



**BRIGHT BEGINNINGS, INC.**

**SEPTEMBER 30, 2012 AND 2011**

## TABLE OF CONTENTS

|  | Page    |
|--|---------|
| Independent Auditors' Report   | 1       |
| Financial Statements:  |         |
| Statements of Financial Position   | 2       |
| Statements of Activities   | 3       |
| Statements of Functional Expenses  | 4 - 5   |
| Statements of Cash Flows   | 6       |
| Notes to Financial Statements  | 7 - 11  |
| Schedule of Expenditures of Federal Awards   | 12      |
| Note to the Schedule of Expenditures of Federal Awards   | 13      |
| Report on Internal Control Over Financial<br>Reporting and on Compliance and Other Matters based on an<br>Audit of Financial Statements Performed in Accordance with<br>Government Auditing Standards                  | 14 - 15 |
| Independent Auditors' Report on Compliance with Requirements<br>That Could Have a Direct and Material Effect on Each Major<br>Program and on Internal Control Over Compliance in Accordance<br>with OMB Circular A-133 | 16 - 17 |
| Schedule of Findings and Questioned Costs  | 18      |
| Summary Schedule of Prior Audit Findings   | 19      |



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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of financial position of Bright Beginnings, Inc. as of September 30, 2012 and 2011, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 5, 2013 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Bright Beginnings, Inc. taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Squire, Lemkin + Co., LLP*

March 5, 2013

**BRIGHT BEGINNINGS, INC.**

**STATEMENTS OF FINANCIAL POSITION**

SEPTEMBER 30,

| <b>ASSETS</b>                            | 2012                | 2011                |
|--|---------------------|---------------------|
| <b>CURRENT ASSETS:</b>                   |                     |                     |
| Cash and equivalents                     | \$ 3,009,307        | \$ 1,844,819        |
| Certificates of deposit                  | 1,643,301           | 1,638,914           |
| Contributions receivable                 | 35,689              | 68,830              |
| Accounts and grants receivable           | 121,829             | 269,362             |
| Promises to give, current portion        | 274,569             | 395,974             |
| Prepaid expenses                         | 26,353              | 52,006              |
| <b>TOTAL CURRENT ASSETS</b>              | <b>\$ 5,111,048</b> | <b>\$ 4,269,905</b> |
| <b>PROPERTY AND EQUIPMENT, NET</b>       | <b>\$ 25,551</b>    | <b>\$ 33,758</b>    |
| <b>OTHER ASSETS:</b>                     |                     |                     |
| Deposits                                 | \$ 5,000            | \$ 55,000           |
| Promises to give, net of current portion | 60,955              | 112,850             |
| <b>TOTAL OTHER ASSETS</b>                | <b>\$ 65,955</b>    | <b>\$ 167,850</b>   |
| <b>TOTAL ASSETS</b>                      | <b>\$ 5,202,554</b> | <b>\$ 4,471,513</b> |
| <b>LIABILITIES AND NET ASSETS</b>        |                     |                     |
| <b>CURRENT LIABILITIES:</b>              |                     |                     |
| Accounts payable                         | \$ 74,275           | \$ 59,979           |
| Accrued salaries and related liabilities | 143,744             | 132,459             |
| <b>TOTAL CURRENT LIABILITIES</b>         | <b>\$ 218,019</b>   | <b>\$ 192,438</b>   |
| <b>NET ASSETS:</b>                       |                     |                     |
| Unrestricted:                            |                     |                     |
| Undesignated                             | \$ 1,429,763        | \$ 2,178,197        |
| Board designated                         | 500,000             | 500,000             |
| Total unrestricted                       | \$ 1,929,763        | \$ 2,678,197        |
| Temporarily restricted                   | 3,054,772           | 1,600,878           |
| <b>TOTAL NET ASSETS</b>                  | <b>\$ 4,984,535</b> | <b>\$ 4,279,075</b> |
| <b>TOTAL LIABILITIES AND NET ASSETS</b>  | <b>\$ 5,202,554</b> | <b>\$ 4,471,513</b> |

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

**BRIGHT BEGINNINGS, INC.**

**STATEMENTS OF ACTIVITIES**

FOR THE YEARS ENDED SEPTEMBER 30,

|  | 2012                |                        |                     | 2011                |                        |                     |
|--|---------------------|------------------------|---------------------|---------------------|------------------------|---------------------|
|  | Unrestricted        | Temporarily Restricted | Total               | Unrestricted        | Temporarily Restricted | Total               |
| <b>REVENUE AND SUPPORT:</b>            |                     |                        |                     |                     |                        |                     |
| Government contracts and grants        | \$ 1,600,872        | \$ -                   | \$ 1,600,872        | \$ 1,587,043        | \$ -                   | \$ 1,587,043        |
| Foundation and corporate support       | 592,304             | 1,872,951              | 2,465,255           | 581,284             | 660,208                | 1,241,492           |
| Contributions                          | 289,241             | -                      | 289,241             | 422,461             | -                      | 422,461             |
| Donated services and equipment         | 231,673             | -                      | 231,673             | 272,927             | 32,430                 | 305,357             |
| Special events                         | 57,489              | -                      | 57,489              | 134,078             | -                      | 134,078             |
| Interest and other income              | 12,657              | -                      | 12,657              | 27,082              | -                      | 27,082              |
| Net assets released from restriction   | 419,057             | (419,057)              | -                   | 427,734             | (427,734)              | -                   |
| <b>TOTAL REVENUE AND SUPPORT</b>       | <b>\$ 3,203,293</b> | <b>\$ 1,453,894</b>    | <b>\$ 4,657,187</b> | <b>\$ 3,452,609</b> | <b>\$ 264,904</b>      | <b>\$ 3,717,513</b> |
| <b>OPERATING EXPENSES:</b>             |                     |                        |                     |                     |                        |                     |
| Program services:                      |                     |                        |                     |                     |                        |                     |
| Education                              | \$ 2,545,540        | \$ -                   | \$ 2,545,540        | \$ 2,379,343        | \$ -                   | \$ 2,379,343        |
| Family services                        | 295,352             | -                      | 295,352             | 210,497             | -                      | 210,497             |
| Evening care                           | 212,739             | -                      | 212,739             | 204,170             | -                      | 204,170             |
| Therapeutic services                   | 41,779              | -                      | 41,779              | 35,057              | -                      | 35,057              |
| Total program services                 | \$ 3,095,410        | \$ -                   | \$ 3,095,410        | \$ 2,829,067        | \$ -                   | \$ 2,829,067        |
| Supporting services:                   |                     |                        |                     |                     |                        |                     |
| Management and general                 | \$ 438,031          | \$ -                   | \$ 438,031          | \$ 295,186          | \$ -                   | \$ 295,186          |
| Development                            | 418,286             | -                      | 418,286             | 447,672             | -                      | 447,672             |
| Total supporting services              | \$ 856,317          | \$ -                   | \$ 856,317          | \$ 742,858          | \$ -                   | \$ 742,858          |
| <b>TOTAL OPERATING EXPENSES</b>        | <b>\$ 3,951,727</b> | <b>\$ -</b>            | <b>\$ 3,951,727</b> | <b>\$ 3,571,925</b> | <b>\$ -</b>            | <b>\$ 3,571,925</b> |
| <b>CHANGE IN NET ASSETS</b>            | <b>\$ (748,434)</b> | <b>\$ 1,453,894</b>    | <b>\$ 705,460</b>   | <b>\$ (119,316)</b> | <b>\$ 264,904</b>      | <b>\$ 145,588</b>   |
| <b>NET ASSETS, BEGINNING OF PERIOD</b> | <b>2,678,197</b>    | <b>1,600,878</b>       | <b>4,279,075</b>    | <b>2,797,513</b>    | <b>1,335,974</b>       | <b>4,133,487</b>    |
| <b>NET ASSETS, END OF PERIOD</b>       | <b>\$ 1,929,763</b> | <b>\$ 3,054,772</b>    | <b>\$ 4,984,535</b> | <b>\$ 2,678,197</b> | <b>\$ 1,600,878</b>    | <b>\$ 4,279,075</b> |

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

**BRIGHT BEGINNINGS, INC.**

**STATEMENT OF FUNCTIONAL EXPENSES**

**FOR THE YEAR ENDED SEPTEMBER 30, 2012**

|                                     | Program Services    |                    |                   |                         | Total<br>Program<br>Services | Supporting Services       |                   | Total<br>Expenses   |
|-------------------------------------|---------------------|--------------------|-------------------|-------------------------|------------------------------|---------------------------|-------------------|---------------------|
|                                     | Education           | Family<br>Services | Evening<br>Care   | Therapeutic<br>Services |                              | Management<br>and General | Development       |                     |
| Compensation and benefits           | \$ 1,602,999        | \$ 237,659         | \$ 166,463        | \$ 20,893               | \$ 2,028,014                 | \$ 124,690                | \$ 249,917        | \$ 2,402,621        |
| Consulting services:                |                     |                    |                   |                         | -                            |                           |                   |                     |
| Capital Campaign                    | -                   | -                  | -                 | -                       | -                            | 144,705                   | 84,376            | 229,081             |
| Therapeutic, Health and Tracking    | 165,659             | -                  | -                 | 1,686                   | 167,345                      | -                         | -                 | 167,345             |
| Other                               | 105,501             | 15,141             | 32,750            | -                       | 153,392                      | 18,944                    | 42,705            | 215,041             |
| Communications                      | 44,961              | 2,716              | 1,966             | 245                     | 49,888                       | 1,546                     | 8,466             | 59,900              |
| Occupancy costs                     | 130,884             | 6,434              | 524               | 15,740                  | 153,582                      | 8,151                     | 5,040             | 166,773             |
| Family services                     | 14,036              | 17,108             | -                 | 996                     | 32,140                       | -                         | -                 | 32,140              |
| Equipment supplies                  | 47,913              | 7,082              | 4,816             | 608                     | 60,419                       | 4,447                     | 9,407             | 74,273              |
| Special events, meetings and travel | 7,732               | 1,193              | 463               | 58                      | 9,446                        | 2,119                     | 7,780             | 19,345              |
| Publication and printing            | 6,468               | 28                 | 20                | 2                       | 6,518                        | 15                        | 4,702             | 11,235              |
| Classroom expenses                  | 302,896             | 439                | 1,384             | 982                     | 305,701                      | -                         | -                 | 305,701             |
| Insurance and other fees            | 7,422               | 1,077              | 750               | 94                      | 9,343                        | 26,073                    | 1,183             | 36,599              |
| In - kind expenses                  | 109,069             | 6,475              | 3,603             | 475                     | 119,622                      | 107,341                   | 4,710             | 231,673             |
| <b>TOTAL EXPENSES</b>               | <b>\$ 2,545,540</b> | <b>\$ 295,352</b>  | <b>\$ 212,739</b> | <b>\$ 41,779</b>        | <b>\$ 3,095,410</b>          | <b>\$ 438,031</b>         | <b>\$ 418,286</b> | <b>\$ 3,951,727</b> |

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

**BRIGHT BEGINNINGS, INC.**

**STATEMENT OF FUNCTIONAL EXPENSES**

**FOR THE YEAR ENDED SEPTEMBER 30, 2011**

|                                     | Program Services    |                    |                   |                         | Total<br>Program<br>Services | Supporting Services       |                   | Total<br>Expenses   |
|-------------------------------------|---------------------|--------------------|-------------------|-------------------------|------------------------------|---------------------------|-------------------|---------------------|
|                                     | Education           | Family<br>Services | Evening<br>Care   | Therapeutic<br>Services |                              | Management<br>and General | Development       |                     |
| Compensation and benefits           | \$ 1,376,018        | \$ 170,295         | \$ 168,536        | \$ 21,895               | \$ 1,736,744                 | \$ 110,007                | \$ 267,221        | \$ 2,113,972        |
| Consulting services:                |                     |                    |                   |                         | -                            |                           |                   |                     |
| Capital Campaign                    | -                   | -                  | -                 | -                       | -                            | 142,970                   | 87,529            | 230,499             |
| Therapeutic, Health and Tracking    | 185,100             | -                  | -                 | 11,635                  | 196,735                      | -                         | -                 | 196,735             |
| Other                               | 111,137             | 10,085             | 30,512            | -                       | 151,734                      | 7,553                     | 38,902            | 198,189             |
| Communications                      | 16,819              | 1,731              | 1,687             | 462                     | 20,699                       | 1,111                     | 9,529             | 31,339              |
| Occupancy costs                     | 126,990             | 6,055              | 556               | 152                     | 133,753                      | 5,850                     | 5,090             | 144,693             |
| Family services                     | 15,956              | 16,426             | -                 | 66                      | 32,448                       | -                         | -                 | 32,448              |
| Equipment supplies                  | 19,432              | 2,115              | 2,061             | 565                     | 24,173                       | 1,824                     | 3,689             | 29,686              |
| Special events, meetings and travel | 3,401               | 2,950              | -                 | 29                      | 6,380                        | 3,296                     | 19,441            | 29,117              |
| Publication and printing            | 5,690               | 23                 | 22                | 6                       | 5,741                        | 14                        | 14,859            | 20,614              |
| Classroom expenses                  | 237,748             | -                  | -                 | 29                      | 237,777                      | -                         | -                 | 237,777             |
| Insurance and other fees            | 8,125               | 817                | 796               | 218                     | 9,956                        | 22,561                    | 1,412             | 33,929              |
| In - kind expenses                  | 272,927             | -                  | -                 | -                       | 272,927                      | -                         | -                 | 272,927             |
| <b>TOTAL EXPENSES</b>               | <b>\$ 2,379,343</b> | <b>\$ 210,497</b>  | <b>\$ 204,170</b> | <b>\$ 35,057</b>        | <b>\$ 2,829,067</b>          | <b>\$ 295,186</b>         | <b>\$ 447,672</b> | <b>\$ 3,571,925</b> |

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

**BRIGHT BEGINNINGS, INC.**  
**STATEMENTS OF CASH FLOWS**

|   | FOR THE YEARS ENDED<br>SEPTEMBER 30, |                     |
|---|--------------------------------------|---------------------|
|   | 2012                                 | 2011                |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |                                      |                     |
| Change in net assets  | \$ 705,460                           | \$ 145,588          |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: |                                      |                     |
| Reinvested interest income  | (4,387)                              | (5,530)             |
| Depreciation  | 8,207                                | 468                 |
| Donated equipment   | -                                    | (32,430)            |
| Decrease in contributions receivable  | 33,141                               | 243,645             |
| Decrease (increase) in accounts and grants receivable   | 147,533                              | (28,192)            |
| Decrease (increase) in promises to give   | 173,300                              | (413,824)           |
| Decrease (increase) in prepaid expenses   | 25,653                               | (3,024)             |
| Increase in accounts payable  | 14,296                               | 10,499              |
| Increase in accrued salaries and related liabilities  | 11,285                               | 27,174              |
| <b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>  | <b>\$ 1,114,488</b>                  | <b>\$ (55,626)</b>  |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>  |                                      |                     |
| Deposit   | \$ 50,000                            | \$ (50,000)         |
| <b>NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>  | <b>\$ 50,000</b>                     | <b>\$ (50,000)</b>  |
| <b>INCREASE (DECREASE) IN CASH AND EQUIVALENTS</b>  | <b>\$ 1,164,488</b>                  | <b>\$ (105,626)</b> |
| <b>CASH AND EQUIVALENTS, BEGINNING OF YEAR</b>  | <b>1,844,819</b>                     | <b>1,950,445</b>    |
| <b>CASH AND EQUIVALENTS, END OF YEAR</b>  | <b>\$ 3,009,307</b>                  | <b>\$ 1,844,819</b> |

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



**BRIGHT BEGINNINGS, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2012 AND 2011**

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 nonprofit 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 and nurturing high quality service to homeless preschool children. It is funded primarily by government and private foundation grants, which are reflected as project revenue throughout the financial statements. 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 Organization operates as an educational organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 47-1554 of the District of Columbia code. For the years ended September 30, 2012 and 2011, the Organization had no unrelated business income.

A summary of the Organization's significant programs follows:

**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 with them, play with them 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 include 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 include as well as support parent's education, training and employment goals, key referrals to social services, parenting, health, abuse/neglect and stress reduction training.

**Evening Care** - Additionally, the Organization provides an Early Learning Evening Care program, which includes a 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, onsite therapeutic services 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, 2012 AND 2011**

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

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

**Basis of Presentation** - The Organization presents its financial statements in conformity with codification topic *Financial Statements of Not-for-Profit Organizations*, issued by the Financial Accounting Standards Board. As such, the financial statements are presented on the basis of unrestricted, temporarily restricted, and permanently restricted net assets. At September 30, 2012 and 2011, the Organization did not have any permanently restricted net assets.

**Restricted and Unrestricted Revenue** - 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 gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the assets. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

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.

**Promises to give** - Unconditional promises to give are recognized as revenue in the period they are received or unconditionally pledged. Conditional promises to give are not included as support until the conditions are substantially met.

**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. The direct write off method is used for recognition of uncollectible pledges, which, under the circumstances, does not differ materially from the reserve method required under accounting principles generally accepted in the United States of America.

**BRIGHT BEGINNINGS, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2012 AND 2011**

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

**Accounts and Grants Receivable** - Grant receivables are for reimbursement of costs incurred under grant and contract agreements. Billed amounts represent invoices that have been prepared and sent to the responsible organization. Receivables are carried at original invoice amounts. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. Management feels the amount in accounts and grants receivable is fully collectible.

**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. Upon disposal of depreciable assets, the cost and related accumulated depreciation are eliminated from the accounts and the resultant gain or loss is credited or charged to income.

**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.

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, 2012 and 2011. For the fiscal years ended September 30, 2012 and 2011, 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.

**Subsequent events** - The Organization evaluated subsequent events for potential required disclosure through March 5, 2013 which is the date financial statements were available to be issued.

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.

**BRIGHT BEGINNINGS, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2012 AND 2011**

Note 3. **Property and Equipment** - At September 30, 2012 and 2011, property and equipment consisted of:

|  | 2012       | 2011       |
|--|------------|------------|
| Leasehold Improvements                             | \$ 103,990 | \$ 103,990 |
| Equipment  | 74,941     | 74,941     |
| Furniture and fixtures                             | 1,700      | 1,700      |
| Subtotals  | \$ 180,631 | \$ 180,631 |
| Less, Accumulated depreciation<br>and amortization | (155,080)  | (146,873)  |
| Totals   | \$ 25,551  | \$ 33,758  |

Depreciation expense for the years ended September 30, 2012 and 2011 was \$8,207, and \$468, 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.

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.

The balance of temporarily restricted net assets as of September 30, 2012 and 2011 consists of the following:

|                                 | 2012         | 2011         |
|---------------------------------|--------------|--------------|
| Capital Campaign                | \$ 2,846,330 | \$ 1,382,490 |
| Operating Expenses - New Center | 150,000      | 150,000      |
| Literacy                        | --           | 10,598       |
| History of Dreams               | --           | 25,000       |
| Early Education                 | 21,250       | --           |
| Abuse Prevention                | 12,500       | --           |
| Donated Equipment               | 24,692       | 32,430       |
| Totals                          | \$ 3,054,772 | \$ 1,600,518 |

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, 2012 and 2011, total funds available to support capital campaign expenditures were \$2,846,330 and \$1,382,490, respectively.

As of September 30, 2012 and 2011, the Organization obtained conditional promises to give related to the capital campaign totaling \$100,000 and \$300,000 respectively. As these promises to give are conditional upon other factors occurring they have been excluded from revenue and the amounts available for the capital campaign until such time as the conditions placed on the promises to give are met.

**BRIGHT BEGINNINGS, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2012 AND 2011**

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

The following represents promises to give as of September 30, 2012 and 2011.

|  | 2012       | 2011       |
|--|------------|------------|
| Promises to give in less than one year | \$ 274,569 | \$ 395,974 |
| Promises to give in one to five years  | 60,955     | 112,850    |
| Total                                  | \$ 335,524 | \$ 508,824 |

Note 7. **Donated Services and Equipment** - The Organization received donated professional services and equipment with a value of \$231,673 and \$305,357 for the years ended September 30, 2012 and 2011, 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 three percent.

On November 3, 2011, the Organization amended the prior two lease agreements and added additional space in the same location. The new lease agreement expires on December 31, 2014 and requires minimum monthly payments of \$13,769, subject to an annual rent increase of three percent. Future obligations under the leases are as follows:

| Fiscal Year Ending<br>September 30, |            |
|-------------------------------------|------------|
| 2013                                | \$ 165,231 |
| 2014                                | 169,362    |
| 2015                                | 42,547     |
| Total                               | \$ 377,140 |

Rent expense for the years ended September 30, 2012 and 2011 was \$159,648 and \$138,361, respectively.

Note 9. **Bright Beginnings Holdings, Inc.** - In February 2011, The Organization created Bright Beginnings Holdings, Inc. (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, 2012, the Corporation has not had any activity.

**BRIGHT BEGINNINGS, INC.**

**EIN NUMBER 52-1697917**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2012**

| <u>Federal Grantor/Pass-through Grantors/<br/>Program or Cluster</u>  | <u>CFDA<br/>Number</u> | <u>Pass-through Grantor<br/>Identifying Number</u> | <u>Federal<br/>Expenditures</u> |
|---|------------------------|--|---------------------------------|
| Head Start Cluster - Cluster<br>U.S. Department of Health<br>and Human Services/United<br>Planning Organization/Head Start<br>and Early Head Start Programs | 93.600                 | 03CH0380/45/46                                     | <u>\$ 580,675</u>               |
| Total Head Start Cluster - Cluster  |                        |  | <u>\$ 580,675</u>               |
| Total Expenditures of Federal Awards  |                        |  | <u><u>\$ 580,675</u></u>        |

**BRIGHT BEGINNINGS, INC.**

**NOTE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2012**

- Note 1. **Basis of Presentation** - The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of Bright Beginnings, Inc. and is presented on the accrual basis of accounting. 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.



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**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 the financial statements of Bright Beginnings, Inc. as of and for the year ended September 30, 2012 and have issued our report thereon dated March 5, 2013. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Bright Beginnings, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

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 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 financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



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*.

This report is intended solely for the information and use of the Board of Directors, management, the U.S. Department of Health and Human Services, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Squire, Hendler + Co., LLP*

March 5, 2013



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS  
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE WITH OMB CIRCULAR A-133**

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

Compliance

We have audited the compliance of Bright Beginnings, Inc. with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" that are applicable to each of its major federal programs for the year ended September 30, 2012. 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. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Bright Beginnings, Inc.'s management. Our responsibility is to express an opinion on Bright Beginnings, Inc.'s compliance based on our audit.

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. Our audit does not provide a legal determination on Bright Beginnings, Inc.'s compliance with those requirements.

In our opinion, Bright Beginnings, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2012.

## Internal Control Over Compliance

The management of Bright Beginnings, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Bright Beginnings, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing an opinion on compliance, 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 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 of a federal program will not be prevented or detected and corrected on a timely basis.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Directors, management, the U.S. Department Health and Human Services, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Squire, Lubin + Co., LLP*

March 5, 2013

**BRIGHT BEGINNINGS, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2012**

**A. Summary of Auditors' Results**

Financial Statements:

Type of auditors' report issued: Unqualified

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: Unqualified

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:

|  |  |
|--|--|
| <u>CFDA Number(s)</u><br>93.600  | <u>Name of Federal Program or Cluster</u><br>U.S. Department of Health and Human Services: United Planning Organization: Head Start Cluster. |
| Dollar threshold used to distinguish between Type A and Type B programs: | <u>\$300,000</u>   |
| Auditee qualified as low-risk auditee?                                   | <u>  X  </u> Yes <u>      </u> No  |

**BRIGHT BEGINNINGS, INC.**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2012**

**B. Findings - Financial Statement Audit**

None

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

None

**D. Prior Year Audit Findings**

None