BRIGHT BEGINNINGS, INC. AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS
AND
REPORTS UNDER THE UNIFORM GUIDANCE

Years Ended September 30, 2019 and 2018

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Bright Beginnings, Inc. and Subsidiary
Washington, DC

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Bright Beginnings, Inc. and Subsidiary (collectively referred to as the Organization), which comprise the consolidated statement of financial position as of September 30, 2019, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. These 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 auditors' 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 auditors consider 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 consolidated financial position of Bright Beginnings, Inc. and Subsidiary at September 30, 2019, and the related consolidated statement of activities, functional expenses and cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The consolidated financial statements of Bright Beginnings, Inc. and Subsidiary as of September 30, 2018, were audited by other auditors, whose report dated January 23, 2019, expressed an unmodified opinion on those consolidated statements.

Emphasis of Matter

As discussed in Note 2 to the consolidated financial statements, Bright Beginnings, Inc. and Subsidiary adopted Accounting Standards Update 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, during the year ended September 30, 2019. Our opinion is not modified with respect to this matter.

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statement of financial position, and the consolidating statement of activities are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis 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 not a required part of the 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 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 March 12, 2020, on our consideration of Bright Beginnings, Inc. and Subsidiary'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 Bright Beginnings, Inc. and Subsidiary's internal control over financial reporting and compliance.

Rubino & Company

Bethesda, Maryland
March 12, 2020

BRIGHT BEGINNINGS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
September 30, 2019 and 2018

	2019	2018
ASSETS		
Current assets		
Cash and cash equivalents, without restriction	$ 2,167,820	$ 2,562,895
Certificates of deposit	-	247,716
Investments	-	29,751
Contribution receivable, net	261,000	422,750
Accounts and contracts receivable	346,536	403,807
Other receivables	10,000	7,827
Prepaid expenses	128,092	73,489
Total current assets	2,913,448	3,748,235
Cash and cash equivalents, with restriction	1,250,000	1,250,000
Contribution receivable, net of current	152,150	163,525
Deposits	70,774	80,086
Property and equipment, net	10,229,149	9,879,609
New market tax credit loan fund	6,693,700	6,693,700
Total assets	$ 21,309,221	$ 21,815,155
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	$ 201,420	$ 618,681
Accrued salaries and related liabilities	197,545	168,411
Deferred revenue	1,457	1,510
Loans payable, current portion	871,218	395,352
Total current liabilities	1,271,640	1,183,954
New market tax credit loan fund	9,310,000	9,310,000
Loans payable, net of current portion and unamortized deferred financing costs of $5,313 and $6,562	2,479,704	3,350,922
Total liabilities	13,061,344	13,844,876
Net assets		
Without donor restrictions	7,291,797	7,233,323
With donor restrictions	956,080	736,956
Total net assets	8,247,877	7,970,279
Total liabilities and net assets	$ 21,309,221	$ 21,815,155

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

BRIGHT BEGINNINGS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF ACTIVITIES
Years Ended September 30, 2019 and 2018

	Year Ended September 30, 2019			Year Ended September 30, 2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support						
Federal government grants	$ -	$ 4,707,514	$ 4,707,514	$ -	$ 3,314,385	$ 3,314,385
DC government contracts	-	1,042,650	1,042,650	-	438,601	438,601
Contributions and support	1,263,382	1,383,736	2,647,118	1,152,839	1,952,538	3,105,377
Donated services and supplies	103,988	-	103,988	364,890	-	364,890
Special events	43,327	-	43,327	90,211	-	90,211
Other income	149,742	-	149,742	172,850	-	172,850
Net assets released from restrictions	6,914,776	(6,914,776)	-	5,362,466	(5,362,466)	-
Total revenue and support	8,475,215	219,124	8,694,339	7,143,256	343,058	7,486,314
Expenses						
Program services						
Education	3,299,222	-	3,299,222	2,359,473	-	2,359,473
Family services	773,169	-	773,169	476,302	-	476,302
Health and safety	700,389	-	700,389	637,244	-	637,244
Home-based services	447,992	-	447,992	669,237	-	669,237
Workforce development	387,793		387,793	471,942		471,942
Other programs	1,000,859	-	1,000,859	691,091	-	691,091
Total program services	6,609,424	-	6,609,424	5,305,289	-	5,305,289
Management and general	1,343,787	-	1,343,787	1,135,128	-	1,135,128
Development	460,923	-	460,923	561,088	-	561,088
Total expenses	8,414,134	-	8,414,134	7,001,505	-	7,001,505
Change in net assets from operations	61,081	219,124	280,205	141,751	343,058	484,809
Non-operating activity						
Loss on disposal of fixed assets	(2,607)	-	(2,607)	(44,792)	-	(44,792)
Change in net assets	58,474	219,124	277,598	96,959	343,058	440,017
Net assets, beginning of year	7,233,323	736,956	7,970,279	7,136,364	393,898	7,530,262
Net assets, end of year	$ 7,291,797	$ 956,080	$ 8,247,877	$ 7,233,323	$ 736,956	$ 7,970,279

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

BRIGHT BEGINNINGS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year Ended September 30, 2019

	Program Services							Supporting Services		
	Education	Family Services	Health and Safety	Home-based Services	Workforce Development	Other Programs	Total Program Services	Management and General	Development	Total
Payroll and benefits	$ 2,276,849	$ 523,232	$ 319,782	$ 329,607	$ 269,757	$ 512,198	$ 4,231,425	$ 553,977	$ 183,803	$ 4,969,205
Consulting services										
Program	90,360	3,286	17,819	12,831	14,808	219,260	358,364	14,335	12,587	385,286
Other	79,290	23,305	10,607	9,944	8,223	80,287	211,656	169,808	123,837	505,301
Communications	35,886	10,869	5,289	6,720	5,801	10,159	74,724	19,197	8,218	102,139
Occupancy costs	266,953	64,715	37,303	27,337	33,801	63,048	493,157	67,797	19,782	580,736
Family services	14,816	37,456	5,550	331	6,567	4,298	69,018	-	-	69,018
Depreciation	120,524	26,314	14,556	22,318	13,631	26,104	223,447	29,007	9,302	261,756
Supplies	78,382	26,901	10,252	11,918	7,920	16,562	151,935	27,664	8,856	188,455
Special events, meetings and travel	13,861	4,037	1,716	7,412	4,441	14,128	45,595	64,958	62,664	173,217
Publication and printing	16,175	12,985	1,246	2,027	5,418	19,653	57,504	2,442	11,055	71,001
Classroom expenses	179,925	21,538	264,054	4,033	7,920	16,763	494,233	15,726	2,354	512,313
Insurance, interest and fees	56,830	12,399	7,768	8,776	6,457	12,343	104,573	371,198	15,948	491,719
In-kind expenses	69,371	6,132	4,447	4,738	3,049	6,056	93,793	7,678	2,517	103,988
Totals	$ 3,299,222	$ 773,169	$ 700,389	$ 447,992	$ 387,793	$ 1,000,859	$ 6,609,424	$ 1,343,787	$ 460,923	$ 8,414,134

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

BRIGHT BEGINNINGS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year Ended September 30, 2018

	Program Services							Supporting Services		
	Education	Family Services	Health and Safety	Home-based Services	Workforce Development	Other Programs	Total Program Services	Management and General	Development	Total
Payroll and benefits	$ 1,600,281	$ 373,601	$ 358,421	$ 536,171	$ 361,724	$ 306,824	$ 3,537,022	$ 593,105	$ 174,923	$ 4,305,050
Consulting services										
Capital campaign	-	-	-	-		38,810	38,810	-	-	38,810
Program	89,158	5,173	25,271	9,498	2,209	155,299	286,608	19,205	4,028	309,841
Other	71,337	16,091	16,984	29,587	21,899	54,742	210,640	82,857	123,758	417,255
Communications	23,254	6,461	5,224	11,280	5,855	19,401	71,475	16,573	10,232	98,280
Occupancy costs	132,574	31,172	57,975	43,516	37,582	9,357	312,176	90,080	9,677	411,933
Family services	6,802	19,902	6,900	2,499	3,260	648	40,011	-	360	40,371
Depreciation	-	-	-	-	-	-	-	26,837	-	26,837
Supplies	94,697	9,514	8,697	12,946	27,485	7,446	160,785	33,189	8,627	202,601
Special events, meetings and travel	8,552	1,752	1,218	8,480	1,622	2,221	23,845	13,412	53,495	90,752
Publication and printing	1,531	2,422	327	488	339	5,229	10,336	553	30,068	40,957
Classroom expenses	224,761	215	146,670	797	177	144	372,764	1,639	84	374,487
Insurance, interest and fees	48,910	9,999	9,557	13,975	9,721	7,914	100,076	166,862	12,503	279,441
In-kind expenses	57,616	-	-	-	69	83,056	140,741	90,816	133,333	364,890
Totals	$ 2,359,473	$ 476,302	$ 637,244	$ 669,237	$ 471,942	$ 691,091	$ 5,305,289	$ 1,135,128	$ 561,088	$ 7,001,505

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

BRIGHT BEGINNINGS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended September 30, 2019 and 2018

	2019	2018
Cash flows from operating activities		
Change in net assets	$ 277,598	$ 440,017
Reconciling adjustments		
Donated investments included in contribution revenue	-	(28,947)
Loss on disposal of fixed assets	2,607	44,792
Depreciation and amortization	261,756	26,837
Amortization of deferred financing costs	1,250	2,188
Change in contributions receivable	173,125	(371,025)
Change in accounts and contracts receivable	57,271	185,746
Change in other receivable	(2,173)	(7,827)
Change in prepaid expenses	(54,603)	(4,721)
Change in deposits	9,312	(54,242)
Change in accounts payable	(417,261)	(261,468)
Change in accrued salaries and related liabilities	29,134	15,983
Change in deferred revenue	(53)	1,510
Net cash provided (used) by operating activities	337,963	(11,157)
Cash flows from investing activities		
Purchase of property and equipment	(613,903)	(5,091,642)
Proceeds from sales of investments	277,467	(619)
Net cash used by investing activities	(336,436)	(5,092,261)
Cash flows from financing activities		
Principal payments on notes payable	(396,602)	(337,164)
Net change in cash and cash equivalents	(395,075)	(5,440,582)
Cash and cash equivalents, beginning of year	3,812,895	9,253,477
Cash and cash equivalents, end of year	$ 3,417,820	$ 3,812,895
Supplemental cash flow information		
Interest paid	$ 260,193	$ 276,079

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

1. Organization

Bright Beginnings, Inc. (the Organization) was incorporated under the laws of the District of Columbia to operate as a not-for-profit corporation. The Organization was formed by members of the Junior League of Washington (JLW), also a not-for-profit organization, to establish a child development day care center to provide a safe, nurturing, and high quality service to homeless preschool children. It is funded primarily by government and private foundation grants. The Organization is governed by an independent Board of Directors responsible for the formulation and issuance of policies, regulations and procedures pertaining to the operation of the daycare center.

In February 2011, the Organization created Bright Beginnings Holdings, Inc. (the Corporation). The Corporation is organized to operate as a supporting organization for Bright Beginnings, Inc. under Section 509(a)(3) of the Internal Revenue Code. The Corporation operates exclusively for charitable, educational, and scientific purposes, and holds real property in support and in furtherance of the work of the Organization.

2. Program Descriptions

The below is a summary of the Organization's significant programs for the years ended September 30, 2019 and 2018.

<u>Education</u>

The Organization equips children with learning opportunities that build literacy skills and prepare them to enter kindergarten ready-to-learn and on par with their higher-resourced peers. Research shows that children without homes are more likely to fall behind in school, repeat a grade, require special education services, and are less likely to demonstrate academic proficiency or graduate from high school.

The Organization largely concentrates on early literacy, as well as teaching children how to recognize letters, numbers, story themes, and more. The Organization uses the evidence-based HighScope curriculum to foster skills and qualities such as curiosity, creativity, collaboration, and critical thinking. HighScope's plan/do/review method encourages children to plan their activities, ask questions, and make decisions based on the information they have gathered. This method allows each child to develop at their own pace in a supportive and encouraging environment.

Children are encouraged to explore their creativity through activities like science experiments, art projects, alphabet games, and more. Children learn to recognize and write letters, build listening skills, and have frequent exposure to age-appropriate books with on-site lending libraries and by taking field trips to the nearby public library. Adults, teachers, parents, and volunteers read to the children and discuss the stories afterwards, helping children get to know their world, feel comfortable in it, and explore their curiosity about different topics in a safe and supportive space.

2. Program Descriptions (continued)

Family Services

The Organization regularly hosts parent events, workshops, and classes that cover a wide range of topics. The Organization offers physical and mental health and wellness programs, family forum meetings, parenting classes, a mothers-only support group, a fatherhood program, WIC Club, a domestic violence support group, and more.

The Organization's family services and events keep parents engaged in its extensive programming. Parents are encouraged to volunteer in the classrooms and serve as chaperones on field trips. They also serve on the Parent Policy Council, which reviews and approves all programs and operating budgets, and interviews key personnel. Through its Family Services Program, the Organization supports the day-to-day social service needs of the families it serves and encourages active engagement.

Health and Safety

The Organization offers a comprehensive Health and Wellness Program that focuses on ensuring that the families it serves are in the best position possible to learn, achieve and thrive.

Nurses provide screenings to all enrolled children, whether they are in the Organization's Home-Based or Center-Based Programs. These screenings evaluate children's hearing and vision, measure hemoglobin levels, and monitor growth and development. Nurses review each child's health documentation and provide one-on-one consultations to parents regarding any medical concerns. They also train parents on how to properly administer medication to children. Health Services Assistants collect and review all medical documentation and help track and monitor each child's individual health plan.

An on-site nutritionist provides nutritional guidance to parents, children, teachers, and food service workers. The nutritionist reviews growth assessments completed by the nurse to ensure that children in the program maintain a healthy weight. When nutrition problems are identified, the nutritionist provides support to the family and assists them with developing a plan of action.

Home-Based Program

The Organization's Home-Based Program offers Early Head Start services to children (birth to three) and their families in whatever environment they call home. During a 90-minute weekly visit, Home Visitors meet with parents and children in the family's home environment, coaching parents on strategies to be the child's first teacher, screening and assessing each child, and providing wrap-around support services.

2. Program Descriptions (continued)

The Organization treats families as active partners in their child's success and creates systems to support the role of parents as the primary educators of their children. Bright Beginnings' Home-Based Program uses the Parents as Teachers (PAT) foundational curriculum, which asserts that parents are their children's first and best teachers.

In addition to home visits, twice-monthly socialization events support parent-child development while also fostering a sense of community amongst families who are not enrolled in the Center-Based Program.

Workforce Development

In 2018, the Organization served 114 parents of young children experiencing homelessness through its Workforce Development Program. This program includes educational support, training, and employment assistance. By offering a full range of workforce development services, both independently and in concert with other local organizations. Bright Beginnings helps parents find jobs and enroll in educational programs, supports integrated and collaborative workforce development across Washington, DC, and increases the likelihood that parents without homes are able to access high-quality and comprehensive assistance in all areas of their professional and educational development.

The Organization provides a number of workforce development-related supportive services and workshops creating direct impacts in professional development, financial literacy, résumé building, career fairs, and more.

Fatherhood Initiative

The Organization launched its new Fatherhood Initiative in October 2018. This initiative began with only 15 fathers and has now grown into a weekly program that engages 65 dads. This program offers fathers information and tools related to parenting young children, and follows the Effective Black Parenting Curriculum. This curriculum was created specifically for parents of Black/African-American children and teaches culturally-specific parenting strategies. Fathers are supported by the Organization's multi-disciplinary support teams, which include a Teacher/Home Visitor, Family Advocate, Therapeutic Specialist (as needed), and Workforce Development Specialist.

2. Program Descriptions (continued)

Therapeutic Services

The Therapeutic Services Program identifies and treats mental health issues and developmental delays in children, and staff work to ensure that they are well-positioned to reach age-appropriate developmental milestones. Staff also provide comprehensive support to the entire family, offering interventions that help alleviate the stress facing families without homes.

CARE Teams engage parents in all aspects of their children's development. Still, many parents struggle to provide sufficient support to children with delays since they are coping with their own trauma and stress due to their homeless status. Bright Beginnings' whole child, whole family approach ensures that both children and parents are sufficiently supported in order to create lasting positive change.

By intervening early and often, the Organization ensures that children enter kindergarten ready to learn. All students receive therapeutic and health screenings within 45 days of enrollment. These screenings help staff develop individualized curricula and social service plans.

3. Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements represent the activity of the Organization and the Corporation (collectively referred to as the Organization). The consolidated financial statements of the Organization have been consolidated in accordance with FASB ASC 958-810, *Not-for-Profit Entities, Consolidation*. All material intercompany transactions and balances have been eliminated.

Basis of Presentation

The Organization's financial statements have been prepared in accordance with U.S. generally accepted accounting principles, which require it to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time.

3. Summary of Significant Accounting Policies (continued)

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities.

Measure of Operations

The consolidated statements of activities report all changes in net assets, including changes in net assets from operating and non-operating activities. Operating activities consist of those items attributable to the Organization's ongoing services. Non-operating activities are limited to resources that generate return activities considered to be of a more unusual or nonrecurring nature.

Cash and Cash Equivalents

The Organization maintains cash balances at various financial institutions which, at times, may exceed federally insured limits. The Organization has not experienced any losses related to these accounts and does not believe they are exposed to any significant credit risk on cash and cash equivalents. For the purposes of the statement of cash flows, the Organization considers all highly liquid investments with original maturities less than 90 days to be cash equivalents.

Restricted Cash

As dictated in the terms of its loan agreement with Wells Fargo, the Organization is required to hold $1,250,000 of its cash on hand in a collateral account with Wells Fargo. These funds, while not donor restricted, are not readily available to the Organization, but may be invested in short-term investments as agreed to by Wells Fargo.

Certificates of Deposit

Certificates of deposit are recorded at fair value which approximates cost and accrued interest. As of the year ended September 30, 2019, the certificates of deposit have reached their maturity date, and the balance was transferred to the Organization's cash balances as of the year ended September 30, 2019.

3. Summary of Significant Accounting Policies (continued)

Investments

Investments are recorded at fair market value based on quoted prices provided by the investment custodian. Investment income or loss is reflected in the accompanying statements of activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by the donor or the law. Interest and dividends are recorded as revenue when earned.

Contributions Receivable

Contributions are recorded at the earlier of the date received or the date of receipt of a donor's unconditional promise or pledge. Conditional promises to give are not included as support until the conditions are substantially met. There was no allowance for doubtful accounts as of September 30, 2019 and 2018, respectively.

Accounts and Contracts Receivable

Accounts and contracts receivable are for reimbursement of costs incurred under federal awards and contract agreements. Billed amounts represent invoices that have been prepared and sent to the responsible parties. Accounts and contracts receivable are recorded at net realizable value, which approximates fair value. Management considers all amounts to be fully collectible. Accordingly, an allowance for doubtful accounts has not been established.

Property and Equipment

The Organization capitalizes all property and equipment with a cost of $1,000 or more. Property and equipment are stated at cost at the date of purchase or, for donated assets, at fair value at the date of the donation. Depreciation and amortization are calculated using the straight-line method over the lesser of the estimated useful lives of the assets or the lease term. At the time assets are retired or otherwise disposed of, the property and related accumulated depreciation and amortization accounts are relieved of the applicable amounts and any gain or loss is credits or charged to income. Maintenance and repairs are expensed as incurred.

3. Summary of Significant Accounting Policies (continued)

Revenue Recognition

Government Contracts and Grants

Revenue from government contracts and grants is recognized when the related reimbursable direct and allocated indirect expenses are incurred. Revenue recognized in excess of billings and cash received is reported as unbilled accounts receivable. Billings and cash received in excess of revenue recognized are reported as deferred revenue.

Contribution and Non-Federal Grants

Non-federal grants that are with or without donor restrictions are recorded as grant revenue in the year notification is received from the donor. The Organization recognizes grants, contributions, foundation and corporate support, as revenue when they are received or unconditionally pledged. Conditional promises to give are not recognized as revenue until the conditions on which they depend are substantially met.

Contributions and grants are donor restricted to the extent that their availability for operations is restricted by donors based upon the passage of time or the occurrence of certain events. Such restrictions apply only to contributions and grants that have the characteristics of contributions, and not to "exchange" transactions in which the Organization provides a service or product to the funding agency. As such, contributions are recognized as revenue at the earlier of when they are received or unconditionally pledged. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as support with donor restrictions.

Donated Goods and Services

The Organization records various types of in-kind contributions. Donated professional services and supplies which support program activities are recognized at fair value if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals processing those skills, and would typically need to be purchased if not provided by donation. Contributions of tangible assets are recognized at fair value when received. The Organization received donated professional services and supplies with a value of $103,988 and $364,890 for the years ended September 30, 2019 and 2018, respectively. These gifts have been reflected in the accompanying financial statements based on use.

Concentrations

The Organization currently receives a substantial amount of its support from the federal government in the form of grants. A significant reduction in the level of this support, if this were to occur, may have a significant effect on the Organization's programs and activities.

3. Summary of Significant Accounting Policies (continued)

Functional Allocation of Expenses

The costs of providing programs and other activities have been summarized on a functional basis in the consolidated statement of activities. Indirect functional expenses have been allocated between program services, management and general, and development based on personnel time spent for each activity. Direct functional expenses are respectively recorded by activity. Such allocations are determined by management on an equitable basis. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and management of the Organization.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts and disclosures of contingent assets and liabilities at the date of the stand-alone financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Tax Status

The Organization is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code and the applicable income tax regulations of the District of Columbia. The Organization is not a private foundation and is exempt from taxes on income other than unrelated business income.

The Corporation is exempt from Federal income taxes under Section 509(a)(3) of the Internal Revenue Code and the applicable income tax regulations of the District of Columbia. The Corporation is not a private foundation and is exempt from taxes on income other than unrelated business income.

No provision for income taxes is required for 2019 or 2018. The Organization's income tax returns are subject to review and examination by Federal and state taxing authorities. The Organization is not aware of any activities that would jeopardize its tax-exempt status. Income tax returns for the years ended September 30, 2018, 2017 and 2016 remain open to examination by the taxing jurisdictions.

3. Summary of Significant Accounting Policies (continued)

New Accounting Pronouncement

In August 2016, FASB issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

In May 2014, the FASB issued Accounting Standards Update ASU 2014-09, Not-for-Profit Entities (Topic 606): Revenue from Contracts with Customers. The new standard provides guidance for recognizing revenue under contractual arrangements. The overall objective is to recognize revenue as promised goods and services are transferred to customers. Determining this involves employing a five-step process. For non-profit organizations, this could affect dues, special events, other fee-for-service arrangements, and the timing of when related revenue is recognized. ASU 2014-09 is effective for fiscal years beginning after December 15, 2018. The Organization will adopt the standard for the year ended September 30, 2020 and is in process of evaluating the impact.

Fair Value Measurements

The Organization reports its fair value measures using a three-level hierarchy that prioritizes the inputs used to measure fair value. This hierarchy, established by generally accepted accounting principles, gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The fair value hierarchy is as follows:

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities that the Organization has the ability to access.

- Level 2: Inputs to the valuation methodology include:

  - Quoted prices for similar assets or liabilities in active markets;
  - Quoted prices for identical or similar assets or liabilities in inactive markets;
  - Inputs other than quoted prices that are observable for the asset or liability;
  - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

  If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

3. Significant Accounting Policies (continued)

- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value:

Investments in *certificates of deposit* are valued by discounting the related cash flows based on current yields of similar instruments with comparable derivatives considering the credit worthiness of the issuer. Such securities are classified within Level 2 of the valuation hierarchy.

Investments in *mutual funds* are valued at net asset value, reported daily in the active exchanges, of shares held by the Association at year-end. Such securities are classified within Level 1 of the valuation hierarchy.

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported as of the end of the reporting period. For the years ended September 30, 2019 and 2018, there were no significant transfers in or out of levels 1, 2 or 3.

Subsequent Events

Management has evaluated subsequent events through March 12, 2020, which is the date the financial statements were available to be issued.

Reclassifications

Certain amounts in the prior year consolidated financial statements have been reclassified to conform to the current year presentation.

4. Availability and Liquidity

The following reflects the Organization's consolidated financial assets at September 30, 2019 and 2018, reduced by amounts not available for general use within one year of the statement of financial position date because of donor imposed restrictions.

	2019	2018
Cash and cash equivalents	$ 3,417,820	$ 3,812,895
Certificates of deposit	-	247,716
Investments	-	29,751
Contribution receivable, net	413,150	586,275
Accounts and contract receivable	346,536	403,807
Other receivable	10,000	7,827
Total financial assets	4,187,506	5,088,271
Less amounts not available to be used within one year		
Restricted cash	1,250,000	1,250,000
Long-term contribution receivable	152,150	163,225
Net assets with donor restrictions	940,082	736,956
	2,342,232	2,150,181
Financial assets available to meet cash needs for general expenditures within one year	$ 1,845,274	$ 2,938,090

The Organization has set four goals to maintain its liquidity:

1) Maintain and generate enough liquid assets to fund its fiscal year budget,
2) Maintain liquid financial assets to meet at least 90 days of operating expenses (approximately $2,100,000),
3) Raise capital campaign funds to retire its loan agreement with Wells Fargo Bank by December 31, 2023, and
4) Build a building and maintenance fund of $1,000,000.

The Organization defines liquid financial assets as any cash on hand, accounts and contributions receivable within 90 days, that are not donor-restricted to a particular program or designated by the Organization's board of directors for another purpose. As part of its liquidity plan, excess cash may be invested in short-term investments, including money market accounts and certificates of deposit, as dictated by the Organization's investment policy. As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

4. Availability and Liquidity (continued)

In the event of an unanticipated liquidity need, such as a government shutdown, the Organization is able to draw upon its current liquid asset balance to cover short-term cash needs.

In addition to its liquid assets on hand at September 30, 2019, the Organization expects to receive approximately $3,800,000 in the next fiscal year from federal awards. Federal awards allow BBI to drawdown on these funds once they have been expended. The Organization generally draws down these funds in the month subsequent to expenditure, ensuring that cash is on hand to cover expenditures.

The Organization also anticipates receiving another $2,000,000 from District of Columbia sources. The Organization submits monthly reports to the District, and the reimbursement period is generally within 30 days.

As dictated in the terms of its loan agreement with Wells Fargo, the Organization is required to hold $1,250,000 of its cash on hand in a collateral account with Wells Fargo. These funds, while not donor restricted, are not readily available to the Organization, but may be invested in short-term investments as agreed to by Wells Fargo.

5. Investments

At September 30, 2019, the Organization held no investments due to the conversion of all short-term securities into cash during the fiscal year.

At September 30, 2018, investments were comprised of the following:

	Fair Value Levels (Note 2)	
Mutual funds	1	$ 29,751
Certificates of deposit	2	247,716
		$ 277,467

6. Pledges Receivable

Pledges receivable that are expected to be collected in future years are discounted to present values using a discount rate equivalent to the risk-free rate of return, at the time the unconditional promises are made. The discount rates for 2019 and 2018 range from 5% to 5.25%. The discount is amortized to support from contributions over the pledge collection period.

Pledges receivable at September 30, 2019 and 2018 are expected to be collected as follows:

	2019	2018
Due in less than one year	$ 261,000	$ 422,750
Due in two to five years	152,150	163,525
Total pledges receivable	413,150	586,275
Less:		
Discount for present value	(14,064)	(14,679)
Pledges receivable, net	$ 399,086	$ 571,596

7. Property and Equipment

Property and equipment consist of the following at September 30:

	2019	2018
Land	$ 1,232,731	$ 1,232,731
Building	9,003,270	-
Leaehold improvements	131,534	8,500
Equipment	183,422	131,292
Construction in process	-	8,592,755
Total property and equipment	10,550,957	9,965,278
Less: Accumulated depreciation and amortization	(321,808)	(85,669)
Property and equipment, net	$ 10,229,149	$ 9,879,609

Depreciation and amortization expense for the years ended September 30, 2019 and 2018 are $261,756 and $26,837, respectively.

8. New Markets Tax Credit Financing

In December 2016, the Organization entered into a debt transaction to access additional funds through the New Markets Tax Credit (NMTC) Program. These funds were used towards the construction of a second facility. The NMTC Program permits taxpayers to claim federal tax credits for making Qualified Equity Investments (QEI) in a designated Community Development Entity (CDE). The CDE must use substantially all of the proceeds to make Qualified Low-Income Community Investments (QLICIs). The tax credits are claimed over a seven-year period and equate to 39% of the QLICIs. The Organization has partnered with an investor, City First Capital 46, LLC, to utilize the NMTC program.

City First Capital 46, LLC established a special purpose entity called Bright Beginnings Investment Fund, LLC (BBIF) to raise the capital for the transaction. BBIF was funded with $2,616,300 of equity from City First Capital 46, LLC and $6,693,700 from the Organization.

This capital raised by BBIF was used to make a $9,310,000 QEI in a CDE, called City First New Market Fund II, LLC, a wholly-owned subsidiary of BBIF. The CDE then loaned these funds to BBI Holdings, Inc. in the form of two notes.

The first note payable (QLICI Loan A), has a balance of $6,693,700 as of September 30, 2019 and 2018 and bears interest at 1.703% per annum. The note matures on December 31, 2051. The note requires quarterly interest only payments through December 5, 2024, at which time the note requires quarterly payments of principal and interest through the term of the note.

The second note payable (QLICI Loan B), has a balance of $2,616,300 as of September 30, 2019 and 2018 and bears interest at 1.703% per annum. The note matures on December 31, 2051. The note requires quarterly interest only payments through December 5, 2024, at which time the note requires quarterly payments of principal and interest through the term of the note.

Other long-term assets liabilities related to the NMTC financing reflected on the consolidated statements of financial position at September 30, 2019 and 2018 are as follows:

	2019	2018
Other assets:		
New market tax credit loan fund	$6,693,700	$6,693,700
Long-term liabilities:		
QLICI Loan A	$6,693,700	$6,693,700
QLICI Loan B	2,616,300	2,616,300
	$9,310,000	$9,310,000

8. New Markets Tax Credit Financing (continued)

Interest income and expenses related to the NMTC financing for the years ended September 30, 2019 and 2018 were as follows:

	2019	2018
Interest income	$ 126,653	$ 127,320
Interest expense	$ 158,549	$ 158,549

9. Loans Payable

On December 21, 2015, the Organization received an interest-free loan (Bainum 1) from the Bainum Family Foundation (the Foundation) in the amount of $500,000. The loan is to fund the development of the new Bright Beginnings Learning Center in Ward 8 of Washington, DC. The Organization must repay to the Foundation any portion of the loan amount that is used other than the designated purpose. The entire loan amount shall be forgiven on or before December 30, 2020 through written notice from the Foundation if certain conditions are met. If the conditions are not met by December 30, 2020, then the Organization must repay the full loan amount to the Foundation by that date.

In June 2017, the Organization received another $500,000 interest-free loan (Bainum 2) from the Bainum Family Foundation to complete the construction of the new learning center. The full amount of the loan shall be due to the Foundation in one lump sum two weeks after the maturity date of June 30, 2020, unless forgiven by the Foundation. The Foundation has sole and absolute discretion with regard to any potential forgiveness of any amount of the loan.

In December 2016, the Organization entered into a loan agreement with Wells Fargo Bank for $3,090,000. The loan carries an interest rate of 4.05% and matures on December 22, 2023. The Organization will make monthly interest-only payments through June 2018 and thereafter, will make monthly principal payments of $18,903 plus accrued interest through the term of the note. The outstanding principal balance as of September 30, 2019 and 2018 was $2,356,235 and $2,752,836, respectively. Unamortized loan fees related to this loan as of September 30, 2019 and 2018 were $5,313 and $6,562, respectively, and are being amortized over the life of the loan. Interest expense related to this note for the years ended September 30, 2019 and 2018 was $101,644 and $117,530, respectively. Amortization of loan fees for the years ended September 30, 2019 and 2018 was $1,249 and $2,188, respectively. The loan requires compliance with certain covenants such as, maintaining at all times a minimum unrestricted aggregate liquidity, based upon fair market value of not less than $1,250,000 in the form of cash, cash equivalents, investments, and/or publicly traded/quoted marketable securities. In addition, the Organization is to maintain a debt coverage ratio of 1.25 to 1. The Organization was compliant with those requirements as of the year ended September 30, 2019.

9. Loans Payable (continued)

The Organization's notes payable as of September 30, 2019 and 2018 consisted of the following:

	2019	2018
Bainum 1	$ 500,000	$ 500,000
Bainum 2	500,000	500,000
Wells Fargo Bank	2,356,235	2,752,836
Subtotal	3,356,235	3,752,836
Less: unamoritzed loan fees	(5,313)	(6,562)
Total	$3,350,922	$3,746,274

Future principal payments required under the loans payable are as follows:

Years ending September 30, 2020	$ 871,218
2021	848,459
2022	326,867
2023	306,608
2024	997,769
	$3,350,922

10. Net Assets With Restrictions

Net assets with donor restrictions represent grants and contributions pledged or received as of the end of the fiscal year but not yet expended for their intended purpose or time has elapsed for time restrictions.

Net assets with donor restriction consisted of the following at September 30:

	2019	2018
Purpose restricted grants and pledges		
Operating expenses - new center	$ -	$ 185,519
Reserve fund		
BBI reserve	30,000	30,000
Building reserve	100,000	100,000
Research grant	-	99,865
Instructional coach	11,108	94,574
Capital campaign	669,423	77,090
Home-based services	77,402	55,989
Strategic capacity building	500	24,500
Verbal development	-	21,852
Therapeutic services	59,248	16,966
Early childhood education	-	13,416
Workforce development	-	9,327
Other	4,899	7,858
Community donation	3,500	-
Total purpose restricted grants and pledges	$ 956,080	$ 736,956

There were no time restricted grants and pledges as of September 30, 2019 and 2018.

11. Lease Commitments

On December 20, 2016 the Organization entered into an inter-company lease agreement with BBI Holdings, Inc. to lease the premises located at 3418 4th Street, S.E., Washington, DC. The lease term was January 1, 2018 to August 31, 2047; however, because the premises' construction was not finalized until September 2018, the Organization started deferring the rent on this lease on October 1, 2018. Annual cash payments for this agreement are $139,000 through December 31, 2023, $209,000 through December 31, 2024, and $456,000 through the end of the lease term. Rent revenue/expense for this lease, in the amount of $383,431, was eliminated during the consolidation of the financial statements.

On January 1, 2018, the Organization entered into a sublease agreement for additional space located at 3640 Martin Luther King, Jr. Avenue, S.E., Washington, DC. The lease includes most of the prime lease premises located at that address. The sublease requires a minimum amount of $20,000 per month and the lease will expire on July 31, 2023. The lease also includes extension options through July 31, 2028.

Rent expense for the years ended September 30, 2019 and 2018 was $243,781 and $321,759, respectively, and is included in occupancy costs on the statements of functional expenses.

Future minimum lease payments are as follows:

Years ending September 30 ,	2020	$ 245,400
	2021	252,762
	2022	260,349
	2023	223,142
		$ 981,653

BRIGHT BEGINNINGS, INC. AND SUBSIDIARY
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
September 30, 2019

ASSETS	**Bright Beginnings, Inc.**	**BBI Holdings, Inc.**	**Eliminations**	**Total**
Current assets				
Cash and cash equivalents, without restriction	$ 1,975,349	$ 192,471	$ -	$ 2,167,820
Contribution receivable, net	261,000	-	-	261,000
Accounts and contracts receivable	346,536	-	-	346,536
Other receivables	10,000	-	-	10,000
Loan receivable from BBI Holdings	1,258,028	-	(1,258,028)	-
Rent receivable	-	244,431	(244,431)	-
Prepaid expenses	116,282	11,810	-	128,092
Total current assets	3,967,195	448,712	(1,502,459)	2,913,448
Cash and cash equivalents, with restriction	1,250,000	-	-	1,250,000
Contribution receivable, net of current	152,150	-	-	152,150
Deposits	38,920	31,854	-	70,774
Property and equipment, net	218,232	10,010,917	-	10,229,149
New market tax credit loan fund	6,693,700	-	-	6,693,700
Total assets	$ 12,320,197	$ 10,491,483	$ (1,502,459)	$ 21,309,221
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable	$ 200,925	$ 495	$ -	$ 201,420
Accrued salaries and related liabilities	197,545	-	-	197,545
Deferred revenue	1,457	-	-	1,457
Deferred rent	244,431	-	(244,431)	-
Loan payable to BBI	-	1,258,028	(1,258,028)	-
Loans payable, current portion	871,218	-	-	871,218
Total current liabilities	1,515,576	1,258,523	(1,502,459)	1,271,640
New market tax credit loan fund	-	9,310,000	-	9,310,000
Loans payable, net of current portion and unamortized deferred financing costs of $5,313 and $6,562	2,479,704	-	-	2,479,704
Total liabilities	3,995,280	10,568,523	(1,502,459)	13,061,344
Net assets				
Without donor restrictions	7,368,837	(77,040)	-	7,291,797
With donor restrictions	956,080	-	-	956,080
Total net assets	8,324,917	(77,040)	-	8,247,877
Total liabilities and net assets	$ 12,320,197	$ 10,491,483	$ (1,502,459)	$ 21,309,221

BRIGHT BEGINNINGS, INC. AND SUBSIDIARY
CONSOLIDATING STATEMENT OF ACTIVITIES
Year Ended September 30, 2019

	Bright Beginnings, Inc.	BBI Holdings, Inc.	Eliminations	Total
Revenue and support				
Federal government grants	$ 4,707,514	$ -	$ -	$ 4,707,514
DC government contracts	1,042,650	-	-	1,042,650
Contributions and support	1,263,382	-	-	1,263,382
Donated services and supplies	103,988	-	-	103,988
Special events	43,327	-	-	43,327
Other income	149,742	-	-	149,742
Rental income	-	383,431	(383,431)	-
Net assets released from restrictions	6,914,776	-	-	6,914,776
Total revenue and support	14,225,379	383,431	(383,431)	14,225,379
Expenses				
Program services				
Education	3,195,316	103,906	-	3,299,222
Family services	750,922	22,247	-	773,169
Health and safety	693,324	7,065	-	700,389
Home-based services	435,868	12,124	-	447,992
Workforce development	367,391	20,402	-	387,793
Other programs	974,158	26,701	-	1,000,859
Total program services	6,416,979	192,445	-	6,609,424
Management and general	1,524,312	202,906	(383,431)	1,343,787
Development	417,659	43,264	-	460,923
Total expenses	8,358,950	438,615	(383,431)	8,414,134
Change in net assets without restrictions	5,866,429	(55,184)	-	5,811,245
Change in net assets with restriction				
Contributions and support	1,383,736	-	-	1,383,736
Net assets released from restrictions	(6,914,776)	-	-	(6,914,776)
Increase in net assets with restrictions	(5,531,040)	-	-	(5,531,040)
Change in net assets from operations	335,389	(55,184)	-	280,205
Non-operating activity				
Loss on disposal of fixed assets	(2,607)	-	-	(2,607)
Change in net assets	332,782	(55,184)	-	277,598
Net assets, beginning of year	7,992,135	(21,856)	-	7,970,279
Net assets, end of year	$ 8,324,917	$ (77,040)	$ -	$ 8,247,877

BRIGHT BEGINNINGS, INC. AND SUBSIDIARY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended September 30, 2019

Federal Grantor/Pass-Through Program	CFDA Number	Pass-through Grantor Identifying Number	Federal Expenditures	Passed Through to Subrecipients
U.S. Department of Health and Human Services/Head Start and Early Head Start Programs	93.600	N/A	$ 4,648,343	$ -
U.S. Department of Agriculture District of Columbia Office of the State Superintendent/Child and Adult Care Food Program	10.558	V-131	59,171	-
Total Expenditures of Federal Awards			$ 4,707,514	$ -

The accompanying notes are an integral part of this schedule.

BRIGHT BEGINNINGS, INC. AND SUBSIDIARY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended September 30, 2019

1. Basis of Presentation and Use of Estimates

The schedule of expenditures of federal awards is presented using the accrual basis of accounting. The schedule of expenditures of federal awards includes cost reimbursable grants from the federal government which, for the year ended September 30, 2019, were primarily from the U.S. Department of Health and Human Services. This information 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). Therefore, some amounts presented in the schedules may differ from amounts presented in, or used in the preparation of, the financial statements. The principal estimates and assumptions used in the preparation of the accompanying schedule relate to cost allowability and allocability (see Note 2). Actual results could differ from those estimates.

2. Government Audits

The allowability of certain costs under government grants is subject to audit by the awarding agency. Certain indirect costs charged to grants are subject to revisions based on government audits of those costs. Management believes that grant costs are consistent with applicable government cost principles, and that costs subsequently disallowed, if any, upon audit by the government would not be material.

3. Indirect Cost Rate

Bright Beginnings, Inc. and Subsidiary do not use the ten percent de minimis indirect cost rate allowed by the Uniform Guidance. Instead, Bright Beginnings, Inc. and Subsidiary use their agreed upon cost rate as specified in its Federal awards.

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INDEPENDENT AUDITORS' 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
Bright Beginnings, Inc. , and Subsidiary

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 Bright Beginnings, Inc. and Subsidiary (a nonprofit organization), which comprise the consolidated statement of financial position as of September 30, 2019 and the related consolidated statements of activities, cash flows, and functional expenses for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated March 12, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Bright Beginnings, Inc.'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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Bright Beginnings, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Bright Beginnings, Inc.'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 the 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify deficiencies in internal control that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Bright Beginnings, Inc.'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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rubino & Company

March 12, 2020
Bethesda, Maryland

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY UNIFORM GUIDANCE

To the Board of Directors
Bright Beginnings, Inc. and Subsidiary

Report on Compliance for Each Major Federal Program

We have audited Bright Beginnings, Inc. and Subsidiary'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 September 30, 2019. The Organization's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Bright Beginnings, Inc.'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* (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 Bright Beginnings, Inc.'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 Bright Beginnings, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Bright Beginnings, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2019.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as items 2019-001, 2019-002, 2019-003 2019-004 and 2019-05. Our opinion on the major program is not modified with respect to these matters.

Bright Beginnings, Inc.'s response to the noncompliance finding identified in our audit is described the accompanying schedule of findings of questioned costs. Bright Beginnings, Inc.'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response

Report on Internal Control Over Compliance

Management of Bright Beginnings, Inc. 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 Bright Beginnings, Inc.'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 were 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 OMB 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 Bright Beginnings, Inc.'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. However, we did identify certain deficiencies in internal control over compliance as described in the accompanying schedule of findings and questioned costs as items 2019-001, 2019-002, 2019-003, 2019-004 and 2019-005 that we consider to be significant deficiencies.

Bright Beginnings, Inc.'s response to the internal control over compliance findings identified in our audit is described the accompanying schedule of findings of questioned costs. Bright Beginnings, Inc.'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

Rubino & Company

March 12, 2020
Bethesda, Maryland

BRIGHT BEGINNINGS, INC. AND SUBSIDIARY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended September 30, 2019

SECTION A – SUMMARY OF AUDITORS' RESULTS

Financial Statements

1. Type of auditors' report issued:	Unmodified
2. Internal control over financial reporting:	
a. Material weakness(es) identified?	No
b. Significant deficiency(ies) identified that are not considered to be material weakness(es)?	No
3. Noncompliance material to financial statements noted?	No

Federal Awards

4. Internal control over major programs:	
a. Material weakness(es) identified?	No
b. Significant deficiency(ies) identified that are not considered to be material weakness(es)?	Yes
5. Type of auditors' report issued on compliance for major programs:	Unmodified
6. Any audit findings disclosed that are required to be reported in accordance with section 2 CFR 200.516(a)?	Yes – Part C of this Schedule

7. Identification of Major Programs:

Federal Grantor/Pass-Through Program	CFDA Number	Expenditures
U.S. Department of Health and Human Services/Head Start and Early Head Start Programs	93.600	$ 4,648,343

8. Dollar threshold used to distinguish between Type A and Type B programs	$ 750,000
9. Auditee qualified as a low-risk auditee?	Yes

SECTION B– FINANCIAL STATEMENT FINDINGS

None reported

SECTION C – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2019-001 - Allowable Costs/Cost Principles - Compensation

Program: CFDA 93.600, U.S. Department of Health and Human Services/Head Start and Early Head Start Programs

Criteria: Costs of compensation are allowable to the extent that they satisfy specific requirements including 1) the total compensation for individual employees is reasonable for the services rendered 2) is based on records that accurately reflect the work performed and are supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable and properly allocated and 3) the controls are consistently applied to both Federal and non-Federal activities. In addition, according to the Organization's Financial Roles and Responsibilities Manual time is allocated to specific projects based on a bi-weekly timesheet.

Condition and Context: Bright Beginnings, Inc. administers Head Start and Early Head Start Programs. The Head Start and Early Head Start grants are discretionary grants that provides payment of direct and indirect costs on a cost reimbursable basis.

During our testing of payroll expense allocation to the Federal award, we noted that Bright Beginnings, Inc. did not maintain timesheets to record staff hours, but rather labor hours and related wages are allocated based on the employee's set compensation rate and according to allocation percentages of his/her role, administrative or program related, adjusted on an as-needed basis by program management.

Effect: Cost principles detailed in the Code of Federal Regulations establish requirements specific to the financial management of federal grant funds. Generally, the reimbursement of salaries and compensation requires that the time charged be supported by complete and accurate records of employee time and effort in accordance with The Organization's stated policies. Accordingly, Bright Beginnings, Inc's process in place does not comply with the stated requirements. Within a federal program, failure to properly allocate payroll to cost objectives in accordance with actual activities can result in unallowable costs.

Cause: Bright Beginnings, Inc. did not utilize a timesheet system for tracking labor costs charged to programs.

2019-001 Allowable Costs/Costs Principles – Compensation (continued)

Questioned Costs: None

Recommendation: Bright Beginnings, Inc. should follow its stated policies or modify its policies to reflect the cost allocation plan that is currently being utilized.

Management's Response: BBI has reviewed 45 CFR 95, which dictates the need for a cost allocation plan to be approved by the BBI Board of Directors annually. BBI's Board of Directors approved a new cost allocation plan at their March 2020 Board meeting. Under this new plan, Head Start is only charged salaries for Head Start program staff dedicated to the Head Start program. Under this new plan, program staff allocated to multiple programs are not allocated to the Federal Head Start program at all, which eliminates the need for timekeeping.

BBI's Finance Committee reviews adjustments to the BBI Cost Allocation plan and recommends them to BBI's Board of Directors for approval before the Head Start budgets are submitted.

Finding 2019-002 – Eligibility/ Enrollment Compliance

Program: CFDA 93.600, U.S. Department of Health and Human Services/Head Start and Early Head Start Programs

Criteria: The Organization is required to follow criteria set by the Office of Head Start to identify eligible children and families to participate in the Early Head Start and Head Start programs. In addition, for enrollment compliance purposes, an eligibility verification should be performed on an annual basis on enrolled children and families.

Condition and Context: During our testing, 6 out of 24 children selected for testing in the home-based program were temporarily enrolled based on an interview, without review of the required documentation to declare them eligible. The Organization did not receive the required documentation to verify eligibility, and the children were not enrolled in the program. These potential enrollees were kept on the Organization's eligibility listing and were not removed from the listing once documentation could not be verified.

During our testing, it was noted that the Organization conducts eligibility verification once every 2 years for applicants without subsidy vouchers.

Finding 2019-002 – Eligibility/ Enrollment Compliance (continued)

Cause/Effect: The Organization had oversight issues with regard to complying with eligibility requirements under the award. This oversight had the potential effect of misrepresenting the number of eligible, enrolled children reported to the agency as of a particular date.

Question Costs: None

Recommendation: We recommend that the Organization thoroughly verify the children's eligibility by reviewing the necessary documentation prior to incorporating the potential enrollees in the eligibility records.

In addition, eligibility verification should be performed annually to remain in compliance with the OHS requirements.

Management Response: The collection and maintenance of documents is a challenge for many of the families that BBI serves. Since BBI serves families who are experiencing homelessness, documents are easily lost and often incomplete. As a result, BBI has invested in a Recruitment & Eligibility (ERSEA) Team. Previously, Bright Beginnings only had one full-time employee performing multiple recruitment, eligibility and enrollment functions. However, in the summer 2019, BBI expanded the ERSEA Team to have one full time employee focused on Head Start recruitment and ensuring parents are aware of all the documentation needed to enroll. This role supports parents in securing all documentation when families face barriers to acquiring required documentation. Another employee ensures that all Head Start eligibility, enrollment and attendance requirements have been met. The final role works specifically with parents to obtain eligibility information required for OSSE subsidy submission.

Finding 2019-003– Matching Compliance

Federal Program: CFDA 93.600 – U.S. Department of Health and Human Services/Head Start and Early Head Start Programs

Criteria: The use of volunteer time as match must include the establishment of a wage scale based upon the grantee agency's internal scale or prevailing wages in the area. Salaries and wages used in meeting cost sharing or matching requirements on Federal awards must be supported in the same manner as salaries and wages claimed for reimbursement from Federal awards. Documentation should be maintained on a regular basis. Programs may choose to use a monthly time sheets for regular volunteers or daily time sheets for occasional volunteers.

Condition and Context: During our testing of volunteer hours used for the federal grants match requirement, two out of the three entries selected lacked sufficient documentation. The sign-in sheets used for volunteers did not include the time in/ time out for all volunteers, and the rate used to calculate the dollar amount was outdated.

Cause/Effect: The Organization had oversight issues with regard to documentation for matching compliance under the awards. The lack of such documentation has the potential effect of reporting incorrect matching funds to the agency.

Question Costs: None

Recommendation: We recommend that more detailed records be maintained and that rates used for matching funds include the establishment of a wage scale based upon the grantee agency's internal scale or prevailing wages in the area.

Management Response: Previously, volunteers at our early learning centers were asked to sign in and sign out. If they did not sign out, the volunteer coordinator estimated the time that they left. BBI's volunteer coordinator maintained the paper volunteer log and provided the Finance Department with a monthly total. During, a staff transition, some of the logs were not located. Recently, Bright Beginnings implemented an electronic sign-in process that better enables BBI to track all volunteers. Bright Beginnings' Volunteer Coordinators will receive internal Head Start compliance training as part of their onboarding.

For the fiscal year in question, BBI valued volunteer time at $23.07 per hour, the national hourly rate reported in 2014 in the attached volunteer time by state report. The 2018 rate, from the same table, is $25.43. BBI reported 1,822.50 hours of volunteer time in FY19, which was calculated at the 2014 rate of $23.07, for a total of $42,045.09. If the 2018 rate of $25.48 had been used, the total amount charged would have been $46,437.30, a difference of $4,392.21. Because volunteer time is only used for non-federal share, BBI used other non-federal funds to make up the difference.

Finding 2019-003– Matching Compliance (continued)

Based on the $23.07 rate used, BBI reported 30 hours of nonfederal share without proper documentation, again, from a departed employee. The value of those hours: $692.

Conclusion: Volunteer hour tracking has been improved. Volunteer logs are kept and were presented for the sample requests. DHHS was charged less than an allowable amount for properly documented hours. We do not see this as a significant deficiency.

Finding 2019-004 – Reporting Compliance

Federal Program: CFDA 93.600 – U.S. Department of Health and Human Services/Head Start and Early Head Start Programs

Criteria: Per the Office of Head Start Compliance Supplement, the Organization has financial and special reporting requirements due based on the budget periods of grants awarded.

Condition and context: For awards with budget periods ending in 2019, the financial reporting forms SF-425s and special reporting forms SF-429s were later than the prescribed due dates.

Cause/Effect: The Organization had oversight issues with regard to reporting compliance under the award.

Question Costs: None

Recommendation: We recommend that the Organization monitors its contract reporting timeline and due dates. The production and submission of reports should follow timeline specified on the grants.

Management Response: The Form SF-425 at 9/30/19 was delayed due to employee sickness. BBI is expanding its Department of Finance, which will allow for the assignment of backup roles for critical functions, such as SF-425 form filings.

Additionally, the Executive Director sends out an email to senior staff each week with deadlines for the next four weeks, including filing deadlines for the SF-425/428-429.

Finding 2019-005 – Cost of Ownership

Federal Program: CFDA 93.600 – U.S. Department of Health and Human Services/Head Start and Early Head Start Programs

Criteria: Per the HHS Grants Policy Statement: *"Rental costs under a 'less-than-arms-length' arrangement is allowable only up to the amount that would be allowed under the applicable cost principles had title to the property been vested in the recipient."* In order for related party lease transactions to be allowable a "cost of ownership" analysis must be performed by the Organization annually to ensure that rental costs incurred do not exceed the cost of ownership.

Condition and context: The Organization had not performed a calculation for the year ended September 30, 2019.

Cause/Effect: Costs in excess of allowable costs could have been charged to federal programs after the Organization occupied the new facility.

Question Costs: None

Recommendation: We recommend that the Organization prepare a cost of ownership calculation and update the calculation on a not less than annual basis.

Management Response: Bright Beginnings took occupancy of its 3418 4th Street location in late September 2018 and began owing rent as of October 2018. For the fiscal year ended September 30, 2019, operating expenses at 4th Street were approximately $437,000, and Bright Beginnings charged $107,083 to Head Start for 4th Street rent - less than 25% of annual operating costs. BBI is performing a square footage analysis to support this calculation, but the percentage of Fourth Street facilities dedicated to the Head Start program is well over 50%. BBI is in the process of formalizing and documenting this analysis.

BRIGHT BEGINNINGS, INC. AND SUBSIDIARY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended September 30, 2019

This schedule has not been prepared as there were no findings identified in the prior year audit.