Proof Alliance

Financial Statements

December 31, 2022 and 2021

Independent Auditors' Report

To the Board of Directors of
Proof Alliance

Opinion

We have audited the financial statements of Proof Alliance (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 accompanying financial statements 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 (GAAP).

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' 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 audits. 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 GAAP 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 approved and available to be issued.

Auditors' 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 auditors' 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 GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, 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.

Baker Tilly US, LLP

Minneapolis, Minnesota
November 14, 2023

Proof Alliance

Statements of Financial Position
December 31, 2022 and 2021

	2022	2021
Assets		
Assets		
Cash and cash equivalents	$ 545,103	$ 697,336
Grants and contributions receivable	635,023	449,533
Prepaid expenses	12,721	19,094
Security deposit	9,854	9,854
Equipment and leasehold improvements, net	133,070	175,051
Right of use asset, operating lease	460,718	-
Total assets	$ 1,796,489	$ 1,350,868
Liabilities and Net Assets		
Liabilities		
Accounts payable	$ 295,254	$ 189,147
Accrued payroll	12,460	43,936
Accrued liabilities	17,464	11,584
Deferred lease liability	-	39,031
Operating lease liability	501,133	-
Total liabilities	826,311	283,698
Net Assets		
Without donor restrictions	770,651	909,503
With donor restrictions	199,527	157,667
Total net assets	970,178	1,067,170
Total liabilities and net assets	$ 1,796,489	$ 1,350,868

See notes to financial statements

Proof Alliance

Statements of Activities
Years Ended December 31, 2022 and 2021

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Public Support						
Government grants	$ 2,065,340	$ -	$ 2,065,340	$ 2,491,243	$ -	$ 2,491,243
Contributions and grants	515,850	110,674	626,524	533,241	81,231	614,472
In-kind contributions	-	-	-	9,086	-	9,086
Net assets released from restrictions	68,814	(68,814)	-	45,046	(45,046)	-
Total public support	2,650,004	41,860	2,691,864	3,078,616	36,185	3,114,801
Revenue						
Program fees	18,250	-	18,250	33,398	-	33,398
Clinical billing	35,516	-	35,516	39,542	-	39,542
Interest income	1,730	-	1,730	849	-	849
Total revenue	55,496	-	55,496	73,789	-	73,789
Total public support and revenue	2,705,500	41,860	2,747,360	3,152,405	36,185	3,188,590
Expenses						
Program	2,411,701	-	2,411,701	2,769,900	-	2,769,900
Management and general	266,048	-	266,048	213,120	-	213,120
Development	166,603	-	166,603	160,007	-	160,007
Total expenses	2,844,352	-	2,844,352	3,143,027	-	3,143,027
Change in net assets	(138,852)	41,860	(96,992)	9,378	36,185	45,563
Net Assets, Beginning	909,503	157,667	1,067,170	900,125	121,482	1,021,607
Net Assets, Ending	$ 770,651	$ 199,527	$ 970,178	$ 909,503	$ 157,667	$ 1,067,170

See notes to financial statements

Proof Alliance

Statements of Functional Expenses
Years Ended December 31, 2022 and 2021

	2022				2021			
	Program	Management and General	Development	Total	Program	Management and General	Development	Total
Salaries and wages	$ 693,315	$ 110,084	$ 92,817	$ 896,216	$ 788,388	$ 76,364	$ 96,426	$ 961,178
Payroll taxes	55,999	8,871	7,547	72,417	65,399	6,265	8,021	79,685
Employee benefits	89,994	17,024	15,247	122,265	104,177	11,397	15,046	130,620
Total salaries and related expenses	839,308	135,979	115,611	1,090,898	957,964	94,026	119,493	1,171,483
Contracted services	1,134,149	1,420	1,240	1,136,809	1,184,259	8,685	1,224	1,194,168
Professional fees	98,919	57,022	5,158	161,099	47,634	77,134	8,557	133,325
Training and conference	6,535	150	-	6,685	2,712	631	9,706	13,049
Insurance	16,884	2,507	-	19,391	19,882	2,565	465	22,912
Fees, dues and other	8,061	1,896	76	10,033	2,103	2,701	69	4,873
Printing	2,493	239	2,108	4,840	4,200	1,600	2,278	8,078
Postage	3,118	499	1,321	4,938	5,742	447	940	7,129
Rental and utilities	103,557	12,122	10,943	126,622	96,661	8,344	9,735	114,740
Supplies	142,932	3,964	1,242	148,138	68,251	2,305	1,195	71,751
Travel expenses	26,475	1,785	388	28,648	9,374	43	607	10,024
Telephone	11,460	1,291	1,163	13,914	11,396	886	1,101	13,383
Equipment rental and maintenance	11,160	1,256	494	12,910	11,356	1,644	485	13,485
In-kind expenses	-	-	-	-	-	9,086	-	9,086
Advertising and promotion	(153)	153	-	-	318,271	-	-	318,271
Interest expense and bank charges	113	2,186	2,786	5,085	486	2,169	2,222	4,877
Depreciation	-	41,981	-	41,981	28,296	504	1,897	30,697
Miscellaneous expense	6,690	1,598	24,073	32,361	1,313	350	33	1,696
Total expenses	$ 2,411,701	$ 266,048	$ 166,603	$ 2,844,352	$ 2,769,900	$ 213,120	$ 160,007	$ 3,143,027

See notes to financial statements

Statements of Cash Flows
Years Ended December 31, 2022 and 2021

	2022	2021
Cash Flows From Operating Activities		
Change in net assets	$ (96,992)	$ 45,563
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	41,981	30,697
Non-cash lease expense	1,384	-
Changes in assets and liabilities:		
Grants and contributions receivable	(185,490)	(19,831)
Prepaid expenses and security deposit	6,373	(3,248)
Accounts payable	106,107	(48,381)
Accrued payroll	(31,476)	(3,514)
Accrued liabilities	5,880	(1,662)
Deferred lease liability	-	3,114
Net cash flows from operating activities	(152,233)	2,738
Cash Flows From Investing Activities		
Purchase of equipment	-	(24,600)
Net cash flows from investing activities	-	(24,600)
Net change in cash and cash equivalents	(152,233)	(21,862)
Cash and Cash Equivalents, Beginning	697,336	719,198
Cash and Cash Equivalents, Ending	$ 545,103	$ 697,336
Supplemental Disclosure		
Right of use asset, net of deferred lease liability, acquired in exchange for operating lease liability	$ 460,718	$ -

See notes to financial statements

1. Nature of Activities

Proof Alliance (the Organization) is a 501(c)(3) nonprofit organization working to prevent prenatal alcohol exposure and care for children and families impacted by fetal alcohol spectrum disorders (FASD). For 25 years, Proof Alliance has been the nation's industry leader in FASD prevention, care and support. FASD, affecting approximately 1 in 20 children across the nation, is a range of irreversible disabilities which can include physical, mental, behavioral and/or learning disabilities with possible lifelong implications. FASD is caused by prenatal alcohol exposure and, with appropriate resources and support, is 100% preventable. With timely and accurate diagnosis, treatment and community-based resources and support – people with an FASD can live full and meaningful lives and reach their potential.

Centering around those impacted by an FASD, Proof Alliance builds alliances with partners in the education, research, legal/judicial, healthcare, legislative and social service systems to foster a holistic, integrative and systems approach to FASD prevention and care.

Proof Alliance provides:

- Public awareness about FASD and the impact of prenatal alcohol exposure.
- Prevention campaigns and outreach to promote alcohol-free pregnancies.
- Professional training to create FASD-informed systems (education, research, legal/judicial, healthcare, law enforcement, legislative and social service systems)
- Care and support for youth, families and caregivers impacted by an FASD.
- Diagnostic services to help identify and diagnose children with an FASD.
- Training to help health care clinicians screen for and treat alcohol use during pregnancy and identify and care for children with suspected or diagnosed FASD.
- Public policy and advocacy to prevent prenatal alcohol exposure and increase services, resources and support for people with an FASD.

2. Summary of Significant Accounting Policies

Cash and Cash Equivalents

The Organization defines 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 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.

Equipment and Leasehold Improvements, Net

Equipment and leasehold improvements purchased with nongrantor 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. The Organization 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 the Organization's accounts. If the retirements or disposals result in gains or losses, these are recorded as income in the statements of activities.

For equipment purchased with government funds, the grantor retains title to all equipment acquired under its contracts with the Organization. Therefore, equipment purchases are recorded as expense when acquired. There were $23,100 of purchases with government funds that were expensed for the Organization's website for the year ended December 31, 2021.

Impairment of Long-Lived Assets

The Organization reviews long-lived assets, including equipment and leasehold improvements, for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use of the asset are less than the carrying amount of that asset. No such losses were recorded.

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:

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

Net Assets 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. There are no net assets with donor restrictions that are required by donors to be held in perpetuity.

The Organization's Board of Directors has the ability to designate identified amounts of net assets without donor restrictions to be used by management for specific future projects or activities. These designations can be modified or removed by the Board of Directors at any time. At December 31, 2022 and 2021, the Organization had no board-designated net assets.

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. Special events revenue is presented net of direct event expenses. No special events were held in the years ended December 31, 2022 and 2021.

Unconditional contributions, including irrevocable promises to give, 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 include a right of return or release from future obligations, are considered conditional contributions. Conditional contributions are not recognized until they become unconditional, that is, when the barriers 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. Conditional grants whose restrictions are met in the same year are reported as increases in net assets without donor restrictions. Any amounts received prior to incurring qualifying expenditures are reported as refundable advances in the statement of financial position. The Organization was awarded cost-reimbursable grants of approximately $3,382,000 that have not been recognized as of December 31, 2022, 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 totaling $9,086 were donated in the year ended December 31, 2021.

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

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, 2022 and 2021, 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 statements 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.

New Accounting Pronouncements Adopted in the Current Year

Effective January 1, 2022, the Organization adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842),* and all related amendments, using the modified retrospective approach. The Organization's 2021 financial statements continue to be accounted for under the FASB's Topic 840 and have not been adjusted.

ASU No. 2016-02 requires lessees to recognize the assets and liabilities that arise from leases on the statement of financial position. At the date of adoption, the Organization recorded operating lease right-of-use assets totaling $460,718 and lease liabilities totaling $501,133.

The new standard provides for several optional practical expedients. Upon transition to Topic 842, the Organization elected to apply the package of practical expedients permitted under the transition guidance, which does not require the Organization to reassess prior conclusions regarding whether contracts are or contain a lease, lease classification and initial direct lease costs. In addition, the Organization elected the accounting policy upon adoption to use a risk-free discount rate for the initial and subsequent measurement of the lease liability for its leases. Additional required disclosures required by Topic 842 are in Note 7.

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*. ASU No. 2020-07 improves financial reporting by providing new presentation and disclosures about contributed nonfinancial assets, including additional disclosures for recognized contributed services. The Organization adopted the provisions of this new standard for the year ended December 31, 2022, which did not have a significant impact on the Organization's financial statements.

New Accounting Pronouncement Not Yet Effective

During June 2016, the FASB issued ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments*. ASU No. 2016-13 requires financial assets measured at amortized cost to be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions and reasonable and supportable forecasts that affect the collectability of the reported amount. ASU No. 2016-13 (as amended) is effective for annual periods beginning after December 15, 2022 (calendar year 2023). Management is assessing the impact this standard will have on its financial statements.

3. Liquidity and Availability

The following table reflects the Organization's financial assets as of December 31, 2022 and 2021, 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.

	2022	2021
Financial assets:		
Cash and cash equivalents	$ 545,103	$ 697,336
Grants and contributions receivable	635,023	449,533
Financial assets available to meet cash needs for general purposes within one year	$ 1,180,126	$ 1,146,869

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.

4. Equipment and Leasehold Improvements, Net

Equipment and leasehold improvements at December 31, 2022 and 2021 are summarized as follows:

	Depreciable Lives	2022	2021
Leasehold improvements	10 years	$ 95,918	$ 95,918
Furniture and equipment/website	3 - 7 Years	139,144	139,144
Equipment and leasehold improvements		235,062	235,062
Less accumulated depreciation		(101,992)	(60,011)
Equipment and leasehold improvements, net		$ 133,070	$ 175,051

5. Net Assets

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

	2022	2021
Timing and purpose restrictions	$ 199,527	$ 157,667

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

6. Concentrations

Government grant revenue for the years ended December 31, 2022 and 2021 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, 2022 and 2021 include approximately $247,000 and $268,000, respectively, for services performed in November and December of 2022 and November and December of 2021, respectively.

7. Lease Commitments

The Organization has an operating lease for its office space that expires in October 2029, and requires monthly payments ranging from $5,549 to $7,103.

Leases – Prior to January 1, 2022

Rent expense was $117,657 for the year ended December 31, 2021. Deferred rent and lease incentives were being amortized as a reduction of rent expense over the term of the lease.

Leases – January 1, 2022 and after

Right-of-use assets represent the Organization's right to use an underlying asset for the lease term, while lease liabilities represent the Organization's obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the commencement date of a lease based on the net present value of lease payments over the lease term.

In determining the discount rate used to measure the right-of-use assets and lease liabilities, the rate implicit in the lease is used, or if not readily available, a risk-free rate based on U.S. Treasury note or bond rates for a similar term is used. The discount rate used was 1.55% and the remaining lease term is seven years.

Right-of-use assets are assessed for impairment in accordance with the Organization's long-lived asset policy. The Organization reassesses lease classification and remeasures right-of-use assets and lease liabilities when a lease is modified, and that modification is not accounted for as a separate new lease or upon certain other events that require reassessment in accordance with Topic 842.

The Organization does not have any material leasing transactions with related parties.

The lease costs for the year ended December 31, 2022 are:

Operating lease cost:		
Amortization	$	6,736
Interest on lease liabilities		-
Short-term lease costs and other		59,602
Total lease costs	$	66,338

The table below summarizes the Organization's operating lease right-of-use assets and scheduled future minimum operating lease payments for years ending after December 31, 2022:

Operating lease right-of-use assets	$	460,718
Years ending December 31:		
2023	$	72,901
2024		74,723
2025		76,591
2026		78,506
2027		80,469
Thereafter		145,714
Total lease payments		528,904
Less present value discount		(27,771)
Total lease liabilities	$	501,133

Lease expense was $70,554 for the year ended December 31, 2022.

The following table includes supplemental cash flow and noncash information related to the leases for the year ended December 31, 2022:

Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$	70,554
Operating lease right-of-use assets obtained in exchange for lease liabilities		501,133

8. Retirement Plan

For employees meeting certain eligibility requirements, the Organization contributes up to 3% of the employee's gross wages to their Simple IRA. The Organization's match amounts were $20,838 and $25,941 in 2022 and 2021, respectively.

9. Line of Credit

The Organization has a $75,000 revolving line of credit that expires on December 28, 2023. 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%), with a floor of 5.00%. There were no outstanding borrowings at December 31, 2022 and 2021.

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.

The Organization receives and expends monies under state and federal grant programs and is subject to audits by governmental agencies. Management believes that any liabilities resulting from such audits will not have a material impact on the Organization.

The Organization received contributions from board members totaling $154,770 and $98,277 for the years ended December 31, 2022 and 2021, respectively.

11. Subsequent Events

The Organization has evaluated subsequent events through November 14, 2023 which is the date that the financial statements were approved and available to be issued.