



BRIGHT BEGINNINGS, INC.

SEPTEMBER 30, 2013 AND 2012

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 - 13
Schedule of Expenditures of Federal Awards	14
Note to the Schedule of Expenditures of Federal Awards	15
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	16 - 17
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133	18 - 19
Schedule of Findings and Questioned Costs	20
Summary Schedule of Prior Audit Findings	21



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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, 2013 and 2012, 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 auditor's 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 auditor considers 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, 2013 and 2012, 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 April 3, 2014, 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.

Squire, Lublin + Company, LLP

April 3, 2014

BRIGHT BEGINNINGS, INC.

STATEMENTS OF FINANCIAL POSITION

	SEPTEMBER 30,	
ASSETS	<u>2013</u>	<u>2012</u>
CURRENT ASSETS:		
Cash and equivalents	\$ 2,550,445	\$ 3,009,307
Certificates of deposit	1,647,176	1,643,301
Contributions receivable and promises to give, current portion	214,744	310,258
Accounts and grants receivable	192,599	121,829
Prepaid expenses	43,325	26,353
TOTAL CURRENT ASSETS	<u>\$ 4,648,289</u>	<u>\$ 5,111,048</u>
PROPERTY AND EQUIPMENT, NET	<u>\$ 14,363</u>	<u>\$ 25,551</u>
OTHER ASSETS:		
Deposits	\$ 30,000	\$ 5,000
Contributions receivable and promises to give, net of current portion	81,843	60,955
TOTAL OTHER ASSETS	<u>\$ 111,843</u>	<u>\$ 65,955</u>
TOTAL ASSETS	<u>\$ 4,774,495</u>	<u>\$ 5,202,554</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 42,118	\$ 74,275
Accrued salaries and related liabilities	146,356	143,744
TOTAL CURRENT LIABILITIES	<u>\$ 188,474</u>	<u>\$ 218,019</u>
NET ASSETS:		
Unrestricted:		
Undesignated	\$ 992,462	\$ 1,429,763
Board designated	500,000	500,000
Total unrestricted	<u>\$ 1,492,462</u>	<u>\$ 1,929,763</u>
Temporarily restricted	3,093,559	3,054,772
TOTAL NET ASSETS	<u>\$ 4,586,021</u>	<u>\$ 4,984,535</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,774,495</u>	<u>\$ 5,202,554</u>

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

BRIGHT BEGINNINGS, INC.

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED SEPTEMBER 30,

	2013		2012	
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted
	Total		Total	
REVENUE AND SUPPORT:				
Government contracts and grants	\$ 1,878,483	\$ -	\$ 1,878,483	\$ -
Foundation and corporate support	561,900	292,645	854,545	1,872,951
Contributions	288,633	-	288,633	-
Donated services and equipment	272,262	-	272,262	-
Special events	86,638	-	86,638	-
Interest and other income	6,527	-	6,527	-
Net assets released from restriction	253,858	(253,858)	-	(419,057)
TOTAL REVENUE AND SUPPORT	\$ 3,348,301	\$ 38,787	\$ 3,387,088	\$ 1,453,894
OPERATING EXPENSES:				
Program services:				
Education	\$ 2,302,962	\$ -	\$ 2,302,962	\$ -
Family services	453,881	-	453,881	-
Evening care	184,476	-	184,476	-
Therapeutic services	18,622	-	18,622	-
Program Expansion	254,742	-	254,742	-
Total program services	\$ 3,214,683	\$ -	\$ 3,214,683	\$ -
Supporting services:				
Management and general Development	\$ 233,133	\$ -	\$ 233,133	\$ -
Total supporting services	\$ 337,786	\$ -	\$ 337,786	\$ -
TOTAL OPERATING EXPENSES	\$ 3,785,602	\$ -	\$ 3,785,602	\$ -
CHANGE IN NET ASSETS	\$ (437,301)	\$ 38,787	\$ (398,514)	\$ 1,453,894
NET ASSETS, BEGINNING OF YEAR	1,929,763	3,054,772	4,984,535	1,600,878
NET ASSETS, END OF YEAR	\$ 1,492,462	\$ 3,093,559	\$ 4,586,021	\$ 3,054,772
			\$ 3,240,115	\$ 3,240,115
			\$ 2,529,711	\$ 2,529,711
			295,352	295,352
			212,739	212,739
			41,779	41,779
			160,534	160,534
			\$ 3,240,115	\$ 3,240,115
				\$ 293,326
				418,286
				\$ 711,612
				\$ 3,951,727
				\$ 705,460
				4,279,075
				\$ 4,984,535

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

BRIGHT BEGINNINGS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Program Services				Total Program Services	Supporting Services		Total Expenses
	Education	Family Services	Evening Care	Therapeutic Services		Program Expansion	Management and General	
Compensation and benefits	\$ 1,473,433	\$ 319,756	\$ 150,263	\$ 12,747	\$ 55,218	\$ 155,437	\$ 137,577	\$ 2,304,431
Consulting services:	-	-	-	-	-	-	-	-
Capital Campaign	136,502	-	-	-	12,675	-	18,893	31,568
Therapeutic and health	132,437	72,913	28,773	1,438	-	-	-	136,502
Other	36,786	4,336	2,118	251	16,403	18,255	140,825	394,641
Communications	118,073	28,663	511	3,429	-	2,196	7,758	69,848
Occupancy costs	9,892	22,044	-	-	-	10,405	7,461	168,542
Family services	16,621	3,707	1,840	221	4,161	12,968	1,839	31,936
Equipment supplies	909	612	59	6	-	4,901	13,429	41,357
Special events and meetings	2,992	-	-	-	4,439	516	8,912	19,916
Publication and printing	256,794	294	145	437	-	-	-	16,859
Classroom expenses	8,107	1,556	767	93	-	28,455	1,092	257,670
Insurance and other fees	110,416	-	-	-	161,846	-	-	40,070
In-kind expenses	-	-	-	-	-	-	-	272,262
TOTAL EXPENSES	\$ 2,302,962	\$ 453,881	\$ 184,476	\$ 18,622	\$ 254,742	\$ 233,133	\$ 337,786	\$ 3,785,602

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 Program Services	Supporting Services		Total Expenses
	Education	Family Services	Evening Care	Therapeutic Services		Program Expansion	Management and General	
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 and health	165,659	-	-	1,686	167,345	-	-	167,345
Other	105,501	15,141	32,750	-	153,392	18,944	42,705	215,041
Communications	36,038	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	46,713	7,082	4,816	608	60,419	4,447	9,407	74,273
Special events and meetings	7,707	1,193	463	58	9,446	2,119	7,780	19,345
Publication and printing	787	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
TOTAL EXPENSES	\$ 2,529,711	\$ 295,352	\$ 212,739	\$ 41,779	\$ 3,240,115	\$ 293,326	\$ 418,286	\$ 3,951,727

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

BRIGHT BEGINNINGS, INC.
STATEMENTS OF CASH FLOWS

	FOR THE YEARS ENDED SEPTEMBER 30,	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (398,514)	\$ 705,460
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Reinvested interest income	(3,875)	(4,387)
Depreciation	11,188	8,207
(Increase) decrease in contributions receivable	74,626	206,441
(Increase) decrease in accounts and grants receivable	(70,770)	147,533
(Increase) decrease in prepaid expenses	(16,972)	25,653
(Decrease) increase in accounts payable	(32,157)	14,296
Increase in accrued salaries and related liabilities	2,612	11,285
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	\$ (433,862)	\$ 1,114,488
CASH FLOWS FROM INVESTING ACTIVITIES:		
Deposit	\$ (25,000)	\$ 50,000
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	\$ (25,000)	\$ 50,000
(DECREASE) INCREASE IN CASH AND EQUIVALENTS	\$ (458,862)	\$ 1,164,488
CASH AND EQUIVALENTS, BEGINNING OF YEAR	3,009,307	1,844,819
CASH AND EQUIVALENTS, END OF YEAR	\$ 2,550,445	\$ 3,009,307

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

BRIGHT BEGINNINGS, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013 AND 2012

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, 2013 and 2012, 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 the 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 services 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, 2013 AND 2012

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

Program Expansion – Bright Beginnings is opening a second center in Ward 8 in order to serve an additional 100 homeless infants and toddlers. Specific activities/goals of the Expansion Project are to 1) construct a second child and family development center for homeless infants and toddlers and their families; 2) bring high quality child development services closer to families in greatest need, and 3) serve an additional 100 homeless children and their families.

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, 2013 and 2012, 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.

BRIGHT BEGINNINGS, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013 AND 2012

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

Contributions Receivable - Contributions receivable approximate fair value. Management considers all amounts to be fully collectible during the next fiscal year. Accordingly, an allowance for doubtful accounts has not been established.

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 Form 990, Return of Organization Exempt from Income Tax, for the fiscal years ended September 30, 2010 – 2012 are subject to review and examination by the Internal Revenue Service.

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, 2013 and 2012. For the fiscal years ended September 30, 2013 and 2012, 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.

Reclassification - Certain amounts in the 2012 financial statements have been reclassified to conform to the 2013 presentation.

Subsequent events - The Organization evaluated subsequent events for potential required disclosure through April 3, 2014 which is the date financial statements were available to be issued.

BRIGHT BEGINNINGS, INC.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2013 AND 2012

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** - At September 30, 2013 and 2012, property and equipment consisted of:

	2013	2012
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 and amortization	(166,268)	(155,080)
Totals	\$ 14,363	\$ 25,551

Depreciation expense for the years ended September 30, 2013 and 2012 was \$11,188 and \$8,207, 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. **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, 2013 and 2012, total funds available to support capital campaign expenditures were \$2,773,542 and \$2,846,330, respectively.

As of September 30, 2013 and 2012, the Organization obtained conditional promises to give related to the capital campaign totaling \$100,000 and \$100,000 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.

The following represents promises to give as of September 30, 2013 and 2012:

	2013	2012
Promises to give in less than one year	\$ 63,609	\$ 274,569
Promises to give in one to five years	81,843	60,955
Total	\$ 145,452	\$ 335,524

BRIGHT BEGINNINGS, INC.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2013 AND 2012

Note 6. **Temporarily Restricted Net Assets** - Temporarily restricted net assets represent grants and contributions pledged or received as of the end of the fiscal year but not yet expended for their intended purpose.

The balance of temporarily restricted net assets as of September 30, 2013 and 2012 consists of the following:

	2013	2012
<u>Purpose Restricted:</u>		
Capital Campaign	\$ 2,773,542	\$ 2,846,330
Operating Expenses - New Center	150,000	150,000
Literacy	5,000	--
Playground Renovation	5,000	--
Family Wellness	50,000	--
Early Education	--	21,250
Abuse Prevention	--	12,500
Donated Equipment	13,882	24,692
 <u>Time Restricted:</u>		
Corp/Foundation Grants	66,000	--
Individual Pledges	30,135	--
Totals	\$ 3,093,559	\$ 3,054,772

Note 7. **Donated Services and Equipment** - The Organization received donated professional services and equipment with a value of \$272,262 and \$231,673 for the years ended September 30, 2013 and 2012, 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. 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.

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	
<u>September 30,</u>	
2014	\$ 169,362
2015	42,547
Total	\$ 211,909

Rent expense for the years ended September 30, 2013 and 2012 was \$162,249 and \$159,648, respectively.

BRIGHT BEGINNINGS, INC.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2013 AND 2012

- 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, 2013, 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, 2013

<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>
Head Start Cluster - Cluster U.S. Department of Health and Human Services/United Planning Organization/Head Start and Early Head Start Programs	93.600	03CH0380/47	<u>\$ 661,338</u>
Total Head Start Cluster - Cluster			<u>\$ 661,338</u>
Total Expenditures of Federal Awards			<u><u>\$ 661,338</u></u>

BRIGHT BEGINNINGS, INC.

NOTE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED SEPTEMBER 30, 2013

- 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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**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 statement of financial position as of September 30, 2013, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 3, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Bright Beginnings, Inc.'s internal control over financial reporting (internal control) 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. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 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.

Squibb, Zimkin + Company, LLP

Rockville, Maryland
April 3, 2014



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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, 2013. Bright Beginnings, Inc.'s major federal programs are identified in the summary of auditor's 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.

Auditor's 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, 2013.

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.

Squibb, Zimbin + Company, LLP

Rockville, Maryland
April 3, 2014

BRIGHT BEGINNINGS, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED SEPTEMBER 30, 2013

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:

CFDA Number(s)

93.600

Name of Federal Program or Cluster

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:

 \$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, 2013

B. Findings - Financial Statement Audit

None

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

None

D. Prior Year Audit Findings

None