BRIGHT BEGINNINGS, INC. AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS
AND
REPORTS UNDER THE UNIFORM GUIDANCE

Years Ended September 30, 2021 and 2020

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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 statements of financial position as of September 30, 2021 and 2020, the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

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 as of September 30, 2021 and 2020, and the related consolidated statement of activities, functional expenses and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, the Bright Beginnings, Inc. adopted Accounting Standards Update 2014-09, Revenue from Contracts with Customers (Topic 606) during the year ended September 30, 2021. 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 15, 2022, 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 15, 2022

BRIGHT BEGINNINGS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
September 30, 2021 and 2020

	2021	2020
ASSETS		
Current assets		
Cash and cash equivalents	$ 4,207,543	$ 1,856,180
Contribution receivable, net	145,000	148,612
Accounts and contracts receivable	405,598	980,329
Prepaid expenses	129,384	55,777
Total current assets	4,887,525	3,040,898
Contribution receivable, net of current	27,891	51,247
Deposits	-	30,672
Property and equipment, net	9,672,527	9,888,013
New market tax credit loan fund	6,693,700	6,693,700
Total assets	$ 21,281,643	$ 19,704,530
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	$ 222,372	$ 105,058
Accrued salaries and related liabilities	253,180	265,137
Deferred revenue	-	12,000
Total current liabilities	475,552	382,195
New market tax credit loan fund	9,310,000	9,310,000
Payroll Protection Program loan payable	-	235,000
Deferred rent	-	21,889
Total liabilities	9,785,552	9,949,084
Net assets		
Without donor restrictions	10,899,117	9,283,667
With donor restrictions	596,974	471,779
Total net assets	11,496,091	9,755,446
Total liabilities and net assets	$ 21,281,643	$ 19,704,530

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, 2021 and 2020

	Year Ended September 30, 2021			Year Ended September 30, 2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support						
U.S. federal government grants	$ -	$ 4,067,111	$ 4,067,111	$ -	$ 3,968,343	$ 3,968,343
D.C. government contracts	-	2,098,780	2,098,780	-	2,331,716	2,331,716
Contributions and support	1,833,721	1,149,180	2,982,901	2,180,789	1,273,909	3,454,698
Donated services and supplies	138,766	-	138,766	18,912	-	18,912
Special events	6,190	-	6,190	3,000	-	3,000
Other income	316	-	316	1,549	-	1,549
Net assets released from restrictions	7,189,876	(7,189,876)	-	8,058,269	(8,058,269)	-
Total revenue and support	9,168,869	125,195	9,294,064	10,262,519	(484,301)	9,778,218
Expenses						
Program services						
Education	3,327,826	-	3,327,826	3,701,688	-	3,701,688
Family services	481,561	-	481,561	719,912	-	719,912
Therapeutic services	181,455	-	181,455	222,812	-	222,812
Health and safety	510,436	-	510,436	442,862	-	442,862
Home-based services	432,834	-	432,834	474,726	-	474,726
Workforce development	134,501	-	134,501	267,784	-	267,784
Other programs	763,250	-	763,250	579,835	-	579,835
Total program services	5,831,863	-	5,831,863	6,409,619	-	6,409,619
Management and general	1,414,309	-	1,414,309	1,496,212	-	1,496,212
Development	432,329	-	432,329	490,687	-	490,687
Total expenses	7,678,501	-	7,678,501	8,396,518	-	8,396,518
Change in net assets from operations	1,490,368	125,195	1,615,563	1,866,001	(484,301)	1,381,700
Non-operating activity						
Interest income	125,082	-	125,082	125,869	-	125,869
Change in net assets	1,615,450	125,195	1,740,645	1,991,870	(484,301)	1,507,569
Net assets, beginning of year	9,283,667	471,779	9,755,446	7,291,797	956,080	8,247,877
Net assets, end of year	$ 10,899,117	$ 596,974	$ 11,496,091	$ 9,283,667	$ 471,779	$ 9,755,446

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 STATEMENT OF FUNCTIONAL EXPENSES
Year Ended September 30, 2020

	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	$ 2,784,701	$ 557,664	$ 152,588	$ 221,716	$ 324,598	$ 199,918	$ 227,416	$ 4,468,601	$ 487,001	$ 242,834	$ 5,198,436
Consulting services											
Program	95,012	4,156	30,640	9,771	1,127	1,148	66,131	207,985	13,821	17,029	238,835
Other	80,825	15,333	4,151	7,806	17,211	5,797	151,512	282,635	335,056	119,316	737,007
Communications	47,443	9,547	2,591	3,811	5,268	3,279	13,842	85,781	14,328	10,116	110,225
Occupancy costs	250,978	49,598	13,132	22,347	19,216	18,039	20,877	394,187	218,697	22,374	635,258
Family services	3,845	12,080	2,617	1,656	348	14,331	200	35,077	1,934	5	37,016
Home Based Services	3,843	-	-	-	74,104	-	-	77,947	-	-	77,947
Travel & Meetings	7,227	1,599	155	248	485	841	896	11,451	63,539	5,255	80,245
Depreciation	161,449	32,145	8,570	13,163	15,101	11,022	(20,506)	220,944	28,714	14,193	263,851
Supplies	84,072	21,478	3,999	7,547	7,877	5,694	6,953	137,620	29,933	7,349	174,902
Other event expenses	127	25	4	4	15	2	5	182	19	3,950	4,151
Publication and printing	2,603	938	171	277	300	2,182	3,947	10,418	2,623	35,024	48,065
Classroom expenses	115,337	1,618	528	149,308	1,209	932	867	269,799	3,046	983	273,828
Insurance, interest and fees	60,100	13,731	3,666	5,208	7,867	4,599	107,695	202,866	297,501	12,259	512,626
In-kind expenses	4,126	-	-	-	-	-	-	4,126	-	-	4,126
Totals	$ 3,701,688	$ 719,912	$ 222,812	$ 442,862	$ 474,726	$ 267,784	$ 579,835	$ 6,409,619	$ 1,496,212	$ 490,687	$ 8,396,518

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, 2021 and 2020

	2021	2020
Cash flows from operating activities		
Change in net assets	$ 1,740,645	$ 1,507,569
Reconciling adjustments		
Forgiveness of Paycheck Protection Program note payable	(235,000)	-
Bainum loan forgiveness	-	(1,000,000)
Refund of tax credit	-	113,840
Depreciation and amortization	261,778	263,851
Loss on property and equipment disposals	24,769	-
Amortization of deferred financing costs	-	5,313
Changes in operating assets and liabilities	-	-
Contributions receivable	26,968	213,291
Accounts and contracts receivable	574,731	(633,793)
Other receivable	-	10,000
Prepaid expenses	(73,607)	72,315
Deposits	30,672	40,102
Accounts payable	117,314	(96,362)
Accrued salaries and related liabilities	(11,957)	67,592
Deferred revenue	(12,000)	10,543
Deferred rent	(21,889)	21,889
Net cash provided by operating activities	2,422,424	596,150
Cash flows from investing activities		
Purchase of property and equipment	(71,061)	(36,555)
Cash flows from financing activities		
Principal payments on notes payable	-	(2,356,235)
Proceeds from Payroll Protection Program loan payable	-	235,000
Net cash used by financing activities	-	(2,121,235)
Net change in cash and cash equivalents	2,351,363	(1,561,640)
Cash and cash equivalents, beginning of year	1,856,180	3,417,820
Cash and cash equivalents, end of year	$ 4,207,543	$ 1,856,180
Supplemental cash flow information		
Interest paid	$ 158,549	$ 260,062

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, 2021 and 2020.

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, 2021 and 2020, 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 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 $138,766 and $18,912 for the years ended September 30, 2021 and 2020, respectively. These gifts have been reflected in the accompanying financial statements based on use.

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 May 2014, FASB issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606). The ASU provides guidance for recognizing revenue under contractual arrangements. The overall objective is to recognize revenue as promised goods and services are transferred to customers and involves employing a five-step determination process.

Analysis of various provisions of this standard resulted in no significant changes in the manner the Organization recognizes revenue, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis. The presentation and disclosures of revenue have been enhanced in accordance with the standard.

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, 2023. 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 2021 or 2020. 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, 2020, 2019 and 2018 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 March 15, 2022, 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, 2021 and 2020, reduced by amounts not available for general use within one year of the statement of financial position date because of donor imposed restrictions.

	2021	2020
Cash and cash equivalents	$ 4,207,543	$ 1,856,180
Contribution receivable, net	172,891	199,859
Accounts and contract receivable	405,598	980,329
Total financial assets	4,786,032	3,036,368
Less amounts not available to be used within one year		
Long-term contribution receivable	27,891	51,247
Net assets with donor restrictions	596,974	471,779
	624,865	523,026
Financial assets available to meet cash needs for general expenditures within one year	$ 4,161,167	$ 2,513,342

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, 2021, the Organization expects to receive approximately $4,200,000 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. The discount rates for 2021 and 2020 range from 4.5% to 5.5%. The discount is amortized to support from contributions over the contribution collection period.

Contribution receivable at September 30, 2021 and 2020 are expected to be collected as follows:

	2021	2020
Due in less than one year	$ 145,000	$ 148,612
Due in two to five years	30,000	55,000
Total contribution receivable	175,000	203,612
Less:		
Discount for present value	(2,109)	(3,753)
Contribution receivable, net	$ 172,891	$ 199,859

6. Property and Equipment

Property and equipment consist of the following at September 30:

	2021	2020
Land	$ 1,232,731	$ 1,232,731
Building	8,889,430	8,889,430
Leasehold improvements	103,754	143,929
Equipment	266,679	207,582
Total property and equipment	10,492,594	10,473,672
Less: Accumulated depreciation and amortization	(820,067)	(585,659)
Property and equipment, net	$ 9,672,527	$ 9,888,013

Depreciation and amortization expense for the years ended September 30, 2021 and 2020 totalled $261,778 and $263,852, 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, 2021 and 2020 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, 2021 and 2020 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, 2021 and 2020 are as follows:

	2021	2020
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, 2021 and 2020 were as follows:

	2021	2020
Interest income	$ 125,191	$ 126,103
Interest expense	$ 158,549	$ 158,549

8. 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 was forgiven on May 20, 2020 and was recorded as a contribution.

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 was forgiven on May 20, 2020 and was recorded as a contribution.

8. Loans Payable (continued)

In December 2016, the Organization entered into a loan agreement with Wells Fargo Bank for $3,090,000. The loan carried an interest rate of 4.05% and was to mature on December 22, 2023. The Organization made monthly interest-only payments through September 2020. Also, the Organization made monthly principal payments of $18,903 plus accrued interest through the term of the note. The loan was fully repaid in September 2020. An early payment penalty of $17,863 was charged during the year ended September 30, 2020. Interest expense related to this note for the year ended September 30, 2020 was $84,342.

9. Payroll 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. The Organization has used the proceeds for expenses consistent with the PPP provisions. Management believes that the use of the loan proceeds will meet the conditions for forgiveness.

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. 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 forgiveness for the PPP funding received on July 1, 2020. 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:

	2021	2020
Purpose restricted grants and pledges		
Champions for Children grant	$ 10,000	$ -
COVID-19 grants	-	73,460
Data and continuous improvement	15,805	14,871
Early childhood education	32,364	36,110
Family services	15,000	-
Fatherhood program	4,000	5,015
Health and safety	12,147	5,000
Home-based services	148,400	67,439
Instructional coaching	83,965	60,000
Other	-	7,413
Playground	90,000	-
Strategic capacity building	-	500
Therapeutic services	141,386	101,188
Trauma informed care	2,142	20,000
Workforce development	41,765	35,783
Total purpose restricted grants and pledges	596,974	426,779
Time restricted	-	45,000
Total net assets with donor restrictions	$ 596,974	$ 471,779

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, 2021 and 2020:

	2021	2020
Purpose restricted grants and pledges		
Capital campaign	$ -	$ 987,152
Champions for Children grant	10,000	-
COVID-19	127,620	170,040
U.S. federal government grants	4,067,111	2,331,716
D.C. government contracts	2,098,780	3,968,343
Data and continuous improvement	29,066	15,129
DC Childcare Provider Relief Fund	95,880	-
Reserve fund	-	-
BBI reserve	-	30,000
Building reserve	-	100,000
Early childhood education	38,747	8,890
Fatherhood program	45,015	25,165
Health and safety	2,853	
Home-based services	56,540	159,963
Instructional coaching	141,035	91,167
Other	23,410	49,870
Playground	-	10,060
Strategic capacity building	500	-
Therapeutic services	128,943	96,557
Trauma informed care	17,857	-
Workforce development	11,519	4,217
Total purpose restricted grants and pledges	6,894,876	8,048,269
Time restricted	295,000	10,000
	$ 7,189,876	$ 8,058,269

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 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. The Organization is currently in negotiations with the landlord regarding a potential payment for the lease termination.

Rent expense for the years ended September 30, 2021 and 2020 was $61,158 and $267,289, respectively, and is included in occupancy costs on the statements of functional expenses.

BRIGHT BEGINNINGS, INC. AND SUBSIDIARY

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

September 30, 2021

	Bright Beginnings, Inc.	BBI Holdings, Inc.	Eliminations	Total
ASSETS				
Current assets				
Cash and cash equivalents	$ 4,076,224	$ 131,319	$ -	$ 4,207,543
Contribution receivable, net	145,000	-	-	145,000
Accounts and contracts receivable	405,598	-	-	405,598
Loan receivable	1,190,197	-	(1,190,197)	-
Rent receivable	-	733,293	(733,293)	-
Prepaid expenses	129,384	-	-	129,384
Total current assets	5,946,403	864,612	(1,923,490)	4,887,525
Contribution receivable, net of current	27,891	-	-	27,891
Property and equipment, net	217,073	9,455,454	-	9,672,527
New market tax credit loan fund	6,693,700	-	-	6,693,700
Total assets	$ 12,885,067	$ 10,320,066	$ (1,923,490)	$ 21,281,643
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable	$ 222,372	$ -	$ -	$ 222,372
Accrued salaries and related liabilities	253,180	-	-	253,180
Deferred rent, current portion	244,431	-	(244,431)	-
Loan payable to BBI	-	1,190,197	(1,190,197)	-
Total current liabilities	719,983	1,190,197	(1,434,628)	475,552
Deferred rent	488,862	-	(488,862)	-
New market tax credit loan fund	-	9,310,000	-	9,310,000
Total liabilities	1,208,845	10,500,197	(1,923,490)	9,785,552
Net assets				
Without donor restrictions	11,079,248	(180,131)	-	10,899,117
With donor restrictions	596,974	-	-	596,974
Total net assets	11,676,222	(180,131)	-	11,496,091
Total liabilities and net assets	$ 12,885,067	$ 10,320,066	$ (1,923,490)	$ 21,281,643

BRIGHT BEGINNINGS, INC. AND SUBSIDIARY
CONSOLIDATING STATEMENT OF ACTIVITIES
Year Ended September 30, 2021

	Bright Beginnings, Inc.	BBI Holdings, Inc.	Eliminations	Total
Change in net assets without donor restrictions				
Revenue and support				
Contributions and support	$ 1,833,721	$ -	$ -	$ 1,833,721
Donated services and supplies	138,766	-	-	138,766
Special events	6,190	-	-	6,190
Other income	316	-	-	316
Rental income	-	383,431	(383,431)	-
Interest income	125,082	-	-	125,082
Net assets released from restrictions	7,189,876	-	-	7,189,876
Total revenue and support	9,293,951	383,431	(383,431)	9,293,951
Expenses				
Program services				
Education	3,316,708	124,206	(150,357)	3,290,557
Family services	480,547	7,786	(9,686)	478,647
Therapeutic services	180,718	4,988	(5,717)	179,989
Health and safety	509,348	11,035	(13,269)	507,114
Home-based services	430,376	14,238	(17,110)	427,504
Workforce development	133,992	4,063	(4,840)	133,215
Other programs	760,911	18,082	(21,279)	757,714
Total program services	5,812,600	184,398	(222,258)	5,774,740
Management and general	1,434,713	192,188	(152,265)	1,474,636
Development	430,175	7,858	(8,908)	429,125
Total expenses	7,677,488	384,444	(383,431)	7,678,501
Change in net assets without donor restrictions	1,616,463	(1,013)	-	1,615,450
Change in net assets with donor restriction				
U.S. federal government grants	4,067,111	-	-	4,067,111
D.C. government contracts	2,098,780	-	-	2,098,780
Contributions and support	1,149,180	-	-	1,149,180
Net assets released from restrictions	(7,189,876)	-	-	(7,189,876)
Decrease in net assets with donor restrictions	125,195	-	-	125,195
Change in net assets	1,741,658	(1,013)	-	1,740,645
Net assets, beginning of year	9,934,564	(179,118)	-	9,755,446
Net assets, end of year	$ 11,676,222	$ (180,131)	$ -	$ 11,496,091

BRIGHT BEGINNINGS, INC. AND SUBSIDIARY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended September 30, 2021

Federal Grantor/Pass-Through Grantor/ Program Title	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	$ 3,703,744	$ -
COVID-19 Head Start and Early Head Start Programs	93.600	N/A	181,714	-
Total Head Start and Early Head Start Programs			3,885,458	-
Passed-through Administration for Children and Families Low Income Investment Fund				
DC Child Care Road to Recovery Fund	10.558	V-131	84,330	-
Passed-through District of Columbia Department of Human Services Economic Security Administration				
SNAP Employment and Training Program	94.434	22-002-R1	38,750	-
U.S. Department of Agriculture				
Passed-through District of Columbia Office of the State Superintendent				
Child and Adult Care Food Program	10.561	N/A	58,573	-
Total Expenditures of Federal Awards			$ 4,067,111	$ -

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, 2021

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, 2021. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of 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.

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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, 2021, 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 15, 2022.

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 15, 2022
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, 2021. 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, 2021.

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

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

Rubino & Company

March 15, 2022
Bethesda, Maryland

BRIGHT BEGINNINGS, INC. AND SUBSIDIARY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended September 30, 2021

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	$ 3,885,458

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 D – SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding 2020-001 – Reconciliation Procedures

Condition and Context: During the audit, we noted some accounts were not sufficiently reconciled prior to the start of the audit. As a result, we posted adjustments that reduced total revenue reported at year-end by approximately $325,000 for the year ended September 30, 2020.

Cause/Effect: The reconciliation procedures may have not be thorough during the year ended September 30, 2020. Insufficient year-end account reconciliation resulted in significant adjustments made during the audit to revenue to true up the account balances on the statement of activities and statement of financial position.

Recommendation: We recommended that the Organization ensure that revenues and the related contract receivables reflect the actual reimbursable costs incurred on the contracts during the period.

Status: The finding was fully remediated for the year ended September 30, 2021.