



**BRIGHT BEGINNINGS, INC.
AND SUBSIDIARY**

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

For the year ended September 30, 2017



**BRIGHT BEGINNINGS, INC.
AND SUBSIDIARY**

Table of Contents

Independent Auditors' Report	1-3
Financial Statements	
Consolidated Statements of Financial Position	4
Consolidated Statements of Activities	5
Consolidated Statements of Functional Expenses for the year ended September 30, 2017.....	6-7
Consolidated Statements of Cash Flows	8
Notes to the Consolidated Financial Statements	9-19
Supplemental Information	
Independent Auditors' Report on Supplemental Information.....	20
Consolidated Schedule of Financial Position.....	21
Consolidated Schedule of Activities	22
Schedule of Expenditures of Federal Awards	23
Notes to Schedule of expenditures of Federal Awards	24
Independent Auditors' Report on Internal Control Over	
Financial Reporting and on Compliance and Other Matters Based on and Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	25-16
Independent Auditors' Report on Compliance for Each Major	
Program and on Internal Control Over Compliance Required by the Uniform Guidance	27-29
Schedule of Findings and Questioned Costs	30
Summary Schedule of Prior Audit Findings	31



Allen P. DeLeon, CPA, PFS, CITP
Richard C. Stang, CPA, PFS, ABV
Jeanie Price, PAFM
Bradly L. Hoffman, CPA
Daniel L. Dellon, CPA, ABV, CFF

www.deleonandstang.com

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 statement of financial position as of September 30, 2017 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.

Bright Beginnings, Inc. and Subsidiary
Independent Auditors' Report (Continued)
Page 2

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, 2017 the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Bright Beginnings, Inc. and Subsidiary's 2016 financial statements, and we expressed an unmodified opinion on those financial statements in our report dated January 3, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

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 3, 2018, 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 3, 2018

BRIGHT BEGINNINGS, INC. AND SUBSIDIARY
Consolidated Statements of Financial Position
September 30, 2017 and 2016

Assets	2017	2016
<u>Current assets:</u>		
Cash and equivalents	\$ 9,253,477	\$ 3,949,826
Certificates of deposit	247,097	1,272,169
Contributions receivable, net	215,250	223,326
Accounts and contracts receivable	589,553	556,572
Prepaid expenses	68,768	55,284
Total current assets	10,374,145	6,057,177
<u>Property and equipment, net</u>	4,860,400	1,689,138
<u>Other assets:</u>		
Deposits	25,844	50,000
Contributions receivable, net, less current portion	-	71,470
New market tax credit loan fund	6,693,700	-
Total other assets	6,719,544	121,470
Total assets	\$ 21,954,089	\$ 7,867,785
Liabilities and net assets		
<u>Current Liabilities:</u>		
Accounts payable	\$ 880,149	\$ 29,090
Accrued salaries and related liabilities	152,428	107,600
Total current liabilities	1,032,577	136,690
<u>Long-term Liabilities:</u>		
New market tax credit loans payable	9,310,000	-
Loans payable, net of deferred financing costs of \$8,750 - 2017 and \$0 - 2016	4,081,250	500,000
Total long-term liabilities	13,391,250	500,000
Total liabilities	14,423,827	636,690
<u>Net assets:</u>		
Unrestricted:		
Undesignated	7,136,364	4,118,227
Board designated	-	500,000
Total unrestricted	7,136,364	4,618,227
Temporarily restricted	393,898	2,612,868
Total net assets	7,530,262	7,231,095
Total liabilities and net assets	\$ 21,954,089	\$ 7,867,785

See Accompanying Notes to the Consolidated Financial Statements

BRIGHT BEGINNINGS, INC. AND SUBSIDIARY
Consolidated Statements of Activities
For the Years Ended September 30, 2017 and 2016

	<u>2017</u>			<u>2016</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<u>Revenue and support:</u>						
Federal government grants	\$ 2,505,946	\$ -	\$ 2,505,946	\$ 2,460,095	\$ -	\$ 2,460,095
Other grants and contracts	878,258	-	878,258	1,006,201	-	1,006,201
Foundation and corporate support	814,600	453,137	1,267,737	729,008	743,472	1,472,480
Contributions	292,106	273,626	565,732	500,463	146,518	646,981
Donated services and equipment	339,078	-	339,078	371,559	-	371,559
Special events	98,678	-	98,678	52,583	-	52,583
Interest and other income	118,416	-	118,416	(1,734)	-	(1,734)
Net assets released from restrictions	2,945,733	(2,945,733)	-	2,461,880	(2,461,880)	-
Total revenue and support	<u>7,992,815</u>	<u>(2,218,970)</u>	<u>5,773,845</u>	<u>7,580,055</u>	<u>(1,571,890)</u>	<u>6,008,165</u>
<u>Expenses:</u>						
Program services:						
Education	2,408,020	-	2,408,020	2,585,124	-	2,585,124
Family services	456,836	-	456,836	377,025	-	377,025
Health and safety	346,777	-	346,777	286,950	-	286,950
Home-based services	679,713	-	679,713	344,545	-	344,545
Workforce development	339,068	-	339,068	153,315	-	153,315
Outreach	63,345	-	63,345	116,879	-	116,879
Therapeutic services	299,036	-	299,036	134,981	-	134,981
Program expansion	240,473	-	240,473	316,091	-	316,091
Total program services	<u>4,833,268</u>	<u>-</u>	<u>4,833,268</u>	<u>4,314,910</u>	<u>-</u>	<u>4,314,910</u>
Supporting services:						
Management and general	382,640	-	382,640	383,226	-	383,226
Development	258,770	-	258,770	231,795	-	231,795
Total supporting services	<u>641,410</u>	<u>-</u>	<u>641,410</u>	<u>615,021</u>	<u>-</u>	<u>615,021</u>
Total expenses	<u>5,474,678</u>	<u>-</u>	<u>5,474,678</u>	<u>4,929,931</u>	<u>-</u>	<u>4,929,931</u>
Change in net assets	2,518,137	(2,218,970)	299,167	2,650,124	(1,571,890)	1,078,234
Net assets, beginning of year	<u>4,618,227</u>	<u>2,612,868</u>	<u>7,231,095</u>	<u>1,968,103</u>	<u>4,184,758</u>	<u>6,152,861</u>
Net assets, end of year	<u>\$ 7,136,364</u>	<u>\$ 393,898</u>	<u>\$ 7,530,262</u>	<u>\$ 4,618,227</u>	<u>\$ 2,612,868</u>	<u>\$ 7,231,095</u>

BRIGHT BEGINNINGS, INC. AND SUBSIDIARY
Consolidated Statement of Functional Expenses
For the Year Ended September 30, 2017
(With Summarized Totals for 2016)

	Program Services							Total	
	Education	Family Services	Health and Safety	Home-based Services	Workforce Development	Outreach	Therapeutic Services		Program Expansion
Compensation and benefits	\$ 1,727,794	\$ 357,051	\$ 256,146	\$ 539,872	\$ 281,192	\$ 30,182	\$ 74,868	\$ 52,280	\$ 3,319,385
Consulting services:									
Capital campaign	-	-	-	-	-	-	-	58,685	58,685
Therapeutic, health, and tracking	70,835	12,503	29,790	35,542	2,544	252	208,901	301	360,668
Other	88,287	22,595	15,968	26,795	20,281	9,120	6,885	1,541	191,472
Communications	19,431	4,024	2,969	8,840	3,107	20,702	842	824	60,739
Occupancy costs	95,190	17,670	13,209	24,562	13,970	1,617	3,661	1,014	170,893
Family services	5,176	25,178	11,930	4,782	8,448	-	283	454	56,251
Depreciation	-	-	-	-	-	-	-	-	-
Supplies	24,525	6,112	4,911	14,318	3,339	360	1,092	429	55,086
Special events, meetings, and travel	6,943	1,533	1,303	11,908	1,033	108	629	112	23,569
Publication and printing	-	-	-	-	-	500	-	1,333	1,833
Classroom expenses	185,620	4,332	6,410	4,474	195	21	664	25	201,741
Insurance and other fees	31,808	5,840	4,141	8,619	4,959	483	1,211	23,690	80,751
In-kind expenses	152,411	-	-	-	-	-	-	99,784	252,195
Totals	\$ 2,408,020	\$ 456,838	\$ 346,777	\$ 679,712	\$ 339,068	\$ 63,345	\$ 299,036	\$ 240,472	\$ 4,833,268

(Continued)

See Accompanying Notes to the Consolidated Financial Statements.

BRIGHT BEGINNINGS, INC. AND SUBSIDIARY
Consolidated Statement of Functional Expenses
For the Year Ended September 30, 2017
(With Summarized Totals for 2016) (Continued)

	<u>Supporting Services</u>		<u>Total</u>	<u>FY 2016</u>
	<u>Management and General</u>	<u>Development</u>		<u>Total</u>
Compensation and benefits	\$ 77,882	\$ 96,933	\$ 3,494,200	\$ 3,036,838
Consulting services:				
Capital campaign	-	-	58,685	116,244
Therapeutic, health, and tracking	26,622	813	388,103	371,402
Other	8,923	107,564	307,959	157,469
Communications	1,280	14,052	76,071	78,165
Occupancy costs	7,029	4,536	182,458	192,070
Family services	-	-	56,251	48,087
Depreciation	44,178	-	44,178	10,284
Supplies	8,039	1,445	64,570	51,773
Special events, meetings, and travel	13,811	15,041	52,421	145,858
Publication and printing	-	14,036	15,869	15,113
Classroom expenses	51	68	201,860	249,957
Insurance and other fees	107,942	4,282	192,975	85,111
In-kind expenses	86,883	-	339,078	371,560
Totals	<u>\$ 382,640</u>	<u>\$ 258,770</u>	<u>\$ 5,474,678</u>	<u>\$ 4,929,931</u>

See Accompanying Notes to the Consolidated Financial Statements.

BRIGHT BEGINNINGS, INC. AND SUBSIDIARY
Consolidated Statements of Cash Flows
For the Years Ended September 30, 2017 and 2016

	2017	2016
<u>Cash flows form operating activities:</u>		
Change in net assets	\$ 299,167	\$ 1,078,234
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	44,178	10,284
Changes in contributions receivable	79,545	(148,577)
Changes in accounts and contracts receivable	(32,981)	(84,067)
Changes in prepaid expenses	(13,484)	(5,626)
Changes in accounts payable	851,059	(113,918)
Changes in accrued salaries and related liabilities	44,828	(30,602)
Net cash provided by operating activities	1,272,312	705,728
<u>Cash flows from investing activities:</u>		
Purchases of property and equipment	(3,215,439)	(1,629,531)
Proceeds from the sale of certificate of deposit	1,025,072	326,088
Reinvested interest income	-	(3,200)
Decrease (increase) in deposits	24,156	66,100
Increase in new market tax credit loan fund	(6,693,700)	-
Net cash used in investing activities	(8,859,911)	(1,240,543)
<u>Cash flows from financing activities:</u>		
Increase in new market tax credit loans payable	9,310,000	-
Increase in notes payable	3,581,250	500,000
Net cash provided by financing activities	12,891,250	500,000
Increased (decrease) in cash and equivalents	5,303,651	(34,815)
Cash and equivalents, beginning of year	3,949,826	3,984,641
Cash and equivalents, end of year	\$ 9,253,477	\$ 3,949,826

See Accompanying Notes to the Consolidated Financial Statements.

BRIGHT BEGINNINGS, INC. AND SUBSIDIARY
Notes to the Consolidated Financial Statements
September 30, 2017 and 2016

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.

BRIGHT BEGINNINGS, INC. AND SUBSIDIARY
Notes to the Consolidated Financial Statements (Continued)
September 30, 2017 and 2016

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.

BRIGHT BEGINNINGS, INC. AND SUBSIDIARY
Notes to the Consolidated Financial Statements (Continued)
September 30, 2017 and 2016

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, 2017 and 2016, 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.

BRIGHT BEGINNINGS, INC. AND SUBSIDIARY
Notes to the Consolidated Financial Statements (Continued)
September 30, 2017 and 2016

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 \$0 and \$10,000 as of September 30, 2017 and 2016, 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, 2017, 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, 2014 - 2016 are subject to review and examination by the Internal Revenue Service.

BRIGHT BEGINNINGS, INC. AND SUBSIDIARY
Notes to the Consolidated Financial Statements (Continued)
September 30, 2017 and 2016

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, 2017 and 2016, property and equipment consists of:

	<u>2017</u>	<u>2016</u>
Land	\$ 1,232,731	\$ 1,232,731
Construction in process	3,538,404	373,391
Leasehold improvements	59,128	59,128
Equipment	104,141	72,144
Subtotals	<u>4,934,404</u>	<u>1,737,394</u>
Less, Accumulated depreciation	<u>(74,004)</u>	<u>(48,256)</u>
Total	<u><u>\$ 4,860,400</u></u>	<u><u>\$ 1,689,138</u></u>

Depreciation expense for the years ended September 30, 2017 and 2016 was \$44,178 and \$10,284, respectively.

BRIGHT BEGINNINGS, INC. AND SUBSIDIARY
Notes to the Consolidated Financial Statements (Continued)
September 30, 2017 and 2016

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, 2017 and 2016, total funds available to support capital campaign expenditures were \$0 and \$1,780,170, respectively.

The following represents the net value of promises to give as of September 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Promises to give in less than one year	\$ 215,250	\$ 223,326
Promises to give in one to five years	-	71,470
Totals	<u>\$ 215,250</u>	<u>\$ 294,796</u>

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:

	<u>2017</u>	<u>2016</u>
Pledges receivable before the present value factor	\$ 218,274	\$ 312,276
Less, allowance for doubtful accounts	-	10,000
Subtotal	218,274	302,276
Less, discount (3.25%)	3,024	7,480
Totals	<u>\$ 215,250</u>	<u>\$ 294,796</u>

NOTE 5- 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 (QLICs). The tax credits are claimed over a seven year period and equate to 39% of the QLICs. 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.

BRIGHT BEGINNINGS, INC. AND SUBSIDIARY
Notes to the Consolidated Financial Statements (Continued)
September 30, 2017 and 2016

NOTE 5- NEW MARKET TAX CREDIT FINANCING (Continued)

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, 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, 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, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Other Assets:		
New markets tax credit loan fund	<u>\$ 6,693,700</u>	<u>\$ -</u>
Long-term liabilities:		
QLICI Loan A	\$ 6,693,700	\$ -
QLICI Loan B	<u>2,616,300</u>	<u>-</u>
	<u>\$ 9,310,000</u>	<u>\$ -</u>

Interest income and expenses related to the NMTC financing for the years ended September 30, 2017 and 2016 was as follows:

	<u>2017</u>	<u>2016</u>
Interest income	\$ 98,052	\$ -

BRIGHT BEGINNINGS, INC. AND SUBSIDIARY
Notes to the Consolidated Financial Statements (Continued)
September 30, 2017 and 2016

NOTE 6- LOANS PAYABLE

On December 21, 2015, the Organization received an interest-free loan (Bainum 1) from the Bainum Family Foundation (the Foundation) in the amount of \$500,000. The loan is to fund the development of the new Bright Beginnings Learning Center in Ward 8 of Washington, DC. The Organization must repay to the Foundation any portion of the loan amount that is used other than the designated purpose. The entire loan amount 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. Unamortized loan fees related to this loan as of September 30, 2017 and 2016 were \$8,750 and \$0, respectively. Interest expense related to this note for the years ended September 30, 2017 and 2016 was \$98,167 and \$0, respectively.

The Organization's notes payable as of September 30, 2017 and 2016 consisted of the following:

	<u>2017</u>	<u>2016</u>
Bainum 1	\$ 500,000	\$ 500,000
Bainum 2	500,000	-
Wells Fargo Bank	<u>3,090,000</u>	<u>-</u>
Subtotal	4,090,000	500,000
Less: loan fees	(8,750)	-
	<u>\$ 4,081,250</u>	<u>\$ 500,000</u>

BRIGHT BEGINNINGS, INC. AND SUBSIDIARY
Notes to the Consolidated Financial Statements (Continued)
September 30, 2017 and 2016

NOTE 6- LOANS PAYABLE (Continued)

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

FY 2018	\$	-
FY 2019		54,279
FY 2020		726,836
FY 2021		726,836
FY 2022		226,836
Thereafter		2,355,213
		<u>\$ 4,090,000</u>

NOTE 7- DONATED SERVICES AND SUPPLIES

The Organization received donated professional services and supplies with a value of \$339,078 and \$371,559 for the years ended September 30, 2017 and 2016, respectively. These gifts have been reflected in the accompanying financial statements based on use.

NOTE 8- 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.

This space left blank intentionally.

BRIGHT BEGINNINGS, INC. AND SUBSIDIARY
Notes to the Consolidated Financial Statements (Continued)
September 30, 2017 and 2016

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, 2017 and 2016 consists of the following:

	<u>2017</u>	<u>2016</u>
Purpose restricted:		
Capital campaign	\$ -	\$ 1,780,170
Operating expenses - new center	162,500	152,500
Reserve fund	30,000	30,000
Early childhood education	2,000	-
General programs	21,926	152,827
Playground renovation	80,425	67,825
Abuse services	-	30,000
Field trips	3,272	3,000
Family services	-	1,247
Workforce development	4,633	50,312
Therapeutic services	8,097	41,606
Home-based services	79,977	157,807
Strategic capacity building	-	18,150
Computer systems	-	40,000
Other	4,091	7,721
	<u>396,921</u>	<u>2,533,165</u>
Time restricted:		
Corporate/Foundation grants	-	86,057
Individual pledges	(3,024)	(6,354)
	<u>(3,024)</u>	<u>79,703</u>
Total	<u>\$ 393,897</u>	<u>\$ 2,612,868</u>

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.

BRIGHT BEGINNINGS, INC. AND SUBSIDIARY
Notes to the Consolidated Financial Statements (Continued)
September 30, 2017 and 2016

NOTE 10-COMMITMENTS (Continued)

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, 2017 and 2016 was \$174,109 and \$180,628, respectively, and is included in occupancy costs on the statements of functional expenses.

NOTE 11-SUBSEQUENT EVENTS

The Organization evaluated subsequent events for potential required disclosure through January 3, 2018, 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 year ended December 31, 2018.

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.



...improving the lives of our staff, clients and community
with innovation, trust and integrity.

Allen P. DeLeon, CPA, PFS, CITP
Richard C. Stang, CPA, PFS, ABV
Jeanie Price, PAFM
Bradly L. Hoffman, CPA
Daniel L. Dellon, CPA, ABV, CFF

www.deleonandstang.com

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, 2017, and our report thereon dated January 3, 2018 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, 2017 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 3, 2018

100 Lakeforest Boulevard, Suite 650
Gaithersburg, MD 20877
P: 301-948-9825
F: 301-948-3220

210 Wirt Street SW, Suite 102
Leesburg, VA 20175
P: 571-442-5220
F: 571-730-3669

150 S. East Street, Suite 103
Frederick, MD 21701
P: 301-250-7400
F: 240-668-9448

BRIGHT BEGINNINGS, INC. AND SUBSIDIARY
Consolidating Schedule of Financial Position
September 30, 2017

Assets	<u>Bright</u> <u>Beginnings</u>	<u>BBI</u> <u>Holdings, Inc.</u>	<u>Eliminations</u>	<u>Total</u>
<u>Current assets:</u>				
Cash and equivalents	\$ 3,765,308	\$ 5,488,169	\$ -	\$ 9,253,477
Certificates of deposit	247,097	-	-	247,097
Contributions receivable	215,250	-	-	215,250
Accounts and contracts receivable	589,553	-	-	589,553
Due from related party	-	67,510	(67,510)	-
Loan receivable from BBI Holdings	320,514	-	(320,514)	-
Prepaid expenses	55,114	13,654	-	68,768
Total current assets	5,192,836	5,569,333	(388,024)	10,374,145
<u>Property and equipment, net</u>	89,265	4,771,135	-	4,860,400
<u>Other assets:</u>				
Deposits	5,800	20,044	-	25,844
New market tax credit loan fund	6,693,700	-	-	6,693,700
Total other assets	6,699,500	20,044	-	6,719,544
Total assets	<u>\$11,981,601</u>	<u>\$10,360,512</u>	<u>\$ (388,024)</u>	<u>\$ 21,954,089</u>
Liabilities and net assets				
<u>Current Liabilities:</u>				
Accounts payable	\$ 141,047	\$ 739,102	\$ -	\$ 880,149
Accrued salaries and related liabilities	152,428	-	-	152,428
Related party payable	67,510	-	(67,510)	-
Loan payable to BBI	-	320,514	(320,514)	-
Total current liabilities	360,985	1,059,616	(388,024)	1,032,577
<u>Long-term Liabilities:</u>				
New market tax credit loans payable	-	9,310,000	-	9,310,000
Loans payable, net of deferred financing costs of \$8,750	4,081,250	-	-	4,081,250
Total long-term liabilities	4,081,250	9,310,000	-	13,391,250
Total liabilities	4,442,235	10,369,616	(388,024)	14,423,827
<u>Net assets:</u>				
Unrestricted	7,145,468	(9,104)	-	7,136,364
Temporarily restricted	393,898	-	-	393,898
Total net assets	7,539,366	(9,104)	-	7,530,262
Total liabilities and net assets	<u>\$11,981,601</u>	<u>\$10,360,512</u>	<u>\$ (388,024)</u>	<u>\$ 21,954,089</u>

BRIGHT BEGINNINGS, INC. AND SUBSIDIARY
Consolidating Schedule of Activities
For the Year Ended September 30, 2017

	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	\$ 2,505,946	\$ -	\$ 2,505,946	\$ -	\$ -	\$ -	\$ 2,505,946	\$ -	\$ 2,505,946
Other grants and contracts	878,258	-	878,258	-	-	-	878,258	-	878,258
Foundation and corporate support	814,600	453,137	1,267,737	-	-	-	814,600	453,137	1,267,737
Contributions	292,106	273,626	565,732	-	-	-	292,106	273,626	565,732
Donated services and equipment	339,078	-	339,078	-	-	-	339,078	-	339,078
Special events	98,678	-	98,678	-	-	-	98,678	-	98,678
Interest and other income	118,416	-	118,416	-	-	-	118,416	-	118,416
Net assets released from restrictions	2,945,733	(2,945,733)	-	-	-	-	2,945,733	(2,945,733)	-
Total revenue and support	7,992,815	(2,218,970)	5,773,845	-	-	-	7,992,815	(2,218,970)	5,773,845
Expenses:									
Program services:									
Education	2,408,020	-	2,408,020	-	-	-	2,408,020	-	2,408,020
Family services	456,836	-	456,836	-	-	-	456,836	-	456,836
Health and safety	346,777	-	346,777	-	-	-	346,777	-	346,777
Home-based services	679,713	-	679,713	-	-	-	679,713	-	679,713
Workforce development	339,068	-	339,068	-	-	-	339,068	-	339,068
Outreach	63,345	-	63,345	-	-	-	63,345	-	63,345
Therapeutic services	299,036	-	299,036	-	-	-	299,036	-	299,036
Program expansion	240,473	-	240,473	-	-	-	240,473	-	240,473
Total program services	4,833,268	-	4,833,268	-	-	-	4,833,268	-	4,833,268
Supporting services:									
Management and general	373,937	-	373,937	8,703	-	8,703	382,640	-	382,640
Development	258,770	-	258,770	-	-	-	258,770	-	258,770
Total supporting services	632,707	-	632,707	8,703	-	8,703	641,410	-	641,410
Total expenses	5,465,975	-	5,465,975	8,703	-	8,703	5,474,678	-	5,474,678
Change in net assets	2,526,840	(2,218,970)	307,870	(8,703)	-	(8,703)	2,518,137	(2,218,970)	299,167
Net assets, beginning of year	4,618,628	2,612,868	7,231,496	(401)	-	(401)	4,618,227	2,612,868	7,231,095
Net assets, end of year	\$ 7,145,468	\$ 393,898	\$ 7,539,366	\$ (9,104)	\$ -	\$ (9,104)	\$ 7,136,364	\$ 393,898	\$ 7,530,262

**BRIGHT BEGINNINGS, INC. AND SUBSIDIARY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

Federal Employer I.D. # 52-1697917

<u>Federal Grantor/Pass-through Grantors/ Program Cluster</u>	<u>CFDA Number</u>	<u>Pass-through Grantor Identifying Number</u>	<u>Federal Expenditures</u>	<u>Passed Through to Subrecipients</u>
U.S. Department of Health and Human Services/Head Start and Early Head Start Programs	93.600	N/A	\$ 2,420,794	\$ -
U.S. Department of Agriculture District of Columbia Office of the State Superintendent/Child and Adult Care Food Program	10.558	V-131	<u>87,889</u>	<u>-</u>
Total Expenditures of Federal Awards			<u>\$ 2,508,683</u>	<u>\$ -</u>

BRIGHT BEGINNINGS, INC. AND SUBSIDIARY
Notes to the Schedule of Expenditures of Federal Awards
September 30, 2017 and 2016

NOTE 1- BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of 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.



Allen P. DeLeon, CPA, PFS, CITP
Richard C. Stang, CPA, PFS, ABV
Jeanie Price, PAFM
Bradly L. Hoffman, CPA
Daniel L. Dellon, CPA, ABV, CFF

www.deleonandstang.com

**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, 2017 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 3, 2018.

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 3, 2018



...improving the lives of our staff, clients and community
with innovation, trust and integrity.

Allen P. DeLeon, CPA, PFS, CITP
Richard C. Stang, CPA, PFS, ABV
Jeanie Price, PAFM
Bradly L. Hoffman, CPA
Daniel L. Dellon, CPA, ABV, CFF

www.deleonandstang.com

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, 2017. 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, 2017.

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.

Board of Directors
Bright Beginnings, Inc. and Subsidiary (Continued)
Page 3

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 3, 2018

BRIGHT BEGINNINGS, INC. AND SUBSIDIARY
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2017

A. Summary of Auditors' Results

Financial Statements:

Type of auditors' report issued:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified? Yes No

Significant deficiency(ies) identified that are not considered to be material weakness(es)? Yes No

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? Yes No

Significant deficiency(ies) identified that are not considered to be material weakness(es)? Yes No

Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance? Yes No

Identification of Major Programs:

CFDA Number/ Grant Number
93.600

Program Title
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? Yes No

BRIGHT BEGINNINGS, INC. AND SUBSIDIARY
Summary Schedule of Prior Audits Findings
For the Year Ended September 30, 2017

B. Findings - Financial Statement Audit

None

C. Findings and Questioned Costs - Major Federal Award Programs Audit

None

D. Prior Year Audit Findings

None