

AVANCE, Inc. and Subsidiaries

Consolidated Financial Statements
and Supplementary Information
and Single Audit Reports and Schedules

June 30, 2022 and 2021



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INDEPENDENT AUDITOR'S REPORT

Board of Directors
AVANCE, Inc. and Subsidiaries
San Antonio, Texas

Opinion

We have audited the accompanying consolidated financial statements of AVANCE, Inc. and Subsidiaries (the "Organization"), which comprise the consolidated statements of financial position as of June 30, 2022 and 2021, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of AVANCE, Inc. and Subsidiaries as of June 30, 2022 and 2021, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis of Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of AVANCE, Inc. 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 these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about AVANCE, Inc.'s ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.



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Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated 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 consolidated 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 AVANCE, Inc.'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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about AVANCE, Inc.'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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information on pages 21 - 28 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Additionally, the accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2022, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.



Armanino^{LLP}
Dallas, Texas

December 6, 2022

AVANCE, Inc. and Subsidiaries
Consolidated Statements of Financial Position
June 30, 2022 and 2021

	2022	2021
ASSETS		
Cash	\$ 6,780,786	\$ 4,757,118
Certificates of deposit	634,623	445,617
Grants receivable	4,331,526	3,869,657
Other receivables	124,925	87,615
Prepaid expenses and deposits	355,205	79,474
Property and equipment, net	2,406,804	2,768,717
Total assets	\$ 14,633,869	\$ 12,008,198
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 3,505,391	\$ 3,270,072
Deferred revenue	1,287,068	123,822
Refundable advance	691,011	-
Paycheck Protection Program loan	-	500,000
Total liabilities	5,483,470	3,893,894
Net assets		
Without donor restrictions	7,159,998	6,606,970
With donor restrictions	1,990,401	1,507,334
Total net assets	9,150,399	8,114,304
Total liabilities and net assets	\$ 14,633,869	\$ 12,008,198

The accompanying notes are an integral part of these consolidated financial statements.

AVANCE, Inc. and Subsidiaries
Consolidated Statement of Activities
For the Year Ended June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and other support			
Federal grants	\$ 63,836,652	\$ -	\$ 63,836,652
State and local grants	4,792,910	-	4,792,910
Contributions and other	2,588,661	1,712,685	4,301,346
United Way	1,717,009	-	1,717,009
Fundraising events	445,831	-	445,831
Less: direct benefit to donors	(49,255)	-	(49,255)
Donated professional services	4,712,610	-	4,712,610
Donated use of facilities	6,500,993	-	6,500,993
Interest income	40,985	-	40,985
Net assets released from restriction	<u>1,229,618</u>	<u>(1,229,618)</u>	<u>-</u>
Total revenues and other support	<u>85,816,014</u>	<u>483,067</u>	<u>86,299,081</u>
Functional expenses			
Program services	75,954,084	-	75,954,084
General and administrative	9,337,139	-	9,337,139
Fundraising	<u>471,763</u>	<u>-</u>	<u>471,763</u>
Total functional expenses	<u>85,762,986</u>	<u>-</u>	<u>85,762,986</u>
Change in net assets from operations	<u>53,028</u>	<u>483,067</u>	<u>536,095</u>
Non-operating			
Gain on extinguishment of debt	<u>500,000</u>	<u>-</u>	<u>500,000</u>
Total non-operating	<u>500,000</u>	<u>-</u>	<u>500,000</u>
Change in net assets	553,028	483,067	1,036,095
Net assets, beginning of year	<u>6,606,970</u>	<u>1,507,334</u>	<u>8,114,304</u>
Net assets, end of year	<u>\$ 7,159,998</u>	<u>\$ 1,990,401</u>	<u>\$ 9,150,399</u>

The accompanying notes are an integral part of these consolidated financial statements.

AVANCE, Inc. and Subsidiaries
Consolidated Statement of Activities
For the Year Ended June 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and other support			
Federal grants	\$ 61,278,605	\$ -	\$ 61,278,605
State and local grants	811,067	-	811,067
Contributions and other	3,056,831	1,108,694	4,165,525
United Way	1,812,571	1,616	1,814,187
Fundraising events	379,963	-	379,963
Less: direct benefit to donors	(23,389)	-	(23,389)
Miscellaneous income	32,618	-	32,618
Donated professional services	5,615,810	-	5,615,810
Donated use of facilities	6,399,032	-	6,399,032
Interest income	78,778	-	78,778
Net assets released from restriction	<u>660,385</u>	<u>(660,385)</u>	<u>-</u>
Total revenues and other support	<u>80,102,271</u>	<u>449,925</u>	<u>80,552,196</u>
Functional expenses			
Program services	69,922,405	-	69,922,405
General and administrative	9,569,803	-	9,569,803
Fundraising	<u>463,638</u>	<u>-</u>	<u>463,638</u>
Total functional expenses	<u>79,955,846</u>	<u>-</u>	<u>79,955,846</u>
Change in net assets from operations	<u>146,425</u>	<u>449,925</u>	<u>596,350</u>
Non-operating			
Gain on extinguishment of debt	<u>63,809</u>	<u>-</u>	<u>63,809</u>
Total non-operating	<u>63,809</u>	<u>-</u>	<u>63,809</u>
Change in net assets	210,234	449,925	660,159
Net assets, beginning of year	<u>6,396,736</u>	<u>1,057,409</u>	<u>7,454,145</u>
Net assets, end of year	<u><u>\$ 6,606,970</u></u>	<u><u>\$ 1,507,334</u></u>	<u><u>\$ 8,114,304</u></u>

The accompanying notes are an integral part of these consolidated financial statements.

AVANCE, Inc. and Subsidiaries
Consolidated Statement of Functional Expenses
For the Year Ended June 30, 2022

	Program Services	General and Administrative	Fundraising	Cost of Direct Benefit to Donors	Total
Salaries & wages	\$ 34,323,417	\$ 5,286,306	\$ 252,179	\$ -	\$ 39,861,902
Employee benefits	5,064,013	476,301	17,233	-	5,557,547
Payroll taxes	3,359,709	426,808	17,507	-	3,804,024
Contract and professional services	10,680,947	1,441,849	49,326	-	12,172,122
Donated professional services	4,256,611	455,999	-	-	4,712,610
Supplies	3,770,984	115,844	3,356	-	3,890,184
Telephone, fax, & internet	727,872	88,070	1,240	-	817,182
Postage & shipping	68,282	9,177	623	-	78,082
Occupancy	4,265,476	400,976	10,205	-	4,676,657
Donated use of facilities	6,343,101	157,892	-	-	6,500,993
Rental & maintenance of equipment	585,323	143,703	2,018	-	731,044
Printing & publications	68,828	5,640	95	-	74,563
Travel	121,399	39,050	-	-	160,449
Transportation	111,042	19,063	-	-	130,105
Client participation	256,579	-	-	-	256,579
Conferences & meetings	48,562	22,195	2,490	-	73,247
Staff development	682,672	98,415	444	-	781,531
Membership fees	26,907	17,877	2,483	-	47,267
Insurance	254,006	42,243	1,123	-	297,372
Interest	-	22,149	3,252	-	25,401
Miscellaneous	275	11,793	-	-	12,068
Capital assets	377,769	52,766	60	-	430,595
Fundraising, supplies and special events	-	-	108,129	49,255	157,384
Depreciation and amortization	560,310	3,023	-	-	563,333
Total expenses	<u>75,954,084</u>	<u>9,337,139</u>	<u>471,763</u>	<u>49,255</u>	<u>85,812,241</u>
Less expenses included with revenue on the consolidated statement of activities					
Special events - direct benefit to donors	-	-	-	(49,255)	(49,255)
Total expenses included in the expense section on the consolidated statement of activities	<u>\$ 75,954,084</u>	<u>\$ 9,337,139</u>	<u>\$ 471,763</u>	<u>\$ -</u>	<u>\$ 85,762,986</u>

The accompanying notes are an integral part of these consolidated financial statements.

AVANCE, Inc. and Subsidiaries
Consolidated Statement of Functional Expenses
For the Year Ended June 30, 2021

	Program Services	General and Administrative	Fundraising	Cost of Direct Benefit to Donors	Total
Salaries & wages	\$ 30,934,867	\$ 4,985,970	\$ 290,980	\$ -	\$ 36,211,817
Employee benefits	4,620,234	448,235	29,906	-	5,098,375
Payroll taxes	3,020,851	403,865	24,489	-	3,449,205
Contract and professional services	9,026,971	1,723,460	51,470	-	10,801,901
Donated professional services	4,875,415	735,745	4,650	-	5,615,810
Supplies	3,996,894	191,466	401	-	4,188,761
Telephone, fax, & internet	662,233	90,569	2,124	-	754,926
Postage & shipping	34,690	7,919	196	-	42,805
Occupancy	3,531,578	383,704	14,255	-	3,929,537
Donated use of facilities	6,236,782	161,853	397	-	6,399,032
Rental & maintenance of equipment	492,686	104,461	2,722	-	599,869
Printing & publications	81,914	1,380	28	-	83,322
Travel	29,204	34,160	-	-	63,364
Transportation	60,493	20,985	-	-	81,478
Client participation	305,455	3,756	-	-	309,211
Conferences & meetings	21,098	7,020	755	-	28,873
Staff development	530,971	78,051	21	-	609,043
Membership fees	25,710	15,205	965	-	41,880
Insurance	206,692	38,918	1,346	-	246,956
Interest	-	25,504	2,199	-	27,703
Miscellaneous	2,206	21,249	-	-	23,455
Capital assets	517,007	84,448	18,920	-	620,375
Fundraising, supplies and special events	-	-	17,814	23,389	41,203
Depreciation and amortization	708,454	1,880	-	-	710,334
Total expenses	<u>69,922,405</u>	<u>9,569,803</u>	<u>463,638</u>	<u>23,389</u>	<u>79,979,235</u>
Less expenses included with revenue on the consolidated statement of activities					
Special events - direct benefit to donors	-	-	-	(23,389)	(23,389)
Total expenses included in the expense section on the consolidated statement of activities	<u>\$ 69,922,405</u>	<u>\$ 9,569,803</u>	<u>\$ 463,638</u>	<u>\$ -</u>	<u>\$ 79,955,846</u>

The accompanying notes are an integral part of these consolidated financial statements.

AVANCE, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
For the Years Ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities		
Change in net assets	\$ 1,036,095	\$ 660,159
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	563,333	710,334
Net realized and unrealized interest income on certificates of deposit	(1,031)	(8,363)
Gain on extinguishment of debt	(500,000)	(63,809)
Changes in operating assets and liabilities		
Grants receivable	(461,869)	(1,547,381)
Other receivables	(37,310)	51,593
Prepaid expenses and deposits	(275,731)	26,255
Accounts payable and accrued expenses	235,319	781,891
Deferred revenue	1,163,246	(142,348)
Refundable advance	691,011	-
Net cash provided by operating activities	<u>2,413,063</u>	<u>468,331</u>
Cash flows from investing activities		
Purchases of property and equipment	(201,420)	(870,438)
Sale of property and equipment	-	641
Purchases of certificates of deposit	(2,010,143)	(250,479)
Maturities of certificates of deposit	1,822,168	1,386,067
Net cash provided by (used in) investing activities	<u>(389,395)</u>	<u>265,791</u>
Cash flows from financing activities		
Proceeds on notes payable	-	500,000
Net cash provided by financing activities	<u>-</u>	<u>500,000</u>
Net increase in cash	2,023,668	1,234,122
Cash, beginning of year	<u>4,757,118</u>	<u>3,522,996</u>
Cash, end of year	<u>\$ 6,780,786</u>	<u>\$ 4,757,118</u>

The accompanying notes are an integral part of these consolidated financial statements.

AVANCE, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2022 and 2021

1. NATURE OF OPERATIONS

AVANCE, Inc. (the "Organization") is a Texas 501(c)(3) nonprofit organization established in 1973 to provide educational programs for parents and children. AVANCE-National ("National"), the Organization's national office located in San Antonio, Texas, has been established as part of a plan to expand its programs nationally.

The Organization operates chapters in major cities throughout Texas, which are associated directly with National. The Organization receives a substantial portion of its financial support from federal, state, and local governmental entities, as well as from private sources. The Organization's programs include:

- *Parent Child Education Program (PCEP)* - This program fosters parenting knowledge and skills that directly impact children's development, while also empowering parents to achieve their own educational and professional goals. PCEP offers a two generation approach that capitalizes on parents' strength and love to help them become the best teachers and stewards of their children's success.
- *Head Start* - The Head Start program provides comprehensive services to low-income children (ages 3-4) through a center-based services program option. Head Start provides children with comprehensive education, health, developmental, family support, and family engagement services. Head Start promotes school readiness and gauges progress and outcomes of children.
- *Early Head Start* - The Early Head Start (EHS) program provides low-income infants and toddlers (ages 0-3) with home-based and center-based service program options. The EHS programs enhance children's physical, social, emotional, and cognitive development; and promotes prenatal engagement on all levels. EHS promotes pre-school readiness and gauges progress and outcomes of children.
- *Early Head Start Childcare Partnership* - The Early Head Start Child Care Partnership (CCP) program is a federally funded program with a different model of the EHS program. Through this model, EHS services are provided through the center-based program option at an independent childcare center. The Office of Head Start and the Office of Child Care joined together to create a new model designed to help increase quality of independent childcare centers by pairing them with a higher quality EHS program. Funding to support this model comes from the Office of Head Start and other childcare subsidies. The Organization's CCP programs deliver the same services for infants and toddlers in center-based care but in a childcare setting mixed with children who are paid for through subsidy. The Organization's two CCP centers are located in northwest Harris County, Texas.
- *Camino al Futuro Program* - This program focuses on workforce and career readiness for AVANCE parents by providing opportunities to enhance their current career or begin a new one. The program includes assistance with obtaining a GED or high school diploma and/or further their career in various areas by earning certification or degrees in disciplines such as child development, hospitality, information technology, medical and certified nursing assistance, and other career areas.

AVANCE, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2022 and 2021

1. NATURE OF OPERATIONS (continued)

- *Services to Fathers* - This program is committed to enabling fathers to become involved and loving dads, enhancing family unity, increasing the father's role in their children's education, and improving interpersonal relationships among couples.
- *Healthy Marriage* - The focus of this initiative is to help Hispanic couples gain access to marriage education services, so that they can acquire the skills and knowledge necessary to form and sustain a healthy marriage for the overall well-being of their children. This program is in response to the National Hispanic Healthy Marriage Initiative, and the couple's participation is entirely voluntary.
- *Adult Literacy* - These programs involve a continuum of learning that enables individuals to achieve their goals, to develop their knowledge and potential, and to participate fully in society.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting and consolidated financial statement presentation

The consolidated financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

Not-for-profit organizations are required to report information regarding their financial position and activities based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

- *Net assets without donor restrictions* - Net assets available for use in general operations and not subject to donor-imposed restrictions.
- *Net assets with donor restrictions* - Net assets subject to donor-imposed restrictions that are restricted by the donor for specific purposes, time restrictions, or restricted in perpetuity. There are no net assets restricted in perpetuity as of June 30, 2022 and 2021.

Basis of consolidation

Under the provisions of Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) Topic 810-10, *Consolidations*, the consolidated financial statements include the accounts of the Organization and its chapters including locations in Houston, San Antonio, Dallas, and Austin. All inter-organizational and inter-company transactions and balances have been eliminated in consolidation.

AVANCE, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2022 and 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Certificates of deposit

Certificates of deposit held for investment with an original maturity date greater than three months are disclosed separately from cash in the accompanying consolidated statements of financial position. The fair value of fixed-maturity certificates of deposit is estimated using the rates currently offered for deposits of similar remaining maturities.

Grants receivable

Grants receivable represent pending reimbursements of program expenses incurred as of June 30, 2022 and 2021, both billed and unbilled, and expected to be received from the funding sources in the subsequent year. Management considers such receivables at June 30, 2022 and 2021 to be fully collectible. Accordingly, no allowance for doubtful grants receivable was recorded in the accompanying consolidated financial statements.

Property and equipment

The Organization's policy is to capitalize all expenditures for property and equipment in excess of \$5,000 per unit. Maintenance and repairs are charged to expense when incurred. Major improvements and renewals are capitalized.

Depreciation and amortization is computed using the straight-line method over the following estimated useful lives:

Buildings	25-40 years
Leasehold improvements	3-7 years
Office furniture and equipment	5 years
Vehicles	5-8 years
Software	3-5 years

Property and equipment are stated at cost or, if donated, at their estimated fair value at the date of donation. Such donations are recorded as net assets without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire or maintain property and equipment are recorded as net assets with donor restrictions and are released from restrictions when placed in service. Presently, the Organization does not have any assets which have donor-imposed restrictions that limit the use beyond the general purpose of the Organization.

AVANCE, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2022 and 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment (continued)

Substantially all property and equipment presented in the accompanying consolidated statement of financial position were purchased with federal funds. Although the title to facilities acquired with federal funds vests with the Organization, the federal government has an interest in the property and equipment acquired or upon which major renovations have been undertaken with grant funds for use as a Head Start facility. Facilities acquired with grant funds may not be mortgaged, used as collateral, or sold or otherwise transferred to another party without the written permission of the appropriate U.S. Department of Health and Human Services official. Additionally, the use of the facility for other than the purpose for which the facility was funded is prohibited without the express written approval of such official.

The cost of certain facilities, which are used by the Organization in connection with their various programs, are not reflected in the consolidated statement of financial position because asset titles remain with the contributing organizations. The Organization has reported in-kind contribution revenue and program expense in the accompanying consolidated statement of activities for the free and/or below market use of the facilities during the year ended June 30, 2022 and 2021. These leases are conditional based on the Organization maintaining funding through Head Start.

Revenue recognition

Grants that operate on a reimbursement basis are recognized on the accrual basis as revenues only to the extent of disbursements and commitments that are allowable for reimbursement. Revenues from special events are recognized when the events are held. Interest income is recognized when earned.

Contributions

Contributions received are recorded as net assets with donor restrictions or net assets without donor restrictions depending on the existence or nature of any donor restrictions. Amounts received that are designated by the donor for future periods or restricted by the donor for specific purposes are reported as net assets with donor restrictions. If a restriction is fulfilled in the same period in which the contribution is received, the Organization reports the contribution as net assets without restriction. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions upon satisfaction of the time or purpose restrictions and reported in the consolidated statements of activities as net assets released from restrictions.

AVANCE, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2022 and 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions (continued)

Conditional promises to give are not included as revenue or pledges receivable until such time as the barriers and right of release/return have been overcome. As of June 30, 2022, the Organization had \$800,000 of conditional promises to give. There were no conditional promises to give as of June 30, 2021. The Organization receives 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 the underlying grant or contract. The Organization has received cost-reimbursable grants of approximately \$32,762,000 and \$29,418,000 that had not been recognized at June 30, 2022 and 2021, respectively, because qualifying expenditures had not been incurred. Conditional in-kind contributions for free or below market rent are approximately \$7,981,000 and \$9,815,000 for the years ended June 30, 2022 and 2021, respectively.

For the year ended June 30, 2022, the San Antonio Chapter was a beneficiary of Child Care Relief Funds ("CCRF") in the amount \$1,259,170, which is included as state and local grant revenue on the accompanying consolidated statement of activities. As a beneficiary of the funds, the Organization must spend the amounts received quarterly on allowable expenditures in order to receive the next quarter of funding and to record as revenue. As of June 30, 2022, the Organization had \$691,011 of refundable advances for the funding recorded in the accompanying consolidated statement of financial position. The conditional portion of the funds as of June 30, 2022 totaled \$4,345,899. There was no such funding for the year ended June 30, 2021.

Contributed nonfinancial assets

The Organization's policy is to recognize donated professional services if the services create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The Organization collaborates with several independent school districts to provide teachers and other resources at those centers at little or no cost to the Organization. Donated professional services of \$4,712,610 and \$5,615,810 for the years ended June 30, 2022 and 2021, have been recognized in the accompanying consolidated financial statements. The Organization also receives substantial donated services from parents or other volunteers in carrying out the Organization's mission. No related amounts have been recorded in the consolidated financial statements for these services as they do not meet the criteria for recognition. The Organization also leases facilities related to their programs below market rental rates. The estimated fair value of lease expenses on such facilities of \$6,500,993 and \$6,399,032 for the years ended June 30, 2022 and 2021 have been recognized in the accompanying consolidated financial statements, respectively.

AVANCE, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2022 and 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Functional allocation of expenses

The costs of providing the Organization's various programs and other activities have been summarized on a functional basis in the consolidated statements of activities and in the consolidated statements of functional expenses. Accordingly, certain costs have been allocated among programs and supporting services benefited in accordance with each chapter's cost allocation plan. Certain salaries and benefits are allocated based on estimates of time and effort. Certain facilities' rent expense is allocated based on the positions of the employees occupying the space.

Tax-exempt status

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except to the extent that it has unrelated business income. The Organization did not have taxable unrelated business income during the years ended June 30, 2022 and 2021. The Organization's estimate of the potential outcome for any uncertain tax issues is subject to management's assessment of relevant risks, facts, and circumstances existing at the time. The Organization uses a more likely than not threshold for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. To the extent that the Organization's assessment of such tax position changes, the change in estimate is recorded in the period in which the determination is made. The Organization reports tax-related interest and penalties, if applicable, as a component of income tax expense as incurred. As of June 30, 2022 and 2021, no uncertain tax positions have been identified and, therefore, no amounts have been recognized in the accompanying consolidated financial statements.

Use of estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make certain estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates. Significant estimates included in the consolidated financial statements relate primarily to the useful lives applied in asset depreciation, estimates of the values of in-kind contributions and services, as well as the functional allocation of expenses.

New accounting pronouncements

In September 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. This standard requires not-for-profit entities to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash and other financial assets and to disclose contributed nonfinancial assets. The Organization implemented this standard effective July 1, 2021 and determined there was not a material impact on the presentation and disclosure of contributed nonfinancial assets.

AVANCE, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2022 and 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsequent events

The Organization has evaluated subsequent events after the statement of financial position date of June 30, 2022 through December 6, 2022, the date the consolidated financial statements were available to be issued and has determined that there are no additional adjustments and/or disclosures required.

3. LIQUIDITY AND FUNDS AVAILABLE

The Organization structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

The following disclosure describes assets that are available or expected to be available within one year of June 30, 2022 to fund general expenditures:

Financial assets:	
Cash	\$ 6,780,786
Certificates of deposit	634,623
Grants receivable	4,331,526
Other receivables	<u>124,925</u>
	<u>11,871,860</u>
Less amounts unavailable for general expenditure within one year:	
Net assets with donor restrictions	<u>(1,990,401)</u>
	<u>(1,990,401)</u>
	<u>\$ 9,881,459</u>

4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	<u>2022</u>	<u>2021</u>
Land	\$ 1,154,994	\$ 1,154,994
Buildings	995,972	995,972
Leasehold improvements	7,553,943	7,584,094
Office furniture and equipment	1,032,149	1,098,558
Vehicles	1,532,307	1,500,372
Software	<u>25,123</u>	<u>25,123</u>
	12,294,488	12,359,113
Accumulated depreciation and amortization	<u>(9,887,684)</u>	<u>(9,590,396)</u>
	<u>\$ 2,406,804</u>	<u>\$ 2,768,717</u>

AVANCE, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2022 and 2021

4. PROPERTY AND EQUIPMENT (continued)

Depreciation and amortization expense for the years ended June 30, 2022 and 2021 was \$563,333 and \$710,334, respectively.

5. NOTES PAYABLE

On February 23, 2021, the AVANCE San Antonio Chapter received loan proceeds of \$500,000 from a promissory note issued by Bank of America under the Paycheck Protection Program (PPP) which was established under the Coronavirus Aid, Relief, and Economic Security (CARES) Act and is administered by the U.S. Small Business Administration. The Organization has elected to record this loan under *Accounting Standards Codification 470*, in which any subsequent forgiveness of the debt would result in a gain on extinguishment in the period when the Organization is legally released from the obligations of the debt. On September 21, 2021, the PPP loan was forgiven in full by the SBA. Forgiveness of the note totaled \$500,000 which is included as a gain on the extinguishment of debt in the consolidated statement of activities for the year ended June 30, 2022.

On April 22, 2020, the AVANCE Houston Chapter received loan proceeds of \$63,809 from a promissory note issued by JPMorgan Chase Bank under the Paycheck Protection Program (PPP) and on March 19, 2021, the PPP loan was forgiven in full by the SBA. Forgiveness of the note totaled \$63,809 which is included as a gain on the extinguishment of debt for the year ended June 30, 2021 in the consolidated statement of activities.

6. LINE OF CREDIT

The AVANCE San Antonio Chapter had a \$300,000 line of credit with a financial institution which matures on January 30, 2023. There was no outstanding balance for the years ended June 30, 2022 and 2021. Interest on outstanding borrowings under the line of credit is payable monthly at the rate of the lender's prime rate plus 1%. Borrowings under the line of credit are collateralized by the Organization's accounts receivable, including pledges and contributions receivable.

7. COMMITMENTS AND CONTINGENCIES

The Organization leases office facilities, office equipment, and vehicles pursuant to non-cancelable operating lease agreements expiring in various years through fiscal year 2038. The leases are non-cancelable as long as the Organization is receiving Head Start funding. Additionally, the Organization has also entered into various non-cancelable operating lease agreements covering office equipment which expire at differing times over several years.

AVANCE, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2022 and 2021

7. COMMITMENTS AND CONTINGENCIES (continued)

The scheduled minimum lease payments under the lease terms are as follows:

<u>Year ending June 30,</u>	
2023	\$ 2,366,173
2024	2,158,734
2025	1,501,373
2026	878,475
2027	528,524
Thereafter	<u>1,351,051</u>
	<u>\$ 8,784,330</u>

Rent expense for the years ended June 30, 2022 and 2021 was \$2,587,286 and \$2,470,282, respectively. Office equipment lease expense for the year ended June 30, 2022 and 2021 was \$437,801 and \$423,948, respectively.

The Organization receives grants from federal and local sources that are subject to review and audit by the funding sources. Such reviews and audits could result in the discovery of unallowable activities and unallowable costs. Consequently, any of the funding sources may, at its discretion, request reimbursement for expenses or return of funds, or both, as a result of non-compliance by the Organization with the terms of the grants/contracts. In the opinion of the Organization's management, such disallowances, if any, would not be significant in relation to the consolidated financial statements of the Organization.

8. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following:

	<u>2022</u>	<u>2021</u>
Purpose restrictions	\$ 1,085,807	\$ 679,208
Time restrictions	<u>904,594</u>	<u>828,126</u>
	<u>\$ 1,990,401</u>	<u>\$ 1,507,334</u>

Net assets with donor restrictions released from restriction during the year were as follows:

	<u>2022</u>	<u>2021</u>
Purpose restrictions accomplished	\$ 461,492	\$ 333,479
Expiration of time restrictions	<u>768,126</u>	<u>326,906</u>
	<u>\$ 1,229,618</u>	<u>\$ 660,385</u>

AVANCE, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2022 and 2021

9. RETIREMENT PLAN

The Organization is a sponsor of a 403(b) Annuity Plan (the "Plan") retirement vehicle which allows employees the opportunity to invest a portion of their income in a tax-deferred annuity. The Plan covers all full-time employees who are at least 21 years of age, and who elect to participate in the Plan. The Organization contributes 40% of the first 5% of the amount which a participant contributes through salary deferral for all employees who have completed one year of service with the Organization.

The Organization's contributions to the Plan for the years ended June 30, 2022 and 2021 totaled \$390,025 and \$341,995, respectively.

10. CONCENTRATIONS, CREDIT RISKS, AND UNCERTAINTIES

Financial instruments which are potentially subject to concentrations of credit risk consist principally of cash and cash equivalents, revenues and grants receivable.

Cash and cash equivalents are placed with high credit quality financial institutions to minimize risk. At times, cash and cash equivalents may exceed the Federal Deposit Insurance Corporation limits and other insured limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to significant credit risk on cash and cash equivalents.

During the years ended June 30, 2022 and 2021, the Organization recognized revenues of \$64,946,640 and \$60,703,994 from the United States Department of Health and Human Services (DHHS), which comprises approximately 74% and 75% of its total revenues and other support, respectively. Accordingly, substantially all grants receivable as of June 30, 2022 and 2021 are from DHHS. Credit risk associated with grants receivable is minimal due to the credit worthiness of the federal, state, and local funding agencies.

11. RELATED PARTY TRANSACTIONS

The Organization is comprised of National and four chapters. Chapter bylaws must conform to the requirements of the Organization's bylaws. Chapters have their own separately elected Board. During the years ended June 30, 2022 and 2021, the chapters paid \$291,792 and \$266,385 in affiliation fees to National, respectively.

SUPPLEMENTARY INFORMATION

AVANCE, Inc. and Subsidiaries
Consolidating Statement of Financial Position
June 30, 2022

ASSETS

	National	San Antonio	Houston	Dallas	Austin	Eliminating Entries	Total
Cash	\$ 2,089,940	\$ 2,025,097	\$ 511,100	\$ 325,794	\$ 1,828,855	\$ -	\$ 6,780,786
Certificates of deposit	-	498,000	55,808	80,815	-	-	634,623
Grants receivable	890,365	974,459	1,835,863	143,990	486,849	-	4,331,526
Other receivables	129	1,983	31,296	85,635	5,882	-	124,925
Prepaid expenses and deposits	19,488	96,006	239,711	-	-	-	355,205
Property and equipment, net	331,643	1,222,318	839,410	-	13,433	-	2,406,804
Due from chapters	9,530	16,740	-	-	-	(26,270)	-
Total assets	<u>\$ 3,341,095</u>	<u>\$ 4,834,603</u>	<u>\$ 3,513,188</u>	<u>\$ 636,234</u>	<u>\$ 2,335,019</u>	<u>\$ (26,270)</u>	<u>\$ 14,633,869</u>

LIABILITIES AND NET ASSETS

Liabilities							
Accounts payable and accrued expenses	\$ 844,458	\$ 792,859	\$ 1,791,287	\$ 37,256	\$ 39,531	\$ -	\$ 3,505,391
Due to chapters	16,740	-	9,530	-	-	(26,270)	-
Deferred revenue	1,000,000	-	143,689	143,379	-	-	1,287,068
Refundable advance	-	691,011	-	-	-	-	691,011
Total liabilities	<u>1,861,198</u>	<u>1,483,870</u>	<u>1,944,506</u>	<u>180,635</u>	<u>39,531</u>	<u>(26,270)</u>	<u>5,483,470</u>
Net assets							
Without donor restrictions	1,097,345	2,842,477	1,568,682	443,599	1,207,895	-	7,159,998
With donor restrictions	382,552	508,256	-	12,000	1,087,593	-	1,990,401
Total net assets	<u>1,479,897</u>	<u>3,350,733</u>	<u>1,568,682</u>	<u>455,599</u>	<u>2,295,488</u>	<u>-</u>	<u>9,150,399</u>
Total liabilities and net assets	<u>\$ 3,341,095</u>	<u>\$ 4,834,603</u>	<u>\$ 3,513,188</u>	<u>\$ 636,234</u>	<u>\$ 2,335,019</u>	<u>\$ (26,270)</u>	<u>\$ 14,633,869</u>

AVANCE, Inc. and Subsidiaries
Consolidating Statement of Financial Position
June 30, 2021

ASSETS.

	National	San Antonio	Houston	Dallas	Austin	Eliminating Entries	Total
Cash	\$ 907,276	\$ 1,614,748	\$ 510,033	\$ 471,636	\$ 1,253,425	\$ -	\$ 4,757,118
Certificates of deposit	-	309,071	55,752	80,794	-	-	445,617
Grants receivable	974,335	1,007,071	1,442,654	134,026	311,571	-	3,869,657
Other receivables	-	2,462	2,032	83,121	-	-	87,615
Prepaid expenses and deposits	4,997	37,194	33,706	3,577	-	-	79,474
Property and equipment, net	441,758	1,332,356	968,984	-	25,619	-	2,768,717
Due from chapters	19,080	-	-	-	-	(19,080)	-
Total assets	<u>\$ 2,347,446</u>	<u>\$ 4,302,902</u>	<u>\$ 3,013,161</u>	<u>\$ 773,154</u>	<u>\$ 1,590,615</u>	<u>\$ (19,080)</u>	<u>\$ 12,008,198</u>

LIABILITIES AND NET ASSETS

Liabilities							
Accounts payable and accrued expenses	\$ 954,877	\$ 891,071	\$ 1,343,940	\$ 42,473	\$ 37,711	\$ -	\$ 3,270,072
Due to chapters	-	-	15,011	2,786	1,283	(19,080)	-
Deferred revenue	-	67	9,900	113,855	-	-	123,822
Paycheck Protection Program loan	-	500,000	-	-	-	-	500,000
Total liabilities	<u>954,877</u>	<u>1,391,138</u>	<u>1,368,851</u>	<u>159,114</u>	<u>38,994</u>	<u>(19,080)</u>	<u>3,893,894</u>
Net assets							
Without donor restrictions	1,392,569	2,385,172	1,629,310	339,424	860,495	-	6,606,970
With donor restrictions	-	526,592	15,000	274,616	691,126	-	1,507,334
Total net assets	<u>1,392,569</u>	<u>2,911,764</u>	<u>1,644,310</u>	<u>614,040</u>	<u>1,551,621</u>	<u>-</u>	<u>8,114,304</u>
Total liabilities and net assets	<u>\$ 2,347,446</u>	<u>\$ 4,302,902</u>	<u>\$ 3,013,161</u>	<u>\$ 773,154</u>	<u>\$ 1,590,615</u>	<u>\$ (19,080)</u>	<u>\$ 12,008,198</u>

AVANCE, Inc. and Subsidiaries
Consolidating Statement of Activities
For The Year Ended June 30, 2022

	<u>National</u>	<u>San Antonio</u>	<u>Houston</u>	<u>Dallas</u>	<u>Austin</u>	<u>Eliminating Entries</u>	<u>Total</u>
Revenues and other support							
Federal grants	\$ 11,057,825	\$ 21,057,915	\$ 31,720,912	\$ -	\$ -	\$ -	\$ 63,836,652
State and local grants	2,560,317	1,891,617	-	-	340,976	-	4,792,910
Contributions and other	1,210,822	566,746	104,623	1,032,091	1,678,856	(291,792)	4,301,346
United Way	10,000	624,948	193,777	623,284	265,000	-	1,717,009
Fundraising events	12,194	195,010	29,204	95,715	113,708	-	445,831
Less: direct benefit to donors	-	(41,664)	(7,591)	-	-	-	(49,255)
Donated professional services	99,925	2,501,935	2,110,750	-	-	-	4,712,610
Donated use of facilities	491,471	3,037,865	2,430,563	-	541,094	-	6,500,993
Interest income (loss)	66,558	799	117	1,777	(28,266)	-	40,985
Total revenues and other support	<u>15,509,112</u>	<u>29,835,171</u>	<u>36,582,355</u>	<u>1,752,867</u>	<u>2,911,368</u>	<u>(291,792)</u>	<u>86,299,081</u>
Functional expenses							
Program services	13,229,418	26,584,240	33,001,352	1,496,052	1,747,567	(108,943)	75,949,686
General and administrative	2,189,212	3,198,598	3,636,779	282,609	217,053	(182,714)	9,341,537
Fundraising	3,158	113,364	19,848	132,647	202,881	(135)	471,763
Total functional expenses	<u>15,421,788</u>	<u>29,896,202</u>	<u>36,657,979</u>	<u>1,911,308</u>	<u>2,167,501</u>	<u>291,792</u>	<u>85,762,986</u>
Change in net assets	87,324	(61,031)	(75,624)	(158,441)	743,867	-	536,095
Non-operating							
Gain on debt extinguishment	-	500,000	-	-	-	-	500,000
Total non-operating	<u>-</u>	<u>500,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>500,000</u>
Change in net assets	87,324	(561,031)	(75,624)	(158,441)	743,867	-	1,036,095
Net assets, beginning of year	<u>1,392,569</u>	<u>2,911,764</u>	<u>1,644,310</u>	<u>614,040</u>	<u>1,551,621</u>	<u>-</u>	<u>8,114,304</u>
Net assets, end of year	<u>\$ 1,479,893</u>	<u>\$ 2,350,733</u>	<u>\$ 1,568,686</u>	<u>\$ 455,599</u>	<u>\$ 2,295,488</u>	<u>\$ -</u>	<u>\$ 9,150,399</u>

AVANCE, Inc. and Subsidiaries
Consolidating Statement of Activities
For The Year Ended June 30, 2021

	<u>National</u>	<u>San Antonio</u>	<u>Houston</u>	<u>Dallas</u>	<u>Austin</u>	<u>Eliminating Entries</u>	<u>Total</u>
Revenues and other support							
Federal grants	\$ 11,104,046	\$ 20,834,763	\$ 29,339,796	\$ -	\$ -	\$ -	\$ 61,278,605
State and local grants	4,583	465,508	-	-	340,976	-	811,067
Contributions and other	798,769	641,793	127,758	1,402,086	1,461,504	(266,385)	4,165,525
United Way	15,000	522,335	255,108	707,703	314,041	-	1,814,187
Fundraising events	13,650	258,491	29,082	-	78,740	-	379,963
Less: direct benefit to donors	-	(18,530)	(4,859)	-	-	-	(23,389)
Miscellaneous income	-	-	-	-	20,100	-	20,100
In-kind contributions	796,163	5,664,983	5,356,563	-	209,651	-	12,027,360
Interest income	66,188	8,067	358	2,761	1,404	-	78,778
Total revenues and other support	<u>12,798,399</u>	<u>28,377,410</u>	<u>35,103,806</u>	<u>2,112,550</u>	<u>2,426,416</u>	<u>(266,385)</u>	<u>80,552,196</u>
Functional expenses							
Program services	9,794,785	25,795,836	31,228,068	1,699,512	1,508,023	(103,819)	69,922,405
General and administrative	2,407,108	3,053,977	3,826,854	264,290	179,960	(162,386)	9,569,803
Fundraising	18,585	72,480	69,465	76,346	226,942	(180)	463,638
Total functional expenses	<u>12,220,478</u>	<u>28,922,293</u>	<u>35,124,387</u>	<u>2,040,148</u>	<u>1,914,925</u>	<u>266,385</u>	<u>79,955,846</u>
Change in net assets	577,921	(544,883)	(20,581)	72,402	511,491	-	596,350
Non-operating							
Gain on debt extinguishment	-	-	63,809	-	-	-	63,809
Total non-operating	<u>-</u>	<u>-</u>	<u>63,809</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>63,809</u>
Change in net assets	577,921	(544,883)	43,228	72,402	511,491	-	660,159
Net assets, beginning of year	<u>814,648</u>	<u>3,456,647</u>	<u>1,601,082</u>	<u>541,638</u>	<u>1,040,130</u>	<u>-</u>	<u>7,454,145</u>
Net assets, end of year	<u>\$ 1,392,569</u>	<u>\$ 2,911,764</u>	<u>\$ 1,644,310</u>	<u>\$ 614,040</u>	<u>\$ 1,551,621</u>	<u>\$ -</u>	<u>\$ 8,114,304</u>

AVANCE, Inc. and Subsidiaries
Austin Statement of Financial Position
June 30, 2022
(With Comparative Totals for 2021)

ASSETS

	2022	2021
Cash	\$ 1,828,855	\$ 1,253,425
Grants receivable	486,849	311,571
Other receivables	5,882	-
Property and equipment, net	13,433	25,619
Total assets	\$ 2,335,019	\$ 1,590,615

LIABILITIES AND NET ASSETS

Liabilities		
Accounts payable and accrued expenses	\$ 39,531	\$ 37,711
Due to National	-	1,283
Total liabilities	39,531	38,994
Net Assets		
Without donor restrictions	1,207,895	860,495
With donor restrictions	1,087,593	691,126
Total net assets	2,295,488	1,551,621
Total liabilities and net assets	\$ 2,335,019	\$ 1,590,615

AVANCE, Inc. and Subsidiaries
Austin Statement of Activities
For The Year Ended June 30, 2022
(With Comparative Totals for 2021)

	Without Donor <u>Restrictions</u>	With Donor Restrictions	2022 <u>Total</u>	2021 <u>Total</u>
Revenue and other support				
State and local grants	\$ 340,976	\$ -	\$ 340,976	\$ 340,976
Contribution and other	591,263	1,087,593	1,678,856	1,461,504
United Way	265,000	-	265,000	314,041
Fundraising events	113,708	-	113,708	78,740
In-kind contributions	541,094	-	541,094	209,651
External sales and training	-	-	-	20,100
Interest income (loss)	(28,266)	-	(28,266)	1,404
Net assets released from restriction	<u>691,126</u>	<u>(691,126)</u>	<u>-</u>	<u>-</u>
Total revenue and other support	<u>2,514,901</u>	<u>396,467</u>	<u>2,911,368</u>	<u>2,426,416</u>
Functional expenses				
Program	1,747,567	-	1,747,567	1,508,023
General and administrative	217,053	-	217,053	179,960
Fundraising	<u>202,881</u>	<u>-</u>	<u>202,881</u>	<u>226,942</u>
Total functional expenses	<u>2,167,501</u>	<u>-</u>	<u>2,167,501</u>	<u>1,914,925</u>
Changes in net assets from operations	347,400	396,467	743,867	511,491
Net assets, beginning of year	<u>860,495</u>	<u>691,126</u>	<u>1,551,621</u>	<u>1,040,130</u>
Net assets, end of year	<u>\$ 1,207,895</u>	<u>\$ 1,087,593</u>	<u>\$ 2,295,488</u>	<u>\$ 1,551,621</u>

AVANCE, Inc. and Subsidiaries
Dallas Statement of Financial Position
June 30, 2022
(With Comparative Totals for 2021)

ASSETS

	2022	2021
Cash	\$ 325,794	\$ 471,636
Certificates of deposit	80,815	80,794
Grants receivable	143,990	134,026
Other receivables	85,635	83,121
Prepaid expenses and deposits	-	3,577
Total assets	\$ 636,234	\$ 773,154

LIABILITIES AND NET ASSETS

Liabilities		
Accounts payable and accrued expenses	\$ 37,256	\$ 42,473
Deferred Revenue	143,379	113,855
Due to National	-	2,786
Total liabilities	180,635	159,114
Net Assets		
Without donor restrictions	443,599	339,424
With donor restrictions	12,000	274,616
Total net assets	455,599	614,040
Total liabilities and net assets	\$ 636,234	\$ 773,154

AVANCE, Inc. and Subsidiaries
Dallas Statement of Activities
For the Year Ended June 30, 2022
(With Comparative Totals for 2021)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2022 Total</u>	<u>2021 Total</u>
Revenues and other support				
Contributions and other	\$ 1,020,091	\$ 12,000	\$ 1,032,091	\$ 1,402,086
United Way	623,284	-	623,284	707,703
Fundraising events	95,715	-	95,715	-
Interest income	1,777	-	1,777	2,761
Net assets released from restrictions	<u>274,616</u>	<u>(274,616)</u>	<u>-</u>	<u>-</u>
Total revenues and other support	<u>2,015,483</u>	<u>(262,616)</u>	<u>1,752,867</u>	<u>2,112,550</u>
Functional expenses				
Program	1,496,052	-	1,496,052	1,699,512
General and administrative	282,609	-	282,609	264,290
Fundraising	<u>132,647</u>	<u>-</u>	<u>132,647</u>	<u>76,346</u>
Total functional expenses	<u>1,911,308</u>	<u>-</u>	<u>1,911,308</u>	<u>2,040,148</u>
Changes in net assets	104,175	(262,616)	(158,441)	72,402
Net assets, beginning of year	<u>339,424</u>	<u>274,616</u>	<u>614,040</u>	<u>541,638</u>
Net assets, end of year	<u>\$ 443,599</u>	<u>\$ 12,000</u>	<u>\$ 455,599</u>	<u>\$ 614,040</u>

SINGLE AUDIT REPORTS AND SCHEDULES

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
AVANCE, Inc. and Subsidiaries
San Antonio, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of AVANCE, Inc. and Subsidiaries (the "Organization"), which comprise the consolidated statements of financial position as of June 30, 2022, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended and the related notes to the consolidated financial statements, and have issued our report thereon dated December 6, 2022.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies.

Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Armanino^{LLP}
Dallas, Texas

December 6, 2022



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY
THE UNIFORM GUIDANCE

Board of Directors
AVANCE, Inc. and Subsidiaries
San Antonio, Texas

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited AVANCE, Inc. and Subsidiaries (the "Organization")'s compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2022. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

AVANCE, Inc. and Subsidiaries' basic financial statements include the operations of AVANCE-San Antonio, Inc. and AVANCE-Houston, Inc., which expended \$21,057,915 and \$31,720,912, respectively, in federal awards which are not included in the following schedule of expenditures of federal awards during the year ended June 30, 2022. Our audit, described below, did not include the operations of AVANCE-San Antonio, Inc. and AVANCE-Houston, Inc. as the amounts expended in federal awards for these chapters have been reported separately in the respective chapters' single audit report.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Organization's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Organization's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Organization's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Organization's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 Organization's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Organization's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weakness or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Armanino^{LLP}
Dallas, Texas

December 6, 2022

AVANCE, Inc. and Subsidiaries
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2022

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal Assistance Listing	Pass-Through Entity Identifying Number	Total Federal Expenditures
<u>Expenditures of Federal Awards</u>			
U.S. Department of Health and Human Services			
Direct Agency Funded Awards			
Early Head Start (National)	93.600	N/A	\$ 1,252,357
Early Head Start COVID (National)	93.600	N/A	975,541
Early Head Start-CCP (National)	93.600	N/A	20,321
Head Start and Early Head Start-SZ EHS (National)	93.600	N/A	4,297,121
Head Start and Early Head Start-SZ HS (National)	93.600	N/A	3,514,722
Head Start and Early Head Start - COVID (National)	93.600	N/A	828,595
			<u>10,888,657</u>
Pass-through program from the Texas Workforce Commission: Child Care and Development Fund (CCDF)	93.575	N/A	<u>110,587</u>
 Total U.S. Department of Health and Human Services			 <u>10,999,244</u>
U.S. Department of The Treasury			
Pass-through program from United Way of Austin: Coronavirus State & Local Fiscal Recovery Funds	21.027	N/A	<u>58,581</u>
 Total U.S. Department of The Treasury			 <u>58,581</u>
 Total Expenditures of Federal Awards			 <u>\$ 11,057,825</u>

The accompanying notes to the Schedule of Expenditures of Federal Awards
are an integral part of this schedule.

AVANCE, Inc. and Subsidiaries
Notes to Schedule of Expenditures of Federal Awards
June 30, 2022

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of AVANCE - National ("National"), AVANCE - Austin ("Austin") and AVANCE - Dallas ("Dallas") under programs of the federal government for the year ended June 30, 2022. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of National, Austin, and Dallas, it is not intended to and does not present the financial position, changes in net assets, or cash flows of National, Austin, and Dallas.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or limited as to reimbursement. Pass-through entity identifying numbers are presented where available and applicable.

3. INDIRECT COST RATE

National has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

4. COMMITMENTS AND CONTINGENCIES

Federal grants received by National, Austin, and Dallas are subject to review and audit by grantor agencies. National's management believes that the results of such audits will not have a material effect on the Schedule.

AVANCE, Inc. and Subsidiaries
 Schedule of Findings and Questioned Costs
 For the Year Ended June 30, 2022

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	None reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No

Identification of major programs:

<u>Name of Federal Program or Cluster</u>	<u>Assistance Listing</u>
Head Start	93.600
Dollar threshold used to distinguish between Type A and Type B programs	\$750,000
Auditee qualified as low-risk auditee?	Yes

AVANCE, Inc. and Subsidiaries
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2022

SECTION II - SUMMARY OF FINANCIAL STATEMENT FINDINGS

There are no financial statement findings to be reported.

SECTION III - SUMMARY OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There are no federal award findings to be reported.

AVANCE, Inc. and Subsidiaries
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2022

There were no prior year findings.