Proof Alliance

Financial Statements

December 31, 2023 and 2022

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, 2023 and 2022, 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, 2023 and 2022, 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
August 23, 2024

Proof Alliance

Statements of Financial Position
December 31, 2023 and 2022

	2023	2022
Assets		
Assets		
Cash and cash equivalents	$ 787,732	$ 545,103
Grants and contributions receivable	514,324	635,023
Prepaid expenses	39,954	12,721
Security deposit	9,854	9,854
Equipment and leasehold improvements, net	91,089	133,070
Right-of-use asset, operating lease	401,070	460,718
Total assets	$ 1,844,023	$ 1,796,489
Liabilities and Net Assets		
Liabilities		
Accounts payable	$ 98,026	$ 27,764
Grants payable	243,807	267,490
Accrued payroll	26,523	12,460
Accrued liabilities	12,844	17,464
Refundable advances	64,965	-
Operating lease liability	441,094	501,133
Total liabilities	887,259	826,311
Net Assets		
Without donor restrictions	707,968	770,651
With donor restrictions	248,796	199,527
Total net assets	956,764	970,178
Total liabilities and net assets	$ 1,844,023	$ 1,796,489

See notes to financial statements

Proof Alliance

Statements of Activities
Years Ended December 31, 2023 and 2022

	2023			2022		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Public Support						
Government grants	$ 3,652,228	$ -	$ 3,652,228	$ 2,065,340	$ -	$ 2,065,340
Contributions and grants	379,694	188,665	568,359	510,750	110,674	621,424
Non-financial contributions	4,000	-	4,000	5,100	-	5,100
Net assets released from restrictions	139,396	(139,396)	-	68,814	(68,814)	-
Total public support	4,175,318	49,269	4,224,587	2,650,004	41,860	2,691,864
Revenue						
Program fees	10,074	-	10,074	18,250	-	18,250
Clinical billing	7,281	-	7,281	35,516	-	35,516
Interest income	8,394	-	8,394	1,730	-	1,730
Total revenue	25,749	-	25,749	55,496	-	55,496
Total public support and revenue	4,201,067	49,269	4,250,336	2,705,500	41,860	2,747,360
Expenses						
Program	3,812,222	-	3,812,222	2,411,701	-	2,411,701
Management and general	217,165	-	217,165	266,048	-	266,048
Development	234,363	-	234,363	166,603	-	166,603
Total expenses	4,263,750	-	4,263,750	2,844,352	-	2,844,352
Change in net assets	(62,683)	49,269	(13,414)	(138,852)	41,860	(96,992)
Net Assets, Beginning	770,651	199,527	970,178	909,503	157,667	1,067,170
Net Assets, Ending	$ 707,968	$ 248,796	$ 956,764	$ 770,651	$ 199,527	$ 970,178

See notes to financial statements

Proof Alliance

Statements of Functional Expenses
Years Ended December 31, 2023 and 2022

	2023				2022			
	Program	Management and General	Development	Total	Program	Management and General	Development	Total
Salaries and wages	$ 942,440	$ 85,721	$ 160,667	$ 1,188,828	$ 693,315	$ 110,084	$ 92,817	$ 896,216
Payroll taxes	71,357	6,438	12,222	90,017	55,999	8,871	7,547	72,417
Employee benefits	102,895	11,453	17,801	132,149	89,994	17,024	15,247	122,265
Total salaries and related expenses	1,116,692	103,612	190,690	1,410,994	839,308	135,979	115,611	1,090,898
Contracted services	1,760,079	6,985	3,789	1,770,853	1,134,149	1,420	1,240	1,136,809
Professional fees	41,942	36,190	927	79,059	98,919	57,022	5,158	161,099
Training and conference	47,522	474	1,327	49,323	6,535	150	-	6,685
Insurance	15,806	6,584	3,101	25,491	16,884	2,507	-	19,391
Fees, dues and other	8,389	2,023	739	11,151	8,061	1,896	76	10,033
Printing	2,370	132	6,516	9,018	2,493	239	2,108	4,840
Postage	5,850	418	2,076	8,344	3,118	499	1,321	4,938
Rental and utilities	130,727	10,491	15,242	156,460	103,557	12,122	10,943	126,622
Supplies	152,650	6,217	4,185	163,052	142,932	3,964	1,242	148,138
Travel expenses	19,628	3,620	946	24,194	26,475	1,785	388	28,648
Telephone	4,970	387	593	5,950	11,460	1,291	1,163	13,914
Equipment rental and maintenance	6,314	396	612	7,322	11,160	1,256	494	12,910
Advertising and promotion	494,033	59	606	494,698	(153)	153	-	-
Interest expense and bank charges	212	1,963	3,014	5,189	113	2,186	2,786	5,085
Depreciation	-	41,981	-	41,981	-	41,981	-	41,981
Miscellaneous expense	5,038	(4,367)	-	671	6,690	1,598	24,073	32,361
Total expenses	$ 3,812,222	$ 217,165	$ 234,363	$ 4,263,750	$ 2,411,701	$ 266,048	$ 166,603	$ 2,844,352

See notes to financial statements

Statements of Cash Flows
Years Ended December 31, 2023 and 2022

	2023	2022
Cash Flows From Operating Activities		
Change in net assets	$ (13,414)	$ (96,992)
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	41,981	41,981
Noncash lease expense	(391)	1,384
Changes in assets and liabilities:		
Grants and contributions receivable	120,699	(185,490)
Prepaid expenses and security deposit	(27,233)	6,373
Accounts payable	70,262	(27,909)
Grants payable	(23,683)	134,016
Accrued payroll	14,063	(31,476)
Accrued liabilities	(4,620)	5,880
Refundable advances	64,965	-
Net cash flows from operating activities	242,629	(152,233)
Net change in cash and cash equivalents	242,629	(152,233)
Cash and Cash Equivalents, Beginning	545,103	697,336
Cash and Cash Equivalents, Ending	$ 787,732	$ 545,103
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). Our mission is to prevent prenatal alcohol exposure and care for all impacted. Our vision is a world in which alcohol is not consumed during pregnancy and people living with an FASD are identified, supported and valued. 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, FASD can be 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 systems approach to FASD prevention and care.

Proof Alliance provides:

- Public awareness about FASD and the impact of prenatal alcohol exposure.
- 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 receivables 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.

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 for the years ended December 31, 2023 and 2022.

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, 2023 and 2022, 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. Special events revenue is presented net of direct event expenses and is recognized as contribution income when the event takes place. Special event revenue for the years ended December 31, 2023, and 2022 were $215,843 and $163,273, respectively.

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 they are received 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 $3,827,000 that have not been recognized as of December 31, 2023, because qualifying expenditures have not yet been incurred. This does not include grants awarded subsequent to December 31, 2023, as disclosed in Note 11.

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 services and materials totaling $4,000 and $5,100 were donated during the years ended December 31, 2023, and December 31, 2022, respectively.

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.

Refundable Advances

Refundable advances represent grant payments received prior to incurring the qualifying expenditures.

Leases

The Organization determines if an arrangement is a lease at inception. The existing lease has been determined to be an operating lease and is recorded as a right-of-use (ROU) asset and lease liability in the statements of financial position. The ROU asset represents the Organization’s right to use the underlying asset for the lease term and the lease liability represents the Organization’s obligation to make payments over the lease term. The ROU asset is assessed for impairment in accordance with the Organization's long-lived asset policy. The Organization reassesses lease classification and remeasures the ROU asset and lease liability 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.

Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Organization will exercise that option. Lease expense for operating lease payments is recognized on a straight-line basis over the lease term.

ROU assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. The existing lease contract does not provide information about the discount rate implicit in the lease. Therefore, the Organization has elected to use a risk-free discount rate determined using a period comparable with that of the lease term for computing the present value of the lease liability.

The Organization has elected to recognize payments for short-term leases with a lease term of 12 months or less as an expense when incurred and are not included as ROU assets or lease liabilities on the statements of financial position.

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, 2023 and 2022, 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.

Reclassification

Certain amounts appearing in the 2022 consolidated financial statements have been reclassified to conform with the 2023 presentation. The reclassifications have no effect on the reported amounts of total net assets or the change in total net assets.

New Accounting Pronouncement Adopted in the Current Year

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-13*, Measurement of Financial Instruments—Credit Losses (Topic 326)*. The ASU introduces a new credit loss methodology, Current Expected Credit Losses (CECL), which requires earlier recognition of credit losses, while also providing additional transparency about credit risk. Since its original issuance in 2016, the FASB has issued several updates to the original ASU. For financial instruments included in the scope, the CECL methodology utilizes a lifetime "expected credit loss" measurement objective for the recognition of credit losses at the time the financial asset is originated or acquired. The expected credit losses are adjusted each period for changes in expected lifetime credit losses.

The methodology replaces the multiple existing impairment methods in current accounting principles generally accepted in the United States of America, which generally require that a loss be incurred before it is recognized. On January 1, 2023, the Organization adopted the ASU using the modified retrospective approach. The adoption of ASU 2016-13 had no impact on the financial statements for the year ended December 31, 2023.

3. Liquidity and Availability

The following table reflects the Organization's financial assets as of December 31, 2023 and 2022, 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.

	2023	2022
Financial assets:		
Cash and cash equivalents	$ 787,732	$ 545,103
Grants and contributions receivable	514,324	635,023
Financial assets available to meet cash needs for general purposes within one year	$ 1,302,056	$ 1,180,126

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, 2023 and 2022 are summarized as follows:

	Depreciable Lives	2023	2022
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		(143,973)	(101,992)
Equipment and leasehold improvements, net		$ 91,089	$ 133,070

5. Net Assets

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

	2023	2022
Timing and purpose restrictions	$ 248,796	$ 199,527

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, 2023 and 2022 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, 2023 and 2022 include approximately $438,000 and $247,000, respectively, for services performed August through December, 2023, and November through December, 2022, respectively.

7. Lease Commitment

The Organization has an operating lease for its office space that expires in October 2029, that requires monthly payments ranging from $5,975 to $7,103. The discount rate used is 1.55% and the remaining lease term is six years. The Organization does not have any material leasing transactions with related parties.

The lease costs for the year ended December 31 are as follows:

	2023	2022
Operating lease costs:		
Short-term lease costs and other	$ 7,306	$ 6,736
Amortization	64,970	59,602
Total operating lease costs	$ 72,276	$ 66,338

The table below summarizes the Organization's scheduled future minimum lease payments for years ending after December 31, 2023:

Years ending December 31:	
2024	$ 80,848
2025	76,591
2026	78,506
2027	80,469
2028	82,480
Thereafter	63,234
Total lease payments	462,128
Less present value discount	(21,034)
Total lease liability	$ 441,094

Lease expense was $72,361 and $70,554 for the years ended December 31, 2023 and 2022, respectively.

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

Cash paid for amounts included in the measurement of lease liability:	2023	2022
Operating cash flows from operating lease	$ 72,901	$ 70,554
Operating lease right-of-use asset obtained in exchange for lease liability	-	460,718

8. Retirement Plan

For employees meeting certain eligibility requirements, the Organization matches employees' contributions of up to 3.00% of the employee's eligible gross wages to their Simple IRA. The Organization's match amounts were $22,523 and $20,838 in 2023 and 2022, respectively.

9. Line of Credit

The Organization had a $75,000 line of credit that expired on December 28, 2023. The line of credit was secured by all assets of the Organization. Borrowings bore interest at the bank's prime lending rate (Index Rate) plus 1.00%, with a floor of 5.00%. The Index Rate on the issue date of April 20, 2022, was 3.50%, resulting in an initial rate of 5.00%. There were no outstanding borrowings at December 31, 2023 and 2022.

The line of credit was renewed on January 31, 2024, and subsequently increased to $450,000 on May 14, 2024, and expires on January 31, 2026.

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 $141,715 and $154,770 for the years ended December 31, 2023 and 2022, respectively.

11. Subsequent Events

In April 2024, the Organization was awarded a $16,110,000 grant from the Minnesota Department of Health to be paid over a five-year grant period from July 1, 2024, through June 30, 2029. The amount is subject to any changes made by the state legislature.