BRIGHT BEGINNINGS, INC. AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS
AND
REPORTS UNDER THE UNIFORM GUIDANCE

Years Ended September 30, 2020 and 2019

TABLE OF CONTENTS

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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, 2020 and 2019, 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, 2020 and 2019, 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 consolidated financial statements, Bright Beginnings, Inc. and Subsidiary adopted Accounting Standards Update No. 2018-08, *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958)*, during the year ended September 30, 2020. 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 April 6, 2021, 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
April 6, 2021

BRIGHT BEGINNINGS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
September 30, 2020 and 2019

	2020	2019
ASSETS		
Current assets		
Cash and cash equivalents, without restriction	$ 1,856,180	$ 2,167,820
Contribution receivable, net	148,612	261,000
Accounts and contracts receivable	980,329	346,536
Other receivables	-	10,000
Prepaid expenses	55,777	128,092
Total current assets	3,040,898	2,913,448
Cash and cash equivalents, with restriction	-	1,250,000
Contribution receivable, net of current	51,247	152,150
Deposits	30,672	70,774
Property and equipment, net	9,888,013	10,229,149
New market tax credit loan fund	6,693,700	6,693,700
Total assets	$ 19,704,530	$ 21,309,221
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	$ 105,058	$ 201,420
Accrued salaries and related liabilities	265,137	197,545
Deferred revenue	12,000	1,457
Loans payable, current portion	-	871,218
Total current liabilities	382,195	1,271,640
New market tax credit loan fund	9,310,000	9,310,000
Loans payable, net of current portion and unamortized deferred financing costs of $0 and $5,313	-	2,479,704
Payroll Protection Program loan payable	235,000	-
Deferred rent	21,889	-
Total liabilities	9,949,084	13,061,344
Net assets		
Without donor restrictions	9,283,667	7,291,797
With donor restrictions	471,779	956,080
Total net assets	9,755,446	8,247,877
Total liabilities and net assets	$ 19,704,530	$ 21,309,221

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, 2020 and 2019

	Year Ended September 30, 2020			Year Ended September 30, 2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support						
U.S. federal government grants	$ -	$ 3,968,343	$ 3,968,343	$ -	$ 4,707,514	$ 4,707,514
D.C. government contracts	-	2,331,716	2,331,716	-	1,042,650	1,042,650
Contributions and support	2,180,789	1,273,909	3,454,698	1,263,382	1,383,736	2,647,118
Donated services and supplies	18,912	-	18,912	103,988	-	103,988
Special events	3,000	-	3,000	43,327	-	43,327
Other income	1,549	-	1,549	20,482	-	20,482
Net assets released from restrictions	8,058,269	(8,058,269)	-	6,914,776	(6,914,776)	-
Total revenue and support	10,262,519	(484,301)	9,778,218	8,345,955	219,124	8,565,079
Expenses						
Program services						
Education	3,701,688	-	3,701,688	3,299,222	-	3,299,222
Family services	719,912	-	719,912	773,169	-	773,169
Therapeutic services	222,812	-	222,812	-	-	-
Health and safety	442,862	-	442,862	700,389	-	700,389
Home-based services	474,726	-	474,726	447,992	-	447,992
Workforce development	267,784	-	267,784	387,793	-	387,793
Other programs	579,835	-	579,835	1,000,859	-	1,000,859
Total program services	6,409,619	-	6,409,619	6,609,424	-	6,609,424
Management and general	1,496,212	-	1,496,212	1,343,787	-	1,343,787
Development	490,687	-	490,687	460,923	-	460,923
Total expenses	8,396,518	-	8,396,518	8,414,134	-	8,414,134
Change in net assets from operations	1,866,001	(484,301)	1,381,700	(68,179)	219,124	150,945
Non-operating activity						
Interest income	125,869	-	125,869	126,653	-	126,653
Change in net assets	1,991,870	(484,301)	1,507,569	58,474	219,124	277,598
Net assets, beginning of year	7,291,797	956,080	8,247,877	7,233,323	736,956	7,970,279
Net assets, end of year	$ 9,283,667	$ 471,779	$ 9,755,446	$ 7,291,797	$ 956,080	$ 8,247,877

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 STATEMENT OF FUNCTIONAL EXPENSES
Year Ended September 30, 2019

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

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

BRIGHT BEGINNINGS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended September 30, 2020 and 2019

	2020	2019
Cash flows from operating activities		
Change in net assets	$ 1,507,569	$ 277,598
Reconciling adjustments		
Bainum loan forgiveness	(1,000,000)	-
Refund of tax credit	113,840	-
Depreciation and amortization	263,851	264,363
Amortization of deferred financing costs	5,313	1,250
Changes in operating assets and liabilities		
Contributions receivable	213,291	173,125
Accounts and contracts receivable	(633,793)	57,271
Other receivable	10,000	(2,173)
Prepaid expenses	72,315	(54,603)
Deposits	40,102	9,312
Accounts payable	(96,362)	(417,261)
Accrued salaries and related liabilities	67,592	29,134
Deferred revenue	10,543	(53)
Deferred rent	21,889	-
Net cash provided by operating activities	596,150	337,963
Cash flows from investing activities		
Purchase of property and equipment	(36,555)	(613,903)
Proceeds from sales of investments	-	277,467
Net cash used by investing activities	(36,555)	(336,436)
Cash flows from financing activities		
Principal payments on notes payable	(2,356,235)	(396,602)
Proceeds from Payroll Protection Program loan payable	235,000	-
Net cash used by financing activities	(2,121,235)	(396,602)
Net change in cash and cash equivalents	(1,561,640)	(395,075)
Cash and cash equivalents, beginning of year	3,417,820	3,812,895
Cash and cash equivalents, end of year	$ 1,856,180	$ 3,417,820
Supplemental cash flow information		
Interest paid	$ 260,062	$ 418,742

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, 2020 and 2019.

<u>Education</u>

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

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

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

2. Program Descriptions (continued)

Family Services

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

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

Therapeutic Services

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

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

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

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, coaching parents on strategies to be the child's first teacher, screening and assessing each child, and providing 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

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 are able to access high-quality and comprehensive assistance in all areas of their professional and educational development.

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

Fatherhood Initiative

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

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.

Reclassifications

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

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, 2020 and 2019, 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 $18,912 and $103,988 for the years ended September 30, 2020 and 2019, 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

The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-08, Not-for-Profit Entities (Topic 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.* The guidance clarifies how entities will determine whether to account for a transfer of assets (or a reduction, settlement or cancellation of a liability) as an exchange transaction or a contribution. In addition, the ASU addresses the evaluation of whether a contribution is conditional or unconditional, which affects the timing of revenue recognition, and when a contribution is restricted.

Analysis of various provisions of this standard resulted in no significant changes to the manner in which the Organization recognizes revenue, or to previously audited financial statement amounts.

New Accounting Pronouncements – Future Periods

The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09 (as amended by ASU 2015-14), *Revenue from Contracts with Customers*, which provides a single comprehensive accounting standard for revenue recognition for contracts with customers and supersedes current industry-specific guidance. Due to the Coronavirus Disease 2019 (COVID-19) pandemic, and its adverse effect on the global economy, FASB issued ASU 2020-05 to offer a limited deferral of the effective dates of ASU 2014-09 to provide immediate, near-term relief for certain entities. The Organization will apply the new standard beginning October 1, 2020. The Organization is currently evaluating the impact of the new standard on the financial statements.

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 2020 or 2019. 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, 2019, 2018 and 2017 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 6, 2021, the date the financial statements were available to be issued.

4. COVID-19 Financial Statements Impacts

The COVID-19 pandemic, whose effects first became known in January 2020, is having a broad and negative impact on commerce and financial markets around the world. The United States and global markets experienced significant declines in value resulting from uncertainty caused by the pandemic. The Organization is closely monitoring its liquidity and is actively working to minimize the impact of these declines. The extent of the impact of COVID-19 on the Organization's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak and its impacts on the Organization's customers, employees, and vendors, all of which at present, cannot be determined. Accordingly, the extent to which COVID-19 may impact the Organization's financial position and changes in net assets and cash flows is uncertain and the accompanying consolidated financial statements include no adjustments relating to the effects of this pandemic

5. Availability and Liquidity

The following reflects the Organization's consolidated financial assets at September 30, 2020 and 2019, reduced by amounts not available for general use within one year of the statement of financial position date because of donor imposed restrictions.

	2020	2019
Cash and cash equivalents	$ 1,856,180	$ 3,417,820
Contribution receivable, net	199,859	413,150
Accounts and contract receivable	980,329	346,536
Other receivable	-	10,000
Total financial assets	3,036,368	4,187,506
Less amounts not available to be used within one year		
Restricted cash	-	1,250,000
Long-term contribution receivable	51,247	152,150
Net assets with donor restrictions	471,779	956,080
	523,026	2,358,230
Financial assets available to meet cash needs for general expenditures within one year	$ 2,513,342	$ 1,829,276

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 $2,100,000), 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.

5. Availability and Liquidity (continued)

In addition to its liquid assets on hand at September 30, 2020, the Organization expects to receive approximately $4,000,000 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 $1,000,000 from District of Columbia sources. The Organization submits monthly reports to the District, and the reimbursement period is generally within 30 days.

6. 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 2020 and 2019 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, 2020 and 2019 are expected to be collected as follows:

	2020	2019
Due in less than one year	$ 148,612	$ 277,214
Due in two to five years	55,000	150,000
Total contribution receivable	203,612	427,214
Less:		
Discount for present value	(3,753)	(14,064)
Contribution receivable, net	$ 199,859	$ 413,150

7. Property and Equipment

Property and equipment consist of the following at September 30:

	2020	2019
Land	$ 1,232,731	$ 1,232,731
Building	8,889,430	9,003,270
Leasehold improvements	143,929	131,534
Equipment	207,582	183,422
Total property and equipment	10,473,672	10,550,957
Less: Accumulated depreciation and amortization	(585,659)	(321,808)
Property and equipment, net	$ 9,888,013	$10,229,149

Depreciation and amortization expense for the years ended September 30, 2020 and 2019 totalled $263,851 and $264,363, respectively.

8. New Markets Tax Credit Financing

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

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

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

The first note payable (QLICI Loan A), has a balance of $6,693,700 as of September 30, 2020 and 2019 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.

8. New Markets Tax Credit Financing (continued)

The second note payable (QLICI Loan B), has a balance of $2,616,300 as of September 30, 2020 and 2019 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, 2020 and 2019 are as follows:

	2020	2019
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, 2020 and 2019 were as follows:

	2020	2019
Interest income	$ 126,103	$ 126,653
Interest expense	$ 158,549	$ 158,549

9. Loans Payable

On December 21, 2015, the Organization received an interest-free loan (Bainum 1) from the Bainum Family Foundation (the Foundation) in the amount of $500,000. The loan is to fund the development of the new Bright Beginnings Learning Center in Ward 8 of Washington, DC. The Organization must repay to the Foundation any portion of the loan amount that is used other than the designated purpose. The entire loan amount 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.

9. Loans Payable (continued)

In December 2016, the Organization entered into a loan agreement with Wells Fargo Bank for $3,090,000. The loan carries an interest rate of 4.05% and matures on December 22, 2023. The Organization made monthly interest-only payments through September 2020. Also, made monthly principal payments of $18,903 plus accrued interest through the term of the note. The outstanding principal balance as of September 30, 2019 was $2,356,235. 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 years ended September 30, 2020 and 2019 was $84,342 and $101,644, respectively.

10. 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.

As of September 30, 2020, the Organization has not yet determined those expenses which are expected to meet the forgiveness conditions under the provisions of the CARES Act. The total proceeds of $235,000 are reported as loan payable on the statements of financial position.

11. 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 time has elapsed for time restrictions.

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

	2020	2019
Purpose restricted grants and pledges		
Reserve fund		
BBI reserve	$ -	$ 30,000
Building reserve	-	100,000
Capital campaign	-	669,423
Therapeutic services	91,688	59,248
COVID-19	73,460	-
Home-based services	67,439	77,402
Instructional coach	60,000	11,108
Workforce development	35,783	-
Trama informed car	20,000	-
Kindergarten readiness	15,000	-
Innovate - Evaluation/Performance	14,871	-
Early childhood education	9,010	-
Health & Therapeutics	7,500	-
Other	7,413	4,899
LENA	7,300	-
Fatherhood Field Trips	5,015	-
Medical evaluation for children	5,000	-
Literacy Efforts - Education	4,800	-
Community donation	2,000	3,500
Strategic capacity building	500	500
Total purpose restricted grants and pledges	426,779	956,080
Time restricted	45,000	-
Total net assets with donor restrictions	$ 471,779	$ 956,080

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.

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

Rent expense for the years ended September 30, 2020 and 2019 was $267,289 and $243,781, respectively, and is included in occupancy costs on the statements of functional expenses.

Future minimum lease payments are as follows:

Years ending September 30 , 2021	$ 252,800
2022	260,300
2023	223,100
	$ 736,200

BRIGHT BEGINNINGS, INC. AND SUBSIDIARY
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
September 30, 2020

	Bright Beginnings, Inc.	BBI Holdings, Inc.	Eliminations	Total
ASSETS				
Current assets				
Cash and cash equivalents, without restriction	$ 1,705,252	$ 150,928	$ -	$ 1,856,180
Contribution receivable, net	148,612	-	-	148,612
Accounts and contracts receivable	980,329	-	-	980,329
Loan receivable	1,186,597	-	(1,186,597)	-
Rent receivable	-	488,862	(488,862)	-
Prepaid expenses	55,777	-	-	55,777
Total current assets	4,076,567	639,790	(1,675,459)	3,040,898
Contribution receivable, net of current	51,247	-	-	51,247
Deposits	30,672	-	-	30,672
Property and equipment, net	210,324	9,677,689	-	9,888,013
New market tax credit loan fund	6,693,700	-	-	6,693,700
Total assets	$ 11,062,510	$ 10,317,479	$ (1,675,459)	$ 19,704,530
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable	$ 105,058	$ -	$ -	$ 105,058
Accrued salaries and related liabilities	265,137	-	-	265,137
Deferred revenue	12,000	-	-	12,000
Loan payable to BBI	-	1,186,597	(1,186,597)	-
Total current liabilities	382,195	1,186,597	(1,186,597)	382,195
New market tax credit loan fund	-	9,310,000	-	9,310,000
Payroll Protection Program loan payable	235,000	-	-	235,000
Deferred rent	510,751	-	(488,862)	21,889
Total liabilities	1,127,946	10,496,597	(1,675,459)	9,949,084
Net assets				
Without donor restrictions	9,462,785	(179,118)	-	9,283,667
With donor restrictions	471,779	-	-	471,779
Total net assets	9,934,564	(179,118)	-	9,755,446
Total liabilities and net assets	$ 11,062,510	$ 10,317,479	$ (1,675,459)	$ 19,704,530

BRIGHT BEGINNINGS, INC. AND SUBSIDIARY
CONSOLIDATING STATEMENT OF ACTIVITIES
Year Ended September 30, 2020

	Bright Beginnings, Inc.	BBI Holdings, Inc.	Eliminations	Total
Change in net assets without donor restrictions				
Revenue and support				
Contributions and support	$ 2,180,789	$ -	$ -	$ 2,180,789
Donated services and supplies	18,912	-	-	18,912
Special events	3,000	-	-	3,000
Other income	1,549	-	-	1,549
Rental income	-	383,431	(383,431)	-
Interest income	125,869	-	-	125,869
Net assets released from restrictions	8,058,269	-	-	8,058,269
Total revenue and support	10,388,388	383,431	(383,431)	10,388,388
Expenses				
Program services				
Education	3,567,446	134,242	-	3,701,688
Family services	693,184	26,728	-	719,912
Therapeutic services	215,686	7,126	-	222,812
Health and safety	431,917	10,945	-	442,862
Home-based services	462,170	12,556	-	474,726
Workforce development	258,620	9,164	-	267,784
Other programs	596,885	(17,050)	-	579,835
Total program services	6,225,908	183,711	-	6,409,619
Management and general	1,624,378	255,265	(383,431)	1,496,212
Development	444,153	46,534	-	490,687
Total expenses	8,294,439	485,510	(383,431)	8,396,518
Change in net assets without donor restrictions	2,093,949	(102,079)	-	1,991,870
Change in net assets with donor restriction				
U.S. federal government grants	3,968,343	-	-	3,968,343
D.C. government contracts	2,331,716	-	-	2,331,716
Contributions and support	1,273,909	-	-	1,273,909
Net assets released from restrictions	(8,058,269)	-	-	(8,058,269)
Decrease in net assets with donor restrictions	(484,301)	-	-	(484,301)
Change in net assets	1,609,648	(102,079)	-	1,507,569
Net assets, beginning of year	8,324,916	(77,039)	-	8,247,877
Net assets, end of year	$ 9,934,564	$ (179,118)	$ -	$ 9,755,446

BRIGHT BEGINNINGS, INC. AND SUBSIDIARY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended September 30, 2020

Federal Grantor/Pass-Through Program	CFDA Number	Pass-through Grantor Identifying Number	Federal Expenditures	Passed Through to Subrecipients
U.S. Department of Health and Human Services/Head Start and Early Head Start Programs	93.600	N/A	$ 3,885,376	$ -
U.S. Department of Agriculture District of Columbia Office of the State Superintendent/Child and Adult Care Food Program	10.558	V-131	82,967	-
Total Expenditures of Federal Awards			$ 3,968,343	$ -

The accompanying notes are an integral part of this schedule.

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, 2020. 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 its Federal awards.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Bright Beginnings, Inc. and Subsidiary (a nonprofit organization), which comprise the consolidated statement of financial position as of September 30, 2020 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 6, 2021.

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. However, we did identify a deficiency in internal control over compliance as described in the accompanying schedule of findings and questioned costs as items 2020-001 that we consider to be a significant deficiency.

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.*

Bright Beginnings, Inc.'s Response to Findings

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

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 6, 2021
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, 2020. 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, 2020.

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

April 6, 2021
Bethesda, Maryland

BRIGHT BEGINNINGS, INC. AND SUBSIDIARY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended September 30, 2020

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)?	Yes
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)?	Yes – Part C of this Schedule
7. Identification of Major Programs:	

Federal Grantor/Pass-Through Program	CFDA Number	Expenditures
U.S. Department of Health and Human Services/Head Start and Early Head Start Programs	93.600	$ 3,968,343

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

SECTION B– FINANCIAL STATEMENT FINDINGS

Finding 2020-001 – Reconciliation Procedures

Criteria: The financial statements must be prepared in accordance with generally accepted accounting principles, and accounts must be properly reconciled at year-end. As part of BBI's year-end closing procedures, BBI should ensure that account analysis and reconciliations are properly performed, and all year-end adjustments are posted prior to the audit.

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.

Cause/Effect: The reconciliation procedures may have not be thorough this year. 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 recommend that the Organization ensure that revenues and the related contract receivables reflect the actual reimbursable costs incurred on the contracts during the period.

Management's Response: Bright Beginnings has appropriate procedures in place to reconcile the accounts; however, the four adjustments referred to above resulted from the following:

> FY '20 was an unusual year due to COVID which resulted in significant changes to operations due to mandated closures and working remotely. As a result, Bright Beginnings had to reorganize how things were handled from an accounting perspective which impacted continuity. After closing the books, and the start of the audit, additional information became available that changed some estimates that were originally recorded. After further research and consultation, the adjustments were recorded by Bright Beginnings and provided to the auditors.
>
> Implementation of the new accounting standard for revenue recognition left some issues open for interpretation as to the timing of recording revenue for some of Bright Beginnings grants. The finance team will be proactive and review any new major grants with the auditors prior to year-end to ensure agreement.

SECTION C – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

Finding 2019-001 - Allowable Costs/Cost Principles - Compensation

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

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

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

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

Current Year Status: This finding was fully remediated. This finding will not be repeated.

Finding 2019-002 – Eligibility/ Enrollment Compliance

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

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

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

Recommendation: We recommend that the Organization thoroughly verify the children's eligibility by reviewing the necessary documentation prior to incorporating the potential enrollees in the eligibility records. In addition, eligibility verification should be performed annually to remain in compliance with the OHS requirements.

Current Year Status: This finding was fully remediated. This finding will not be repeated.

Finding 2019-003– Matching Compliance

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

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

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

Current Year Status: This finding was fully remediated. This finding will not be repeated.

Finding 2019-004 – Reporting Compliance

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

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

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

Current Year Status: This finding was fully remediated. This finding will not be repeated.

Finding 2019-005 – Cost of Ownership

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

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

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

Current Year Status: This finding was fully remediated. This finding will not be repeated.