# Bright Beginnings
# (DBA Bright by Three)
# Financial Statements
# With
# Independent Auditor's Report
# As of and for the Year Ended
# December 31, 2018
# With Comparative Totals for 2017

**Bright Beginnings**
**(DBA Bright by Three)**

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## Independent Auditor's Report

Board of Directors
Bright Beginnings (DBA Bright by Three)
Denver, Colorado

### Report on the Financial Statements

I have audited the accompanying financial statements of Bright Beginnings (DBA Bright by Three) which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended and the related notes to the financial statements. The prior year summarized comparative information has been derived from the Organization's 2017 financial statements and, in my report dated April 24, 2018, I expressed an unqualified opinion on those 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.

### Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about 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 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, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant estimates made by management, as well as evaluating the overall of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

## Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bright Beginnings (DBA Bright by Three) as of December 31, 2018 and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Report on Summarized Comparative Information

I have previously audited the Bright Beginnings (DBA Bright by Three) 2017 financial statements, and I expressed an unmodified audit opinion on those audited financial statements in my report dated April 24, 2018. In my opinion, the summarized comparative financial information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Paul L. Smith, C.P.A.

Paul L. Smith, P.C.
Denver, Colorado
April 24, 2019

**Bright Beginnings**
**(DBA Bright by Three)**
**Statement of Financial Position**
**December 31, 2018**
**(With Summarized Comparative Information for 2017)**

## Assets

| | 2018 | Comparative 2017 |
|---|---|---|
| Cash and cash equivalents | $ 1,680,812 | $ 1,516,607 |
| Accounts receivable | 1,000 | 183,660 |
| Pledges receivable | 1,334,250 | 135,000 |
| Inventory | 135,135 | 159,694 |
| Prepaid rent and security deposit | 11,433 | 14,480 |
| Property and equipment, net | 3,213 | 6,064 |
| Total assets | $ 3,165,843 | $ 2,015,505 |

## Liabilities and Net Assets

| | 2018 | Comparative 2017 |
|---|---|---|
| Accounts and accrued payroll obligations | $ 63,010 | $ 122,922 |
| Deferred income | 62,500 | 150,000 |
| Total liabilities | 125,510 | 272,922 |
| Net assets: | | |
| Without donor restrictions | 723,906 | 864,089 |
| With donor restrictions | 2,316,427 | 878,494 |
| Total net assets | 3,040,333 | 1,742,583 |
| Total liabilities and net assets | $ 3,165,843 | $ 2,015,505 |

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

**Bright Beginnings**
**Statement of Activities**
**Year Ended December 31, 2018**
**(With Summarized Comparative Information for 2017)**

| | 2018 | | | Comparative |
|---|---|---|---|---|
| | Without Donor Restrictions | With Donor Restrictions | Total | 2017 Total |
| **Revenues, gains, and other support:** | | | | |
| Contributions - | | | | |
| Foundation grants | $ 64,167 | $ 2,416,833 | $ 2,481,000 | $ 1,132,982 |
| Individuals | 59,619 | - | 59,619 | 67,509 |
| Business & corporate | 90,102 | - | 90,102 | 80,424 |
| In-kind | 7,200 | - | 7,200 | 7,200 |
| Subscription income | 140,000 | - | 140,000 | 30,000 |
| Investment income | 3,714 | - | 3,714 | 2,286 |
| | 364,802 | 2,416,833 | 2,781,635 | 1,320,401 |
| Special Events, Income | 35,340 | - | 35,340 | 110,851 |
| Less: direct benefit to donor | (18,738) | - | (18,738) | (17,933) |
| Net Event Income | 16,602 | - | 16,602 | 92,918 |
| Net assets released from restrictions | | | | |
| Expiration of time restrictions | 825,465 | (825,465) | - | - |
| Total revenue and other support | 1,206,869 | 1,591,368 | 2,798,237 | 1,413,319 |
| **Expenses:** | | | | |
| Program services - Legacy | 521,107 | - | 521,107 | 581,719 |
| Program services - Text | 732,356 | - | 732,356 | 567,154 |
| Management and general | 88,404 | - | 88,404 | 78,899 |
| Fundraising | 158,620 | - | 158,620 | 193,401 |
| Total Expenses | 1,500,487 | - | 1,500,487 | 1,421,173 |
| **Change in net assets** | (293,618) | 1,591,368 | 1,297,750 | (7,854) |
| Net assets at beginning of year | 1,017,524 | 725,059 | 1,742,583 | 1,750,437 |
| **Net assets at end of year** | $ 723,906 | $ 2,316,427 | $ 3,040,333 | $ 1,742,583 |

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

**Bright Beginnings**
**(DBA Bright by Three)**
**Statement of Cash Flows**
**Year Ended December 31, 2018**
**(With Summarized Comparative Information for 2017)**

| | 2018 | Comparative 2017 |
|---|---|---|
| Cash flows from operating activities: | | |
| Change in net assets | $ 1,297,750 | $ (7,854) |
| Adjustments to reconcile change in net assets to net cash provided (used) by operating activities: | | |
| Depreciation and amortization | 2,851 | 2,851 |
| Changes in operating assets and liabilities- | | |
| Change in pledges receivable | (1,199,250) | 105,000 |
| Change in accounts receivable | 182,660 | (183,056) |
| Change in inventory | 24,559 | (70,875) |
| Change in prepaid rent and security deposit | 3,047 | (9,378) |
| Change in accounts and accrued payroll obligations | (59,912) | (26,248) |
| Change in deferred income | (87,500) | 150,000 |
| Net cash provided by operating activities | 164,205 | (39,560) |
| Net increase (decrease) in cash and cash equivalents | 164,205 | (39,560) |
| Cash and cash equivalents at beginning of year | 1,516,607 | 1,556,167 |
| Cash and cash equivalents at end of year | $ 1,680,812 | $ 1,516,607 |

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

**Bright Beginnings**
**Statement of Functional Expenses**
**Year Ended December 31, 2018**
**(With Summarized Comparative Information for 2017)**

| | Program Activities | | Supporting Activities | | | |
|---|---|---|---|---|---|---|
| | Bright By Text | Bright By Three Legacy | Management and General | Fundraising | 2018 Total | Comparative 2017 Total |
| Personnel & related costs | $ 227,076 | $ 138,537 | $ 34,779 | $ 113,441 | $ 513,833 | $ 471,605 |
| Program printing & shipping | 7,411 | 238,427 | - | - | 245,838 | 362,157 |
| Professional fees | 391,428 | 83,949 | 63,102 | 18,724 | 557,203 | 441,073 |
| Program content development | 79 | 11,692 | - | - | 11,771 | - |
| Rent & occupancy | - | - | 27,750 | - | 27,750 | 27,718 |
| Marketing & public relations | 50,771 | 20,554 | - | 6,266 | 77,591 | 37,862 |
| Special event costs | - | - | - | - | - | 16,714 |
| Printing & copying | 125 | 579 | 7,428 | 2,252 | 10,384 | 13,516 |
| Telephone | 72 | 72 | 4,656 | - | 4,800 | 7,195 |
| Program equipment | 2,775 | 1,240 | - | - | 4,015 | 6,040 |
| Meetings and travel | 23,587 | 5,394 | 1,706 | 729 | 31,416 | 19,479 |
| Office | 167 | 94 | 2,152 | - | 2,413 | 2,896 |
| Postage | - | 155 | 164 | 1,843 | 2,162 | 272 |
| Insurance | - | - | 3,409 | - | 3,409 | 3,411 |
| Miscellaneous | 300 | 1,095 | 1,059 | - | 2,454 | 5,329 |
| Depreciation & amortization | - | - | 2,851 | - | 2,851 | 2,851 |
| Dues and publications | - | 1,329 | 110 | - | 1,439 | 550 |
| Credit card processing fees | - | 45 | 39 | 1,074 | 1,158 | 2,217 |
| Volunteer costs | - | - | - | - | - | 288 |
| Allocated | 28,565 | 17,945 | (60,801) | 14,291 | - | - |
| Total expenses | $ 732,356 | $ 521,107 | $ 88,404 | $ 158,620 | $ 1,500,487 | $ 1,421,173 |

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

**Note 1 Nature of Organization**

Bright by Three is a nonprofit organization committed to helping all families give kids a bright beginning so they can grow into healthy, happy and successful adults. Its purpose is to ensure that every child will be healthy, valued and ready to learn. The organization supports caregivers of young children with age-appropriate education materials and resources delivered through in-person visits and digital text messages. Bright by Three implements a two-generation curriculum to guide both caregiver knowledge and behavior as well as child developmental outcomes, and to strengthen family relationships. While Bright by Three services are free for any caregiver with a young child, the organization focuses on families with children at risk for developmental delay.

**a) Program Characteristics**

**Visitation Program**

Offered in English and Spanish, Bright by Three's award-winning program is a free, three-year curriculum based on seminal research findings from The Carolina Abecedarian Project, Hart and Risley, The Perry Preschool Project, and others. Trained volunteers and partners visit with parents and caregivers to share age-specific resource kits that help caregivers stimulate their child's healthy development. Supplied with a collection of learning games, a parenting handbook, a picture book and a children's board book, families complete each visit with the tools and skills to understand and support their child's development.

Administered in three stages, Bright by Three's parenting kits consists of:

---*Part A (Prenatal-12 months old):* Teaches how early interactions prepare children for a lifetime of learning, explains the importance of engaging caregiver-child relationships.

---*Part B (12-24 months old)*: Emphasizes the need to regularly talk with children to stimulate language acquisition and early literacy, both critical indicators of future success in school.

---*Part C (24-36 months old)*: Builds on previous learning, covering topics of health and safety, developmental milestones, language and early literacy acquisition, and positive discipline.

**Bright by Text Program**

Bright by Text was developed to deliver bite-sized and developmentally-targeted doses of our research-based visitation curriculum right to a cell phone. Caregivers receive 2-4 messages each week supporting their parenting knowledge and their child's development from prenatal to age five. Each message contains a concept, resource, or activity, and links to a landing page with more detail and examples, related resources, and many include a short modeling video. Text messages are targeted to the age and developmental stage of the child. In addition to content from Bright by Three's visitation curriculum, the organization has incorporated messages from expert content partners including Vroom, PBS Learning Media, Sesame Street in Communities, and Cooking Matters. Bright by Text also provides targeted local content, based on the caregiver's zip code, telling caregivers about events and services in their area including open registration for preschool, free flu shots, library story times, and more.

## Summary of Significant Accounting Policies

### b) Basis of Accounting

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 958-205-45-45-2, Financial Statements of Not-for-Profit Organizations. Under FASB ASC 958-205-45-45-2, the Organization is required to report information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions.

The financial statements of the Organization have been prepared on the accrual basis of accounting. Fees for services are recognized as they are earned and revenues and other support with and without donor restrictions is recognized when received. Net assets released from restrictions are transferred to net assets without restrictions as the terms of the restrictions are satisfied.

**Net assets without donor restrictions** - net assets currently available at the discretion of the Board for the use in the Organization's operations.

**Net assets with donor restrictions** - net assets which are stipulated by donors or grantors for specific operating purpose, future periods or permanently. When a restriction expires, net assets with restrictions are reclassified to net assets without restrictions and reported in the statement of activities as net assets released from restrictions.

**New Accounting Pronouncement ASU 2016-14** - On August 18, 2016 (FASB) Financial Accounting Standards Board) Issued ASU (Accounting Standards Update) 2016-14 Not-for Profit Entities (Topic 958) - *Presentation of Financial Statement of Not-for-Profit Entities*. The update addresses the complexity and understanding of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

**New Accounting Pronouncement ASU 2018-08** - In June 2018 (FASB) Financial Accounting Standards Board) Issued ASU (Accounting Standards Update) 2018-08 Not-for Profit Entities (Topic 958) - *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made.* The update was issued to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional.

### c) Revenue Recognition

All public support and revenue are considered to be available for unrestricted use unless specifically restricted by the donor. At its discretion, the Board of Directors may designate funds for specific purposes.

**d) Capitalization of Fixed Assets and Depreciation**

Bright by Three capitalizes property and equipment purchases over $1,000, as well as donations of property and equipment with estimated fair market values exceeding $1,000 at the date of the donation. Lesser amounts are expensed as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets which is five years.

**e) Estimates**

The preparation of the Organization's financial statements in conformity with generally accepted accounting principles requires the Organization's management to make estimates and assumptions that affect the amounts reported in these financial statements and accompanying notes. Actual results could differ from those estimates.

**f) Cash and cash equivalents**

For the purpose of balance sheet classification and the statements of cash flows, the Organization considers all highly liquid investments with an original maturity date of three months or less to be cash equivalents.

**g) Accounts receivable**

The Organization uses the allowance method to record uncollectible accounts. Management expects all accounts receivable will be fully collectible. The Organization has not experienced consequential bad debts in past periods, accordingly, there is no allowance for doubtful collection.

**h) Pledges receivable**

Unconditional pledges to give are recognized as revenues or gains in the period received, and as assets, decreases in liabilities, or expenses depending on the form of the benefits received. Conditional pledges to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. Management expects that all promises to give will be fully collectible. The Organization has not incurred consequential bad debt losses in previous periods, accordingly, there is no allowance for uncollectible pledges receivable.

**i) Inventory**

Inventories are stated at the lower of cost or market determined by the average cost method and consist of publications, brochures and audio media distributed by the program.

**j) Fair Value Measurements**

The carrying amount reported in the statements of financial position for cash, accounts receivables, pledges receivable, inventory, accounts payable and accrued liabilities approximate fair value because of the immediate or short-term maturities of these financial instruments.

k) **Cash Deposits**

The Organization's deposits are held at a financial institutions at which deposits are insured up to $250,000 by the FDIC for accounts. As of December 31, 2018 the Organization's deposits exceeded the FDIC's insurance limit of $250,000 by approximately $1,431,000.

l) **Donated Services**

The Organization receives a substantial amount of donated services and expenses by unpaid volunteers. No amounts have been reflected in the accompanying financial statements since the volunteers' time and expenses do not meet the criteria for recognition under generally accepted accounting principles.

m) **Subscription income**

During the year ended December 31, 2018, Bright by Three entered into collaborative agreements with certain other non profit entities to allow those entities access to BB3's text based platform designed to assist parents and caregivers of young children by providing quality information and trusted resources, parenting advice, free activities and games designed for children under age five. Under the agreements, the other entities provide access to their subscribers to the Bright by Three system for a period of time specified in the agreements. Bright by Three provides certain services under the agreement, including setting up access to the system, introductory training and support services throughout the term of service.

Bright by Three adopted the Financial Accounting Standards Board revenue recognition standard (ASC 606), effective January 1, 2017. Under this standard, Bright by Three recognizes revenue when it satisfies its performance obligations under the subscription agreements, either at a point in time or over time. Bright by Three has evaluated its delivery obligations pursuant to the agreements and determined that revenue will be recognized ratably over the term of the agreements in accordance with the satisfaction of its delivery obligations once all other revenue recognition criteria have been met. The agreements outstanding as of December 31, 2018 have a one year term from the date in which they were entered into. Bright by Three invoices the full amount of its subscription agreements at the beginning of the agreement term. The unearned portion of the agreement is accounted for as a deferred income liability.

n) **Income Taxes**

Bright by Three is exempt from Federal and State income taxation on its exempt purpose income under Internal Revenue Code Section 501(c)3. Accordingly, no provision for income taxes is included in the accompanying financial statements as there was no unrelated taxable income in the year ended December 31, 2018. Management does not believe the Organization has any material uncertain tax positions requiring disclosure.

**o) Functional Reporting of Expenses**

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying financial statements. Expenses are recorded according to the purpose to which they relate, such as a specific program or support service. Costs that are not identifiable with a specific function have been allocated among the appropriate programs and supporting services benefited.

**p) Reclassifications**

Certain items related to the prior year summarized comparative financial presentation have been reclassified to conform with a the current year presentation.

**q) Prior Year Comparative Information**

The financial statements include certain prior-year summarized, comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Bright By Three financial information for the year ended December 31, 2017 from which the summarized information was derived.

## Note 2 Liquidity

The following reflects Bright by Three's financial assets as of the balance sheet date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date. Amounts not available include amounts restricted by donors to periods beyond the year ended December 31, 2019.

| | |
|---|---|
| Financial assets, at year end | $ 3,016,062 |
| Less those unavailable for general expenditures within one year due to: | |
| Restricted by donor with time or purpose restrictions | (2,316,427) |
| Financial assets available to meet cash needs for general expenditures within one year | $ 699,635 |

Bright by Three derives significant support through restricted contributions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, Bright by Three must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. As part of Bright by Three's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due.

**Note 3 Pledges and Grants Receivable**

The Organization receives unconditional pledges for future support from foundations which cover various future periods. Generally accepted accounting principles provides that such pledges be recognized in the period of the award and discounted to present value based upon interest rates existing at the time of the pledge. At December 31, 2018, the support which covers various future periods is as follows:

| | |
|---|---|
| Amount due as follows: | |
| 2019 | $ 461,250 |
| 2020 | 450,000 |
| 2021 | 450,000 |
| Total | 1,361,250 |
| Discount | (27,000) |
| Total receivable | $ 1,334,250 |

**Note 4 Property and equipment**

Property and equipment at December 31, 2018 includes the following:

| | |
|---|---|
| Furniture | $ 15,362 |
| Equipment | 27,202 |
| Total assets | 42,564 |
| Accumulated depreciation | (39,351) |
| Net property fixed assets | $ 3,213 |

**Note 5 Deferred Income**

During the year ended December 31, 2018, Bright by Three entered into collaborative agreements with certain other non profit entities to allow those entities access to BB3's text based platform designed to assist parents and caregivers of young children by providing quality information and trusted resources, parenting advice, free activities and games designed for children under age five.

Bright by Three recognizes revenue as its services are provided ratably over the term of the agreements. For the year ended December 31, 2018, Bright by Three recognized income of $140,000 pursuant to its subscription agreements while the unearned portion of $62,500 is accounted for as a deferred income liability on the Statement of Financial Position.

## Note 6 Lease agreement

The Organization renewed its office lease effective January 1, 2019 for a term of one year. The monthly rent is due in equal monthly installments of $2,396 and in aggregate $28,752. Additionally, the Organization has a lease agreement for a copier with a five year term with payments of $359 per month which started in September 2015.

Future minimum lease payments required under the respective leases are as follows:
Year ended December 31:

| | | |
|---|---|---|
| 2019 | $ | 33,060 |
| 2020 | | 3,590 |
| | $ | 36,650 |

## Note 7 Employee Benefit Plan

During 2018, employee benefits were associated with retirement and health benefit plans provided to eligible employees. Not all employees are eligible or elect to participate in the plans. The retirement contribution expense was $8,382 and the health insurance component was $30,713 for the year ended December 31, 2018.

## Note 8 Net Assets with Donor Restrictions

The Organization has received certain grants that are temporarily restricted to a certain use or must be utilized during a specific time frame. The following represents the components of the net assets with donor restrictions at December 31, 2018:

| Description of restriction: | Unexpended Amount |
|---|---|
| Program Time Restricted | $ 2,135,368 |
| Building fund | 181,059 |
| | $ 2,316,427 |

## Note 9 Concentration of Credit Risk

The Organization had a grant receivable at December 31, 2018 from one source which represented 99% of total receivables. Additionally, two sources of support represented 48% and 23%, of total support and revenue recognized for the year ended December 31, 2018. The support representing 48% of total 2018 support included amounts restricted to the years ending December 31, 2019 and 2020. One vendor accounted for 12% of total expenditures during 2018.

## Note 10 Contracted Services

Bright by Three utilizes an extensive array of professional service providers as part of its operations. A summary of the nature of the services provided and amounts is as follows.

| | |
|---|---|
| Software development fees | $ 123,646 |
| Grant writing consultant | 28,037 |
| Research & evaluation | 142,249 |
| Technology management fees | 90,000 |
| Contract labor | 26,950 |
| Accounting and auditing | 50,725 |
| Text messaging infrastructure | 62,610 |
| Marketing program | 71,325 |
| Short code fees | 12,000 |
| Program contract development | 11,771 |
| IT consultant | 7,959 |
| Program management fees | 8,610 |
| | $ 635,882 |

Contracted services includes $7,200 for in-kind services related to short code fees.

## Note 11 Related Party Transactions

Contracted services expense includes $183,310 paid to an entity controlled by an individual who is a director of Bright by Three. Of those expenses, $90,000 was paid for billings of technology management fees and $93,310 was paid for third party contractors billed through the director's company. At December 31, 2018, there was a $7,500 payable included in accounts payable to this related party for services rendered.

In August 2018, Bright by Three amended its Board Bylaws and provided for a Board position which allows participation in Board meetings but is a non-voting member. Additionally, those Board members with non voting status are limited to one year terms and are not part of the establishment of a quorum.

Upon the amendment of the Board Bylaws, the board member who was providing the contract services changed to a non voting member of the Board.

Preceding the change in the Bylaws, the Board member/contractor recused themselves from voting on matters related to the contracted services being provided by his company.

## Note 12 Subsequent Events

The Organization's financial statements were available to be issued on the date of the auditor's report and this is the date through which subsequent events were evaluated. The Organization did not identify any subsequent events requiring disclosure.