BRIGHT BEGINNINGS, INC.
AND SUBSIDIARY

Consolidated Financial Statements
with Independent Auditors' Report and
Financial and Federal Award Compliance Examination

For the years ended September 30, 2018 and 2017

BRIGHT BEGINNINGS, INC.
AND SUBSIDIARY

Table of Contents

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DELEON & STANG
CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Bright Beginnings, Inc. and Subsidiary (a nonprofit organization), which comprise the consolidated statements of financial position as of September 30, 2018 and 2017 and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

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 general 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the 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.

Auditors' Responsibility (continued)

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Bright Beginnings, Inc. and Subsidiary as of September 30, 2018 and 2017 the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards is presented for purposes of additional analysis and is not a required part of the 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 audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2019, on our consideration of Bright Beginnings, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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.'s internal control over financial reporting and compliance.

DeLeon & Stang

DeLeon & Stang, CPAs
Frederick, Maryland
January 23, 2019

DELEON & STANG
CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

BRIGHT BEGINNINGS, INC. AND SUBSIDIARY
Consolidated Statements of Financial Position
September 30, 2018 and 2017

Assets	**2018**	**2017**
Current assets:		
Cash and equivalents	$ 3,812,895	$ 9,253,477
Certificates of deposit	247,716	247,097
Investments	29,751	-
Contributions receivable, net	422,750	215,250
Accounts and contracts receivable	403,807	589,553
Other receivable	7,827	-
Prepaid expenses	73,489	68,768
Total current assets	4,998,235	10,374,145
Property and equipment, net	9,879,609	4,860,400
Other assets:		
Contributions receivable, net current	163,525	-
Deposits	80,086	25,844
New market tax credit loan fund	6,693,700	6,693,700
Total other assets	6,937,311	6,719,544
Total assets	$ 21,815,155	$ 21,954,089
Liabilities and net assets		
Current Liabilities:		
Accounts payable	$ 618,681	$ 880,149
Accrued salaries and related liabilities	168,411	152,428
Deferred revenue	1,510	-
Loans payable, current portion	226,836	-
Total current liabilities	1,015,438	1,032,577
Long-term Liabilities:		
New market tax credit loans payable	9,310,000	9,310,000
Loans payable, net of current portion and unamortized deferred financing costs of $6,562 - 2018 and $8,750 - 2017	3,519,438	4,081,250
Total long-term liabilities	12,829,438	13,391,250
Total liabilities	13,844,876	14,423,827
Net assets:		
Unrestricted	7,233,323	7,136,364
Temporarily restricted	736,956	393,898
Total net assets	7,970,279	7,530,262
Total liabilities and net assets	$ 21,815,155	$ 21,954,089

BRIGHT BEGINNINGS, INC. AND SUBSIDIARY
Consolidated Statements of Activities
For the Years Ended September 30, 2018 and 2017

	2018			2017		
	Unrestricted	**Temporarily Restricted**	**Total**	**Unrestricted**	**Temporarily Restricted**	**Total**
Revenue and support:						
Federal government grants	$ 3,314,385	$ -	$ 3,314,385	$ 2,505,946	$ -	$ 2,505,946
Other grants and contracts	438,601	-	438,601	878,258	-	878,258
Foundation and corporate support	561,275	1,757,050	2,318,325	814,600	453,137	1,267,737
Contributions	591,564	195,488	787,052	292,106	273,626	565,732
Donated services and equipment	364,890	-	364,890	339,078	-	339,078
Special events	90,211	-	90,211	98,678	-	98,678
Other income	173,654	-	173,654	118,416	-	118,416
Net assets released from restrictions	1,609,480	(1,609,480)	-	2,945,733	(2,945,733)	-
Total revenue and support	7,144,060	343,058	7,487,118	7,992,815	(2,218,970)	5,773,845
Expenses:						
Program services:						
Education	2,359,473	-	2,359,473	2,408,020	-	2,408,020
Family services	476,302	-	476,302	456,836	-	456,836
Health and safety	637,244	-	637,244	346,777	-	346,777
Home-based services	669,237	-	669,237	679,713	-	679,713
Workforce development	471,942	-	471,942	339,068	-	339,068
Outreach	153,837	-	153,837	63,345	-	63,345
Therapeutic services	335,732	-	335,732	299,036	-	299,036
Program expansion	201,522	-	201,522	240,473	-	240,473
Total program services	5,305,289	-	5,305,289	4,833,268	-	4,833,268
Supporting services:						
Management and general	1,180,724	-	1,180,724	382,640	-	382,640
Development	561,088	-	561,088	258,770	-	258,770
Total supporting services	1,741,812	-	1,741,812	641,410	-	641,410
Total expenses	7,047,101	-	7,047,101	5,474,678	-	5,474,678
Change in net assets	96,959	343,058	440,017	2,518,137	(2,218,970)	299,167
Net assets, beginning of year	7,136,364	393,898	7,530,262	4,618,227	2,612,868	7,231,095
Net assets, end of year	$ 7,233,323	$ 736,956	$ 7,970,279	$ 7,136,364	$ 393,898	$ 7,530,262

BRIGHT BEGINNINGS, INC. AND SUBSIDIARY
Consolidated Statement of Functional Expenses
For the Year Ended September 30, 2018

	2018								
	Program Services						Supporting Services		
	Education	Family Services	Health and Safety	Home-based Services	Workforce Development	Other Programs	Management and General	Development	Total
Compensation and benefits	$ 1,600,281	$ 373,601	$ 358,421	$ 536,171	$ 361,724	$ 306,824	$ 593,105	$ 174,923	$ 4,305,050
Consulting services:									
Capital campaign	-	-	-	-	-	38,810	-	-	38,810
Therapeutic, health, and tracking	89,158	5,173	25,271	9,498	2,209	155,299	19,205	4,028	309,841
Other	71,337	16,091	16,984	29,587	21,899	54,742	82,857	123,758	417,255
Communications	23,254	6,461	5,224	11,280	5,855	19,401	16,573	10,232	98,280
Occupancy costs	132,574	31,172	57,975	43,516	37,582	9,357	90,080	9,677	411,933
Family services	6,802	19,902	6,900	2,499	3,260	648	-	360	40,371
Depreciation	-	-	-	-	-	-	26,837	-	26,837
Amortization of deferred financing costs	-	-	-	-	-	-	2,188	-	2,188
Loss on fixed asset disposal	-	-	-	-	-	-	45,596	-	45,596
Supplies	94,697	9,514	8,697	12,946	27,485	7,446	33,189	8,627	202,601
Special events, meetings, and travel	8,552	1,752	1,218	8,480	1,622	2,221	13,412	53,495	90,752
Publication and printing	1,531	2,422	327	488	339	5,229	553	30,068	40,957
Classroom expenses	224,761	215	146,670	797	177	144	1,639	84	374,487
Insurance and other fees	48,910	9,999	9,557	13,975	9,721	7,914	164,674	12,503	277,253
In-kind expenses	57,616	-	-	-	69	83,056	90,816	133,333	364,890
Totals	$ 2,359,473	$ 476,302	$ 637,244	$ 669,237	$ 471,942	$ 691,091	$ 1,180,724	$ 561,088	$ 7,047,101

(Coninued)

BRIGHT BEGINNINGS, INC. AND SUBSIDIARY
Consolidated Statement of Functional Expenses
For the Year Ended September 30, 2017

	2017								
	Program Services						Supporting Services		
	Education	Family Services	Health and Safety	Home-based Services	Workforce Development	Other Programs	Management and General	Development	Total
Compensation and benefits	$ 1,727,794	$ 357,051	$ 256,146	$ 539,872	$ 281,192	$ 157,330	$ 77,882	$ 96,933	$ 3,494,200
Consulting services:									
Capital campaign	-	-	-	-	-	58,685	-	-	58,685
Therapeutic, health, and tracking	70,835	12,503	29,790	35,542	2,544	209,454	26,622	813	388,103
Other	88,287	22,595	15,968	26,795	20,281	17,546	8,923	107,564	307,959
Communications	19,431	4,024	2,969	8,840	3,107	22,368	1,280	14,052	76,071
Occupancy costs	95,190	17,670	13,209	24,562	13,970	6,292	7,029	4,536	182,458
Family services	5,176	25,178	11,930	4,782	8,448	737	-	-	56,251
Depreciation	-	-	-	-	-	-	44,178	-	44,178
Supplies	24,525	6,110	4,911	14,319	3,339	1,882	8,039	1,445	64,570
Special events, meetings, and travel	6,943	1,533	1,303	11,908	1,033	849	13,811	15,041	52,421
Publication and printing	-	-	-	-	-	1,833	-	14,036	15,869
Classroom expenses	185,620	4,332	6,410	4,474	195	710	51	68	201,860
Insurance and other fees	31,808	5,840	4,141	8,619	4,959	25,384	107,942	4,282	192,975
In-kind expenses	152,411	-	-	-	-	99,784	86,883	-	339,078
Totals	$ 2,408,020	$ 456,836	$ 346,777	$ 679,713	$ 339,068	$ 602,854	$ 382,640	$ 258,770	$ 5,474,678

(Coninued)

BRIGHT BEGINNINGS, INC. AND SUBSIDIARY
Consolidated Statements of Cash Flows
For the Years Ended September 30, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	$ 440,017	$ 299,167
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Donated investments included in contributions revenue	(28,947)	-
Unrealized gains	(804)	-
Loss on fixed asset disposal	45,596	-
Depreciation	26,837	44,178
Amortization of deferred financing costs	2,188	-
Changes in contributions receivable	(371,025)	79,545
Changes in accounts and contracts receivable	185,746	(32,981)
Changes in other receivable	(7,827)	-
Changes in prepaid expenses	(4,721)	(13,484)
Changes in accounts payable	(261,468)	851,059
Changes in accrued salaries and related liabilities	15,983	44,828
Changes in deferred revenue	1,510	-
Net cash provided by operating activities	43,085	1,272,312
Cash flows from investing activities:		
Purchases of property and equipment	(5,091,642)	(3,215,439)
(Increase) decrease in certificate of deposit	(619)	1,025,072
(Increase) decrease in deposits	(54,242)	24,156
Increase in new market tax credit loan fund	-	(6,693,700)
Net cash used in investing activities	(5,146,503)	(8,859,911)
Cash flows from financing activities:		
Increase in new market tax credit loans payable	-	9,310,000
Increase (decrease) in notes payable	(337,164)	3,581,250
Net cash provided by (used in) financing activities	(337,164)	12,891,250
Increase (decrease) in cash and equivalents	(5,440,582)	5,303,651
Cash and equivalents, beginning of year	9,253,477	3,949,826
Cash and equivalents, end of year	$ 3,812,895	$ 9,253,477

NOTE 1- ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

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 day care 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 will operate exclusively for charitable, educational, and scientific purposes, and the holding of real property in support and in furtherance of the work of the Organization.

The following is a summary of the Organization's significant programs:

Education

The Organization provides high quality educational services that prepare approximately 150 homeless children for kindergarten each year with a developmentally appropriate curriculum for children living in chaotic environments. The Organization offers homeless children a consistent group of caring adults and friends to learn, play, and explore the world with them inside and outside of classroom. The educational curriculum includes field trips that expose children to new experiences and special art, music, environmental, and science programs that enrich and reinforce what children are learning in the classrooms.

Family Services

The Organization provides family services, which includes onsite crisis management and case management for approximately 70 homeless families each year. Specific family services provided include: parent service (which stabilize homeless families and parents' education), training and employment goals, and key referrals for social services, parenting, health, abuse/neglect, and stress reduction training.

NOTE 1- ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Evening Care

The Organization provides an Early Learning Evening Care program, which includes comprehensive education, therapeutic, and family services, for parents working non-traditional hours, or attending class or job training programs in the evening. This program is an extension of the accredited day program and offers activities that stimulate children's physical, social, intellectual, and emotional growth with special emphasis on supporting emergent literacy and math skills.

Therapeutic Services

The Organization provides unique and comprehensive therapeutic services on-site for homeless children that include assessments for 100 percent of enrolled children, therapy, individualized plans, and coordination between parents, therapists, and teachers for the children who need them. Additional ongoing therapeutic services have been needed by at least one-third of the homeless children enrolled in the program.

Basis of Presentation

The financial statements are presented on the basis of unrestricted, temporarily restricted, and permanently restricted net assets.

For purposes of reporting on nonprofit organizations, net assets of the two restricted classes are created only by donor-imposed restrictions on their use. All other net assets, including board designated or appropriated amounts, are legally unrestricted and are reported as part of the unrestricted class.

Under these provisions, net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets resulting from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that either expire by passage of time, or can be fulfilled and removed by actions of the Organization pursuant to those stipulations.

NOTE 1- ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Permanently restricted net assets - Net assets from contributions subject to donor imposed stipulations, which are permanent in nature prohibiting expenditure of the assets pledged or donated. Typically, the income earned on invested balances of permanently restricted net assets is reported as part of temporarily restricted net assets unless the donor specifically limits the use of such income. At September 30, 2018 and 2017, the Organization did not have any permanently restricted net assets.

Basis of Accounting and Principles of Consolidation

The consolidated financial statements have been prepared on the accrual basis of accounting and include the accounts of the Organization and the Corporation (collectively, the Organization) All significant intercompany accounts and transactions have been eliminated in the consolidation.

Restricted and Unrestricted Revenue

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. Grants received from the federal government are recognized as revenue only to the extent of expenditures incurred.

Contributions and grants are temporarily 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.

The Organization reports in-kind gifts as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. 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 restricted support.

Cash and Equivalents

For purposes of the statements of cash flows, the Organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

NOTE 1- ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Certificates of Deposit

Certificates of deposit are recorded at fair value which approximates cost and accrued interest.

Contributions Receivable

Contributions are recorded at the earlier of the date received or the date of receipt of a donor's non-contingent 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, 2018 and 2017, 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 organization. Receivables are carried at original invoice amounts. Management determines an allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. At September 30, 2018, management expects the amount in accounts and contracts receivable to be fully collected during the next fiscal year.

Investments

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

Fair Value

The Organization complies with FASB's Accounting Standards Codification topic *Fair Value Measurements*. This defines fair value, and establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets of liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurement).

NOTE 1- ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

The three levels of the fair value hierarchy under this topic are described below:

Basis of Fair Value Measurement

Level 1	Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
Level 2	Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly.
Level 3	Prices or valuations that require inputs that are both significant to the fair value measurements and unobservable.

Property and Equipment

Property and equipment is stated at cost, or if donated, at fair market value at the date of receipt. Depreciation is calculated using the straight-line method over the estimated useful life of the assets. The Organization's capitalization threshold is $1,000. Upon disposal of depreciable assets, the cost and related accumulated depreciation are eliminated from the accounts and the resulting gain or loss is credited or charged to income. Maintenance and repairs are expensed as incurred.

Tax Exempt Status

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. Tax returns for the fiscal years ended September 30, 2015 - 2017 are subject to review and examination by the Internal Revenue Service.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. Those estimates and assumptions affect the reported amounts of the assets and liabilities, disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. Actual results could differ from those estimates.

NOTE 1- ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Functional Expenses

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.

NOTE 2- INVESTMENTS

The following is a description of the valuation methodology used for investments measured at fair value and their classification in the valuation hierarchy:

Mutual Funds – Comprised of mutual funds listed on the national markets or exchanges which are valued at last sales price, or if there is no sale and the market is still considered active, at the last transaction price before year-end. Such securities are classified within Level 1 of the valuation hierarchy.

The following tables, set forth by level within the fair value hierarchy, are the Association's investment assets at fair value. The Organization did not have any investments at September 30, 2017. Investments are stated at fair market value and consist of the following at September 30, 2018.

	September 30, 2018			
	Level 1	Level 2	Level 3	Total
Mutual funds	$ 29,751	$ -	$ -	$ 29,751
Totals	$ 29,751	$ -	$ -	$ 29,751

Investment income for the year ended September 30, 2018 was comprised of unrealized gains of $804 and is included in other income on the accompanying statement of activities.

NOTE 3- CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Organization to concentrations of credit risk include cash deposits with commercial banks. The Organization's cash management policies limit its exposure to concentrations of credit risk by maintaining cash accounts at financial institutions whose deposits are insured by the Federal Deposit Insurance Corporation (FDIC). Cash deposits may, however, exceed the FDIC insurable limits at times throughout the year. Management does not consider this a significant concentration of credit risk.

NOTE 4- PROPERTY AND EQUIPMENT

As of September 30, 2018 and 2017, property and equipment consists of:

	2018	2017
Land	$ 1,232,731	$ 1,232,731
Construction in process	8,592,755	3,538,404
Leasehold improvements	8,500	59,128
Equipment	131,292	104,141
Subtotals	9,965,278	4,934,404
Less, Accumulated depreciation	(85,669)	(74,004)
Total	$ 9,879,609	$ 4,860,400

Depreciation expense for the years ended September 30, 2018 and 2017 was $26,837 and $44,178, respectively.

NOTE 5- CAPITAL CAMPAIGN

The Organization has commenced a multi-year capital campaign to raise funds primarily targeted for the building of a new center. As of September 30, 2018 and 2017, total funds available to support capital campaign expenditures were $77,090 and $0, respectively.

The following represents the net value of promises to give as of September 30, 2018 and 2017:

	2018	2017
Promises to give in less than one year	$ 422,750	$ 215,250
Promises to give in one to five years	163,525	-
Totals	$ 586,275	$ 215,250

The Organization discounts pledges receivable to their discounted present value of future cash flows, calculated using a discount rate equivalent to the Wall Street Journal prime rate at year end. The effect of the policy is as follows:

	2018	2017
Pledges receivable before the present value factor	$ 600,954	$ 218,274
Less, discount (5.25% and 3.25%, respectively)	14,679	3,024
Totals	$ 586,275	$ 215,250

NOTE 6- 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, 2018 and 2017 and bears interest at 1.703% per annum. The note matures on December 31, 2051. The note requires quarterly interest only payments through December 5, 2024, at which time the note requires quarterly payments of principal and interest through the term of the note.

The second note payable (QLICI Loan B), has a balance of $2,616,300 as of September 30, 2018 and 2017 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 assets and long-term liabilities related to the NMTC financing reflected on the consolidated statements of financial position as of September 30, 2018 and 2017 are as follows:

	2018	2017
Other Assets:		
New markets 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

NOTE 6- <u>NEW MARKETS TAX CREDIT FINANCING</u> (Continued)

Interest income and expenses related to the NMTC financing for the years ended September 30, 2018 and 2017 were as follows:

	2018	2017
Interest income	$ 125,172	$ 98,052
Interest expense, capitalized in CIP	$ 158,549	$ 122,875

NOTE 7- <u>LOANS PAYABLE</u>

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

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

In December 2016, the Organization entered into a loan agreement with Wells Fargo Bank for $3,090,000. The loan carries an interest rate of 4.05% and matures on December 22, 2023. The Organization will make monthly interest-only payments through June 2018 and thereafter, will make monthly principal payments of $18,903 plus accrued interest through the term of the note. The outstanding principal balance as of September 30, 2018 and 2017 was $2,752,836 and $3,090,000, respectively. Unamortized loan fees related to this loan as of September 30, 2018 and 2017 were $6,562 and $8,750, respectively, and are being amortized over the life of the loan. Interest expense related to this note for the years ended September 30, 2018 and 2017 was $117,530 and $98,167, respectively. Amortization of loan fees for the years ended September 30, 2018 and 2017 was $2,188 and $0, respectively.

NOTE 7- LOANS PAYABLE (Continued)

The Organization's notes payable as of September 30, 2018 and 2017 consisted of the following:

	2018	2017
Bainum 1	$ 500,000	$ 500,000
Bainum 2	500,000	500,000
Wells Fargo Bank	2,752,836	3,090,000
Subtotal	3,752,836	4,090,000
Less: unamortized loan fees	(6,562)	(8,750)
	$ 3,746,274	$ 4,081,250

Future principal payments required under the loans payable as of September 30, are as follows:

FY 2019	$ 226,836
FY 2020	726,836
FY 2021	726,836
FY 2022	226,836
FY 2023	226,836
Thereafter	1,618,656
	$ 3,752,836

NOTE 8- DONATED SERVICES AND SUPPLIES

The Organization received donated professional services and supplies with a value of $364,890 and $339,078 for the years ended September 30, 2018 and 2017, respectively. These gifts have been reflected in the accompanying financial statements based on use.

NOTE 9-TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets 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.

The balance of temporarily restricted net assets as of September 30, 2018 and 2017 consists of the following:

	2018	2017
Purpose restricted:		
Operating expenses - new center	$ 185,519	$ 162,500
Reserve fund	130,000	30,000
Research grant	99,865	-
Instructional coach	94,574	-
Capital campaign	77,090	
Home-based services	55,989	79,977
Strategic capacity building	24,500	-
Verbal development	21,852	-
Therapeutic services	16,966	8,097
Early childhood education	13,416	2,000
Workforce development	9,327	4,633
Other	7,800	4,091
Playground renovation	58	80,425
General programs	-	21,927
Field trips	-	3,272
	736,956	396,922
Time restricted:		
Individual pledges	-	(3,024)
	-	(3,024)
Total	$ 736,956	$ 393,898

NOTE 10-COMMITMENTS

The Organization is committed under a non-cancelable office lease for a period of five years expiring November 30, 2014. The lease provides for a base monthly payment of approximately $7,200, adjusted annually by the landlord's choice of 2%, or actual pro rata increases in operating expenses.

Additionally, on March 18, 2008, the Organization entered into a three-year lease agreement for additional space at the same location effective on January 1, 2008. Under the terms of the lease, payments are made monthly in the original amount of $2,451, subject to an annual increase of 3%. This lease agreement was extended.

NOTE 10- COMMITMENTS (Continued)

On May 1, 2015, the Organization amended the prior two lease agreements. The new lease agreement expired on March 31, 2017. The extension required an approximate minimum amount of $13,439 per month. The Organization continued to make rent payments on a month to month basis through July 2018.

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 will expire on July 31, 2023. The lease also includes extension options through July 31, 2028.

Rent expense for the years ended September 30, 2018 and 2017 was $321,759 and $174,109, respectively, and is included in occupancy costs on the statements of functional expenses. The future minimum lease payments for each of the next five years is $240,000 per year.

NOTE 11- SUBSEQUENT EVENTS

The Organization evaluated subsequent events for potential required disclosure through January 23, 2019, which is the date financial statements were available to be issued.

NOTE 12- ACCOUNTING PRONOUNCEMENTS

In August 2016, the FASB issued a new accounting pronouncement for the presentation of financial statements for not-for-profit entities. The new standard is meant to simplify and clarify accounting for not-for-profit entities as well as increase the transparency of the financial statements, primarily as it relates to net asset classification and liquidity disclosures. Under the previous guidance, not-for-profit entities were required to report three classes of net assets on the statement of financial position based on the type of donor restriction: unrestricted, temporarily restricted and permanently restricted. The new guidance provides for a reduction to two classes of net assets: net assets with donor restriction and net assets without donor restriction. Previously, the disclosure of the liquidity of available resources was not clearly defined. As a result, the new guidance requires not-for-profit entities to disclose qualitative information regarding management's evaluation of its liquidity position and quantitative disclosures of its available liquid resources to meet cash needs for general expenditures within one year of the statement of financial position date. Adoption of the standard is required for the years ending December 31, 2018 and after.

NOTE 13- <u>ACCOUNTING PRONOUNCEMENTS</u> (Continued)

In February 2016, the FASB issued a new accounting pronouncement for leases. This guidance significantly changes the accounting for a lessee. Under the previous guidance, the lessee did not have to record an operating lease on the statements of financial position. Under the new guidance, a lessee must record both a liability for the lease payments and as asset for the right to use the leased property during the lease term. The new accounting pronouncement also adds comprehensive qualitative and quantitative disclosures for lease arrangements. The disclosure requirements include information about management's significant judgements in its accounting for a leasing arrangement. Adoption of this accounting standard is required for the year ended December 31, 2020, although early adoption is permitted.

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL INFORMATION

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

We have audited the consolidated financial statements of Bright Beginnings, Inc. and Subsidiary as of and for the year ended September 30, 2018, and our report thereon dated January 23, 2019 which contained an unmodified opinion on those consolidated financial statements appears on pages 1-3. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole.

The consolidating schedule of financial position as September 30, 2018 and the consolidating schedule of activities are presented for the purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

DeLeon & Stang

DeLeon & Stang, CPAs
January 23, 2019

BRIGHT BEGINNINGS, INC. AND SUBSIDIARY
Consolidating Schedule of Financial Position
September 30, 2018

Assets	Bright Beginnings	BBI Holdings, Inc.	Eliminations	Total
Current assets:				
Cash and equivalents	$ 3,260,016	$ 552,879	$ -	$ 3,812,895
Certificates of deposit	247,716	-	-	247,716
Investments	29,751	-	-	29,751
Contributions receivable, current	422,750	-	-	422,750
Accounts and contracts receivable	403,807	-	-	403,807
Other receivable	7,827	-	-	7,827
Loan receivable from BBI Holdings	1,133,812	-	(1,133,812)	-
Prepaid expenses	73,489	-	-	73,489
Total current assets	5,579,168	552,879	(1,133,812)	4,998,235
Property and equipment, net	54,123	9,825,486	-	9,879,609
Other assets:				
Contributions receivable, net current	163,525	-	-	163,525
Deposits	36,495	43,591	-	80,086
New market tax credit loan fund	6,693,700	-	-	6,693,700
Total other assets	6,893,720	43,591	-	6,937,311
Total assets	$ 12,527,011	$ 10,421,956	$ (1,133,812)	$ 21,815,155
Liabilities and net assets				
Current Liabilities:				
Accounts payable	$ 618,681	$ -	$ -	$ 618,681
Accrued salaries and related liabilities	168,411	-	-	168,411
Deferred revenue	1,510	-	-	1,510
Loans payable, current portion	226,836	-	-	226,836
Loan payable to BBI	-	1,133,812	(1,133,812)	-
Total current liabilities	1,015,438	1,133,812	(1,133,812)	1,015,438
Long-term Liabilities:				
New market tax credit loans payable	-	9,310,000	-	9,310,000
Loans payable, net of current portion and unamortized deferred financing costs of $6,562	3,519,438	-	-	3,519,438
Total long-term liabilities	3,519,438	9,310,000	-	12,829,438
Total liabilities	4,534,876	10,443,812	(1,133,812)	13,844,876
Net assets:				
Unrestricted	7,255,179	(21,856)	-	7,233,323
Temporarily restricted	736,956	-	-	736,956
Total net assets	7,992,135	(21,856)	-	7,970,279
Total liabilities and net assets	$ 12,527,011	$ 10,421,956	$ (1,133,812)	$ 21,815,155

BRIGHT BEGINNINGS, INC. AND SUBSIDIARY
Consolidating Schedule of Activities
For the Year Ended September 30, 2018

	Bright Beginnings, Inc.			BBI Holdings, Inc.			Total		
	Unrestricted	**Temporarily Restricted**	**Total**	**Unrestricted**	**Temporarily Restricted**	**Total**	**Unrestricted**	**Temporarily Restricted**	**Total**
Revenue and support:									
Federal government grants	$ 3,314,385	$ -	$ 3,314,385	$ -	$ -	$ -	$ 3,314,385	$ -	$ 3,314,385
Other grants and contracts	438,601	-	438,601	-	-	-	438,601	-	438,601
Foundation and corporate support	561,275	1,757,050	2,318,325	-	-	-	561,275	1,757,050	2,318,325
Contributions	591,564	195,488	787,052	-	-	-	591,564	195,488	787,052
Donated services and equipment	364,890	-	364,890	-	-	-	364,890	-	364,890
Special events	90,211	-	90,211	-	-	-	90,211	-	90,211
Other income	173,654	-	173,654	-	-	-	173,654	-	173,654
Net assets released from restrictions	1,609,480	(1,609,480)	-	-	-	-	1,609,480	(1,609,480)	-
Total revenue and support	7,144,060	343,058	7,487,118	-	-	-	7,144,060	343,058	7,487,118
Expenses:									
Program services:									
Education	2,359,473	-	2,359,473	-	-	-	2,359,473	-	2,359,473
Family services	476,302	-	476,302	-	-	-	476,302	-	476,302
Health and safety	637,244	-	637,244	-	-	-	637,244	-	637,244
Home-based services	669,237	-	669,237	-	-	-	669,237	-	669,237
Workforce development	471,942	-	471,942	-	-	-	471,942	-	471,942
Outreach	153,837	-	153,837	-	-	-	153,837	-	153,837
Therapeutic services	335,732	-	335,732	-	-	-	335,732	-	335,732
Program expansion	201,522	-	201,522	-	-	-	201,522	-	201,522
Total program services	5,305,289	-	5,305,289	-	-	-	5,305,289	-	5,305,289
Supporting services:									
Management and general	1,167,972	-	1,167,972	12,752	-	12,752	1,180,724	-	1,180,724
Development	561,088	-	561,088	-	-	-	561,088	-	561,088
Total supporting services	1,729,060	-	1,729,060	12,752	-	12,752	1,741,812	-	1,741,812
Total expenses	7,034,349	-	7,034,349	12,752	-	12,752	7,047,101	-	7,047,101
Change in net assets	109,711	343,058	452,769	(12,752)	-	(12,752)	96,959	343,058	440,017
Net assets, beginning of year	7,145,468	393,898	7,539,366	(9,104)	-	(9,104)	7,136,364	393,898	7,530,262
Net assets, end of year	$ 7,255,179	$ 736,956	$ 7,992,135	$ (21,856)	$ -	$ (21,856)	$ 7,233,323	$ 736,956	$ 7,970,279

BRIGHT BEGINNINGS, INC. AND SUBSIDIARY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

Federal Employer I.D. # 52-1697917

Federal Grantor/Pass-through Grantors/Program Cluster	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	$ 3,248,978	$ -
U.S. Department of Agriculture District of Columbia Office of the State Superintendent/Child and Adult Care Food Program	10.558	V-131	65,407	-
Total Expenditures of Federal Awards			$ 3,314,385	$ -

BRIGHT BEGINNINGS, INC. AND SUBSIDIARY
Notes to the Schedule of Expenditures of Federal Awards
September 30, 2018 and 2017

NOTE 1- BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of 2018 and is presented on the accrual basis of accounting. Expenses are recognized using the cost accounting principles contained in the U.S. Office of Management and Budget Circular A-122, Cost Principles for Non-Profit Organizations. Under those cost principles, certain types of expenses are not allowable or are limited as to reimbursement.

NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on this schedule are reported on the accrual basis of accounting. Such expenditure 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.

NOTE 3- INDIRECT COST RATE

Bright Beginnings, Inc. has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

DELEON & STANG
CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

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*

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Bright Beginnings, Inc. (a nonprofit organization), which comprise the statement of financial position as of September 30, 2018 and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated January 23, 2019.

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 Bright Beginnings, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of 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 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.

Internal Control Over Financial Reporting (Continued)

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified, therefore, material weaknesses or significant deficiencies may exist that were not identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Bright Beginnings, Inc.'s consolidated financial statements are free of 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 Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

DeLeon & Stang

DeLeon & Stang, CPAs
Frederick, Maryland
January 23, 2019

DeLeon & Stang
Certified Public Accountants and Advisors

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DELEON & STANG
CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

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

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

Report on Compliance for Each Major Federal Program

We have audited Bright Beginnings, Inc.'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 Bright Beginnings, Inc.'s major federal programs for the year ended September 30, 2018. Bright Beginnings, Inc.'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, Costs 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 consider 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 each of its major federal programs for the year ended September 30, 2018.

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 direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness on internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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 the 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 requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

DeLeon & Stang

DeLeon & Stang, CPAs
Frederick, Maryland
January 23, 2019

BRIGHT BEGINNINGS, INC. AND SUBSIDIARY
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2018

A. Summary of Auditors' Results

Financial Statements:

Type of auditors' report issued:	Unmodified	
Internal control over financial reporting:		
Material weakness(es) identified?	___ Yes	X No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	___ Yes	X No
Noncompliance material to financial statements noted?	___ Yes	X No

Federal Awards

Internal control over major programs:		
Material weakness(es) identified?	___ Yes	X No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	___ Yes	X No
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance?	___ Yes	X No

Identification of Major Programs:

CFDA Number/ Grant Number	Program Title
93.600	U.S. Department of Health and Human Services/Head Start and Early Head Start Programs

Dollar threshold used to distinguish between Type A and Type B Programs:	$ 750,000	
Auditee qualified as a low-risk auditee?	X Yes	___ No

BRIGHT BEGINNINGS, INC. AND SUBSIDIARY
Summary Schedule of Prior Audits Findings
For the Year Ended September 30, 2018

B. Findings - Financial Statement Audit
None

C. Findings and Questioned Costs - Major Federal Award Programs Audit
None

D. Prior Year Audit Findings
None