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, 2016 and 2015

BRIGHT BEGINNINGS, INC.
AND SUBSIDIARY

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Bright Beginnings, Inc. and Subsidiary (a nonprofit organization), which comprise the consolidated statements of financial position as of September 30, 2016 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.

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 audit. We conducted our audit 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. as of September 30, 2016 and 2015 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of Bright Beginnings, Inc. and Subsidiary as of September 30, 2015 were audited by other auditors whose report dated November 30, 2015, expressed an unmodified opinion on those statements.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards is presented for purposes of additional analysis and is not a required part of the 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.

DELEON & STANG
CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2017, 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
Gaithersburg, Maryland
January 25, 2017

DELEON & STANG
CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

BRIGHT BEGINNINGS, INC. AND SUBSIDIARY
Consolidated Statements of Financial Position
September 30, 2016 and 2015

Assets	**2016**	**2015**
Current assets:		
Cash and equivalents	$ 3,949,826	$ 3,984,641
Certificates of deposit	1,272,169	1,594,875
Contributions receivable, net	223,326	137,752
Accounts and contracts receivable	556,572	472,505
Prepaid expenses	55,284	49,658
Total current assets	6,057,177	6,239,431
Property and equipment	1,689,138	70,073
Other assets:		
Deposits	50,000	116,100
Contributions receivable, net, less current portion	71,470	8,467
Total other assets	121,470	124,567
Total assets	$ 7,867,785	$ 6,434,071
Liabilities and net assets		
Current Liabilities:		
Accounts payable	$ 29,090	$ 143,008
Accrued salaries and related liabilities	107,600	138,202
Total current liabilities	136,690	281,210
Long-term Liabilities:		
Loan payable	500,000	-
Total long-term liabilities	500,000	-
Total liabilities	636,690	281,210
Net assets:		
Unrestricted:		
Undesignated	4,118,227	1,468,103
Board designated	500,000	500,000
Total unrestricted	4,618,227	1,968,103
Temporarily restricted	2,612,868	4,184,758
Total net assets	7,231,095	6,152,861
Total liabilities and net assets	$ 7,867,785	$ 6,434,071

See Accompanying Notes to the Consolidated Financial Statements

BRIGHT BEGINNINGS, INC. AND SUBSIDIARY
Consolidated Statements of Activities
For the Years Ended September 30, 2016 and 2015

	2016			2015		
	Unrestricted	**Temporarily Restricted**	**Total**	**Unrestricted**	**Temporarily Restricted**	**Total**
Revenue and support:						
Federal government grants	$ 2,460,095	$ -	$ 2,460,095	$ 2,370,657	$ 48,797	$ 2,419,454
Other grants and contracts	1,006,201	-	1,006,201	960,222	-	960,222
Foundation and corporate support	729,008	743,472	1,472,480	529,606	1,381,750	1,911,356
Contributions	500,463	146,518	646,981	311,143	230,727	541,870
Donated services and equipment	371,559	-	371,559	218,466	-	218,466
Special events	52,583	-	52,583	77,739	-	77,739
Interest and other income	(1,734)	-	(1,734)	5,316	-	5,316
Net assets released from restrictions	2,461,880	(2,461,880)	-	914,974	(914,974)	-
Total revenue and support	7,580,055	(1,571,890)	6,008,165	5,388,123	746,300	6,134,423
Expenses:						
Program services:						
Education	3,333,498	-	3,333,498	3,322,912	-	3,322,912
Family services	377,025	-	377,025	433,550	-	433,550
Evening care	153,315	-	153,315	116,009	-	116,009
Therapeutic services	134,981	-	134,981	74,674	-	74,674
Program expansion	316,091	-	316,091	427,789	-	427,789
Total program services	4,314,910	-	4,314,910	4,374,934	-	4,374,934
Supporting services:						
Management and general	383,226	-	383,226	304,962	-	304,962
Development	231,795	-	231,795	256,806	-	256,806
Total supporting services	615,021	-	615,021	561,768	-	561,768
Total expenses	4,929,931	-	4,929,931	4,936,702	-	4,936,702
Change in net assets	2,650,124	(1,571,890)	1,078,234	451,421	746,300	1,197,721
Net assets, beginning of year	1,968,103	4,184,758	6,152,861	1,516,682	3,438,458	4,955,140
Net assets, end of year	$ 4,618,227	$ 2,612,868	$ 7,231,095	$ 1,968,103	$ 4,184,758	$ 6,152,861

See Accompanying Notes to the Consolidated Financial Statements

BRIGHT BEGINNINGS, INC. AND SUBSIDIARY
Consolidated Statement of Functional Expenses
For The Year Ended September 30, 2016

	Program Services						Supporting Services		
	Education	Family Services	Evening Care	Therapeutic Services	Program Expansion	Total	Management and General	Development	Total
Compensation and benefits	$ 2,175,623	$ 281,849	$ 136,235	$ 118,950	$ 30,774	$ 2,743,431	$ 213,629	$ 79,778	$3,036,838
Consulting services:						-			-
Capital campaign	-	-	-	-	116,244	116,244	-	-	116,244
Therapeutic, health, and tracking	368,562	43	5	743	1	369,354	2,044	4	371,402
Other	83,385	20,346	5,112	4,567	1,275	114,685	38,971	3,813	157,469
Communications	64,127	1,698	217	193	172	66,407	2,342	9,416	78,165
Occupancy costs	137,788	21,129	8,124	7,265	1,839	176,145	11,385	4,540	192,070
Family services	17,210	30,702	-	175	-	48,087	-	-	48,087
Depreciation	-	-	-	-	-	-	10,284	-	10,284
Supplies	55,170	3,917	380	340	136	59,943	(9,259)	1,089	51,773
Special events, meetings, and travel	16,823	627	290	259	87	18,086	6,415	121,357	145,858
Publication and printing	-	616	-	-	5,455	6,071	-	9,042	15,113
Classroom expenses	258,629	1,057	177	608	44	260,515	(10,690)	132	249,957
Insurance and other fees	49,666	4,550	2,106	1,881	7,025	65,228	17,259	2,624	85,111
In-kind expenses	106,515	10,491	669	-	153,039	270,714	100,846	-	371,560
Totals	$ 3,333,498	$ 377,025	$ 153,315	$ 134,981	$ 316,091	$ 4,314,910	$ 383,226	$ 231,795	$4,929,931

See Accompanying Notes to the Consolidated Financial Statements.

BRIGHT BEGINNINGS, INC. AND SUBSIDIARY
Consolidated Statement of Functional Expenses
For The Year Ended September 30, 2015

	Program Services						Supporting Services		
	Education	Family Services	Evening Care	Therapeutic Services	Program Expansion	Total	Management and General	Development	Total
Compensation and benefits	$ 2,188,718	$ 301,596	$ 101,007	$ 63,643	$ 42,937	$ 2,697,901	$ 165,001	$ 121,662	$ 2,984,564
Consulting services:									-
Capital campaign	-	-	-	-	333,984	333,984	-	-	333,984
Therapeutic, health, and tracking	400,928	805	128	674	55	402,590	459	441	403,490
Other	97,719	23,073	4,432	2,723	1,909	129,856	8,606	21,902	160,364
Communications	60,696	2,988	555	311	239	64,789	1,899	6,711	73,399
Occupancy costs	134,480	17,739	5,897	3,621	2,745	164,482	11,432	6,870	182,784
Family services	8,778	37,962	-	175	-	46,915	8	-	46,923
Depreciation	-	-	-	-	-	-	6,785	-	6,785
Supplies	33,623	13,091	294	164	127	47,299	3,411	382	51,092
Special events, meetings, and travel	26,345	11,437	207	226	89	38,304	3,721	87,932	129,957
Publication and printing	-	-	-	-	-	-	-	8,533	8,533
Classroom expenses	241,074	890	267	150	115	242,496	509	347	243,352
Insurance and other fees	49,672	4,866	1,556	871	13,637	70,602	20,381	2,026	93,009
In-kind expenses	80,879	19,103	1,666	2,116	31,952	135,716	82,750	-	218,466
Totals	$ 3,322,912	$ 433,550	$ 116,009	$ 74,674	$ 427,789	$ 4,374,934	$ 304,962	$ 256,806	$ 4,936,702

BRIGHT BEGINNINGS, INC. AND SUBSIDIARY
Consolidated Statements of Cash Flows
For the Years Ended September 30, 2016 and 2015

	2016	2015
Cash flows form operating activities:		
Change in net assets	$ 1,078,234	$ 1,197,721
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	10,284	6,785
Changes in contributions receivable	(148,577)	46,583
Changes in accounts and contracts receivable	(84,067)	(25,438)
Changes in prepaid expenses	(5,626)	1,812
Changes in accounts payable	(113,918)	68,317
Changes in accrued salaries and related liabilities	(30,602)	(49,731)
Changes in deferred revenue	-	(69,011)
Net cash provided by operating activities	705,728	1,177,038
Cash flows from investing activities:		
Purchases of property and equipment	(1,629,531)	(52,031)
Proceeds from the sale of certificate of deposit	326,088	57,998
Reinvested interest income	(3,200)	(2,887)
Decrease (increase) in deposits	66,100	(86,100)
Net cash used in investing activities	(1,240,543)	(83,020)
Cash flows from financing activities:		
Increase in notes payable	500,000	-
Net cash provided by financing activities	500,000	-
Increased (Decrease) in cash and equivalents	(34,815)	1,094,018
Cash and equivalents, beginning of year	3,984,641	2,890,623
Cash and equivalents, end of year	$ 3,949,826	$ 3,984,641

See Accompanying Notes to the Consolidated Financial Statements.

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. At September 30, 2016 and 2015, the Organization did not have any 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.

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. Based on historical experience, management has recorded an allowance for uncollectible contributions receivable totaling $10,000 and $7,977 for the years ending September 30, 2016 and 2015, 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, 2016, management expects the amount in accounts and contracts receivable to be fully collected during the next fiscal year.

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, 2013 - 2015 are subject to review and examination by the Internal Revenue Service.

NOTE 1- ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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- 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 3- PROPERTY AND EQUIPMENT

As of September 30, 2016 and 2015, property and equipment consists of:

	2016	2015
Land	$ 1,232,731	$ -
Construction in process	373,391	-
Leasehold improvements	59,128	59,128
Equipment	72,144	73,916
Subtotals	1,737,394	133,044
Less, Accumulated depreciation and amortization	(48,256)	(62,971)
Total	$ 1,689,138	$ 70,073

Depreciation expense for the years ended September 30, 2016 and 2015 was $10,284 and $6,785, respectively.

NOTE 4- 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, 2016 and 2015, total funds available to support capital campaign expenditures were $1,780,170 and $3,334,262, respectively.

The following represents the net value of promises to give as of September 30, 2016 and 2015:

	2016	2015
Promises to give in less than one year	$ 223,326	$ 137,752
Promises to give in one to five years	71,470	8,467
Totals	$ 294,796	$ 146,219

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:

	2016	2015
Pledges receivable before the present value factor	$ 312,276	$ 155,019
Less, Allowance for doubtful accounts	10,000	7,977
Subtotal	$ 302,276	$ 147,042
Less, Discount (3.25%)	7,480	823
Totals	$ 294,796	$ 146,219

NOTE 5- BOARD DESIGNATED NET ASSETS

The Organization's Board of Directors has designated $500,000 of its unrestricted net assets to establish a strategic planning reserve fund to undertake strategic growth. This designated amount cannot be used by the Organization for operations, unless the Board of Directors removes their designation.

NOTE 6- 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.

NOTE 6- TEMPORARILY RESTRICTED NET ASSETS (Continued)

The balance of temporarily restricted net assets as of September 30, 2016 and 2015 consists of the following:

	2016	2015
Purpose restricted:		
Capital campaign	$ 1,780,170	$ 3,334,262
Operating expenses - new center	152,500	150,000
Reserve fund	30,000	30,000
Literacy	-	4,908
General programs	152,827	212,208
Playground renovation	67,825	-
Abuse services	30,000	-
Field trips	3,000	-
Family services	1,247	97,135
Workforce development	50,312	146,677
Therapeutic services	41,606	7,005
Home-based services	157,807	118,921
Strategic capacity building	18,150	65,715
Computer systems	40,000	-
Other	7,721	4,000
	2,533,165	4,170,831
Time restricted:		
Corporate/Foundation grants	86,057	8,000
Individual pledges	(6,354)	5,927
	79,703	13,927
Total	$ 2,612,868	$ 4,184,758

NOTE 7- DONATED SERVICES AND SUPPLIES

The Organization received donated professional services and supplies with a value of $371,559 and $218,466 for the years ended September 30, 2016 and 2015, respectively. These gifts have been reflected in the accompanying financial statements based on use.

NOTE 8- 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.

NOTE 8- COMMITMENTS (Continued)

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.

On May 1, 2015, the Organization amended the prior two lease agreements. The new lease agreement will expire on March 31, 2017. The extension requires an approximate minimum amount of $13,439 per month. Rent expense for the years ended September 30, 2016 and 2015 was $180,628 and $168,514, respectively, and is included in occupancy costs on the statements of functional expenses.

The future minimum lease commitment for this lease is as follows:

For the year ended September 30,	
2017	$ 85,576
Total future minium lease payments	$ 85,576

NOTE 9- LOAN PAYABLE

On December 21, 2015 the Organization received a loan from the Bainum Family 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 Bainum Family 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 Bainum Family Foundation by that date.

NOTE 10- SUBSEQUENT EVENTS

On December 22, 2016, a loan payable was entered into between BBI Holdings, Inc. and City First Capital 46, Inc. in the amount of $9,310,000 with an interest rate of 1.703% per annum and a maturity date of December 31, 2051. On December 22, 2016, a loan payable was entered into between Bright Beginnings, Inc. and Wells Fargo Bank, National Association, in the amount of $3,090,000 with an interest rate of 4.05% per annum and a maturity date of December 22, 2023.

Other than the items noted above, the Organization evaluated subsequent events for potential required disclosure through January 25, 2017, which is the date financial statements were available to be issued.

DELEON & STANG
CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

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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, 2016, and our report thereon dated January 25, 2017, 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, 2016 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 25, 2017

BRIGHT BEGINNINGS, INC. AND SUBSIDIARY
Consolidating Schedule of Financial Position
September 30, 2016

Assets	Bright Beginnings	BBI Holdings, Inc.	Eliminations	Total
Current assets:				
Cash and equivalents	$ 3,949,826	$ -	$ -	$ 3,949,826
Certificates of deposit	1,272,169	-	-	1,272,169
Contributions receivable, net	223,326	-	-	223,326
Accounts and contracts receivable	556,572	-	-	556,572
Loan receivable from BBI Holdings	1,653,502		(1,653,502)	-
Prepaid expenses	53,305	1,979	-	55,284
Total current assets	7,708,700	1,979	(1,653,502)	6,057,177
Property and equipment	83,016	1,606,122	-	1,689,138
Other assets:				
Deposits	5,000	45,000	-	50,000
Contributions receivable, net, less current portion	71,470	-	-	71,470
Total other assets	76,470	45,000	-	121,470
Total assets	$ 7,868,186	$ 1,653,101	$ (1,653,502)	$ 7,867,785
Liabilities and net assets				
Current Liabilities:				
Accounts payable	$ 29,090	$ -	$ -	$ 29,090
Accrued salaries and related liabilities	107,600	-	-	107,600
Loan payable to BBI	-	1,653,502	(1,653,502)	-
Total current liabilities	136,690	1,653,502	(1,653,502)	136,690
Long-term Liabilities:				
Loan payable	500,000	-	-	500,000
Total long-term liabilities	500,000	-	-	500,000
Total liabilities	636,690	1,653,502	(1,653,502)	636,690
Net assets:				
Unrestricted:				
Undesignated	4,118,628	(401)	-	4,118,227
Board designated	500,000	-	-	500,000
Total unrestricted	4,618,628	(401)	-	4,618,227
Temporarily restricted	2,612,868	-	-	2,612,868
Total net assets	7,231,496	(401)	-	7,231,095
Total liabilities and net assets	$ 7,868,186	$ 1,653,101	$ (1,653,502)	$ 7,867,785

BRIGHT BEGINNINGS, INC. AND SUBSIDIARY
Consolidating Schedule of Activities
For the Year Ended September 30, 2016

	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	$ 2,460,095	$ -	$ 2,460,095	$ -	$ -	$ -	$ 2,460,095	$ -	$ 2,460,095
Other grants and contracts	1,006,201	-	1,006,201	-	-	-	1,006,201	-	1,006,201
Foundation and corporate support	729,008	743,472	1,472,480	-	-	-	729,008	743,472	1,472,480
Contributions	500,463	146,518	646,981	-	-	-	500,463	146,518	646,981
Donated services and equipment	371,559	-	371,559	-	-	-	371,559	-	371,559
Special events	52,583	-	52,583	-	-	-	52,583	-	52,583
Interest and other income	(1,734)	-	(1,734)	-	-	-	(1,734)	-	(1,734)
Net assets released from restrictions	2,461,880	(2,461,880)	-	-	-	-	2,461,880	(2,461,880)	-
Total revenue and support	7,580,055	(1,571,890)	6,008,165	-	-	-	7,580,055	(1,571,890)	6,008,165
Expenses:									
Program services:									
Education	3,333,498	-	3,333,498	-	-	-	3,333,498	-	3,333,498
Family services	377,025	-	377,025	-	-	-	377,025	-	377,025
Evening care	153,315	-	153,315	-	-	-	153,315	-	153,315
Therapeutic services	134,981	-	134,981	-	-	-	134,981	-	134,981
Program expansion	316,091	-	316,091	-	-	-	316,091	-	316,091
Total program services	4,314,910	-	4,314,910	-	-	-	4,314,910	-	4,314,910
Supporting services:									
Management and general	382,825	-	382,825	401	-	401	383,226	-	383,226
Development	231,795	-	231,795	-	-	-	231,795	-	231,795
Total supporting services	614,620	-	614,620	401	-	401	615,021	-	615,021
Total expenses	4,929,530	-	4,929,530	401	-	401	4,929,931	-	4,929,931
Change in net assets	2,650,525	(1,571,890)	1,078,635	(401)	-	(401)	2,650,124	(1,571,890)	1,078,234
Net assets, beginning of year	1,968,103	4,184,758	6,152,861	-	-	-	1,968,103	4,184,758	6,152,861
Net assets, end of year	$ 4,618,628	$ 2,612,868	$ 7,231,496	$ (401)	$ -	$ (401)	$ 4,618,227	$ 2,612,868	$ 7,231,095

BRIGHT BEGINNINGS, INC. AND SUBSIDIARY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

Federal Employer I.D. # 52-1697917

Federal Grantor/Pass-trhough 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	$ 2,373,372	$ -
U.S. Department of Agriculture District of Columbia Office of the State Superintendent/Child and Adult Care Food Program	10.558	V-131	83,723	-
Total Expenditures of Federal Awards			$ 2,457,095	$ -

BRIGHT BEGINNINGS, INC. AND SUBSIDIARY
Notes to the Schedule of Expenditures of Federal Awards
September 30, 2016 and 2015

NOTE 1- BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of Bright Beginnings, Inc. 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- INDIRECT COST RATE

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

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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*

Board of Directors
Bright Beginnings, Inc. and Subsidiary

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, 2016 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 25, 2017.

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
January 25, 2017

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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

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, 2016. My Sister's Place, 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, 2016.

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
January 25, 2017

BRIGHT BEGINNINGS, INC. AND SUBSIDIARY
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2016

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 Section 510(a) of Circular A-133?	____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, 2016

B. Findings - Financial Statement Audit
None

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

D. Prior Year Audit Findings
None