

Bright Beginnings, Inc.
Financial Statements
September 30, 2015 and 2014



TABLE OF CONTENTS

	Page
Independent Auditors' Report	1 - 2
Financial Statements:	
Statements of Financial Position	3
Statements of Activities	4
Statements of Functional Expenses	5 - 6
Statements of Cash Flows	7
Notes to Financial Statements	8 - 14
Schedule of Expenditures of Federal Awards	15
Note to the Schedule of Expenditures of Federal Awards	16
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 <i>Government Auditing Standards</i>	17 - 18
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133	19 - 20
Schedule of Findings and Questioned Costs	21
Summary Schedule of Prior Audit Findings	22



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INDEPENDENT AUDITORS' REPORT

Board of Directors
Bright Beginnings, Inc.
Washington, D.C.

Report on the Financial Statements

We have audited the accompanying financial statements of Bright Beginnings, Inc. (a nonprofit organization), which comprise the statements of financial position as of September 30, 2015 and 2014, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 financial statements based on our audits. We conducted our audits 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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 financial statements referred to above present fairly, in all material respects, the financial position of Bright Beginnings, Inc. as of September 30, 2015 and 2014, 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.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2015, 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, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Bright Beginnings, Inc.'s internal control over financial reporting and compliance.

Sygnus, Lender + Co., LLP

November 30, 2015

BRIGHT BEGINNINGS, INC.

STATEMENTS OF FINANCIAL POSITION

	SEPTEMBER 30,	
ASSETS	<u>2015</u>	<u>2014</u>
CURRENT ASSETS:		
Cash and equivalents	\$ 3,984,641	\$ 2,890,623
Certificates of deposit	1,594,875	1,649,986
Contributions receivable, net	137,752	143,031
Accounts and contracts receivable	472,505	447,067
Prepaid expenses	49,658	51,470
TOTAL CURRENT ASSETS	<u>\$ 6,239,431</u>	<u>\$ 5,182,177</u>
PROPERTY AND EQUIPMENT, NET	<u>\$ 70,073</u>	<u>\$ 24,827</u>
OTHER ASSETS:		
Deposits	\$ 116,100	\$ 30,000
Contributions receivable, net, less current portion	8,467	49,771
TOTAL OTHER ASSETS	<u>\$ 124,567</u>	<u>\$ 79,771</u>
TOTAL ASSETS	<u>\$ 6,434,071</u>	<u>\$ 5,286,775</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 143,008	\$ 74,691
Accrued salaries and related liabilities	138,202	187,933
Deferred revenue	-	69,011
TOTAL CURRENT LIABILITIES	<u>\$ 281,210</u>	<u>\$ 331,635</u>
NET ASSETS:		
Unrestricted:		
Undesignated	\$ 1,468,103	\$ 1,016,682
Board designated	500,000	500,000
Total unrestricted	<u>\$ 1,968,103</u>	<u>\$ 1,516,682</u>
Temporarily restricted	4,184,758	3,438,458
TOTAL NET ASSETS	<u>\$ 6,152,861</u>	<u>\$ 4,955,140</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 6,434,071</u>	<u>\$ 5,286,775</u>

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

BRIGHT BEGINNINGS, INC.

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED SEPTEMBER 30,

	2015			2014		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUE AND SUPPORT:						
Federal government grants	\$ 2,370,657	\$ 48,797	\$ 2,419,454	\$ 1,177,643	\$ -	\$ 1,177,643
Other grants and contracts	960,222	-	960,222	924,995	42,643	967,638
Foundation and corporate support	529,606	1,381,750	1,911,356	733,216	980,120	1,713,336
Contributions	311,143	230,727	541,870	210,808	58,000	268,808
Donated services and equipment	218,466	-	218,466	361,190	-	361,190
Special events	77,739	-	77,739	101,152	-	101,152
Interest and other income	5,316	-	5,316	5,658	-	5,658
Net assets released from restriction	914,974	(914,974)	-	735,864	(735,864)	-
TOTAL REVENUE AND SUPPORT	\$ 5,388,123	\$ 746,300	\$ 6,134,423	\$ 4,250,526	\$ 344,899	\$ 4,595,425
OPERATING EXPENSES:						
Program services:						
Education	\$ 3,322,912	\$ -	\$ 3,322,912	\$ 2,423,466	\$ -	\$ 2,423,466
Family services	433,550	-	433,550	429,226	-	429,226
Evening care	116,009	-	116,009	119,024	-	119,024
Therapeutic services	74,674	-	74,674	20,698	-	20,698
Program expansion	427,789	-	427,789	638,643	-	638,643
Total program services	\$ 4,374,934	\$ -	\$ 4,374,934	\$ 3,631,057	\$ -	\$ 3,631,057
Supporting services:						
Management and general	\$ 304,962	\$ -	\$ 304,962	\$ 337,931	\$ -	\$ 337,931
Development	256,806	-	256,806	257,318	-	257,318
Total supporting services	\$ 561,768	\$ -	\$ 561,768	\$ 595,249	\$ -	\$ 595,249
TOTAL OPERATING EXPENSES	\$ 4,936,702	\$ -	\$ 4,936,702	\$ 4,226,306	\$ -	\$ 4,226,306
CHANGE IN NET ASSETS	\$ 451,421	\$ 746,300	\$ 1,197,721	\$ 24,220	\$ 344,899	\$ 369,119
NET ASSETS, BEGINNING OF YEAR	1,516,682	3,438,458	4,955,140	1,492,462	3,093,559	4,586,021
NET ASSETS, END OF YEAR	\$ 1,968,103	\$ 4,184,758	\$ 6,152,861	\$ 1,516,682	\$ 3,438,458	\$ 4,955,140

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

BRIGHT BEGINNINGS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Program Services					Total Program Services	Supporting Services		Total Expenses
	Education	Family Services	Evening Care	Therapeutic Services	Program Expansion		Management and General	Development	
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
TOTAL EXPENSES	<u>\$ 3,322,912</u>	<u>\$ 433,550</u>	<u>\$ 116,009</u>	<u>\$ 74,674</u>	<u>\$ 427,789</u>	<u>\$ 4,374,934</u>	<u>\$ 304,962</u>	<u>\$ 256,806</u>	<u>\$ 4,936,702</u>

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

BRIGHT BEGINNINGS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Program Services					Total Program Services	Supporting Services		Total Expenses
	Education	Family Services	Evening Care	Therapeutic Services	Program Expansion		Management and General	Development	
Compensation and benefits	\$ 1,615,020	\$ 325,748	\$ 100,802	\$ 17,157	\$ 38,235	\$ 2,096,962	\$ 189,197	\$ 106,396	\$ 2,392,555
Consulting services:									
Capital campaign	-	-	-	-	371,336	371,336	-	-	371,336
Therapeutic, health, and tracking	107,035	1,100	51	9	20	108,215	97	57	108,369
Other	161,422	21,238	6,276	1,105	2,506	192,547	12,289	19,491	224,327
Communications	53,483	7,118	1,752	308	699	63,360	3,319	7,458	74,137
Occupancy costs	126,898	23,968	7,565	1,264	2,786	162,481	13,301	7,666	183,448
Family services	8,717	31,000	-	-	-	39,717	-	-	39,717
Depreciation	-	-	-	-	-	-	11,740	-	11,740
Supplies	25,505	4,411	1,127	198	450	31,691	2,108	1,255	35,054
Special events, meetings, and travel	8,345	4,677	47	8	19	13,096	2,512	105,403	121,011
Publication and printing	-	-	-	-	-	-	-	7,957	7,957
Classroom expenses	223,735	1,517	212	542	85	226,091	1,145	236	227,472
Insurance and other fees	15,455	2,607	605	107	8,441	27,215	39,632	1,146	67,993
In-kind expenses	77,851	5,842	587	-	214,066	298,346	62,591	253	361,190
TOTAL EXPENSES	\$ 2,423,466	\$ 429,226	\$ 119,024	\$ 20,698	\$ 638,643	\$ 3,631,057	\$ 337,931	\$ 257,318	\$ 4,226,306

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

BRIGHT BEGINNINGS, INC.
STATEMENTS OF CASH FLOWS

	FOR THE YEARS ENDED SEPTEMBER 30,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 1,197,721	\$ 369,119
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	6,785	11,740
Changes in contributions receivable	46,583	(51,754)
Changes in accounts and contracts receivable	(25,438)	(98,929)
Changes in prepaid expenses	1,812	(8,145)
Changes in accounts payable	68,317	32,573
Changes in accrued salaries and related liabilities	(49,731)	41,577
Changes in deferred revenue	(69,011)	69,011
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 1,177,038	\$ 365,192
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of fixed assets	\$ (52,031)	\$ (22,203)
Proceeds from the sale of certificate of deposit	57,998	-
Reinvested interest income	(2,887)	(2,811)
Increase in deposits	(86,100)	-
NET CASH USED IN INVESTING ACTIVITIES	\$ (83,020)	\$ (25,014)
INCREASE IN CASH AND EQUIVALENTS	\$ 1,094,018	\$ 340,178
CASH AND EQUIVALENTS, BEGINNING OF YEAR	2,890,623	2,550,445
CASH AND EQUIVALENTS, END OF YEAR	\$ 3,984,641	\$ 2,890,623

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

BRIGHT BEGINNINGS, INC.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2015 AND 2014

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.

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.

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.

BRIGHT BEGINNINGS, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015 AND 2014

Note 1. **Organization and Significant Accounting Policies** (Continued)

A summary of the Organization's significant accounting policies follows:

Basis of Presentation - The financial statements are presented on the basis of unrestricted, temporarily restricted, and permanently restricted net assets. At September 30, 2015 and 2014, 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.

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.

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.

BRIGHT BEGINNINGS, INC.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2015 AND 2014

Note 1. **Organization and Significant Accounting Policies** (Continued)

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.

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 \$7,977 and \$12,800 for the years ending September 30, 2015 and 2014, respectively.

Accounts and Contracts Receivable - Account 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, 2015, 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 \$500. 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, 2012 - 2014 are subject to review and examination by the Internal Revenue Service.

BRIGHT BEGINNINGS, INC.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2015 AND 2014

Note 1. **Organization and Significant Accounting Policies** (Continued)

The Organization complies with the provisions of Financial Accounting Standards Board Codification topic *Accounting for Uncertainty in Income Taxes*. For the fiscal years ended September 30, 2015 and 2014, no unrecognized tax provision or benefit exists.

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, 2015 and 2014, property and equipment consists of:

	<u>2015</u>	<u>2014</u>
Leasehold improvements	\$ 59,128	\$ 126,194
Equipment	73,916	58,809
Subtotals	\$ 133,044	\$ 185,003
Less, Accumulated depreciation and amortization	<u>(62,971)</u>	<u>(160,176)</u>
Total	<u>\$ 70,073</u>	<u>\$ 24,827</u>

Depreciation expense for the years ended September 30, 2015 and 2014 was \$6,785 and \$11,740, respectively.

Note 4. **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.

BRIGHT BEGINNINGS, INC.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2015 AND 2014

Note 5. **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, 2015 and 2014 consists of the following:

	<u>2015</u>	<u>2014</u>
Purpose restricted:		
Capital campaign	\$ 3,334,262	\$ 2,768,468
Operating expenses - new center	150,000	150,000
Reserve fund	30,000	--
Literacy	4,908	5,000
General programs	212,208	--
Playground renovation	--	7,736
Family wellness	--	25,000
Child health services	--	6,118
Family services	97,135	290,555
Workforce development	146,677	115,083
Therapeutic services	7,005	--
Home-based services	118,921	19,932
Strategic capacity building	65,715	--
Other	4,000	2,600
Donated equipment	--	3,072
	<u>\$ 4,170,831</u>	<u>\$ 3,393,564</u>
Time restricted:		
Corporate/Foundation grants	\$ 8,000	\$ 10,750
Individual pledges	5,927	34,144
	<u>\$ 13,927</u>	<u>\$ 44,894</u>
Total	<u>\$ 4,184,758</u>	<u>\$ 3,438,458</u>

Note 6. **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, 2015 and 2014, total funds available to support capital campaign expenditures were \$3,334,262 and \$2,768,468, respectively.

The following represents the net value of promises to give as of September 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Promises to give in less than one year	\$ 137,752	\$ 143,031
Promises to give in one to five years	8,467	49,771
Totals	<u>\$ 146,219</u>	<u>\$ 192,802</u>

BRIGHT BEGINNINGS, INC.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2015 AND 2014

Note 6. **Capital Campaign** (Continued)

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>2015</u>	<u>2014</u>
Pledges receivable before the present value factor	\$ 155,019	\$ 211,293
Less, Allowance for doubtful accounts	<u>7,977</u>	<u>12,800</u>
Subtotal	\$ 147,042	\$ 194,493
Less, Discount (3.25%)	<u>823</u>	<u>5,691</u>
Totals	<u>\$ 146,219</u>	<u>\$ 192,802</u>

Note 7. **Donated Services and Supplies** - The Organization received donated professional services and supplies with a value of \$218,466 and \$361,190 for the years ended September 30, 2015 and 2014, 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.

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, 2015 and 2014 was \$168,514 and \$166,397, 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		
<u>ended September 30,</u>		
2016	\$	171,152
2017		<u>85,576</u>
Total future minimum lease payments	\$	<u><u>256,728</u></u>

BRIGHT BEGINNINGS, INC.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2015 AND 2014

Note 9. **Bright Beginnings Holdings, Inc.** - 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. As of September 30, 2015 and 2014, the Corporation had no activities.

Note 10. **Subsequent events** – On October 28, 2015, the Board of Directors of the Organization authorized the transfer of up to \$1.4 million to the Corporation for the purchase of 3418 4th Street, SE, Washington DC and other expenses related to the development and construction of a second early childcare development center. On November 17, 2015, the Corporation purchased this property for \$1,226,226.

The Organization evaluated subsequent events for potential required disclosure through November 30, 2015, which is the date financial statements were available to be issued and other than the purchase described in the preceding paragraph, noted no other items for disclosure.

BRIGHT BEGINNINGS, INC.

NOTE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED SEPTEMBER 30, 2015

- Note 1. **Basis of Accounting and 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. The information in this schedule is in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some of the amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

BRIGHT BEGINNINGS, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED SEPTEMBER 30, 2015

EIN NUMBER 52-1697917

<u>Federal Grantor/Pass-through Grantors/ Program or Cluster</u>	<u>CFDA Number</u>	<u>Pass-through Grantor Identifying Number</u>	<u>Federal Expenditures</u>
U.S. Department of Health and Human Services/Head Start and Early Head Start Programs	93.600	N/A	\$ 2,261,041
Department of Veterans Affairs The Community Partnership for the Prevention of Homelessness/ VA Homeless Providers Grant and Per Diem Program	64.024	SSVF-14DC022-BB0T	35,746
U.S. Drug Administration District of Columbia Office of the State Superintendent/Child and Adult Care Food Program	10.558	V-131	73,870
U.S. Department of Housing and Urban Development Local Initiatives Support Corporation/ Section 4 Capacity Building for Community Development and Affordable Housing	14.252	PA#43031-0006	<u>48,797</u>
Total Expenditures of Federal Awards			<u><u>\$ 2,419,454</u></u>



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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.
Washington, D.C.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Bright Beginnings, Inc. (a nonprofit organization), which comprise the statements of financial position as of September 30, 2015 and 2014, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated November 30, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the 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 purposes of expressing our opinion on the 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of 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.

Compliance and Other Matters

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

Sygnse, Lemke + Co., LLP

November 30, 2015



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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Board of Directors
Bright Beginnings, Inc.
Washington, D.C.

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 Circular A-133 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, 2015. 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Bright Beginnings, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Bright Beginnings, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Bright Beginnings, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2015.

Report on Internal Control over Compliance

Management of Bright Beginnings, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Bright Beginnings, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that 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 OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Bright Beginnings, Inc.'s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Sydney, Lember + Co., LLP

November 30, 2015

BRIGHT BEGINNINGS, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED SEPTEMBER 30, 2015

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

Type of auditors' report issued on compliance for major programs:

Unmodified

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(s)

93.600

Name of Federal Program or Cluster

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:

\$300,000

Auditee qualified as low-risk auditee?

 X Yes No

BRIGHT BEGINNINGS, INC.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED SEPTEMBER 30, 2015

B. Findings - Financial Statement Audit

None

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

None

D. Prior Year Audit Findings

None