BRIGHT BEGINNINGS, INC. AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS
AND
REPORTS UNDER THE UNIFORM GUIDANCE

Years Ended September 30, 2022 and 2021

TABLE OF CONTENTS

6903 Rockledge Drive
Suite 300
Bethesda, MD 20817
301-564-3636

RUBINO
STRENGTH IN NUMBERS

1950 Old Gallows Road
Suite 440
Vienna, VA 22182
703-506-9700

INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Bright Beginnings, Inc. and Subsidiary (collectively referred to as the Organization), which comprise the consolidated statements of financial position as of September 30, 2022 and 2021, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Bright Beginnings, Inc. and Subsidiary and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As discussed in Note 3 to the financial statements, of Bright Beginnings, Inc. and Subsidiary adopted Accounting Standards Update No. 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, during the year ended September 30, 2022. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Bright Beginnings, Inc. and Subsidiary's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Bright Beginnings, Inc. and Subsidiary's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards 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 April 4, 2023, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Bright Beginnings, Inc. and Subsidiary's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Bright Beginnings, Inc. and Subsidiary's internal control over financial reporting and compliance.

Rubino & Company

Bethesda, Maryland
April 4, 2023

BRIGHT BEGINNINGS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
September 30, 2022 and 2021

	2022	2021
ASSETS		
Current assets		
Cash and cash equivalents	$ 4,523,703	$ 4,207,543
Contribution receivable, net	248,750	145,000
Accounts and contracts receivable	596,976	405,598
Prepaid expenses	84,122	129,384
Total current assets	5,453,551	4,887,525
Contribution receivable, net of current	-	27,891
Property and equipment, net	9,521,326	9,672,527
New market tax credit loan fund	6,693,700	6,693,700
Total assets	$ 21,668,577	$ 21,281,643
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	$ 250,611	$ 222,372
Accrued salaries and related liabilities	285,773	253,180
Total current liabilities	536,384	475,552
New market tax credit loan fund	9,310,000	9,310,000
Total liabilities	9,846,384	9,785,552
Net assets		
Without donor restrictions	11,249,733	10,899,117
With donor restrictions	572,460	596,974
Total net assets	11,822,193	11,496,091
Total liabilities and net assets	$ 21,668,577	$ 21,281,643

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

BRIGHT BEGINNINGS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF ACTIVITIES
Years Ended September 30, 2022 and 2021

	Year Ended September 30, 2022			**Year Ended September 30, 2021**		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support						
U.S. federal government grants	$ -	$ 4,106,361	$ 4,106,361	$ -	$ 4,067,111	$ 4,067,111
D.C. government contracts	-	1,606,191	1,606,191	-	2,098,780	2,098,780
Contributions and support	1,197,552	1,360,737	2,558,289	1,833,721	1,149,180	2,982,901
Donated services and supplies	62,563	-	62,563	138,766	-	138,766
Special events	-	-	-	6,190	-	6,190
Other income	5,513	-	5,513	316	-	316
Net assets released from restrictions	7,097,803	(7,097,803)	-	7,189,876	(7,189,876)	-
Total revenue and support	8,363,431	(24,514)	8,338,917	9,168,869	125,195	9,294,064
Expenses						
Program services						
Education	3,596,352	-	3,596,352	3,327,826	-	3,327,826
Family services	462,060	-	462,060	481,561	-	481,561
Therapeutic services	244,833	-	244,833	181,455	-	181,455
Health and safety	585,913	-	585,913	510,436	-	510,436
Home-based services	540,941	-	540,941	432,834	-	432,834
Workforce development	119,005	-	119,005	134,501	-	134,501
Other programs	550,575	-	550,575	763,250	-	763,250
Total program services	6,099,679	-	6,099,679	5,831,863	-	5,831,863
Management and general	1,653,102	-	1,653,102	1,414,309	-	1,414,309
Development	385,062	-	385,062	432,329	-	432,329
Total expenses	8,137,843	-	8,137,843	7,678,501	-	7,678,501
Change in net assets from operations	225,588	(24,514)	201,074	1,490,368	125,195	1,615,563
Non-operating activity						
Interest income	125,028	-	125,028	125,082	-	125,082
Change in net assets	350,616	(24,514)	326,102	1,615,450	125,195	1,740,645
Net assets, beginning of year	10,899,117	596,974	11,496,091	9,283,667	471,779	9,755,446
Net assets, end of year	$ 11,249,733	$ 572,460	$ 11,822,193	$ 10,899,117	$ 596,974	$ 11,496,091

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

BRIGHT BEGINNINGS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year Ended September 30, 2022

	Program Services								Supporting Services		
	Education	Family Services	Therapeutic Services	Health and Safety	Home-based Services	Workforce Development	Other Programs	Total Program Services	Management and General	Development	Total
Payroll and Benefits Compensation	$ 2,828,138	$ 294,085	$ 168,567	$ 235,970	$ 413,270	$ 85,874	$ 371,799	$ 4,397,703	$ 525,707	$ 242,389	$ 5,165,799
Consulting Services											
Program	49,307	-	45,147	11,615	5,896	-	20,812	132,777	29,439	2,570	164,786
Other	79,894	16,233	2,987	6,696	10,170	2,618	72,595	191,193	422,889	50,618	664,700
Classroom Expenses	60,913	5,406	5,488	272,498	6,128	-	259	350,692	4,690	-	355,382
Family Services	2,363	45,960	193	2,181	1,176	16,675	1,772	70,320	377	-	70,697
Communication/Public Education	95,833	7,151	3,184	7,110	11,199	1,907	13,478	139,862	22,245	23,759	185,866
Publications & Printing	16,174	12,790	-	2,550	3,912	800	32,940	69,166	12,919	25,785	107,870
Home Based Services	-	-	-	-	27,427	-	-	27,427	635	-	28,062
Travel & Meetings	37,297	3,152	1,932	2,547	4,508	914	3,808	54,158	40,234	1,766	96,158
Other Event Expenses	-	-	-	-	-	-	-	-	-	1,337	1,337
Supplies & Equipment	34,126	5,080	2,400	12,044	4,874	868	3,365	62,757	52,970	2,074	117,801
Occupancy Costs	126,191	12,142	4,815	10,460	16,826	2,876	9,384	182,694	142,917	7,188	332,799
Insurance, Service Fees & Chgs	108,056	9,024	4,168	9,126	14,343	2,530	8,013	155,260	343,726	18,481	517,467
Depreciation Expense	158,060	13,294	5,952	13,116	21,212	3,943	12,350	227,927	29,534	9,095	266,556
In-kind expenses	-	37,743	-	-	-	-	-	37,743	24,820	-	62,563
Totals	$ 3,596,352	$ 462,060	$ 244,833	$ 585,913	$ 540,941	$ 119,005	$ 550,575	$ 6,099,679	$ 1,653,102	$ 385,062	$ 8,137,843

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

BRIGHT BEGINNINGS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year Ended September 30, 2021

	Program Services								Supporting Services		
	Education	Family Services	Therapeutic Services	Health and Safety	Home-based Services	Workforce Development	Other Programs	Total Program Services	Management and General	Development	Total
Payroll and benefits	$ 2,664,712	$ 253,916	$ 130,223	$ 222,646	$ 355,657	$ 114,877	$ 562,327	$ 4,304,358	$ 518,246	$ 255,540	$ 5,078,144
Consulting services											
Program	63,214	2,076	23,059	12,628	6,098	764	29,372	137,211	19,830	6,841	163,882
Other	41,724	3,075	1,678	3,482	4,944	1,345	30,035	86,283	327,356	80,090	493,729
Classroom expenses	32,913	12,190	3,906	211,690	-	-	330	261,029	2,485	-	263,514
Family services	228	68,112	939	6,903	-	461	3,228	79,871	41	-	79,912
Communications	64,375	4,961	2,606	5,820	8,994	2,226	24,786	113,768	21,485	19,385	154,638
Publication and printing	3,800	6,481	764	4,150	-	-	46,249	61,444	22,451	13,093	96,988
Home based services	-	-	-	-	1,652	-	-	1,652	-	-	1,652
Travel and meetings	22,981	1,486	1,350	1,778	2,470	597	4,409	35,071	23,873	5,279	64,223
Other event expenses	-	-	-	-	-	-	-	-	18	23,782	23,800
Supplies	54,981	6,711	2,084	7,730	6,982	1,735	7,626	87,849	1,294	2,725	91,868
Occupancy costs	136,901	8,819	5,205	12,081	15,579	4,407	19,375	202,367	138,639	8,111	349,117
Insurance, interest and fees	95,692	7,482	3,766	8,529	13,686	3,303	14,213	146,671	261,592	8,227	416,490
Depreciation	146,305	9,171	5,875	12,999	16,772	4,786	21,300	217,208	35,314	9,256	261,778
In-kind expenses	-	97,081	-	-	-	-	-	97,081	41,685	-	138,766
Totals	$ 3,327,826	$ 481,561	$ 181,455	$ 510,436	$ 432,834	$ 134,501	$ 763,250	$ 5,831,863	$ 1,414,309	$ 432,329	$ 7,678,501

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

BRIGHT BEGINNINGS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended September 30, 2022 and 2021

	2022	2021
Cash flows from operating activities		
Change in net assets	$ 326,102	$ 1,740,645
Reconciling adjustments		
Forgiveness of Paycheck Protection Program note payable	-	(235,000)
Depreciation and amortization	266,556	261,778
Loss on property and equipment disposals	-	24,769
Changes in operating assets and liabilities		
Contributions receivable	(75,859)	26,968
Accounts and contracts receivable	(191,378)	574,731
Prepaid expenses	45,262	(73,607)
Deposits	-	30,672
Accounts payable	28,239	117,314
Accrued salaries and related liabilities	32,593	(11,957)
Deferred revenue	-	(12,000)
Deferred rent	-	(21,889)
Net cash provided by operating activities	431,515	2,422,424
Cash flows from investing activities		
Purchase of property and equipment	(115,355)	(71,061)
Net change in cash and cash equivalents	316,160	2,351,363
Cash and cash equivalents, beginning of year	4,207,543	1,856,180
Cash and cash equivalents, end of year	$ 4,523,703	$ 4,207,543
Supplemental cash flow information		
Interest paid	$ 158,549	$ 158,549

The accompanying notes are an integral part of these consolidated 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, 2022 and 2021.

Education

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 experiencing housing instability 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 as allowed by COVID-19 protocols. 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.

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 stable housing.

CARE Team engages 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. Bright Beginnings' whole child, whole family approach ensures that both children and parents are sufficiently supported in creating 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.

2. Program Descriptions (continued)

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 Services

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, coach parents on strategies to be the child’s first teacher, screen and assess each child and provide wrap-around support services.

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.

2. Program Descriptions (continued)

Workforce Development

Beginning in 2020, the Organization served 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 can 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.

3. Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements represent the activity of Bright Beginnings, Inc. and Subsidiary (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.

3. Summary of Significant Accounting Policies (continued)

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.

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 from investments and other 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.

3. Summary of Significant Accounting Policies (continued)

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, 2022 and 2021, 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 $5,000 or more, and a useful life of more than a year. 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.

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.

Contributions 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.

3. Summary of Significant Accounting Policies (continued)

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 Services and supplies

The Organization receives various forms of contributed nonfinancial assets, including donated services and supplies (Note 11). Donated professional services which support program activities are recognized at fair value when 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. Donated supplies are in the form of toys, books, classroom supplies, diapers, and wipes. They are recognized at fair value when received. The Organization did not monetize any contributed nonfinancial assets and unless otherwise noted, contributed nonfinancial assets did not have donor restrictions for the year ended September 30, 2022 and 2021.

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.

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)

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.

New Accounting Pronouncement – Adopted

In September 2020, FASB issued Accounting Standards Update (ASU) 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The overall objective of the ASU is to improve generally accepted accounting principles by increasing the transparency of contributed nonfinancial assets for not-for-profit entities through enhancement to presentation and disclosure. The ASU provides guidance for presenting contributed nonfinancial assets as a separate line item in the statement of activities and disclosing the disaggregation of the amount of contributed nonfinancial assets recognized within the statement of activities by category, including both qualitative and quantitative information applicable to the nonfinancial assets. The Organization adopted the ASU for the year ended September 30, 2022. Adoption of the ASU did not result in any restatement of net assets.

New Accounting Pronouncements – Future Periods

In February 2016, the FASB issued ASU 2016-02, *Leases*, which requires a lessee to recognize a right-of-use ("ROU") assets and lease liability on the balance sheet for most lease contracts (which include those leases that are currently classified as operating leases under the current accounting standard). Additional disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from lease contracts. The standard will be effective for the Organization beginning October 1, 2022. The Organization is currently evaluating the impact of the new standard on the financial statements.

3. Summary of Significant Accounting Policies (continued)

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 2022 or 2021. 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, 2021, 2020 and 2019 remain open to examination by the taxing jurisdictions.

Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through April 4, 2023, the date the financial statements were available to be issued.

4. Availability and Liquidity

The following reflects the Organization's consolidated financial assets at September 30, 2022 and 2021, reduced by amounts not available for general use within one year of the statement of financial position date because of donor imposed restrictions.

	2022	2021
Cash and cash equivalents	$ 4,523,703	$ 4,207,543
Contribution receivable, net	248,750	172,891
Accounts and contract receivable	596,976	405,598
Total financial assets	5,369,429	4,786,032
Less amounts not available to be used within one year		
Long-term contribution receivable	-	27,891
Net assets with donor restrictions	572,460	596,974
	572,460	624,865
Financial assets available to meet cash needs for general expenditures within one year	$ 4,796,969	$ 4,161,167

The Organization has set three 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 $2,200,000), and
3) Build a building and maintenance fund of $90,000.

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.

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.

4. Availability and Liquidity (continued)

In addition to its liquid assets on hand at September 30, 2022, the Organization expects to receive approximately $3,800,000 in the next fiscal year from federal awards. Federal awards allow the Organization 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 $1,500,000 from District of Columbia sources. The Organization submits monthly reports to the District of Columbia and the reimbursement period is generally within 30 days.

5. Contribution Receivable

Contribution 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. As of September 30, 2022, all contributions receivable are current, no discount amount is applied. The discount rate for 2021 was about 4.5%. The discount is amortized to support from contributions over the contribution collection period.

Contribution receivable at September 30, 2022 and 2021 are expected to be collected as follows:

	2022	2021
Due in less than one year	$ 248,750	$ 145,000
Due in two to five years	-	30,000
Total contribution receivable	248,750	175,000
Less:		
Discount for present value	-	(2,109)
Contribution receivable, net	$ 248,750	$ 172,891

6. Property and Equipment

Property and equipment consist of the following at September 30:

	2022	2021
Land	$ 1,232,731	$ 1,232,731
Building	8,889,430	8,889,430
Leasehold improvements	219,109	103,754
Equipment	266,679	266,679
Total property and equipment	10,607,949	10,492,594
Less: Accumulated depreciation and amortization	(1,086,623)	(820,067)
Property and equipment, net	$ 9,521,326	$ 9,672,527

Depreciation and amortization expense for the years ended September 30, 2022 and 2021 totalled $266,556 and $261,778, respectively.

7. 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, 2022 and 2021 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.

7. New Markets Tax Credit Financing (continued)

The second note payable (QLICI Loan B), has a balance of $2,616,300 as of September 30, 2022 and 2021 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, 2022 and 2021 are as follows:

	2022	2021
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

Interest income and expenses related to the NMTC financing for the years ended September 30, 2022 and 2021 were as follows:

	2022	2021
Interest income	$ 125,190	$ 125,191
Interest expense	$ 158,549	$ 158,549

8. Paycheck Protection Program Loan

On July 1, 2020, the Organization received funding of $235,000 through the Paycheck Protection Program (PPP), as established by the CARES Act, which provides qualifying businesses to obtain federal funding for amounts not to exceed two and a half times average monthly payroll expenses. Under the provisions of the CARES Act, the PPP proceeds must be used for eligible expenses, which includes payroll, benefits, rent and utilities. The eligible expenses may be forgiven if such expenses are incurred during the 24-week period after receipt of the PPP funding and if the Organization maintains its pre-pandemic staffing levels.

For amounts received, but not forgiven, the excess proceeds will convert to a note payable, with a maturity date of July 1, 2025, and accruing interest at 1.00% per annum.

9. Paycheck Protection Program Loan (continued)

Under the provisions of the CARES Act, payments are deferred for six months and there is no collateral or guarantee requirements.

On July 13, 2021, the Organization received full forgiveness for the PPP funding. The forgiveness of the loan totaling $235,000 is recorded as revenue from contributions and support on the statement of activities for the year ended September 30, 2021.

10. Net Assets With Donor 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 passage of time.

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

	2022	2021
Purpose restricted grants and pledges		
Advocacy	$ 120,000	$ -
Champions for Children program	-	10,000
Community donation	-	2,000
Education	92,531	83,965
Evening Care	6,139	-
Family Services	12,905	-
Fatherhood	20,000	-
Health & Therapeutic Services	45,850	127,225
Home-based services	41,912	148,400
Innovate - Evaluation/Performance	-	15,805
LENA	-	14,772
Medical evaluation for children	-	10,700
Other	-	52,699
Playground	-	90,000
Trauma informed care	-	2,143
Workforce development	33,123	39,265
Total purpose restricted grants and pledges	372,460	596,974
Time restricted	200,000	-
Total net assets with donor restrictions	$ 572,460	$ 596,974

10. Net Assets With Donor Restrictions (continued)

The following net assets with donor restrictions were released from restrictions by incurring expenses, which satisfied the restricted purposes specified by the donors, or the passage of time during the years ended September 30, 2022 and 2021:

Purpose restricted grants and pledges		
Champions for Children grant	$ 10,000	$ 10,000
COVID-19	100,000	127,620
D.C. government contracts	1,606,191	2,098,780
Data and continuous improvement	-	29,066
DC Childcare Provider Relief Fund	-	95,880
Early childhood education	-	38,747
Education	295,928	141,035
Evening Care	8,861	-
Family Services	19,542	-
Fatherhood program	4,000	45,015
Health & Therapeutic Services	188,179	128,943
Health and safety	3,200	2,853
Home-based services	131,487	56,540
Human Resources	50,000	-
Innovate - Evaluation/Performance	15,805	-
Medical Evaluation for Children	7,500	-
Payroll, routine operating expenses	50,000	-
Playground	90,000	-
Stablize operations, Salary, cleaning, GOS	187,107	23,410
Strategic capacity building	-	500
Trauma informed care	-	17,857
U.S. federal government grants	4,106,361	4,067,111
Workforce development	23,642	11,519
Total purpose restricted grants and pledges	6,897,803	6,894,876
Time restricted	200,000	295,000
	$ 7,097,803	$ 7,189,876

11. Donated Services and Supplies

Donated services and supplies for the years ended September 30, 2022 and 2021 included in the statement of activities, consisted of the following:

	2022	2021
Donated Supplies	$ 28,530	$ 90,837
Donated Services	34,033	47,929
Total	$ 62,563	$ 138,766

In valuing the donated supplies, management estimated the fair value on the basis of market value/cost of the supplies donated. Donated professional services relate to attorneys advising management on various administrative legal matters and consultants advising management on various program matters. Donated professional services are valued and are reported at the estimated fair value in the financial statements based on current rates for similar professional services.

12. 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 for the years ended September 30, 2022 and 2021.

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 required a minimum amount of $20,000 per month and the lease was set to expire on July 31, 2023. Effective March 2021, the Organization no longer occupied the space, and the sublease was terminated.

Rent expense for the year ended September 30, 2021 was $61,158, and is included in occupancy costs on the statements of functional expenses.

BRIGHT BEGINNINGS, INC. AND SUBSIDIARY
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
September 30, 2022

	Bright Beginnings, Inc.	BBI Holdings, Inc.	Eliminations	Total
ASSETS				
Current assets				
Cash and cash equivalents	$ 4,411,949	$ 111,754	$ -	$ 4,523,703
Contribution receivable, net	248,750	-	-	248,750
Accounts and contracts receivable	596,976	-	-	596,976
Loan receivable	1,215,764	-	(1,215,764)	-
Rent receivable	-	977,724	(977,724)	-
Prepaid expenses	84,122	-	-	84,122
Total current assets	6,557,561	1,089,478	(2,193,488)	5,453,551
Contribution receivable, net of current	-	-	-	-
Property and equipment, net	288,108	9,233,218	-	9,521,326
New market tax credit loan fund	6,693,700	-	-	6,693,700
Total assets	$ 13,539,369	$ 10,322,696	$ (2,193,488)	$ 21,668,577
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable	$ 250,611	$ -	$ -	$ 250,611
Accrued salaries and related liabilities	285,773	-	-	285,773
Deferred rent, current portion	244,431	-	(244,431)	-
Loan payable to BBI	-	1,215,764	(1,215,764)	-
Total current liabilities	780,815	1,215,764	(1,460,195)	536,384
Deferred rent	733,293	-	(733,293)	-
New market tax credit loan fund	-	9,310,000	-	9,310,000
Total liabilities	1,514,108	10,525,764	(2,193,488)	9,846,384
Net assets				
Without donor restrictions	11,452,801	(203,068)	-	11,249,733
With donor restrictions	572,460	-	-	572,460
Total net assets	12,025,261	(203,068)	-	11,822,193
Total liabilities and net assets	$ 13,539,369	$ 10,322,696	$ (2,193,488)	$ 21,668,577

BRIGHT BEGINNINGS, INC. AND SUBSIDIARY
CONSOLIDATING STATEMENT OF ACTIVITIES
Year Ended September 30, 2022

	Bright Beginnings, Inc.	BBI Holdings, Inc.	Eliminations	Total
Change in net assets without donor restrictions				
Revenue and support				
Contributions and support	$ 1,197,552	$ -	$ -	$ 1,197,552
Donated services and supplies	62,563	-	-	62,563
Other income	5,513	-	-	5,513
Rental income	-	383,431	(383,431)	-
Interest income	125,028	-	-	125,028
Net assets released from restrictions	7,097,803	-	-	7,097,803
Total revenue and support	8,488,459	383,431	(383,431)	8,488,459
Expenses				
Program services				
Education	3,567,770	173,972	(145,390)	3,596,352
Family services	461,336	14,713	(13,989)	462,060
Therapeutic services	243,795	6,586	(5,548)	244,833
Health and safety	583,478	14,486	(12,051)	585,913
Home-based services	537,036	23,291	(19,386)	540,941
Workforce development	118,049	4,270	(3,314)	119,005
Other programs	547,958	13,428	(10,811)	550,575
Total program services	6,059,422	250,746	(210,489)	6,099,679
Management and general	1,675,989	141,773	(164,660)	1,653,102
Development	379,495	13,849	(8,282)	385,062
Total expenses	8,114,906	406,368	(383,431)	8,137,843
Change in net assets without donor restrictions	373,553	(22,937)	-	350,616
Change in net assets with donor restriction				
U.S. federal government grants	4,106,361	-	-	4,106,361
D.C. government contracts	1,606,191	-	-	1,606,191
Contributions and support	1,360,737	-	-	1,360,737
Net assets released from restrictions	(7,097,803)	-	-	(7,097,803)
Decrease in net assets with donor restrictions	(24,514)	-	-	(24,514)
Change in net assets	349,039	(22,937)	-	326,102
Net assets, beginning of year	11,676,222	(180,131)	-	11,496,091
Net assets, end of year	$ 12,025,261	$ (203,068)	$ -	$ 11,822,193

BRIGHT BEGINNINGS, INC. AND SUBSIDIARY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended September 30, 2022

Federal Grantor/Pass-Through Grantor/ Program Title	Assistance Listing 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	$ 3,614,343	$ -
COVID-19 Head Start and Early Head Start Programs	93.600	N/A	57,400	-
Total Head Start and Early Head Start Programs			3,671,743	-
Passed-through Administration for Children and Families Low Income Investment Fund DC Child Care Road to Recovery Fund	93.434	N/A	50,000	-
Passed-through Washington Area Community Investment Fund American Rescue Plan Child Care and Development Block Grant Child Care Stabilization funds	93.575	N/A	187,107	-
Passed-through The Urban Institute and Centers for Disease Control and Prevention Immunization Research, Demonstration, Public Information and Education Training and Clinical Skills Improvement Projects	93.185	102351-0001-BB-01	53,233	-
U.S. Department of Agriculture				
Passed-through District of Columbia Office of the State Superintendent Child and Adult Care Food Program	10.558	V-131	144,278	-
Total Expenditures of Federal Awards			$ 4,106,361	$ -

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, 2022

1. Basis of Presentation

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

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 are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

3. 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.

4. Indirect Cost Rate

Bright Beginnings, Inc. has elected not to 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 their Federal awards.

6903 Rockledge Drive
Suite 300
Bethesda, MD 20817
301-564-3636

RUBINO
STRENGTH IN NUMBERS

1950 Old Gallows Road
Suite 440
Vienna, VA 22182
703-506-9700

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, 2022, 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 April 4, 2023.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Bright Beginnings, Inc. and Subsidiary'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. and Subsidiary'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 internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Bright Beginnings, Inc. and Subsidiary'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 statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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

April 4, 2023
Bethesda, Maryland

6903 Rockledge Drive
Suite 300
Bethesda, MD 20817
301-564-3636

RUBINO
STRENGTH IN NUMBERS

1950 Old Gallows Road
Suite 440
Vienna, VA 22182
703-506-9700

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

Opinion on Each Major Federal Program

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

In our opinion, Bright Beginnings, Inc. and Subsidiary 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 September 30, 2022.

Basis for Opinion on Each Major Federal Program

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

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

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Bright Beginnings, Inc. and Subsidiary's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.

- Obtain an understanding of Bright Beginnings, Inc. and Subsidiary's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Bright Beginnings, Inc. and Subsidiary's internal control over compliance. Accordingly, no such opinion is expressed.

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

Report on Internal Control over Compliance

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

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

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

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

Rubino & Company

April 4, 2023
Bethesda, Maryland

BRIGHT BEGINNINGS, INC. AND SUBSIDIARY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended September 30, 2022

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)?	No
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)?	No

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	$ 3,671,743

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

None reported.

SECTION B– FINANCIAL STATEMENT FINDINGS

None reported.

SECTION C – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.