

AVANCE, Inc. and Subsidiaries

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

June 30, 2021 and 2020



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INDEPENDENT AUDITOR'S REPORT

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

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, 2021 and 2020, 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.

Management's Responsibility for the Consolidated 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; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of AVANCE, Inc. and Subsidiaries as of June 30, 2021 and 2020, 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.



An independent firm
associated with Moore
Global Network Limited

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information on pages 20 - 27 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 20, 2021, 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 20, 2021

AVANCE, Inc. and Subsidiaries
Consolidated Statements of Financial Position
June 30, 2021 and 2020

	2021	2020
ASSETS		
Cash	\$ 4,757,118	\$ 3,522,996
Certificates of deposit	445,617	1,572,842
Grants receivable	3,869,657	2,322,276
Other receivables	87,615	139,208
Prepaid expenses and deposits	79,474	105,729
Property and equipment, net	2,768,717	2,609,254
Total assets	\$ 12,008,198	\$ 10,272,305
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 3,270,072	\$ 2,488,181
Deferred revenue	123,822	266,170
Paycheck Protection Program loan	500,000	63,809
Total liabilities	3,893,894	2,818,160
Net assets		
Without donor restrictions	6,606,970	6,396,736
With donor restrictions	1,507,334	1,057,409
Total net assets	8,114,304	7,454,145
Total liabilities and net assets	\$ 12,008,198	\$ 10,272,305

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

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues and other support			
Federal grants	\$ 61,155,160	\$ -	\$ 61,155,160
State and local grants	934,512	-	934,512
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	20,100	-	20,100
In-kind contributions	12,027,360	-	12,027,360
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 / discontinued operations			
Gain on extinguishment of debt	<u>63,809</u>	<u>-</u>	<u>63,809</u>
Total non-operating / discontinued operations	<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>\$ 6,606,970</u>	<u>\$ 1,507,334</u>	<u>\$ 8,114,304</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, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and other support			
Federal grants	\$ 51,256,306	\$ -	\$ 51,256,306
State and local grants	813,305	-	813,305
Contributions and other	2,777,040	909,838	3,686,878
United Way	1,503,705	-	1,503,705
Fundraising events	269,292	-	269,292
Less: direct benefit to donors	(23,302)	-	(23,302)
In-kind contributions	11,867,242	-	11,867,242
Interest income	129,309	-	129,309
Net assets released from restriction	485,228	(485,228)	-
Total revenues and other support	69,078,125	424,610	69,502,735
Functional expenses			
Program services	61,342,875	-	61,342,875
General and administrative	7,445,495	-	7,445,495
Fundraising	437,372	-	437,372
Total functional expenses	69,225,742	-	69,225,742
Change in net assets from operations	(147,617)	424,610	276,993
Non-operating / discontinued operations			
Gain on extinguishment of debt	14,857	-	14,857
Gain on sale of property and equipment	4,218	-	4,218
Total non-operating / discontinued operations	19,075	-	19,075
Change in net assets	(128,542)	424,610	296,068
Net assets, beginning of year	6,525,278	632,799	7,158,077
Net assets, end of year	\$ 6,396,736	\$ 1,057,409	\$ 7,454,145

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 Statement of Functional Expenses
For the Year Ended June 30, 2020

	Program Services	General and Administrative	Fundraising	Cost of Direct Benefit to Donors	Total
Salaries & wages	\$ 25,615,696	\$ 4,286,270	\$ 247,039	\$ -	\$ 30,149,005
Employee benefits	3,596,823	342,132	23,022	-	3,961,977
Payroll taxes	2,635,844	377,224	19,517	-	3,032,585
Contract and professional services	8,994,393	796,899	52,469	-	9,843,761
Donated professional services	5,352,844	593,350	-	-	5,946,194
Supplies	3,133,918	128,302	628	-	3,262,848
Telephone, fax, & internet	312,742	68,070	2,047	-	382,859
Postage & shipping	35,851	7,879	310	-	44,040
Occupancy	3,466,113	341,581	12,235	-	3,819,929
Donated use of facilities	5,768,257	151,157	1,502	-	5,920,916
Rental & maintenance of equipment	449,059	88,433	2,226	-	539,718
Printing & publications	77,754	11,905	196	-	89,855
Travel	172,526	28,064	854	-	201,444
Transportation	54,718	20,580	-	-	75,298
Client participation	242,093	-	-	-	242,093
Conferences & meetings	41,091	16,264	149	-	57,504
Staff development	492,424	86,696	315	-	579,435
Membership fees	11,431	15,626	1,319	-	28,376
Insurance	178,871	40,246	1,201	-	220,318
Interest	-	22,168	1,112	-	23,280
Miscellaneous	49,130	21,822	6,671	-	77,623
Fundraising, supplies and special events	-	449	64,560	23,302	88,311
Depreciation and amortization	661,297	378	-	-	661,675
Total expenses	<u>61,342,875</u>	<u>7,445,495</u>	<u>437,372</u>	<u>23,302</u>	<u>69,249,044</u>
Less expenses included with revenue on the consolidated statement of activities					
Special events - direct benefit to donors	-	-	-	(23,302)	(23,302)
Total expenses included in the expense section on the consolidated statement of activities	<u>\$ 61,342,875</u>	<u>\$ 7,445,495</u>	<u>\$ 437,372</u>	<u>\$ -</u>	<u>\$ 69,225,742</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, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities		
Change in net assets	\$ 660,159	\$ 296,068
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	710,334	661,675
Net realized and unrealized interest income on certificates of deposit	(8,363)	(18,071)
Gain on extinguishment of debt	(63,809)	-
Changes in operating assets and liabilities		
Grants receivable	(1,547,381)	151,553
Other receivables	51,593	(43,784)
Prepaid expenses and deposits	26,255	77,469
Accounts payable and accrued expenses	781,891	205,547
Deferred revenue	(142,348)	266,170
Net cash provided by operating activities	<u>468,331</u>	<u>1,596,627</u>
Cash flows from investing activities		
Purchases of property and equipment	(870,438)	(587,429)
Sale of property and equipment	641	-
Purchases of certificates of deposit	(250,479)	(1,755,000)
Maturities of certificates of deposit	<u>1,386,067</u>	<u>1,256,457</u>
Net cash provided by (used in) investing activities	<u>265,791</u>	<u>(1,085,972)</u>
Cash flows from financing activities		
Proceeds on notes payable	<u>500,000</u>	<u>63,809</u>
Net cash provided by financing activities	<u>500,000</u>	<u>63,809</u>
Net increase in cash	1,234,122	574,464
Cash, beginning of year	<u>3,522,996</u>	<u>2,948,532</u>
Cash, end of year	<u>\$ 4,757,118</u>	<u>\$ 3,522,996</u>

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

AVANCE, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2021 and 2020

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 program provides low-income infants and toddlers (ages 0-3) with home-based and center-based service program options. The Early Head Start programs enhance children's physical, social, emotional, and cognitive development; and promotes prenatal engagement on all levels. Early Head Start promotes pre-school readiness and gauges progress and outcomes of children.
- *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.

AVANCE, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2021 and 2020

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, 2021 or 2020.

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.

Cash and cash equivalents

The Organization considers all monies in banks and highly liquid investments with maturities of three months or less from the date of purchase to be cash equivalents. The carrying value of cash and cash equivalents approximates fair value because of the short term maturities of those financial instruments. The Organization had no cash equivalents at June 30, 2021 and 2020.

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 statement 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.

AVANCE, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2021 and 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Grants receivable

Grants receivable represent pending reimbursements of program expenses incurred as of June 30, 2021 and 2020, both billed and unbilled, and expected to be received from the funding sources in the subsequent year. Management considers such receivables at June 30, 2021 and 2020 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.

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.

AVANCE, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2021 and 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment (continued)

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, 2021 and 2020. 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 statement of activities as net assets released from restrictions.

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, 2021 and 2020, the Organization had no conditional promises to give. 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 \$29,418,000 and \$28,800,000 that had not been recognized at June 30, 2021 and 2020, respectively, because qualifying expenditures had not been incurred. Conditional in-kind contributions for free or below market rent are approximately \$9,815,000 and \$5,560,000 for the years ended June 30, 2021 and 2020, respectively.

AVANCE, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2021 and 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Donated services, materials and facilities

The Organization's policy is to recognize in-kind goods when donated as revenue at fair value in the period such contributions are made. The estimated value of such donated goods of \$12,518 and \$132 for the years ended June 30, 2021 and 2020 have been recognized in the accompanying consolidated financial statements. Donated professional services are recognized 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 \$5,615,810 and \$5,946,194 for the years ended June 30, 2021 and 2020, 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 \$6,399,032 and \$5,920,916 for the years ended June 30, 2021 and 2020 have been recognized in the accompanying consolidated financial statements, respectively.

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 statement of activities and in the consolidated statement 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 year ended June 30, 2021 and 2020. 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, 2021 and 2020, no uncertain tax positions have been identified and, therefore, no amounts have been recognized in the accompanying consolidated financial statements.

AVANCE, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2021 and 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* (ASU 2014-09), which provides a five-step analysis of contracts to determine when and how revenue is recognized and replaces most existing revenue recognition guidance in GAAP. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2019. The Organization has adopted the standard as of July 1, 2020 using a full retrospective method; the adoption of the new standard had no impact on the Organization's consolidated financial statements.

Subsequent events

Management has evaluated subsequent events through December 20, 2021, the date the consolidated financial statements were available to be issued and are summarized in Note 12 of these consolidated financial statements.

AVANCE, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2021 and 2020

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, 2021 to fund general expenditures:

Financial assets:	
Cash	\$ 4,757,118
Certificates of deposit	445,617
Grants receivable	3,869,657
Other receivables	<u>87,615</u>
	<u>9,160,007</u>
Less amounts unavailable for general expenditure within one year:	
Net assets with donor restrictions	<u>(1,507,334)</u>
	<u>(1,507,334)</u>
	<u>\$ 7,652,673</u>

4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	<u>2021</u>	<u>2020</u>
Land	\$ 1,154,994	\$ 1,154,994
Buildings	995,972	779,003
Leasehold improvements	7,584,094	7,096,782
Office furniture and equipment	1,098,558	1,208,076
Vehicles	1,500,372	1,427,122
Software	<u>25,123</u>	<u>65,673</u>
	12,359,113	11,731,650
Accumulated depreciation and amortization	<u>(9,590,396)</u>	<u>(9,122,396)</u>
	<u>\$ 2,768,717</u>	<u>\$ 2,609,254</u>

Depreciation and amortization expense for the years ended June 30, 2021 and 2020 was \$710,334 and \$661,675, respectively.

AVANCE, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2021 and 2020

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. The term on the loan is two years and the annual interest rate is 1%. Under the terms of the CARES Act, PPP loan recipients can apply for and be granted forgiveness for all or a portion of the loans granted under PPP. Such forgiveness will be determined based on the use of the loan proceeds for payroll costs, rent and utility expenses and the maintenance of workforce and compensation levels with certain limitations. The Organization plans to return any unused funds at the end of the loan period and believes that it will likely qualify for full forgiveness on loan funds used, but there is uncertainty around the standards and operation of the PPP, and no assurance is provided that the Organization will obtain forgiveness in whole or in part.

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 in the 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 December 1, 2021. There was no outstanding balance for the years ended June 30, 2021 and 2020. 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, 2021 and 2020

7. COMMITMENTS AND CONTINGENCIES (continued)

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

<u>Year ending June 30,</u>	
2022	\$ 2,468,613
2023	2,105,581
2024	1,865,394
2025	1,290,002
2026	782,940
Thereafter	<u>1,605,666</u>
	<u>\$ 10,118,196</u>

Rent expense for the years ended June 30, 2021 and 2020 was \$2,470,282 and \$2,394,921, respectively. Office equipment lease expense for the year ended June 30, 2021 and 2020 was \$423,948 and \$392,180, 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>2021</u>	<u>2020</u>
Purpose restrictions	\$ 679,208	\$ 958,930
Time restrictions	<u>828,126</u>	<u>98,479</u>
	<u>\$ 1,507,334</u>	<u>\$ 1,057,409</u>

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

	<u>2021</u>	<u>2020</u>
Purpose restrictions accomplished	\$ 333,479	\$ 289,258
Expiration of time restrictions	<u>326,906</u>	<u>195,970</u>
	<u>\$ 660,385</u>	<u>\$ 485,228</u>

AVANCE, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2021 and 2020

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, 2021 and 2020 totaled \$341,995 and \$290,485, 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, 2021 and 2020, the Organization recognized revenues of \$60,703,994 and \$50,064,845 from the United States Department of Health and Human Services (DHHS), which comprises approximately 75% and 72% of its total support and revenue, respectively. Accordingly, substantially all grants receivable as of June 30, 2021 and 2020 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 five 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, 2021 and 2020, the chapters paid \$266,385 and \$263,939 in affiliation fees to National, respectively.

12. SUBSEQUENT EVENTS

In September of 2021, the AVANCE San Antonio Chapter's previous Head Start grants, including Head Start, Early Head Start, and Child Care Partnership, have been consolidated into one Head Start grant going forward with a budget period start date of September 1, 2021.

In September of 2021, the AVANCE San Antonio Chapter received full legal forgiveness of the Paycheck Protection Program loan from the SBA.

Management does not believe there are any other subsequent events required for disclosure.

SUPPLEMENTARY INFORMATION

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
Due from chapters	19,080	-	-	-	-	(19,080)	-
Property and equipment, net	<u>441,758</u>	<u>1,332,356</u>	<u>968,984</u>	<u>-</u>	<u>25,619</u>	<u>-</u>	<u>2,768,717</u>
 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 National	-	-	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 Financial Position
June 30, 2020

ASSETS

	National	San Antonio	Houston	Dallas	El Paso	Austin	Eliminating Entries	Total
Cash	\$ 876,681	\$ 628,097	\$ 488,135	\$ 543,562	\$ -	\$ 986,521	\$ -	\$ 3,522,996
Certificates of deposit	-	1,436,592	55,456	80,794	-	-	-	1,572,842
Grants receivable	123,321	614,217	1,399,660	115,743	-	69,335	-	2,322,276
Other receivables	33	8,926	121,339	8,610	-	300	-	139,208
Prepaid expenses and deposits	3,175	64,596	37,958	-	-	-	-	105,729
Property and equipment, net	33,392	1,565,721	996,696	-	-	13,445	-	2,609,254
Total assets	<u>\$ 1,036,602</u>	<u>\$ 4,318,149</u>	<u>\$ 3,099,244</u>	<u>\$ 748,709</u>	<u>\$ -</u>	<u>\$ 1,069,601</u>	<u>\$ -</u>	<u>\$ 10,272,305</u>

LIABILITIES AND NET ASSETS

Liabilities								
Accounts payable and accrued expenses	\$ 221,954	\$ 755,777	\$ 1,406,403	\$ 74,576	\$ -	\$ 29,471	\$ -	\$ 2,488,181
Notes payable, net of current portion	-	-	63,809	-	-	-	-	63,809
Deferred revenue	-	105,725	27,950	132,495	-	-	-	266,170
Total liabilities	<u>221,954</u>	<u>861,502</u>	<u>1,498,162</u>	<u>207,071</u>	<u>-</u>	<u>29,471</u>	<u>-</u>	<u>2,818,160</u>
Net assets								
Without donor restrictions	781,660	2,936,835	1,601,082	402,029	-	675,130	-	6,396,736
With donor restrictions	32,988	519,812	-	139,609	-	365,000	-	1,057,409
Total net assets	<u>814,648</u>	<u>3,456,647</u>	<u>1,601,082</u>	<u>541,638</u>	<u>-</u>	<u>1,040,130</u>	<u>-</u>	<u>7,454,145</u>
Total liabilities and net assets	<u>\$ 1,036,602</u>	<u>\$ 4,318,149</u>	<u>\$ 3,099,244</u>	<u>\$ 748,709</u>	<u>\$ -</u>	<u>\$ 1,069,601</u>	<u>\$ -</u>	<u>\$ 10,272,305</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	\$ 10,980,601	\$ 20,834,763	\$ 29,339,796	\$ -	\$ -	\$ -	\$ 61,155,160
State and local grants	128,028	465,508	-	-	340,976	-	934,512
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/discontinued operations							
Gain on debt extinguishment	-	-	63,809	-	-	-	63,809
Total non-operating/discontinued operations	<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
Consolidating Statement of Activities
For The Year Ended June 30, 2020

	<u>National</u>	<u>San Antonio</u>	<u>Houston</u>	<u>Dallas</u>	<u>El Paso</u>	<u>Austin</u>	<u>Eliminating Entries</u>	<u>Total</u>
Revenues and other support								
Federal grants	\$ 2,076,500	\$ 19,003,902	\$ 30,155,904	\$ 10,000	\$ -	\$ 10,000	\$ -	\$ 51,256,306
State and local grants	13,533	458,796	-	-	-	340,976	-	813,305
Contributions and other	352,427	962,900	179,166	1,284,720	-	1,171,634	(263,969)	3,686,878
United Way	-	521,235	281,801	660,669	-	40,000	-	1,503,705
Fundraising events	5,561	-	68,772	22,691	-	172,268	-	269,292
Less: direct benefit to donors	-	-	(23,302)	-	-	-	-	(23,302)
In-kind contributions	273,358	5,620,150	5,678,299	78,336	-	217,099	-	11,867,242
Interest income	92,022	29,812	211	5,548	-	1,716	-	129,309
Total revenues and other support	<u>2,813,401</u>	<u>26,596,795</u>	<u>36,340,851</u>	<u>2,061,964</u>	<u>-</u>	<u>1,953,693</u>	<u>(263,969)</u>	<u>69,502,735</u>
Functional expenses								
Program services	2,134,759	23,872,753	32,608,560	1,646,936	-	1,143,292	(63,425)	61,342,875
General and administrative	1,200,825	2,778,684	3,437,049	314,288	-	44,451	(329,802)	7,445,495
Fundraising	44	74,503	84,909	119,045	-	159,325	(454)	437,372
Total functional expenses	<u>3,335,628</u>	<u>26,725,940</u>	<u>36,130,518</u>	<u>2,080,269</u>	<u>-</u>	<u>1,347,068</u>	<u>393,681</u>	<u>69,225,742</u>
Change in net assets	(522,227)	(129,145)	210,333	(18,305)	-	606,625	129,712	276,993
Non-operating/discontinued operations								
Gain on sale of property and equipment	-	-	-	-	-	4,218	-	4,218
Gain from discontinued operations	-	-	-	-	144,569	-	(129,712)	14,857
Total non-operating/discontinued operations	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>144,569</u>	<u>4,218</u>	<u>(129,712)</u>	<u>19,075</u>
Change in net assets	(522,227)	(129,145)	210,333	(18,305)	144,569	610,843	-	296,068
Net assets, beginning of year	<u>1,336,875</u>	<u>3,585,792</u>	<u>1,390,749</u>	<u>559,943</u>	<u>(144,569)</u>	<u>429,287</u>	<u>-</u>	<u>7,158,077</u>
Net assets, end of year	<u>\$ 814,648</u>	<u>\$ 3,456,647</u>	<u>\$ 1,601,082</u>	<u>\$ 541,638</u>	<u>\$ -</u>	<u>\$ 1,040,130</u>	<u>\$ -</u>	<u>\$ 7,454,145</u>

AVANCE, Inc. and Subsidiaries
Austin Statement of Financial Position
June 30, 2021
(With Comparative Totals for 2020)

ASSETS

	2021	2020
Cash	\$ 1,253,425	\$ 986,521
Grants receivable	311,571	69,335
Other receivables	-	300
Property and equipment, net	25,619	13,445
Total assets	\$ 1,590,615	\$ 1,069,601

LIABILITIES AND NET ASSETS

Liabilities		
Accounts payable and accrued expenses	\$ 37,711	\$ 29,471
Due to National	1,283	-
Total liabilities	38,994	29,471
Net Assets		
Without donor restrictions	860,495	675,130
With donor restrictions	691,126	365,000
Total net assets	1,551,621	1,040,130
Total liabilities and net assets	\$ 1,590,615	\$ 1,069,601

AVANCE, Inc. and Subsidiaries
Austin Statement of Activities
For The Year Ended June 30, 2021
(With Comparative Totals for 2020)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2021 Total</u>	<u>2020 Total</u>
Revenue and other support				
Federal grants	\$ -	\$ -	\$ -	\$ 10,000
State and local grants	340,976	-	340,976	340,976
Contribution and other	770,378	691,126	1,461,504	1,171,634
United Way	314,041	-	314,041	40,000
Fundraising events	78,740	-	78,740	172,268
In-kind contributions	209,651	-	209,651	217,099
External sales and training	20,100	-	20,100	-
Interest income	1,404	-	1,404	1,716
Net assets released from restriction	<u>365,000</u>	<u>(365,000)</u>	<u>-</u>	<u>-</u>
Total revenue and other support	<u>2,100,290</u>	<u>326,126</u>	<u>2,426,416</u>	<u>1,953,693</u>
Functional expenses				
Program	1,508,023	-	1,508,023	1,143,292
General and administrative	179,960	-	179,960	44,451
Fundraising	<u>226,942</u>	<u>-</u>	<u>226,942</u>	<u>159,325</u>
Total functional expenses	<u>1,914,925</u>	<u>-</u>	<u>1,914,925</u>	<u>1,347,068</u>
Changes in net assets from operations	185,365	326,126	511,491	606,625
Non-operating/discontinued operations				
Gain on sale of property and equipment	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,218</u>
Total non-operating/discontinued operations	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,218</u>
Change in net assets	185,365	326,126	511,491	610,843
Net assets, beginning of year	<u>675,130</u>	<u>365,000</u>	<u>1,040,130</u>	<u>429,287</u>
Net assets, end of year	<u>\$ 860,495</u>	<u>\$ 691,126</u>	<u>\$ 1,551,621</u>	<u>\$ 1,040,130</u>

AVANCE, Inc. and Subsidiaries
Dallas Statement of Financial Position
June 30, 2021
(With Comparative Totals for 2020)

ASSETS

	<u>2021</u>	<u>2020</u>
	Total	Total
Cash	\$ 471,636	\$ 543,562
Certificates of deposit	80,794	80,794
Grants receivable	134,026	115,743
Other receivables	83,121	8,610
Prepaid expenses and deposits	<u>3,577</u>	<u>-</u>
Total assets	<u>\$ 773,154</u>	<u>\$ 748,709</u>

LIABILITIES AND NET ASSETS

Liabilities		
Accounts payable and accrued expenses	\$ 42,473	\$ 74,576
Deferred Revenue	113,855	132,495
Due to National	<u>2,786</u>	<u>-</u>
Total liabilities	<u>159,114</u>	<u>207,071</u>
Net Assets		
Without donor restrictions	339,424	402,029
With donor restrictions	<u>274,616</u>	<u>139,609</u>
Total net assets	<u>614,040</u>	<u>541,638</u>
Total liabilities and net assets	<u>\$ 773,154</u>	<u>\$ 748,709</u>

AVANCE, Inc. and Subsidiaries
Dallas Statement of Activities
For the Year Ended June 30, 2021
(With Comparative Totals for 2020)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2021 Total</u>	<u>2020 Total</u>
Revenues and other support				
Federal grants	\$ -	\$ -	\$ -	\$ 10,000
Contributions and other	1,194,086	208,000	1,402,086	1,284,720
United Way	706,087	1,616	707,703	660,669
Fundraising events	-	-	-	22,691
In-kind contributions	-	-	-	78,336
Interest income	2,761	-	2,761	5,548
Net assets released from restrictions	<u>74,609</u>	<u>(74,609)</u>	<u>-</u>	<u>-</u>
Total revenues and other support	<u>1,977,543</u>	<u>135,007</u>	<u>2,112,550</u>	<u>2,061,964</u>
Functional expenses				
Program	1,699,512	-	1,699,512	1,646,936
General and administrative	264,290	-	264,290	314,288
Fundraising	<u>76,346</u>	<u>-</u>	<u>76,346</u>	<u>119,045</u>
Total functional expenses	<u>2,040,148</u>	<u>-</u>	<u>2,040,148</u>	<u>2,080,269</u>
Changes in net assets	(62,605)	135,007	72,402	(18,305)
Net assets, beginning of year	<u>402,029</u>	<u>139,609</u>	<u>541,638</u>	<u>559,943</u>
Net assets, end of year	<u>\$ 339,424</u>	<u>\$ 274,616</u>	<u>\$ 614,040</u>	<u>\$ 541,638</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 statement of financial position as of June 30, 2021, 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 20, 2021.

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) to determine the 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 consolidated 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 may exist that have not been identified.

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 determination of consolidated financial statement amounts. 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 20, 2021



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

We have audited AVANCE, Inc. and Subsidiaries' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of AVANCE, Inc. and Subsidiaries' major federal programs for the year ended June 30, 2021. AVANCE, Inc. and Subsidiaries' 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 \$20,834,763 and \$29,339,796, respectively, in federal awards which is not included in the following schedule of expenditures of federal awards during the year ended June 30, 2021. 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.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. 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* (the "Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2021.

Report on Internal Control Over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weakness or significant deficiencies.

We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 20, 2021

AVANCE, Inc. and Subsidiaries
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2021

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	\$ 1,295,517
Early Head Start COVID (National)	93.600	N/A	70,524
Early Head Start-CCP (National)	93.600	N/A	840,530
Early Head Start COVID (National)	93.600	N/A	44,587
Head Start and Early Head Start-SZ Start-up (National)	93.600	N/A	703,334
Early Head Start - SZ (National)	93.600	N/A	3,532,284
Early Head Start COVID - SZ (National)	93.600	N/A	336,154
Head Start - SZ (National)	93.600	N/A	3,612,515
Head Start COVID - SZ (National)	93.600	N/A	369,529
Head Start and Early Head Start - COVID (National)	93.600	N/A	175,627
			<u>10,980,601</u>
Total U.S. Department of Health and Human Services			<u>10,980,601</u>
Total Expenditures of Federal Awards			<u><u>\$ 10,980,601</u></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, 2021

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, 2021. 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, 2021

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, 2021

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, 2021

There were no prior year findings.