year. Other financial assets that are excluded from this measure of liquidity include grants and contributions receivable due in over one year and certificate of deposit with a maturity in excess of one year.

	2019	2018
Financial assets		
Cash and cash equivalents	$ 336,202	$ 741,383
Grants and contributions receivable	782,597	615,345
Certificate of deposit	5,520	5,409
Financial assets at December 31	1,124,319	1,362,137
Less those unavailable for general expenditure within one year		
Grants and contributions receivable	-	(15,000)
Certificate of deposit	-	(5,409)
Financial assets not available for expenditure within one year	-	(20,409)
Financial assets available to meet cash needs for general purposes within one year	$ 1,124,319	$ 1,341,728

The Organization's practice is to structure its financial assets to be available as its general expenses, liabilities and obligations come due and targets a minimum of 90 days of operating expense coverage at any point in time.

Cash in excess of daily requirements is typically invested in short-term, liquid securities. The Organization has a $75,000 line of credit that can be drawn down if needed to cover operating expenses. See Note 9.

NOTE 4 - Equipment and Leasehold Improvements, net

Equipment and leasehold improvements at December 31, 2019 and 2018 are summarized as follows:

	Depreciable Lives	2019	2018
Leasehold improvements	10 yrs.	$ 95,918	$ 10,000
Furniture and Equipment/Website	3 – 7 yrs.	127,478	40,284
Total equipment and leasehold improvements		223,396	50,284
Less: Accumulated depreciation		(43,469)	(30,142)
Equipment and leasehold improvements, net		$ 179,927	$ 20,142

NOTE 5 - Net Assets

Net assets with donor restrictions at December 31 are composed of:

	2019	2018
Timing restrictions	$ 114,963	$ 376,710

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors were reclassified to net assets without donor restrictions for operations and programs.

NOTE 6 - Concentrations

Government grant revenue for 2019 and 2018 resulted principally from one contract with the Minnesota Department of Health (MDH). The current grant agreement will expire in June 2024. Receivables from MDH at December 31, 2019 and 2018 include approximately $507,000 and $438,000, respectively, for services performed in October, November and December of 2019, and November and December of 2018, respectively.

NOTE 7 - Operating Leases

The Organization leases office space, storage space, a copier and postage machine. The leases are accounted for as operating leases. In January, 2019, the Organization signed an office space lease at a new location. The lease requires monthly payments ranging from $5,549 to $7,103 per month and expires in October 2029. The various equipment leases expire at various dates through September 2021.

Future minimum operating lease payments as of December 31, 201 are as follows:

2020	$ 74,761
2021	71,352
2022	72,477
2023	74,251
2024	75,320
Thereafter	387,557
	$ 755,718

Office space and equipment rent expense on the operating leases was $97,031 and $63,293 for the years ended December 31, 2019 and 2018, respectively.

NOTE 8 - Retirement Plan

For employees meeting certain eligibility requirements, the Organization contributes 3% of the employee’s gross wages or the amount of their personal contribution, whichever is less, to their Simple IRA. The Organization’s match amounts were $19,416 and $21,482 in 2019 and 2018, respectively.

NOTE 9 - Line of Credit

The Organization has a $75,000 revolving line of credit with Bremer Bank that expires at December 31, 2021.The line of credit is secured by all assets of the Organization. Borrowings bear interest at the bank's prime lending rate plus 1.00% over the index (rate on issue date was 4.5%). However, under no circumstances will the total rate fall below 5.00%. There were no outstanding borrowings at December 31, 2019 and 2018.

NOTE 10 - Commitments and Contingencies

From time to time, the Organization is subject to various legal matters in the normal course of business. The outcome of these matters is not expected to have a material effect on the Organization's financial position.

During 2019, the entire Board of Directors participated in supporting through giving. The Organization received contributions from board members totaling $44,792 and $53,573 for the years ended December 31, 2019 and 2018, respectively.

NOTE 11 - Subsequent Events

The Organization has evaluated subsequent events through May 28, 2020 which is the date that the financial statements were approved and available to be issued.

On April 17, 2020, the Organization entered into a new loan facility under the recent government enacted Paycheck Protection Program (part of the Coronavirus Aid, Relief and Economic Stability Act) administered by the Small Business Administration. The Organization borrowed $180,900 under the loan facility. The loan carries a fixed interest rate of 1% and matures on April 17, 2022. No payments are required for the first six months. Borrowings under this facility are unsecured. Loans under the Paycheck Protection Program have a loan forgiveness feature based on the level of payroll, rent and utilities costs over an eight week period commencing on the date of the loan. Management anticipates that most of the outstanding balance on the loan will be forgiven.