

AVANCE, Inc. and Subsidiaries

Consolidated Financial Statements
and Single Audit Reports and Schedules

June 30, 2018 and 2017



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
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, 2018, 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 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, 2018, 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.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The information on pages 21 - 28 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 11, 2018, 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 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.

Prior Period Financial Statements

The consolidated financial statements of AVANCE, Inc. and Subsidiaries as of June 30, 2017, were audited by other auditors whose report dated December 19, 2017, expressed an unmodified opinion on those statements.



Armanino^{LLP}
Dallas, Texas

December 11, 2018

AVANCE, Inc. and Subsidiaries
Consolidated Statements of Financial Position
June 30, 2018 and 2017

	2018	2017
ASSETS		
Cash and cash equivalents	\$ 4,088,222	\$ 2,630,404
Certificates of deposit	136,129	135,940
Grants receivable	1,969,711	2,211,777
Other receivables	25,480	66,613
Prepaid expenses and deposits	169,191	83,197
Property and equipment, net	2,562,755	6,805,904
Assets of discontinued operations	-	24,084
Total assets	\$ 8,951,488	\$ 11,957,919
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 1,812,644	\$ 1,855,612
Notes payable and line of credit	-	497,668
Due to city of Brownsville	10,000	10,000
Liabilities of discontinued operations	-	11,755
Total liabilities	1,822,644	2,375,035
Net assets		
Unrestricted	6,435,906	8,689,014
Temporarily restricted	692,938	893,870
Total net assets	7,128,844	9,582,884
Total liabilities and net assets	\$ 8,951,488	\$ 11,957,919

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, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues and other support			
Federal grants	\$ 45,761,688	\$ 199,236	\$ 45,960,924
State and local grants	1,131,438	-	1,131,438
Contributions and other	2,079,959	311,395	2,391,354
United Way	1,952,976	100,000	2,052,976
Fundraising events	561,092	54,128	615,220
Less: direct benefit to donors	(44,932)	-	(44,932)
In-kind contributions	10,196,230	-	10,196,230
Interest income	104,736	-	104,736
Total revenues and other support	<u>61,743,187</u>	<u>664,759</u>	<u>62,407,946</u>
Net assets released from restriction	<u>865,691</u>	<u>(865,691)</u>	<u>-</u>
Total revenues and other support	<u>62,608,878</u>	<u>(200,932)</u>	<u>62,407,946</u>
Functional expenses			
Program services	56,003,058	-	56,003,058
Management and general	6,264,825	-	6,264,825
Fundraising	465,762	-	465,762
Total functional expenses	<u>62,733,645</u>	<u>-</u>	<u>62,733,645</u>
Change in net assets from operations	<u>(124,767)</u>	<u>(200,932)</u>	<u>(325,699)</u>
Non-operating / discontinued operations			
Loss on sale of property and equipment	(2,121,752)	-	(2,121,752)
Loss from discontinued operations	(6,589)	-	(6,589)
Total non-operating / discontinued operations	<u>(2,128,341)</u>	<u>-</u>	<u>(2,128,341)</u>
Change in net assets	(2,253,108)	(200,932)	(2,454,040)
Net assets, beginning of year	<u>8,689,014</u>	<u>893,870</u>	<u>9,582,884</u>
Net assets, end of year	<u>\$ 6,435,906</u>	<u>\$ 692,938</u>	<u>\$ 7,128,844</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, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues and other support			
Federal grants	\$ 46,086,229	\$ 84,423	\$ 46,170,652
State and local grants	1,536,881	-	1,536,881
Contributions and other	1,040,753	1,922,517	2,963,270
United Way	2,032,270	-	2,032,270
Fundraising events	544,411	-	544,411
Less: direct benefit to donors	(51,685)	-	(51,685)
In-kind contributions	10,303,103	-	10,303,103
Interest income	<u>104,522</u>	<u>-</u>	<u>104,522</u>
Total revenues and other support	61,596,484	2,006,940	63,603,424
Net assets released from restriction	<u>1,907,461</u>	<u>(1,907,461)</u>	<u>-</u>
Total revenues and other support	<u>63,503,945</u>	<u>99,479</u>	<u>63,603,424</u>
Functional expenses			
Program services	57,541,988	-	57,541,988
Management and general	5,964,804	-	5,964,804
Fundraising	<u>390,783</u>	<u>-</u>	<u>390,783</u>
Total functional expenses	<u>63,897,575</u>	<u>-</u>	<u>63,897,575</u>
Change in net assets from operations	(393,630)	99,479	(294,151)
Loss from discontinued operations	<u>(52,313)</u>	<u>-</u>	<u>(52,313)</u>
Change in net assets	(445,943)	99,479	(346,464)
Net assets, beginning of year	<u>9,134,957</u>	<u>794,391</u>	<u>9,929,348</u>
Net assets, end of year	<u>\$ 8,689,014</u>	<u>\$ 893,870</u>	<u>\$ 9,582,884</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, 2018

	Program Services	Management and General	Fundraising	Total
Salaries & wages	\$ 23,002,833	\$ 3,487,075	\$ 213,341	\$ 26,703,249
Employee benefits	3,903,605	354,022	23,351	4,280,978
Payroll taxes	2,495,170	316,013	18,249	2,829,432
Professional fees	7,746,967	700,765	77,763	8,525,495
Donated professional services	5,625,017	243,847	3,000	5,871,864
Supplies	2,592,268	84,779	2,188	2,679,235
Donated supplies	684	-	-	684
Telephone, fax, & internet	294,948	65,999	1,844	362,791
Postage & shipping	22,190	7,738	1,206	31,134
Occupancy	3,507,797	332,042	2,573	3,842,412
Donated use of facilities	4,247,266	76,416	-	4,323,682
Rental & maintenance of equipment	315,526	79,135	1,865	396,526
Printing & publications	75,295	17,652	3,544	96,491
Travel	182,153	29,666	688	212,507
Transportation	94,518	8,332	-	102,850
Client participation	372,317	1,000	49	373,366
Conferences & meetings	27,986	20,652	677	49,315
Staff development	600,709	71,273	1,049	673,031
Membership fees	14,483	9,891	1,247	25,621
Insurance	100,951	116,922	44	217,917
Interest	-	33,531	1,235	34,766
Miscellaneous	2,047	37,581	11,741	51,369
Fundraising	-	14	99,100	99,114
Non-capital equipment	73,860	6,774	1,008	81,642
Depreciation and amortization	704,468	163,706	-	868,174
	<u>\$ 56,003,058</u>	<u>\$ 6,264,825</u>	<u>\$ 465,762</u>	<u>\$ 62,733,645</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, 2017

	Program Services	Management and General	Fundraising	Total
Salaries & wages	\$ 23,334,477	\$ 3,254,909	\$ 168,156	\$ 26,757,542
Employee benefits	3,957,764	336,432	14,339	4,308,535
Payroll taxes	2,699,375	305,486	16,264	3,021,125
Professional fees	8,550,542	501,845	86,461	9,138,848
Donated professional services	5,977,616	284,208	-	6,261,824
Supplies	2,683,920	129,841	2,893	2,816,654
Donated supplies	6,399	-	-	6,399
Telephone, fax, & internet	312,501	80,015	663	393,179
Postage & shipping	24,159	15,668	410	40,237
Occupancy	3,708,473	345,945	1,941	4,056,359
Donated use of facilities	3,939,681	95,199	-	4,034,880
Rental & maintenance of equipment	280,557	56,301	3,477	340,335
Printing & publications	103,978	17,833	989	122,800
Travel	209,134	21,452	466	231,052
Transportation	106,091	8,157	-	114,248
Client participation	208,810	533	-	209,343
Conferences & meetings	28,530	16,802	815	46,147
Staff development	529,995	101,844	3,085	634,924
Membership fees	20,694	20,022	320	41,036
Insurance	109,570	104,740	-	214,310
Interest	6	39,234	1,133	40,373
Miscellaneous	1,269	22,816	457	24,542
Fundraising	-	31,738	88,590	120,328
Non-capital equipment	51,167	4,062	324	55,553
Bad debt expense	30,000	-	-	30,000
Depreciation and amortization	667,280	169,722	-	837,002
	<u>\$ 57,541,988</u>	<u>\$ 5,964,804</u>	<u>\$ 390,783</u>	<u>\$ 63,897,575</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, 2018 and 2017

	2018	2017
Cash flows from operating activities		
Change in net assets	\$ (2,454,040)	\$ (346,464)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	868,174	837,002
Loss on sale of property and equipment	2,121,752	-
Changes in operating assets and liabilities		
Grants receivable	242,066	219,069
Other receivables	41,133	105,563
Prepaid expenses and deposits	(85,994)	15,579
Accounts payable and accrued expenses	(42,968)	(247,595)
Assets and liabilities of discontinued operations	12,329	(12,329)
Net cash provided by operating activities	702,452	570,825
Cash flows from investing activities		
Purchases of property and equipment	(706,777)	(211,891)
Proceeds from sale of property and equipment	1,960,000	-
Reinvestment of interest income	(189)	(148)
Net cash provided by (used in) investing activities	1,253,034	(212,039)
Cash flows from financing activities		
Payments on notes payable	-	(299,635)
Proceeds (repayments) on line of credit	(497,668)	497,668
Net cash provided by (used in) financing activities	(497,668)	198,033
Net increase in cash and cash equivalents	1,457,818	556,819
Cash and cash equivalents, beginning of year	2,630,404	2,073,585
Cash and cash equivalents, end of year	\$ 4,088,222	\$ 2,630,404

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

AVANCE, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2018 and 2017

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, 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.

AVANCE, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2018 and 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting and 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).

The Organization's financial statements are presented in accordance with FASB ASC Topic 958-205, *Not-for-profit Entities-Presentation of Financial Statements*. Under FASB ASC Topic 958-205, the Organization is to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets, as defined below:

- *Unrestricted net assets* - These are resources that are not subject to donor-imposed restrictions and can be used for the general operations of the Organization.
- *Temporarily restricted net assets* - These are resources that are subject to donor-imposed restrictions that may be met, either by actions of the Organization and/or passage of time.
- *Permanently restricted net assets* - These are resources that are subject to donor-imposed restrictions requiring that the principal be held in perpetuity and any income thereon be used by the Organization in accordance with donor-imposed restrictions, if any. The Organization did not have any permanently restricted net assets as of June 30, 2018 and 2017.

Basis of consolidation

Under the provisions of Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) Topic 810-10, *Consolidations*, the 2018 and 2017 consolidated financial statements include the accounts of the Organization and its chapters. 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.

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 statements of financial position. The fair value of fixed-maturity certificates of deposit is estimated using the rates currently offered for deposits of similar remaining maturities.

AVANCE, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2018 and 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Grants receivable

Grants receivable substantially represent pending reimbursements of program expenses incurred as of June 30, 2018 and 2017, respectively, both billed and unbilled, and expected to be received from the funding sources in the subsequent year. Management considers such receivables at June 30, 2018 and 2017 to be fully collectible. Accordingly, no allowance for delinquent grants receivable was recorded in the accompanying consolidated financial statements.

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 unrestricted support 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 restricted contributions. Presently, the Organization does not have any assets which have 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 is computed using the straight-line method over the following estimated useful lives:

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

A substantial amount of property and equipment presented in the accompanying consolidated statements 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 or 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 statements 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 statements of activities for the free use of the facilities during the years ended June 30, 2018 and 2017.

AVANCE, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2018 and 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Compensable absences

Annual vacation time and sick leave are granted to the Organization's employees. Under the Organization's policy, vacation time and sick leave are earned based on the employees' length of service. Any unused vacation time up to a maximum of 25 days not taken by the end of the year may be carried over to the following calendar year. Upon separation of employment, any unused vacation time is forfeited. Paid sick leave may be carried from one year to the next to a maximum sick leave bank of 60 days. Paid absences for employee vacation and sick leave are recorded as expenses when used. No accrual for unused employee vacation and sick days are recorded in the accompanying consolidated financial statements since they are forfeited upon separation of employment.

Revenue recognition

Generally, grants are recognized as revenues when earned. 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 contributions, donations, and other sources are recognized as unrestricted or temporarily restricted revenues when received or unconditionally promised by a third party. Revenues from special events are recognized when the events are held. Interest income is recognized when earned based on the passage of time. Program income and other income are recognized when earned. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions they depend on are substantially met.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor-imposed restrictions. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support. If a restriction is fulfilled in the same period in which the contribution is received, the Organization reports the contribution as unrestricted. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets upon satisfaction of the time or purpose restrictions and reported in the statement of activities as net assets released from restrictions. The Organization does not imply a time restriction on gifts of long-lived assets, if any.

AVANCE, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2018 and 2017

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 contribution is made. The estimated value of such donated goods of \$684 and \$6,399 for the years ended June 30, 2018 and 2017, respectively, 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, and are provided by individuals possessing those skills. 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 \$5,871,864 and \$6,261,824 for the years ended June 30, 2018 and 2017, respectively, 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 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 \$4,323,682 and \$4,034,880 for the years ended June 30, 2018 and 2017, respectively, have been recognized in the accompanying consolidated financial statements.

Advertising

Advertising costs are expensed as incurred. The Organization incurred \$32,535 and \$34,948 in advertising costs for the years ended June 30, 2018 and 2017, 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 statements of activities and in the statements of functional expenses. Accordingly, certain costs have been allocated among programs and supporting services benefited in accordance with the Organization's cost allocation plan. General and administrative expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

AVANCE, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2018 and 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Tax-exempt status

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except to the extent that it has unrelated business income. The Organization did not have taxable unrelated business income during the years ended June 30, 2018 and 2017. 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, 2018 and 2017, no uncertain tax positions have been identified and, therefore, no amounts have been recognized in the accompanying 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 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.

Reclassifications

Certain reclassifications have been made to the 2017 financial statement presentation to correspond to the current year's format. Total net assets and change in net assets are unchanged due to these reclassifications.

Subsequent events

Management has evaluated subsequent events through December 11, 2018, the date the 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.

3. DISCONTINUED OPERATIONS

As a result of decreased funding to the Waco chapter, the Organization decided to close the Waco chapter in May 2018. Accordingly, the Organization's financial statements have been prepared with the assets, liabilities, and results of operations of this chapter displayed separately.

AVANCE, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2018 and 2017

3. DISCONTINUED OPERATIONS (continued)

Results of operations of the Waco chapter are included as Loss from discontinued operations on the Statements of Activities. Summary operating results of the chapter are as follows:

	2018	2017
Revenues and other support		
Federal grants	\$ 25,275	\$ 14,096
Contributions and other	116,131	252,671
United Way	12,309	19,500
Fundraising and special events	110,998	107,148
In-kind contributions	<u>4,655</u>	<u>123,120</u>
	<u>269,368</u>	<u>516,535</u>
Functional expenses		
Program services	(183,419)	(510,217)
Management and general	(26,340)	(36,965)
Fundraising	<u>(66,198)</u>	<u>(21,666)</u>
	<u>(275,957)</u>	<u>(568,848)</u>
Change in net assets	(6,589)	(52,313)
Eliminations with National	<u>(5,565)</u>	<u>(14,291)</u>
Change in net assets, before eliminations	<u><u>\$ (12,154)</u></u>	<u><u>\$ (66,604)</u></u>

AVANCE, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2018 and 2017

3. DISCONTINUED OPERATIONS (continued)

Summarized data for assets and liabilities of the Waco chapter are as follows:

	2018	2017
Assets		
Cash and cash equivalents	\$ -	\$ 20,285
Grants receivable	-	3,667
Other receivables	-	132
Total assets	\$ -	\$ 24,084
Liabilities		
Accounts payable and accrued expenses	\$ -	\$ 11,755
Total liabilities	-	11,755
Net assets	-	12,329
Total liabilities and net assets	\$ -	\$ 24,084
Eliminations with National	-	(175)
Total net assets, before eliminations	\$ -	\$ 12,154

4. CONCENTRATION 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 years ended June 30, 2018 and 2017, the Organization recognized revenues of \$44,525,388 and \$44,436,014, respectively, from the United States Department of Health and Human Services (DHHS), which comprises 71% and 70%, respectively, of its total support and revenue. Accordingly, substantially all grants receivable as of June 30, 2018 and 2017 are from DHHS.

AVANCE, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2018 and 2017

5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	2018	2017
Land	\$ 97,868	\$ 97,868
Buildings	1,667,166	7,492,170
Leasehold improvements	6,832,729	6,584,015
Office furniture and equipment	1,103,931	2,160,800
Vehicles	1,085,440	1,068,424
Software	<u>65,673</u>	<u>163,065</u>
	10,852,807	17,566,342
Accumulated depreciation	<u>(8,290,052)</u>	<u>(10,760,438)</u>
	<u>\$ 2,562,755</u>	<u>\$ 6,805,904</u>

Depreciation and amortization expense for the years ended June 30, 2018 and 2017 was \$868,174 and \$837,002, respectively.

6. NOTES PAYABLE

Notes payable and line of credits are detailed as follows:

	2018	2017
National has a revolving line of credit for \$500,000. The line of credit matures on September 23, 2018. The interest rate is 3.50 percent. The line of credit is secured by a deed of trust and on the improvements, fixtures, and other properties fully described in the deed of trust.	\$ -	\$ 497,668
The San Antonio chapter has a line of credit for \$300,000. The line of credit matures on December 1, 2018. The interest rate will be determined at the time the line of credit is used. The San Antonio chapter has pledged all accounts receivable and contributions receivable as collateral for the line of credit. There are no draws under this line of credit as of June 30, 2018 and 2017.	<u>-</u>	<u>-</u>
	<u>\$ -</u>	<u>\$ 497,668</u>

AVANCE, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2018 and 2017

7. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following:

	2018	2017
Purpose restrictions	\$ 567,938	\$ 645,863
Time restrictions	125,000	248,007
	\$ 692,938	\$ 893,870

Temporarily restricted net assets released from restriction during the year were as follows:

	2018	2017
Purpose restrictions accomplished	\$ 617,684	\$ 1,716,016
Expiration of time restrictions	248,007	191,445
	\$ 865,691	\$ 1,907,461

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 years ended June 30, 2018 and 2017 totaled \$133,490 and \$125,811, respectively.

9. COMMITMENTS AND CONTINGENCIES

The Organization leases office facilities, office equipment, and vehicles pursuant to non-cancellable operating lease agreements expiring in various years through fiscal year 2038. The leases are non-cancellable as long as the Organization is receiving Head Start funding. Additionally, the Organization has also entered into various non-cancellable 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, 2018 and 2017

9. COMMITMENTS AND CONTINGENCIES (continued)

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

<u>Year ending June 30,</u>		
2019	\$	2,218,372
2020		1,667,922
2021		949,602
2022		642,625
2023		469,697
Thereafter		<u>1,991,460</u>
	\$	<u><u>7,939,678</u></u>

Rent expense for the years ended June 30, 2018 and 2017 was \$2,297,738 and \$2,340,161, respectively. Office equipment lease expense for the years ended June 30, 2018 and 2017 was \$329,583 and \$247,738, 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.

10. 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 years ended June 30, 2018 and 2017, the chapters paid \$225,109 and \$269,020, respectively, in affiliation fees to National. In addition, at June 30, 2018 and 2017, National was owed \$218,020 and \$334,686, respectively, 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 - 2018
June 30, 2018

ASSETS

	<u>National</u>	<u>San Antonio</u>	<u>Houston</u>	<u>Dallas</u>	<u>El Paso</u>	<u>Austin</u>	<u>Waco</u>	<u>Eliminating Entries</u>	<u>Total</u>
Cash and cash equivalents	\$ 1,495,030	\$ 1,634,001	\$ 556,256	\$ 119,959	\$ 175	\$ 282,801	\$ -	\$ -	\$ 4,088,222
Certificates of deposit	-	-	55,365	80,764	-	-	-	-	136,129
Grants receivable	87,866	772,564	823,797	99,635	46,058	139,791	-	-	1,969,711
Other receivables	1,209	3,547	15,970	-	-	4,754	-	-	25,480
Prepaid expenses and deposits	440	103,024	26,058	29,783	2,886	7,000	-	-	169,191
Due from chapters/National	218,020	-	-	-	-	-	-	(218,020)	-
Property and equipment, net	<u>-</u>	<u>1,563,065</u>	<u>998,180</u>	<u>-</u>	<u>-</u>	<u>1,510</u>	<u>-</u>	<u>-</u>	<u>2,562,755</u>
Total assets	<u>\$ 1,802,565</u>	<u>\$ 4,076,201</u>	<u>\$ 2,475,626</u>	<u>\$ 330,141</u>	<u>\$ 49,119</u>	<u>\$ 435,856</u>	<u>\$ -</u>	<u>\$ (218,020)</u>	<u>\$ 8,951,488</u>

LIABILITIES AND NET ASSETS

Liabilities									
Accounts payable and accrued expenses	\$ 235,016	\$ 679,316	\$ 826,739	\$ 40,738	\$ 7,969	\$ 22,866	\$ -	\$ -	\$ 1,812,644
Due to chapters/National	-	7,800	11,700	2,500	196,020	-	-	(218,020)	-
Due to City of Brownsville	<u>10,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,000</u>
Total liabilities	<u>245,016</u>	<u>687,116</u>	<u>838,439</u>	<u>43,238</u>	<u>203,989</u>	<u>22,866</u>	<u>-</u>	<u>(218,020)</u>	<u>1,822,644</u>
Net assets									
Unrestricted	1,503,421	3,030,275	1,637,187	276,903	(154,870)	142,990	-	-	6,435,906
Temporarily restricted	<u>54,128</u>	<u>358,810</u>	<u>-</u>	<u>10,000</u>	<u>-</u>	<u>270,000</u>	<u>-</u>	<u>-</u>	<u>692,938</u>
Total net assets	<u>1,557,549</u>	<u>3,389,085</u>	<u>1,637,187</u>	<u>286,903</u>	<u>(154,870)</u>	<u>412,990</u>	<u>-</u>	<u>-</u>	<u>7,128,844</u>
Total liabilities and net assets	<u>\$ 1,802,565</u>	<u>\$ 4,076,201</u>	<u>\$ 2,475,626</u>	<u>\$ 330,141</u>	<u>\$ 49,119</u>	<u>\$ 435,856</u>	<u>\$ -</u>	<u>\$ (218,020)</u>	<u>\$ 8,951,488</u>

See accompanying independent auditor's report.

AVANCE, Inc. and Subsidiaries
Consolidating Statement of Activities - 2018
For the Year Ended June 30, 2018

	<u>National</u>	<u>San Antonio</u>	<u>Houston</u>	<u>Dallas</u>	<u>El Paso</u>	<u>Austin</u>	<u>Waco</u>	<u>Eliminating Entries</u>	<u>Total</u>
Revenue and other support									
Federal grants	\$ 2,618,347	\$ 17,901,280	\$25,595,659	\$ -	\$ -	\$ -	\$ -	\$ (154,362)	\$ 45,960,924
State and local grants	-	475,458	-	-	305,004	350,976	-	-	1,131,438
Contributions and other	456,080	355,431	233,219	1,166,206	14,376	391,151	-	(225,109)	2,391,354
United Way	-	790,551	308,575	852,050	-	101,800	-	-	2,052,976
Fundraising events	60,706	162,472	123,620	120,845	-	147,577	-	-	615,220
Less: direct benefit to donors	-	(26,587)	(18,345)	-	-	-	-	-	(44,932)
In-kind contributions	269,320	3,238,413	6,228,578	276,480	-	183,439	-	-	10,196,230
Interest income	102,066	2,157	372	115	-	26	-	-	104,736
Total revenue and other support	<u>3,506,519</u>	<u>22,899,175</u>	<u>32,471,678</u>	<u>2,415,696</u>	<u>319,380</u>	<u>1,174,969</u>	<u>-</u>	<u>(379,471)</u>	<u>62,407,946</u>
Functional expenses									
Program services	2,516,147	20,321,359	30,039,284	2,200,670	280,958	883,872	-	(239,232)	56,003,058
Management and general	1,114,500	2,298,042	2,575,640	303,093	18,470	89,380	-	(134,300)	6,264,825
Fundraising	114	60,197	32,663	167,677	-	205,485	-	(374)	465,762
Total functional expenses	<u>3,630,761</u>	<u>22,679,598</u>	<u>32,647,587</u>	<u>2,671,440</u>	<u>299,428</u>	<u>1,178,737</u>	<u>-</u>	<u>373,906</u>	<u>62,733,645</u>
Change in net assets from operations	<u>(124,242)</u>	<u>219,577</u>	<u>(175,909)</u>	<u>(255,744)</u>	<u>19,952</u>	<u>(3,768)</u>	<u>-</u>	<u>(5,565)</u>	<u>(325,699)</u>
Non-operating / discontinued operations									
Loss on sale of property and equipment	(2,121,752)	-	-	-	-	-	-	-	(2,121,752)
Loss from discontinued operations	-	-	-	-	-	-	(12,154)	5,565	(6,589)
Total non-operating / discontinued operations	<u>(2,121,752)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(12,154)</u>	<u>5,565</u>	<u>(2,128,341)</u>
Change in net assets	(2,245,994)	219,577	(175,909)	(255,744)	19,952	(3,768)	(12,154)	-	(2,454,040)
Net assets, beginning of year	<u>3,803,543</u>	<u>3,169,508</u>	<u>1,813,096</u>	<u>542,647</u>	<u>(174,822)</u>	<u>416,758</u>	<u>12,154</u>	<u>-</u>	<u>9,582,884</u>
Net assets, end of year	<u>\$ 1,557,549</u>	<u>\$ 3,389,085</u>	<u>\$ 1,637,187</u>	<u>\$ 286,903</u>	<u>\$ (154,870)</u>	<u>\$ 412,990</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,128,844</u>

See accompanying independent auditor's report.

AVANCE, Inc. and Subsidiaries
Consolidating Statement of Financial Position - 2017
June 30, 2017

ASSETS

	<u>National</u>	<u>San Antonio</u>	<u>Houston</u>	<u>Dallas</u>	<u>El Paso</u>	<u>Austin</u>	<u>Waco</u>	<u>Eliminating Entries</u>	<u>Total</u>
Cash and cash equivalents	\$ 1,226	\$ 1,679,588	\$ 429,593	\$ 256,483	\$ 502	\$ 263,012	\$ -	\$ -	\$ 2,630,404
Certificates of deposit	-	-	55,206	80,734	-	-	-	-	135,940
Grants receivable	129,147	646,820	957,257	245,390	66,057	165,795	-	1,311	2,211,777
Other receivables	30,786	9,555	14,298	1,071	-	10,903	-	-	66,613
Prepaid expenses and deposits	1,840	13,518	28,263	32,667	2,909	4,000	-	-	83,197
Due from chapters/National	335,821	-	-	-	-	176	-	(335,997)	-
Property and equipment, net	4,239,187	1,300,499	1,259,511	3,687	-	3,020	-	-	6,805,904
Assets of discontinued operations	-	-	-	-	-	-	24,084	-	24,084
Total assets	<u>\$ 4,738,007</u>	<u>\$ 3,649,980</u>	<u>\$ 2,744,128</u>	<u>\$ 620,032</u>	<u>\$ 69,468</u>	<u>\$ 446,906</u>	<u>\$ 24,084</u>	<u>\$ (334,686)</u>	<u>\$ 11,957,919</u>

LIABILITIES AND NET ASSETS

Liabilities									
Accounts payable and accrued expenses	\$ 326,796	\$ 480,472	\$ 931,032	\$ 75,201	\$ 13,963	\$ 28,148	\$ -	\$ -	\$ 1,855,612
Due to National	100,000	-	-	2,184	230,327	2,000	175	(334,686)	-
Notes payable and line of credit	497,668	-	-	-	-	-	-	-	497,668
Due to city of Brownsville	10,000	-	-	-	-	-	-	-	10,000
Liabilities of discontinued operations	-	-	-	-	-	-	11,755	-	11,755
Total liabilities	<u>934,464</u>	<u>480,472</u>	<u>931,032</u>	<u>77,385</u>	<u>244,290</u>	<u>30,148</u>	<u>11,930</u>	<u>(334,686)</u>	<u>2,375,035</u>
Net assets									
Unrestricted	3,803,543	2,619,197	1,813,096	333,195	(174,822)	282,651	12,154	-	8,689,014
Temporarily restricted	-	550,311	-	209,452	-	134,107	-	-	893,870
Total net assets	<u>3,803,543</u>	<u>3,169,508</u>	<u>1,813,096</u>	<u>542,647</u>	<u>(174,822)</u>	<u>416,758</u>	<u>12,154</u>	<u>-</u>	<u>9,582,884</u>
Total liabilities and net assets	<u>\$ 4,738,007</u>	<u>\$ 3,649,980</u>	<u>\$ 2,744,128</u>	<u>\$ 620,032</u>	<u>\$ 69,468</u>	<u>\$ 446,906</u>	<u>\$ 24,084</u>	<u>\$ (334,686)</u>	<u>\$ 11,957,919</u>

See accompanying independent auditor's report.

AVANCE, Inc. and Subsidiaries
Consolidating Statement of Activities - 2017
For the Year Ended June 30, 2017

	<u>National</u>	<u>San Antonio</u>	<u>Houston</u>	<u>Dallas</u>	<u>El Paso</u>	<u>Austin</u>	<u>Waco</u>	<u>Eliminating Entries</u>	<u>Total</u>
Revenue and other support									
Federal grants	\$ 3,651,710	\$17,024,742	\$26,252,104	\$ -	\$ -	\$ -	\$ -	\$ (757,904)	\$ 46,170,652
State and local grants	274,287	461,687	-	-	453,735	347,172	-	-	1,536,881
Contributions and other	537,415	649,210	180,781	1,542,445	14,350	308,089	-	(269,020)	2,963,270
United Way	-	770,059	308,363	803,848	-	150,000	-	-	2,032,270
Fundraising events	14,985	242,555	90,715	71,407	-	124,749	-	-	544,411
Less: direct benefit to donors	-	(27,429)	(24,256)	-	-	-	-	-	(51,685)
In-kind contributions	243,946	3,694,151	6,172,872	-	-	192,134	-	-	10,303,103
Interest income	102,272	581	332	107	1,208	22	-	-	104,522
Total revenue and other support	<u>4,824,615</u>	<u>22,815,556</u>	<u>32,980,911</u>	<u>2,417,807</u>	<u>469,293</u>	<u>1,122,166</u>	<u>-</u>	<u>(1,026,924)</u>	<u>63,603,424</u>
Functional expenses									
Program services	3,798,041	20,536,773	30,998,377	1,963,256	367,962	804,325	-	(926,746)	57,541,988
Management and general	1,309,520	2,049,982	2,224,852	315,466	40,085	110,761	-	(85,862)	5,964,804
Fundraising	13,561	58,422	54,371	114,489	-	149,965	-	(25)	390,783
Total functional expenses	<u>5,121,122</u>	<u>22,645,177</u>	<u>33,277,600</u>	<u>2,393,211</u>	<u>408,047</u>	<u>1,065,051</u>	<u>-</u>	<u>1,012,633</u>	<u>63,897,575</u>
Change in net assets from operations	<u>(296,507)</u>	<u>170,379</u>	<u>(296,689)</u>	<u>24,596</u>	<u>61,246</u>	<u>57,115</u>	<u>-</u>	<u>(14,291)</u>	<u>(294,151)</u>
Loss from discontinued operations	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(66,604)</u>	<u>14,291</u>	<u>(52,313)</u>
Change in net assets	(296,507)	170,379	(296,689)	24,596	61,246	57,115	(66,604)	-	(346,464)
Net assets, beginning of year	<u>4,100,050</u>	<u>2,999,129</u>	<u>2,109,785</u>	<u>518,051</u>	<u>(236,068)</u>	<u>359,643</u>	<u>78,758</u>	<u>-</u>	<u>9,929,348</u>
Net assets, end of year	<u>\$ 3,803,543</u>	<u>\$ 3,169,508</u>	<u>\$ 1,813,096</u>	<u>\$ 542,647</u>	<u>\$ (174,822)</u>	<u>\$ 416,758</u>	<u>\$ 12,154</u>	<u>\$ -</u>	<u>\$ 9,582,884</u>

See accompanying independent auditor's report.

AVANCE, Inc. and Subsidiaries
Austin Statements of Financial Position
June 30, 2018 and 2017

ASSETS

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 282,801	\$ 263,012
Grants receivable	139,791	165,795
Other receivables	4,754	10,903
Prepaid expenses and deposits	7,000	4,000
Due from chapters/National	-	176
Property and equipment, net	<u>1,510</u>	<u>3,020</u>
 Total assets	 <u>\$ 435,856</u>	 <u>\$ 446,906</u>

LIABILITIES AND NET ASSETS

Accounts payable and accrued expenses	\$ 22,866	\$ 28,148
Due to National	<u>-</u>	<u>2,000</u>
Total liabilities	<u>22,866</u>	<u>30,148</u>
 Net assets		
Unrestricted	142,990	282,651
Temporarily restricted	<u>270,000</u>	<u>134,107</u>
Total net assets	<u>412,990</u>	<u>416,758</u>
 Total liabilities and net assets	 <u>\$ 435,856</u>	 <u>\$ 446,906</u>

See accompanying independent auditor's report.

AVANCE, Inc. and Subsidiaries
 Austin Statements of Activities
 For the Year Ended June 30, 2018
 (With Summarized Comparative Information for the Year Ended June 30, 2017)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2018 Total</u>	<u>2017 Total</u>
Revenue and other support				
State and local grants	\$ 350,976	\$ -	\$ 350,976	\$ 347,172
Contributions and other	221,151	170,000	391,151	308,089
United Way	1,800	100,000	101,800	150,000
Fundraising events	147,577	-	147,577	124,749
In-kind contributions	183,439	-	183,439	192,134
Interest income	<u>26</u>	<u>-</u>	<u>26</u>	<u>22</u>
Net assets released from restriction	<u>134,107</u>	<u>(134,107)</u>	<u>-</u>	<u>-</u>
Total revenue and other support	<u>1,039,076</u>	<u>135,893</u>	<u>1,174,969</u>	<u>1,122,166</u>
Functional expenses				
Program services	883,872	-	883,872	804,325
Management and general	89,380	-	89,380	110,761
Fundraising	<u>205,485</u>	<u>-</u>	<u>205,485</u>	<u>149,965</u>
Total functional expenses	<u>1,178,737</u>	<u>-</u>	<u>1,178,737</u>	<u>1,065,051</u>
Change in net assets	(139,661)	135,893	(3,768)	57,115
Net assets, beginning of year	<u>282,651</u>	<u>134,107</u>	<u>416,758</u>	<u>359,643</u>
Net assets, end of year	<u>\$ 142,990</u>	<u>\$ 270,000</u>	<u>\$ 412,990</u>	<u>\$ 416,758</u>

See accompanying independent auditor's report.

AVANCE, Inc. and Subsidiaries
Dallas Statements of Financial Position
June 30, 2018 and 2017

ASSETS

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 119,959	\$ 256,483
Certificates of deposit	80,764	80,734
Grants receivable	99,635	245,390
Other receivables	-	1,071
Prepaid expenses and deposits	29,783	32,667
Property and equipment, net	<u>-</u>	<u>3,687</u>
Total assets	<u>\$ 330,141</u>	<u>\$ 620,032</u>

LIABILITIES AND NET ASSETS

Accounts payable and accrued expenses	\$ 40,738	\$ 75,201
Due to National	<u>2,500</u>	<u>2,184</u>
Total liabilities	<u>43,238</u>	<u>77,385</u>
Net assets		
Unrestricted	276,903	333,195
Temporarily restricted	<u>10,000</u>	<u>209,452</u>
Total net assets	<u>286,903</u>	<u>542,647</u>
Total liabilities and net assets	<u>\$ 330,141</u>	<u>\$ 620,032</u>

See accompanying independent auditor's report.

AVANCE, Inc. and Subsidiaries
 Dallas Statements of Activities
 For the Year Ended June 30, 2018
 (With Summarized Comparative Information for the Year Ended June 30, 2017)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2018 Total</u>	<u>2017 Total</u>
Revenue and other support				
Contributions and other	\$ 1,156,206	\$ 10,000	\$ 1,166,206	\$ 1,542,445
United Way	852,050	-	852,050	803,848
Fundraising events	120,845	-	120,845	71,407
In-kind contributions	276,480	-	276,480	-
Interest income	115	-	115	107
	<u>209,452</u>	<u>(209,452)</u>	<u>-</u>	<u>-</u>
Net assets released from restriction				
Total revenue and other support	<u>2,615,148</u>	<u>(199,452)</u>	<u>2,415,696</u>	<u>2,417,807</u>
Functional expenses				
Program services	2,200,670	-	2,200,670	1,963,256
Management and general	303,093	-	303,093	315,466
Fundraising	167,677	-	167,677	114,489
Total functional expenses	<u>2,671,440</u>	<u>-</u>	<u>2,671,440</u>	<u>2,393,211</u>
Change in net assets	(56,292)	(199,452)	(255,744)	24,596
Net assets, beginning of year	<u>333,195</u>	<u>209,452</u>	<u>542,647</u>	<u>518,051</u>
Net assets, end of year	<u>\$ 276,903</u>	<u>\$ 10,000</u>	<u>\$ 286,903</u>	<u>\$ 542,647</u>

See accompanying independent auditor's report.

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*

To the Board of Directors of
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, 2018, 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 11, 2018.

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 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 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 11, 2018



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM, INTERNAL CONTROL OVER COMPLIANCE, AND ON SCHEDULE
OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM
GUIDANCE

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

Report on Compliance for Each Major Federal Program

We have audited AVANCE, Inc. and Subsidiaries (the "Organization") 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, 2018. 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.

The Organization's consolidated financial statements include the operations of AVANCE-Houston, Inc. and AVANCE-San Antonio, Inc., which expended \$25,595,659 and \$17,901,280, respectively, of federal awards during the year ended June 30, 2018; these expenditures are not included in the Organization's Schedule of Expenditures of Federal Awards for the year ended June 30, 2018. Our audit, described below, did not include the operations of those entities as a separate Uniform Guidance compliance audit was performed for those entities and a separate data collection form was submitted in accordance with Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance").

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, 2018.

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 weaknesses 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.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the Organization's consolidated financial statements as of and for the year ended June 30, 2018, and have issued our report thereon dated December 11, 2018, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the consolidated financial statements. The consolidated financial statements include expenditures for AVANCE-Houston, Inc. and AVANCE-San Antonio, Inc., which have been excluded from the AVANCE, Inc. and subsidiaries schedule of expenditures of federal awards, as those entities submit a separate data collection form as previously noted. 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 schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.



Armanino^{LLP}
Dallas, Texas

December 11, 2018

AVANCE, Inc. and Subsidiaries
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2018

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Expenditures	Passed Through to Subrecipients
<u>Expenditures of Federal Awards</u>				
U.S. Department of Health and Human Services				
Direct Programs				
Early Head Start (National)	93.600		\$ 1,206,484	\$ -
Early Head Start-CCP (National)	93.600		1,044,609	-
Healthy Marriage Promotion and Responsible Fatherhood Grants (National)	93.086		<u>382,430</u>	<u>154,362</u>
Total U.S. Department of Health and Human Services			<u>2,633,523</u>	<u>154,362</u>
U.S. Department of Housing and Community Development				
Pass-through program from:				
City of Waco Community Development Block Grants (Waco)	14.218	14218	<u>25,275</u>	<u>-</u>
Total U.S. Department of Housing and Community Development			<u>25,275</u>	<u>-</u>
Total Expenditures of Federal Awards			<u>\$ 2,658,798</u>	<u>\$ 154,362</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, 2018

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of AVANCE, Inc. and Subsidiaries and excludes the federal award activity of AVANCE-Houston, Inc. and AVANCE-San Antonio, Inc. (the "Organization") under programs of the federal government for the year ended June 30, 2018, as a separate Uniform Guidance compliance audit was performed and a separate data collection form was submitted for these entities. 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 the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

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.

3. INDIRECT COST RATE

The Organization 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 the Organization are subject to review and audit by grantor agencies. The Organization'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, 2018

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>CFDA Number</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, 2018

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, 2018

Finding number: 2017-001

CFDA number: 93.086

Federal program: Responsible Fatherhood Grants

Federal agency: U.S. Department of Health and Human Services

Award year: 2017

Recommendation: We recommend that the Organization establish procedures to ensure that reports are submitted in accordance with the provisions of the contract agreements

Management's corrective action plan: Management has developed a scheduling mechanism to identify when reports are due and to whom they should be submitted to ensure timely submission of required reports.

Status of findings: The Fatherhood Grants were not reapplied for by the Organization and were therefore discontinued in the current year. Accordingly, the compliance finding regarding submission of annual reports regarding these grants is not considered to be an ongoing concern.