AVANCE, Inc. and Subsidiaries

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

June 30, 2019

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
AVANCE, Inc. and Subsidiaries
Dallas, Texas

We have audited the accompanying consolidated financial statements of AVANCE, Inc. and Subsidiaries (the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2019, 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.

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 audit. We conducted our audit 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, 2019, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 2 to the consolidated financial statements, the Organization has adopted ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to that matter.

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 17 - 20 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 3, 2019, 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

Armanino LLP
Dallas, Texas

December 3, 2019

AVANCE, Inc. and Subsidiaries
Consolidated Statement of Financial Position
June 30, 2019

ASSETS	
Cash	$ 2,948,532
Certificates of deposit	1,056,228
Grants receivable	2,473,829
Other receivables	95,424
Prepaid expenses and deposits	183,198
Property and equipment, net	2,683,500
Total assets	$ 9,440,711
LIABILITIES AND NET ASSETS	
Liabilities	
Accounts payable and accrued expenses	$ 2,282,634
Total liabilities	2,282,634
Net assets	
Without donor restrictions	6,525,278
With donor restrictions	632,799
Total net assets	7,158,077
Total liabilities and net assets	$ 9,440,711

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, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and other support			
Federal grants	$ 48,966,786	$ -	$ 48,966,786
State and local grants	1,100,956	-	1,100,956
Contributions and other	1,749,786	332,541	2,082,327
United Way	1,819,947	100,000	1,919,947
Fundraising events	763,305	-	763,305
Less: direct benefit to donors	(108,996)	-	(108,996)
In-kind contributions	12,040,122	-	12,040,122
Interest income	157,266	-	157,266
Total revenues and other support	66,489,172	432,541	66,921,713
Net assets released from restriction	492,680	(492,680)	-
Total revenues and other support	66,981,852	(60,139)	66,921,713
Functional expenses			
Program services	59,242,738	-	59,242,738
General and administrative	7,089,476	-	7,089,476
Fundraising	560,266	-	560,266
Total functional expenses	66,892,480	-	66,892,480
Change in net assets	89,372	(60,139)	29,233
Net assets, beginning of year	6,435,906	692,938	7,128,844
Net assets, end of year	$ 6,525,278	$ 632,799	$ 7,158,077

AVANCE, Inc. and Subsidiaries
Consolidated Statement of Functional Expenses
For the Year Ended June 30, 2019

	Program Services	General and Administrative	Fundraising	Total
Salaries & wages	$ 23,799,189	$ 4,042,778	$ 302,655	$ 28,144,622
Employee benefits	3,665,623	356,098	34,530	4,056,251
Payroll taxes	2,514,840	355,610	28,506	2,898,956
Contract and professional services	8,488,592	798,600	59,279	9,346,471
Donated professional services	5,321,669	343,270	-	5,664,939
Supplies	2,733,539	110,412	1,817	2,845,768
Telephone & internet	248,429	65,398	1,748	315,575
Postage & shipping	41,623	9,033	1,197	51,853
Occupancy	3,851,329	326,481	2,353	4,180,163
Donated use of facilities	6,173,303	164,435	-	6,337,738
Rental & maintenance of equipment	350,514	127,896	627	479,037
Printing & publications	93,518	27,416	1,915	122,849
Travel	212,239	15,426	1,557	229,222
Transportation	72,467	26,985	-	99,452
Client participation	314,327	-	1,181	315,508
Conferences & meetings	45,971	16,014	151	62,136
Staff development	556,173	119,597	878	676,648
Membership fees	15,115	12,670	1,127	28,912
Insurance	89,663	114,727	43	204,433
Interest	-	14,116	1,393	15,509
Miscellaneous	207	34,443	11,890	46,540
Fundraising	-	-	107,419	107,419
Non-capital equipment	16,950	7,838	-	24,788
Direct benefit to donors	-	-	108,996	108,996
Depreciation and amortization	637,458	233	-	637,691
Total expenses	59,242,738	7,089,476	669,262	67,001,476
Less expenses included with revenues on the consolidated statement of activities				
Direct benefit to donors	-	-	(108,996)	(108,996)
Total expenses included in the expense section on the statement of activities	$ 59,242,738	$ 7,089,476	$ 560,266	$ 66,892,480

AVANCE, Inc. and Subsidiaries
Consolidated Statement of Cash Flows
For the Year Ended June 30, 2019

Cash flows from operating activities	
Change in net assets	$ 29,233
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation and amortization	637,691
Changes in operating assets and liabilities	
Grants receivable	(504,118)
Other receivables	(69,944)
Prepaid expenses and deposits	(14,007)
Accounts payable and accrued expenses	459,990
Net cash provided by operating activities	538,845
Cash flows from investing activities	
Purchases of property and equipment	(758,436)
Purchases of certificates of deposit	(920,099)
Net cash used in investing activities	(1,678,535)
Net decrease in cash	(1,139,690)
Cash, beginning of year	4,088,222
Cash, end of year	$ 2,948,532

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

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 and a regional office in New Mexico, 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.

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 will be met by expenditure in accordance with the donors' requests and/or the passage of time.

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, Austin and El Paso. 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 equivalents approximates fair value because of the short term maturities of those financial instruments. The Organization had no cash equivalents at June 30, 2019.

Certificates of deposit

Certificates of deposit held for investment with an original maturity date greater than three months, that are not debt securities, 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.

Grants receivable

Grants receivable represent pending reimbursements of program expenses incurred as of June 30, 2019, both billed and unbilled, and expected to be received from the funding sources in the subsequent year. Management considers such receivables at June 30, 2019 to be fully collectible. Accordingly, no allowance for delinquent grants receivable was recorded in the accompanying consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment

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 related donor-imposed restrictions.

The Organization's policy is to capitalize all expenditures for property and equipment in excess of $5,000 per unit. Property and equipment are depreciated using the straight-line method over their estimated useful lives ranging from 3 to 40 years. Maintenance and repairs are charged to expense when incurred. Major improvements 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

A substantial amount of 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, 2019.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, net of the expenses that provided a direct benefit to the donor. Interest income is recognized when earned. Program income and other income are recognized when earned.

Contributions

Revenues from contributions, donations, and other sources are recognized as revenues when received or unconditionally promised by a third party. 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 recognized until they become unconditional, that is, when the conditions they depend on are substantially met. Conditional promises to give are not included as revenue or pledges receivable until such time as the conditions are substantially met. As of June 30, 2019, the Organization has approximately $321,410 in conditional promises to give. These promises were conditioned on meeting defined objectives related to the grant funding requirements.

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 $37,445 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 $5,664,939 for the year ended June 30, 2019, 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 values of such facilities of $6,337,738 for the year ended June 30, 2019 have been recognized in the accompanying consolidated financial statements.

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 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, 2019. 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, 2019, 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.

Subsequent events

Management has evaluated subsequent events through December 3, 2019, the date the consolidated financial statements were available to be issued. No changes were made, or are necessary to be made, to the consolidated financial statements as a result of this evaluation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Change in accounting principle

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 makes certain improvements to current reporting requirements, including:

1. Reducing the classes of net assets from three (unrestricted, temporarily restricted, and permanently restricted) to two (with donor restrictions and without donor restrictions).
2. Enhancing disclosures about:
    a. Amounts and purposes of governing board designations, appropriations, and similar actions that result in self-imposed limits on the use of resources without donor-imposed restrictions.
    b. Composition of net assets with donor restrictions and how the restrictions affect the use of resources.
    c. Qualitative information about management of liquid resources and quantitative information about the availability of liquid resources to meet cash needs for general expenditures within one year of the consolidated statement of financial position date.
    d. Amounts of expenses by both their natural classification and their functional classification in one location as a separate statement or in the notes to the consolidated financial statements.
    e. Methods used to allocate costs among program and support functions.
    f. Underwater endowment funds.
3. Reporting investment return net of external and direct internal investment expenses.
4. Use, in the absence of explicit donor stipulations, the placed-in-service approach for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset and reclassify any amounts from net assets with donor restrictions to net assets without donor restrictions for such long-lived assets that have been placed in service as of the beginning of the period of adoption (thus eliminating the current option to release the donor-imposed restriction over the estimated useful life of the acquired asset).

The amendments have been applied on a retrospective basis in 2019.

3. LIQUIDITY AND FUNDS AVAILABLE

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

3. LIQUIDITY AND FUNDS AVAILABLE (continued)

The following disclosure describes assets that are available or expected to be available within one year of June 30, 2019 to fund general expenditures:

Financial assets:	
Cash	$ 2,948,532
Certificates of deposit	1,056,228
Grants receivable	2,473,829
Other receivables	95,424
	6,574,013
Less amounts unavailable for general expenditure within one year:	
Net assets with donor restrictions	(632,799)
	(632,799)
	$ 5,941,214

4. CONCENTRATIONS OF CREDIT RISKS

Custodial credit risk is the risk that, in the event of failure of a depository financial institution, the Organization will not be able to recover its deposits. Although the Organization does not have a formal deposit policy, it maintains cash and cash equivalents at federally insured banks and strives to minimize its exposure to custodial credit risk by maintaining deposits at institutions with demonstrated financial strength. Balances on deposit are insured by the Federal Deposit Insurance Corporation (FDIC) up to the specified limit of $250,000 per institution, per ownership category. The total cash maintained by the Organization at these various financial institutions may exceed the FDIC limit. The Organization has not experienced any such losses in such accounts and believes it is not exposed to significant credit risk on cash and cash equivalents.

During the year ended June 30, 2019, the Organization recognized revenues of $47,356,648 from the United States Department of Health and Human Services (DHHS), which comprises approximately 71% of its total support and revenue. Accordingly, substantially all grants receivable as of June 30, 2019 are from DHHS. Credit risk associated with grants receivable is minimal due to the credit worthiness of the federal, state, and local funding agencies.

5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

Land	$ 1,154,994
Buildings	834,372
Leasehold improvements	6,894,511
Office furniture and equipment	1,252,269
Vehicles	1,409,423
Software	65,673
	11,611,242
Accumulated depreciation and amortization	(8,927,742)
	$ 2,683,500

Depreciation and amortization expense for the year ended June 30, 2019 was $637,691.

6. 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.

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

Year ending June 30,	
2020	$ 2,081,994
2021	1,428,457
2022	1,095,938
2023	891,162
2024	576,650
Thereafter	2,544,314
	$ 8,618,515

Rent expense for the year ended June 30, 2019 was $2,350,498. Office equipment lease expense for the year ended June 30, 2019 was $359,000.

6. COMMITMENTS AND CONTINGENCIES (continued)

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.

7. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following:

Purpose restrictions	$ 374,329
Time restrictions	258,470
	$ 632,799

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

Purpose restrictions accomplished	$ 392,680
Expiration of time restrictions	100,000
	$ 492,680

8. 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 25% 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 year ended June 30, 2019 totaled $222,587.

9. RELATED PARTY TRANSACTIONS

The Organization is comprised of National and six chapters. Chapter bylaws must conform to the requirements of the Organization's bylaws. Chapters have their own separately elected Board. During the year ended June 30, 2019, the chapters paid $210,481 in affiliation fees to National. In addition, at June 30, 2019, National was owed $185,840 by the chapters for affiliation fees and expenses paid for by National on behalf of the chapters.

SUPPLEMENTARY INFORMATION

AVANCE, Inc. and Subsidiaries
Consolidating Statement of Financial Position
June 30, 2019

ASSETS

	National	San Antonio	Houston	Dallas	El Paso	Austin	Eliminating Entries	Total
Cash	$ 1,211,586	$ 728,255	$ 441,242	$ 415,736	$ 1,733	$ 149,980	$ -	$ 2,948,532
Certificates of deposit	-	920,000	55,456	80,772	-	-	-	1,056,228
Grants receivable	100,219	685,236	1,313,697	97,850	45,006	231,821	-	2,473,829
Other receivables	59	18,854	56,341	15,970	-	4,200	-	95,424
Prepaid expenses and deposits	-	113,046	53,158	3,696	2,888	10,410	-	183,198
Due from chapters	185,840	-	-	-	-	-	(185,840)	-
Property and equipment, net	42,710	1,799,614	803,630	-	-	37,546	-	2,683,500
Total assets	$ 1,540,414	$ 4,265,005	$ 2,723,524	$ 614,024	$ 49,627	$ 433,957	$ (185,840)	$ 9,440,711

LIABILITIES AND NET ASSETS

	National	San Antonio	Houston	Dallas	El Paso	Austin	Eliminating Entries	Total
Liabilities								
Accounts payable and accrued expenses	$ 203,539	$ 679,213	$ 1,332,775	$ 54,081	$ 8,356	$ 4,670	$ -	$ 2,282,634
Due to National	-	-	-	-	185,840	-	(185,840)	-
Total liabilities	203,539	679,213	1,332,775	54,081	194,196	4,670	(185,840)	2,282,634
Net assets								
Without donor restrictions	1,303,887	3,334,234	1,390,749	499,190	(144,569)	141,787	-	6,525,278
With donor restrictions	32,988	251,558	-	60,753	-	287,500	-	632,799
Total net assets	1,336,875	3,585,792	1,390,749	559,943	(144,569)	429,287	-	7,158,077
Total liabilities and net assets	$ 1,540,414	$ 4,265,005	$ 2,723,524	$ 614,024	$ 49,627	$ 433,957	$ (185,840)	$ 9,440,711

AVANCE, Inc. and Subsidiaries
Consolidating Statement of Activities
For The Year Ended June 30, 2019

	National	San Antonio	Houston	Dallas	El Paso	Austin	Eliminating Entries	Total
Revenues and other support								
Federal grants	$ 2,023,089	$ 20,464,559	$ 26,479,138	$ -	$ -	$ -	$ -	$ 48,966,786
State and local grants	-	474,469	-	-	275,511	350,976	-	1,100,956
Contributions and other	284,503	387,090	84,530	1,149,007	887	386,791	(210,481)	2,082,327
United Way	-	669,873	292,976	857,098	-	100,000	-	1,919,947
Fundraising events	50,071	152,152	162,748	228,421	-	169,913	-	763,305
Less: direct benefit to donors	-	(20,484)	(88,512)	-	-	-	-	(108,996)
In-kind contributions	305,142	5,841,861	5,500,565	78,336	-	314,218	-	12,040,122
Interest income	147,716	9,085	336	129	-	-	-	157,266
Total revenues and other support	2,810,521	27,978,605	32,431,781	2,312,991	276,398	1,321,898	(210,481)	66,921,713
Functional expenses								
Program services	1,996,768	24,950,572	29,550,094	1,612,196	265,087	997,883	(129,862)	59,242,738
General and administrative	1,034,319	2,728,000	3,070,482	236,324	1,010	99,682	(80,341)	7,089,476
Fundraising	108	103,326	57,643	191,431	-	208,036	(278)	560,266
Total functional expenses	3,031,195	27,781,898	32,678,219	2,039,951	266,097	1,305,601	210,481	66,892,480
Change in net assets	(220,674)	196,707	(246,438)	273,040	10,301	16,297	-	29,233
Net assets, beginning of year	1,557,549	3,389,085	1,637,187	286,903	(154,870)	412,990	-	7,128,844
Net assets, end of year	$ 1,336,875	$ 3,585,792	$ 1,390,749	$ 559,943	$ (144,569)	$ 429,287	$ -	$ 7,158,077

AVANCE, Inc. and Subsidiaries
Austin Statement of Financial Position
June 30, 2019

ASSETS

Cash	$	149,980
Grants receivable		231,821
Other receivables		4,200
Prepaid expenses and deposits		10,410
Property and equipment, net		37,546
Total assets	$	433,957

LIABILITIES AND NET ASSETS

Liabilities		
Accounts payable and accrued expenses	$	4,670
Total liabilities		4,670
Net Assets		
Without donor restrictions		141,787
With donor restrictions		287,500
Total net assets		429,287
Total liabilities and net assets	$	433,957

AVANCE, Inc. and Subsidiaries
Austin Statement of Activities
For The Year Ended June 30, 2019

Revenues and other support	
State and local grants	$ 350,976
Contributions and other	386,791
United Way	100,000
Fundraising events	169,913
In-kind contributions	314,218
Total revenues and other support	1,321,898
Functional expenses	
Program	997,883
General and administrative	99,682
Fundraising	208,036
Total functional expenses	1,305,601
Change in net assets	16,297
Net assets, beginning of year	412,990
Net assets, end of year	$ 429,287

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
Dallas, 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, 2019, 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 3, 2019.

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

Armanino LLP
Dallas, Texas

December 3, 2019

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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
Dallas, Texas

Report on Compliance for Each Major Federal Program

We have audited AVANCE, Inc. and Subsidiaries (the "Organization")'s compliance with the types of compliance requirements described 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, 2019. 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.

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, 2019.

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

Armanino[LLP]
Dallas, Texas

December 3, 2019

AVANCE, Inc. and Subsidiaries
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2019

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
Expenditures of Federal Awards			
U.S. Department of Health and Human Services			
Direct Programs			
Early Head Start (National)	93.600	N/A	1,208,736
Early Head Start-CCP (National)	93.600	N/A	814,353
Pass-through program from:			
Total U.S. Department of Health and Human Services			2,023,089
Total Expenditures of Federal Awards			$ 2,023,089

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, 2019

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of AVANCE - National ("National") under programs of the federal government for the year ended June 30, 2019. 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, it is not intended to and does not present the financial position, changes in net assets, or cash flows of National.

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 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, 2019

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:

Name of Federal Program or Cluster	CFDA Number
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, 2019

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, 2019

There were no prior year findings.