

BRIGHT STAR SCHOOLS
FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2018

OPERATING:

Stella Middle Charter Academy (SMCA)
Bright Star Secondary Charter Academy (BSSCA)
Rise Kohyang Middle School (RKMS)
Rise Kohyang High School (RKHS)
Valor Academy Elementary (VAES)
Valor Academy Middle School (VAMS)
Valor Academy High School (VAHS)

**BRIGHT STAR SCHOOLS
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YEAR ENDED JUNE 30, 2018**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Bright Star Schools
Los Angeles, California

Report on the Financial Statements

We have audited the accompanying financial statements of Bright Star Schools (the School), a California nonprofit public benefit corporation, which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, cash flows, and functional expenses for the year 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 audit. 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. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the 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 on page 1 present fairly, in all material respects, the financial position of the School as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

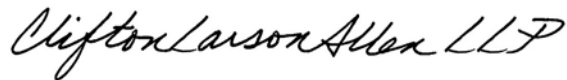
Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the School's financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. The accompanying supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statement. 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 a report dated January 21, 2019 on our consideration of the School'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 solely 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 effectiveness on the School's 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 the School's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Glendora, California
January 21, 2019

BRIGHT STAR SCHOOLS
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2018

| | SECA | SMCA | BSSCA | RKES | RKMS | RKHS | VAES | VAMS | VAHS | General Support | Eliminations | Total |
|---|-----------|--------------|--------------|----------|--------------|--------------|--------------|--------------|--------------|-----------------|----------------|---------------|
| ASSETS | | | | | | | | | | | | |
| CURRENT ASSETS | | | | | | | | | | | | |
| Cash and Cash Equivalents | \$ - | \$ 1,199,130 | \$ 1,722,711 | \$ - | \$ 1,037,924 | \$ 285,345 | \$ 492,708 | \$ 364,217 | \$ 1,084,366 | \$ 760,347 | \$ - | \$ 6,946,748 |
| Accounts Receivable - Federal and State | - | 359,830 | 452,339 | - | 491,744 | 318,608 | 383,598 | 567,538 | 406,477 | - | - | 2,980,134 |
| Accounts Receivable - Other | - | 83,337 | 274,601 | - | 90,888 | 391,304 | 69,000 | 1,979 | 306,942 | - | - | 1,218,051 |
| Accounts Receivable - BSEG | 13,406 | 87,318 | 274,601 | - | 212,450 | 72,910 | - | 173,937 | - | - | - | 834,622 |
| Intercompany Receivables | - | 580,994 | 1,605,768 | 7,178 | - | - | - | 131,545 | 95,802 | 85,227 | (2,506,514) | - |
| Prepaid Expenses and Other Assets | - | - | 157,509 | - | 99,175 | - | 49,021 | 154,830 | 72,161 | - | - | 532,696 |
| Total Current Assets | 13,406 | 2,310,609 | 4,487,529 | 7,178 | 1,932,181 | 1,068,167 | 994,327 | 1,394,046 | 1,965,748 | 845,574 | (2,506,514) | 12,512,251 |
| LONG-TERM ASSETS | | | | | | | | | | | | |
| Note Receivable | - | - | - | - | - | - | - | 1,652,873 | - | - | - | 1,652,873 |
| Property, Plant, and Equipment, Net | - | 245,082 | - | - | 673,004 | 14,777 | 38,067 | 70,273 | 216,295 | 71,275 | - | 1,328,773 |
| Total Long-Term Assets | - | 245,082 | - | - | 673,004 | 14,777 | 38,067 | 1,723,146 | 216,295 | 71,275 | - | 2,981,646 |
| Total Assets | \$ 13,406 | \$ 2,555,691 | \$ 4,487,529 | \$ 7,178 | \$ 2,605,185 | \$ 1,082,944 | \$ 1,032,394 | \$ 3,117,192 | \$ 2,182,043 | \$ 916,849 | \$ (2,506,514) | \$ 15,493,897 |
| LIABILITIES AND NET ASSETS | | | | | | | | | | | | |
| CURRENT LIABILITIES | | | | | | | | | | | | |
| Accounts Payable | \$ 562 | \$ 410,016 | \$ 104,796 | \$ 7,178 | \$ 200,812 | \$ 68,454 | \$ 65,542 | \$ 158,597 | \$ 256,817 | \$ 13,639 | \$ - | \$ 1,286,413 |
| Accrued Liabilities | - | 332,765 | 371,451 | - | 29,367 | 43,992 | 44,526 | 48,784 | 279,255 | - | - | 1,150,140 |
| Intercompany Payables | 12,844 | - | - | - | 1,157,354 | 849,069 | 487,247 | - | - | - | (2,506,514) | - |
| Deferred Revenue | - | 266,377 | 16,754 | - | 1,651 | - | - | 283,279 | 1,958 | 326,111 | - | 896,130 |
| Payable to BSEG | - | 188,216 | - | - | 360,110 | 14,395 | 215,753 | - | 562,107 | 175,421 | - | 1,516,002 |
| Loans Payable, Current Portion | - | - | - | - | - | - | - | 56,040 | - | - | - | 56,040 |
| Total Current Liabilities | 13,406 | 1,197,374 | 493,001 | 7,178 | 1,749,294 | 975,910 | 813,068 | 546,700 | 1,100,137 | 515,171 | (2,506,514) | 4,904,725 |
| LONG-TERM LIABILITIES | | | | | | | | | | | | |
| Loans Payable | - | - | - | - | - | - | - | 780,803 | - | - | - | 780,803 |
| Total Long-Term Liabilities | - | - | - | - | - | - | - | 780,803 | - | - | - | 780,803 |
| NET ASSETS | | | | | | | | | | | | |
| Unrestricted | - | 1,358,317 | 3,994,528 | - | 855,891 | 107,034 | 219,326 | 1,789,689 | 1,070,829 | 401,678 | - | 9,797,292 |
| Temporarily restricted | - | - | - | - | - | - | - | - | 11,077 | - | - | 11,077 |
| Total Net Assets | - | 1,358,317 | 3,994,528 | - | 855,891 | 107,034 | 219,326 | 1,789,689 | 1,081,906 | 401,678 | - | 9,808,369 |
| Total Liabilities and Net Assets | \$ 13,406 | \$ 2,555,691 | \$ 4,487,529 | \$ 7,178 | \$ 2,605,185 | \$ 1,082,944 | \$ 1,032,394 | \$ 3,117,192 | \$ 2,182,043 | \$ 916,849 | \$ (2,506,514) | \$ 15,493,897 |

See accompanying Notes to Financial Statements.

**BRIGHT STAR SCHOOLS
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018**

| | SMCA | BSSCA | RKMS | RKHS | VAES | VAMS | VAHS | General Support | Total |
|--|---------------------|---------------------|-------------------|-------------------|-------------------|---------------------|---------------------|-------------------|---------------------|
| OPERATING ACTIVITIES: | | | | | | | | | |
| REVENUES | | | | | | | | | |
| State Revenue: | | | | | | | | | |
| State Aid | \$ 3,434,851 | \$ 4,522,630 | \$ 2,755,913 | \$ 1,557,000 | \$ 1,635,160 | \$ 3,393,732 | \$ 4,100,198 | \$ - | \$ 21,399,484 |
| Other State Revenue | 978,496 | 455,132 | 989,705 | 304,306 | 453,049 | 1,037,709 | 420,252 | - | 4,638,649 |
| Federal Revenue: | | | | | | | | | |
| Grants and Entitlements | 340,280 | 579,168 | 247,298 | 259,929 | 258,927 | 310,492 | 276,521 | - | 2,272,615 |
| Local Revenue: | | | | | | | | | |
| In-Lieu Property Tax Revenue | 1,197,414 | 1,250,049 | 1,032,286 | 404,516 | 475,070 | 1,197,678 | 1,134,819 | - | 6,691,832 |
| Contributions | 89,664 | 57,767 | 2,921 | 1,834 | 17,247 | 50,258 | 47,295 | 579,337 | 846,323 |
| Investment Income | - | - | - | - | - | - | - | - | - |
| Other Revenue | 114,349 | 147,348 | 62,540 | 536,272 | 51,374 | 132,916 | 95,913 | 7,558 | 1,148,270 |
| Net Assets Released From Restrictions | - | - | - | - | - | - | 188,923 | - | 188,923 |
| Total Revenues | 6,155,054 | 7,012,094 | 5,090,663 | 3,063,857 | 2,890,827 | 6,122,785 | 6,263,921 | 586,895 | 37,186,096 |
| EXPENSES | | | | | | | | | |
| Program Services Expense | 5,641,594 | 6,544,182 | 4,388,855 | 3,018,598 | 2,572,193 | 5,565,924 | 5,479,792 | - | 33,211,138 |
| Management and General | 475,356 | 429,887 | 368,787 | 9,253 | 235,409 | 446,518 | 479,382 | 345,404 | 2,789,996 |
| Total Expenses | 6,116,950 | 6,974,069 | 4,757,642 | 3,027,851 | 2,807,602 | 6,012,442 | 5,959,174 | 345,404 | 36,001,134 |
| CHANGE IN UNRESTRICTED NET ASSETS FROM OPERATING ACTIVITIES | 38,104 | 38,025 | 333,021 | 36,006 | 83,225 | 110,343 | 304,747 | 241,491 | 1,184,962 |
| NON-OPERATING ACTIVITIES: | | | | | | | | | |
| NON-OPERATING REVENUES | | | | | | | | | |
| Settlement Revenue | 3,708,665 | 3,094,619 | - | - | - | - | - | - | 6,803,284 |
| Total Non-Operating Revenues | 3,708,665 | 3,094,619 | - | - | - | - | - | - | 6,803,284 |
| NON-OPERATING EXPENSES | | | | | | | | | |
| Facility Related Expenses | 50,000 | - | - | - | - | - | - | - | 50,000 |
| Transfer of Assets to Bright Star Education Group | 3,658,665 | - | - | - | - | - | 363,098 | - | 4,021,763 |
| Total Non-Operating Expenses | 3,708,665 | - | - | - | - | - | 363,098 | - | 4,071,763 |
| CHANGE IN UNRESTRICTED NET ASSETS FROM NON-OPERATING ACTIVITIES | - | 3,094,619 | - | - | - | - | (363,098) | - | 2,731,521 |
| CHANGE IN UNRESTRICTED NET ASSETS | 38,104 | 3,132,644 | 333,021 | 36,006 | 83,225 | 110,343 | (58,351) | 241,491 | 3,916,483 |
| TEMPORARILY RESTRICTED NET ASSETS | | | | | | | | | |
| Contributions | - | - | - | - | - | - | 200,000 | - | 200,000 |
| Net Assets Released From Restrictions | - | - | - | - | - | - | (188,923) | - | (188,923) |
| CHANGE IN TEMPORARILY RESTRICTED NET ASSETS | - | - | - | - | - | - | 11,077 | - | 11,077 |
| CHANGE IN TOTAL NET ASSETS | 38,104 | 3,132,644 | 333,021 | 36,006 | 83,225 | 110,343 | (47,274) | 241,491 | 3,927,560 |
| Net Assets - Beginning of Year | 1,320,213 | 861,884 | 522,870 | 71,028 | 136,101 | 1,679,346 | 1,129,180 | 160,187 | 5,880,809 |
| NET ASSETS - END OF YEAR | <u>\$ 1,358,317</u> | <u>\$ 3,994,528</u> | <u>\$ 855,891</u> | <u>\$ 107,034</u> | <u>\$ 219,326</u> | <u>\$ 1,789,689</u> | <u>\$ 1,081,906</u> | <u>\$ 401,678</u> | <u>\$ 9,808,369</u> |

See accompanying Notes to Financial Statements.

**BRIGHT STAR SCHOOLS
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2018**

| | SECA | SMCA | BSSCA | RKES | RKMS | RKHS | VAES | VAMS | VAHS | General Support | Total |
|--|----------|--------------|--------------|---------|--------------|------------|------------|-------------|--------------|-----------------|--------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | | | | | | | |
| Change in Net Assets | \$ - | \$ 38,104 | \$ 3,132,644 | \$ - | \$ 333,021 | \$ 36,006 | \$ 83,225 | \$ 110,343 | \$ (47,274) | \$ 241,491 | \$ 3,927,560 |
| Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities: | | | | | | | | | | | |
| Depreciation | - | 8,087 | - | - | 17,303 | 14,777 | 24,294 | 70,274 | 7,820 | 14,255 | 156,810 |
| (Increase) Decrease in Assets: | | | | | | | | | | | |
| Accounts Receivable - Federal and State | - | 91,985 | 121,156 | - | 89,952 | 48,726 | (163,729) | (30,360) | (4,122) | - | 153,608 |
| Accounts Receivable - Other | - | (83,337) | (274,601) | - | (1,258) | (391,304) | (69,000) | (1,979) | (292,447) | - | (1,113,926) |
| Accounts Receivable - BSEG | (13,406) | (87,318) | (203,965) | - | (212,450) | (72,910) | - | (173,937) | - | - | (763,986) |
| Intercompany Receivables | - | 854,580 | (775,174) | (7,178) | 699,184 | - | 206,581 | 990,205 | 635,486 | 5,428,120 | 8,031,804 |
| Prepaid Expenses and Other Assets | - | 41,574 | (92,864) | - | 5,314 | - | (9,021) | (427) | 290,126 | 43,852 | 278,554 |
| Increase (Decrease) in Liabilities: | | | | | | | | | | | |
| Accounts Payable and Accrued Liabilities | 562 | 636,615 | 261,630 | 7,178 | 178,645 | 33,675 | 99,408 | 169,398 | 364,685 | 8,658 | 1,760,454 |
| Intercompany Payables | 12,844 | (918,238) | (1,143,594) | - | 109,571 | 419,449 | 57,581 | (1,140,707) | (403,739) | (5,024,971) | (8,031,804) |
| Deferred Revenue | - | (24,915) | 14,289 | - | 23 | - | - | 30 | 4 | 76,111 | 65,542 |
| Accounts Payable - BSEG | - | 112,359 | - | - | 104,010 | (56,471) | 106,255 | (182,434) | 145,897 | 174,929 | 404,545 |
| Net Cash Provided (Used) by Operating Activities | - | 669,496 | 1,039,521 | - | 1,323,315 | 31,948 | 335,594 | (189,594) | 696,436 | 962,445 | 4,869,161 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | | | | | | | |
| Purchases of Property, Plant, and Equipment | - | (241,100) | - | - | (672,305) | - | (35,415) | - | (224,115) | (85,530) | (1,258,465) |
| Net Cash Used by Investing Activities | - | (241,100) | - | - | (672,305) | - | (35,415) | - | (224,115) | (85,530) | (1,258,465) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | | | | | | | | |
| Repayments of Debt | - | (13,529,320) | - | - | - | - | - | (55,206) | - | - | (13,584,526) |
| Net Cash Provided Used by Financing Activities | - | (13,529,320) | - | - | - | - | - | (55,206) | - | - | (13,584,526) |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | - | (13,100,924) | 1,039,521 | - | 651,010 | 31,948 | 300,179 | (244,800) | 472,321 | 876,915 | (9,973,830) |
| Cash and Cash Equivalents - Beginning of Year | - | 14,300,054 | 683,190 | - | 386,914 | 253,397 | 192,529 | 609,017 | 612,045 | (116,568) | 16,920,578 |
| CASH AND CASH EQUIVALENTS - END OF YEAR | \$ - | \$ 1,199,130 | \$ 1,722,711 | \$ - | \$ 1,037,924 | \$ 285,345 | \$ 492,708 | \$ 364,217 | \$ 1,084,366 | \$ 760,347 | \$ 6,946,748 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | | | | | | | | | | |
| Cash Paid for Interest | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 13,002 | \$ - | \$ - | \$ 13,002 |

See accompanying Notes to Financial Statements.

**BRIGHT STAR SCHOOLS
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2018**

| | <u>Program Services</u> | <u>Management and General</u> | <u>Total</u> |
|------------------------------------|-----------------------------|-----------------------------------|----------------------|
| Salaries and Wages | \$ 18,066,224 | \$ 58,679 | \$ 18,124,903 |
| Pension Expense | 1,822,358 | - | 1,822,358 |
| Other Employee Benefits | 1,782,072 | 1,829 | 1,783,901 |
| Payroll Taxes | 586,693 | 4,362 | 591,055 |
| Management Fees | 156,216 | 2,239,446 | 2,395,662 |
| Legal Expenses | - | 73,376 | 73,376 |
| Instructional Materials | 1,304,930 | - | 1,304,930 |
| Other Fees for Services | 4,862,918 | 82,346 | 4,945,264 |
| Advertising and Promotion Expenses | 49,244 | 2,078 | 51,322 |
| Office Expenses | 527,324 | 716 | 528,040 |
| Information Technology Expenses | 797,217 | - | 797,217 |
| Occupancy Expenses | 2,948,443 | - | 2,948,443 |
| Travel Expenses | 55,211 | 173,889 | 229,100 |
| Depreciation Expense | 142,555 | 14,255 | 156,810 |
| Insurance Expense | - | 129,692 | 129,692 |
| Other Expenses | 109,733 | 9,328 | 119,061 |
| | <u>\$ 33,211,138</u> | <u>\$ 2,789,996</u> | <u>\$ 36,001,134</u> |
| Total Expenses by Function | <u>\$ 33,211,138</u> | <u>\$ 2,789,996</u> | <u>\$ 36,001,134</u> |

See accompanying Notes to Financial Statements.

**BRIGHT STAR SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Bright Star Schools (the School) is a California nonprofit public benefit corporation. Bright Star Schools was incorporated in November 2002 as Stella Middle Charter Academy and was renamed in 2005.

The School is comprised of:

- Stella Middle Charter Academy (SMCA)
- Bright Star Secondary Charter Academy (BSSCA)
- Rise Kohyang Middle School School (RKMS)
- Rise Kohyang High School School (RKHS)
- Valor Academy Elementary (VAES)
- Valor Academy Middle School (VAMS)
- Valor Academy High School (VAHS)
- Stella Elementary Charter Academy (SECA) – See Note 9 Subsequent Event
- Rise Kohyang Elementary School (RKES) – See Note 9 Subsequent Event
- General Support

The School is funded principally through state of California public education monies received through the California Department of Education and the Los Angeles Unified School District.

Cash and Cash Equivalents

The School defines its cash and cash equivalents to include only cash on hand, demand deposits, and liquid investments with original maturities of three months or less.

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 that affect the reported amounts of assets, liabilities, and disclosures. Accordingly, actual results could differ from those estimates.

Basis of Accounting

The financial statements have been prepared on the accrual method of accounting and accordingly reflect all significant receivables and liabilities.

Functional Allocation of Expenses

Costs of providing the School's programs and other activities have been presented in the statement of functional expenses. During the year, such costs are accumulated into groupings as either direct or indirect. Indirect or shared costs are allocated among program and support services by a method that best measures the relative degree of benefit.

Basis of Presentation

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States as prescribed by the Financial Accounting Standards Board.

BRIGHT STAR SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Asset Classes

The School is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. Net assets of the School are defined as:

Unrestricted

All resources over which the governing board has discretionary control to use in carrying on the general operations of the School.

Temporarily Restricted

These net assets are restricted by donors to be used for specific purposes. The Schools have temporarily restricted net assets of \$11,077 from The Ahmanson Foundation Grant as of June 30, 2018.

Permanently Restricted

These net assets are permanently restricted by donors and cannot be used by the School. The School does not currently have any permanently restricted net assets.

Receivables

Accounts receivable primarily represent amounts due from federal and state governments as of June 30, 2018. Management believes that all receivables are fully collectible, therefore no provisions for uncollectible accounts were recorded.

Property, Plant, and Equipment

Property, plant, and equipment are stated at cost if purchased or at estimated fair market value if donated. Depreciation is provided on a straight-line basis over the estimated useful lives of the asset.

Contributed Assets and Services

Contributions of donated noncash assets are recorded at fair value in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at fair values in the period received.

Investments

Investments are recorded at fair market value. Both unrealized gains and losses from the fluctuation of market value and realized gains and losses from the sale of investments are reflected in the statement of activities if they are material.

BRIGHT STAR SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property Taxes

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on September 1 and are payable in two installments on or before November 1 and February 1. Unsecured property taxes are not a lien against real property and are payable in one installment on or before August 31. The county bills and collects property taxes for all taxing agencies within the County and distributes these collections to the various agencies. The sponsor agency of the School is required by law to provide in-lieu property tax payments on a monthly basis, from August through July. The amount paid per month is based upon an allocation per student, with a specific percentage to be paid each month.

Compensated Absences

Accumulated unpaid employee paid time off (PTO) are recognized as a liability of the School. The current portion of the liability, if material, is recognized at year-end. Employees of the School are paid for days or hours worked based upon board approved schedules which include vacation and sick time.

Revenue Recognition

Amounts received from the California Department of Education are recognized as revenue by the School based on the average daily attendance (ADA) of students. Revenue that is restricted is recorded as an increase in unrestricted net assets if the restriction expires in the reporting period in which the revenue is recognized. All other restricted revenues are reported as increases in temporarily restricted net assets.

Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted to specific use or future periods are reported as temporarily restricted. Restricted contributions that are received and released in the same period are reported as unrestricted revenue. Unconditional contributions expected to be received in one year or less are recorded at net realizable value. Unconditional promises to give expected to be received in more than one year are recorded at fair market value at the date of the promise. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

Income Taxes

The School is a nonprofit entity exempt from the payment of income taxes under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d. Accordingly, no provision has been made for income taxes. Management has determined that all income tax positions are more likely than not of being sustained upon potential audit or examination; therefore, no disclosures of uncertain income tax positions are required. The School files informational returns in the U.S. federal jurisdiction, and the State of California.

BRIGHT STAR SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allocations Between Charter Schools

For the year ended June 30, 2018, the School has chosen to identify each charter school separately within the basic financial statements. In cases where specific identification of each charter's activities was not possible, items were allocated according to Average Daily Attendance (ADA).

Evaluation of Subsequent Events

The School has evaluated subsequent events through January 21, 2018, the date these financial statements were available to be issued.

NOTE 2 CONCENTRATION OF CREDIT RISK

The School maintains cash balances held in banks and revolving funds which are insured up to \$250,000 by the Federal Depository Insurance Corporation (FDIC). At times, cash in these accounts exceeds the insured amounts. The School has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on its cash and cash equivalents.

NOTE 3 PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment in the accompanying financial statements is presented net of accumulated depreciation. The School capitalizes all expenditures for land, buildings, and equipment in excess of \$5,000. Depreciation expense was \$156,810 for the year ended June 30, 2018.

The components of property, plant, and equipment as of June 30, 2018 are as follows:

| | |
|---|----------------------------|
| Tenant Improvement | \$ 16,352 |
| Equipment | 974,739 |
| Construction in Progress | 898,215 |
| Less: Accumulated Depreciation and Amortization | <u>(560,533)</u> |
| Total Property, Plant, and Equipment | <u><u>\$ 1,328,773</u></u> |

**BRIGHT STAR SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 4 LONG-TERM LIABILITIES

Office of Public School Construction

In June 2008, the Office of Public School Construction (OPSC) approved SMCA's application for a Charter School Facility Program (CSFP) preliminary apportionment of \$24,426,544 to purchase and/or construct a real property as a permanent middle school facility to accommodate a maximum of 520 students for grades 5 through 8. This apportionment is contingent upon SMCA paying its 50% local matching share obligation (funding agreement) by making payments to the state pursuant to the agreement. In January 2009, SMCA obtained a funding agreement with the state of California.

SMCA received CSFP advanced apportionments totaling \$13,529,320 in prior years. SMCA recognized \$6,764,660 as long term debt, and \$6,764,660 as temporarily restricted net assets. During the year ended June 30, 2017, SMCA determined it would no longer pursue a project with this funding and wrote off \$6,764,660 of previously recognized temporarily restricted revenue. SMCA repaid the total Prop 1D funding received of \$13,529,320 in October 2017.

Note Payable

In December 2014, the School obtained a promissory note for \$1,000,000 to fund the Bright Star Leverage Loan in an attempt to secure new market tax credit financing to obtain a facility for long-term use by VAMS. The note bears an interest rate of 1.2% and matures on November 1, 2020. The note includes a \$1,652,873 loan to the Pacific Charter School Development Facility Project, which is presented as a long-term receivable in the statement of financial position. The financing matures on November 1, 2020. The loan balance as of June 30, 2018 was \$836,843.

Repayments of principal is due as follows:

| <u>Year Ending June 30,</u> | <u>VAMS</u> |
|-----------------------------|-------------------|
| 2019 | \$ 56,040 |
| 2020 | 56,896 |
| 2021 | 723,907 |
| Total | <u>\$ 836,843</u> |

NOTE 5 LINE OF CREDIT

The School obtained an unsecured line of credit from City National Bank (CNB). The line of credit is for up to \$2 million and bears a variable interest rate equal to CNB's prime rate plus 2.50%. As of June 30, 2018 the School had no outstanding balance.

**BRIGHT STAR SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 6 EMPLOYEE RETIREMENT

Multi-Employer Defined Benefit Pension Plans

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the state of California. Certificated employees are members of the State Teachers' Retirement System (STRS).

The risks of participating in this multiemployer defined benefit pension plan are different from single-employer plans because: (a) assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers, (b) the required member, employer, and state contribution rates are set by the California Legislature and detailed in Teachers' Retirement Law, and (c) if the School chooses to stop participating in the multiemployer plan, it may be required to pay a withdrawal liability to the plan. The School has no plans to withdraw from this multiemployer plan.

State Teachers' Retirement System (STRS)

Plan Description

The School contributes to the State Teachers' Retirement System (STRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS.

The plan provides retirement, disability and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. According to the most recently available Comprehensive Annual Financial Report and Actuarial Valuation Report for the year ended June 30, 2017, total STRS plan net assets are \$210 billion, the total actuarial present value of accumulated plan benefits is \$362 billion, contributions from all employers totaled \$4.2 billion, and the plan is 62.6% funded. The School did not contribute more than 5% of the total contributions to the plan.

Copies of the STRS annual financial report may be obtained from STRS, 7667 Folsom Boulevard, Sacramento, CA 95826 and www.calstrs.com.

Funding Policy

Active plan members hired before January 1, 2013 are required to contribute 10.25% of their salary and those hired after are required to contribute 9.205% of their salary. The School is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. Under the 2014 funding plan, employer contributions on compensation creditable to the program will increase every year for the next seven years, up to 19.10% in 2020 – 2021. The required employer contribution rate for the year ended June 30, 2018 was 14.43% of annual payroll. The contribution requirements of the plan members are established and may be amended by state statute.

**BRIGHT STAR SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 6 EMPLOYEE RETIREMENT (CONTINUED)

State Teachers' Retirement System (STRS) (Continued)

The School's contributions to STRS for the past three years are as follows:

| <u>Year Ended June 30,</u> | <u>Required Contribution</u> | <u>Percent Contributed</u> |
|----------------------------|----------------------------------|--------------------------------|
| 2016 | \$ 1,008,538 | 100% |
| 2017 | \$ 1,471,589 | 100% |
| 2018 | \$ 1,822,358 | 100% |

NOTE 7 OPERATING LEASES

SMCA entered into a lease for the property located in Los Angeles, California. The lease term commenced on during the 18-19 year ends June 30, 2058.

RKMS entered into a sublease for the property located at 3020 Wilshire Blvd., Los Angeles, California. The term is from July 1, 2014 through January 31, 2019. Rent expense for the year ended June 30, 2018 was \$572,256.

In September 2017, RKHS moved facilities to 600 South Lafayette, Los Angeles, California. This property is leased from BSDG 990 La Fayette LLC, and lease payments commence in September 2017. Rent expense for the year ended June 30, 2018 was \$715,184. See Note 8 Related Party Transactions.

The School entered into a lease agreement for property in Los Angeles, California to be used by VAMS. The lease commenced on July 1, 2015 and ends June 30, 2025. Rent expense for the year ended June 30, 2018 was \$546,996.

Future minimum lease payments are as follows:

| <u>Year Ending June 30,</u> | <u>SMCA</u> | <u>RKMS</u> | <u>RKHS</u> | <u>VAMS</u> | <u>Total</u> |
|-----------------------------|----------------------|-------------------|-------------------|---------------------|----------------------|
| 2019 | \$ 443,500 | \$ 333,816 | \$ 753,935 | \$ 546,996 | \$ 2,078,247 |
| 2020 | 293,760 | - | - | 546,996 | 840,756 |
| 2021 | 299,635 | - | - | 546,996 | 846,631 |
| 2022 | 305,628 | - | - | 546,996 | 852,624 |
| 2023 | 311,740 | - | - | 788,000 | 1,099,741 |
| Thereafter | 15,897,008 | - | - | 1,576,000 | 17,473,008 |
| Total | <u>\$ 17,551,271</u> | <u>\$ 333,816</u> | <u>\$ 753,935</u> | <u>\$ 4,551,984</u> | <u>\$ 23,191,006</u> |

**BRIGHT STAR SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 8 RELATED PARTY TRANSACTIONS

Bright Star Education Group

Bright Star Education Group (BSEG) is a non-profit corporation organized to provide back office services to Bright Star Schools and to manage the growth of the network of schools. As of June 30, 2018, the School paid \$2,395,662 of management and oversight fees to BSEG. The School has a grant receivable of \$500,000 from BSEG, as well as \$334,622 receivable from BSEG related to expenses paid by School for the BSEG as of June 30, 2018. The School has a related party liability as of June 30, 2018 of \$1,516,002 related to expenses paid by BSEG for the School.

In August 2017, BSEG entered into a sublease agreement with RKHS for office space at 600 S. Lafayette, Los Angeles, California.

BSDG 600 La Fayette LLC

In February 2017, BSDG 990 La Fayette LLC was created for the purpose of supporting and providing facilities for the School. The LLC is the sole member of BSEG. The LLC subleased facilities to RKHS and the total rent expenses for RKHS was \$715,184 as of June 30, 2018.

NOTE 9 SUBSEQUENT EVENT

The School began operations of two new schools in August, 2018 - Stella Elementary Charter Academy (SECA) and Rise Kohyang Elementary School (RKES).

NOTE 10 CONTINGENCIES

The School has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate disallowances under terms of the grants, it is believed that any required reimbursement would not be material.

SUPPLEMENTARY INFORMATION

**BRIGHT STAR SCHOOLS
LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
YEAR ENDED JUNE 30, 2018**

Bright Star Schools is a nonprofit public benefit corporation and operates seven charter schools approved by the Los Angeles School District as follows:

Stella Middle Charter Academy (SMCA) charter number 0535 – established in 2003
 Bright Star Secondary Charter Academy (BSSCA) charter number 0826 – established in 2006
 Rise Kohyang Middle School School (RKMS) charter number 1315 – established in 2012
 Rise Kohyang High School School (RKHS) charter number 1786 - established in 2016
 Valor Academy Elementary (VAES) charter number 1787 - established in 2016
 Valor Academy Middle School (VAMS) charter number 1095 – established in 2009
 Valor Academy High School (VAHS) charter number 1539 – established in 2013

The Board of Directors and the Administrators as of the year ended June 30, 2018 were as follows:

BOARD OF DIRECTORS

| <u>Member</u> | <u>Office</u> | <u>Term Expires (3 year term)</u> |
|------------------|----------------|-----------------------------------|
| Larry Klein | Board Chairman | 2019 |
| James McGrath | Secretary | 2020 |
| Stephen Green | Member | 2018 |
| Elizabeth Yeo | Member | 2019 |
| David Valentine | Member | 2018 (2 months) |
| Lois Levy | Member | 2019 |
| Esther Perez | Member | 2018 |
| Greg Gonzalez | Member | 2018 |
| George Leftwich | Member | 2019 |
| Kiamko Desvignes | Member | 2020 |
| Andrew Murr | Member | 2020 |
| Julie Robles | Member | 2019 |
| Andrew Wang | Member | 2020 |
| Louisa Wee | Member | 2018 (1 year) |

ADMINISTRATORS

| | |
|--------------------|------------------------------------|
| Hrag Hamalian | Executive Director |
| Melissa Kaplan | Deputy Superintendent of Education |
| Saman Bravo-Karimi | Chief Business Officer |
| China Habte | Chief Financial Officer |

**BRIGHT STAR SCHOOLS
SCHEDULE OF INSTRUCTIONAL TIME
YEAR ENDED JUNE 30, 2018**

| | Instructional Minutes | | Traditional Instructional Days | Status |
|----------|-----------------------|--------|--------------------------------------|---------------|
| | Requirement | Actual | | |
| SMCA: | | | | |
| Grade 5 | 54,000 | 65,584 | 177 | In compliance |
| Grade 6 | 54,000 | 65,584 | 177 | In compliance |
| Grade 7 | 54,000 | 61,424 | 177 | In compliance |
| Grade 8 | 54,000 | 61,424 | 177 | In compliance |
| BSSCA: | | | | |
| Grade 9 | 64,800 | 65,020 | 179 | In compliance |
| Grade 10 | 64,800 | 65,020 | 179 | In compliance |
| Grade 11 | 64,800 | 65,020 | 179 | In compliance |
| Grade 12 | 64,800 | 65,020 | 179 | In compliance |
| RKMS: | | | | |
| Grade 6 | 54,000 | 63,276 | 179 | In compliance |
| Grade 7 | 54,000 | 65,391 | 179 | In compliance |
| Grade 8 | 54,000 | 67,360 | 179 | In compliance |
| RKHS: | | | | |
| Grade 9 | 64800 | 66,992 | 179 | In compliance |
| Grade 10 | 64800 | 66,992 | 179 | In compliance |
| VAES: | | | | |
| Grade TK | 36000 | 55,115 | 175 | In compliance |
| Grade K | 36000 | 55,115 | 175 | In compliance |
| Grade 1 | 50400 | 57,810 | 175 | In compliance |
| Grade 2 | 50400 | 57,810 | 175 | In compliance |
| VAMS: | | | | |
| Grade 5 | 54,000 | 59,150 | 175 | In compliance |
| Grade 6 | 54,000 | 59,150 | 175 | In compliance |
| Grade 7 | 54,000 | 63,000 | 175 | In compliance |
| Grade 8 | 54,000 | 63,000 | 175 | In compliance |

See accompanying Auditors' Report and the Notes to Supplementary Information

**BRIGHT STAR SCHOOLS
SCHEDULE OF AVERAGE DAILY ATTENDANCE
YEAR ENDED JUNE 30, 2018**

| | Second Period Report | | Annual Report | |
|-------------|------------------------|------------------------|------------------------|------------------------|
| | Classroom Based | Total | Classroom Based | Total |
| SMCA: | | | | |
| Grades 5-6 | 238.54 | 238.54 | 234.30 | 234.30 |
| Grades 7-8 | 237.55 | 237.55 | 234.01 | 234.01 |
| ADA Totals | <u>476.09</u> | <u>476.09</u> | <u>468.31</u> | <u>468.31</u> |
| BSSCA: | | | | |
| Grades 9-12 | 498.40 | 498.40 | 490.51 | 490.51 |
| ADA Totals | <u>498.40</u> | <u>498.40</u> | <u>490.51</u> | <u>490.51</u> |
| RKMS: | | | | |
| Grade 6 | 118.10 | 118.10 | 117.42 | 117.42 |
| Grade 7 | 270.98 | 270.98 | 269.61 | 269.61 |
| ADA Totals | <u>389.08</u> | <u>389.08</u> | <u>387.03</u> | <u>387.03</u> |
| RKHS: | | | | |
| Grades 9-12 | 171.24 | 171.24 | 172.10 | 172.10 |
| ADA Totals | <u>171.24</u> | <u>171.24</u> | <u>172.10</u> | <u>172.10</u> |
| VAES: | | | | |
| Grades TK-3 | 198.15 | 198.15 | 198.27 | 198.27 |
| ADA Totals | <u>198.15</u> | <u>198.15</u> | <u>198.27</u> | <u>198.27</u> |
| VAMS: | | | | |
| Grades 5-6 | 239.05 | 239.05 | 238.81 | 238.81 |
| Grades 7-8 | 240.10 | 240.10 | 240.11 | 240.11 |
| ADA Totals | <u>479.15</u> | <u>479.15</u> | <u>478.92</u> | <u>478.92</u> |
| VAHS: | | | | |
| Grades 9-10 | 453.74 | 453.74 | 450.19 | 450.19 |
| ADA Totals | <u>453.74</u> | <u>453.74</u> | <u>450.19</u> | <u>450.19</u> |
| ADA Totals | <u><u>2,665.85</u></u> | <u><u>2,665.85</u></u> | <u><u>2,645.33</u></u> | <u><u>2,645.33</u></u> |

See accompanying Auditors' Report and the Notes to Supplementary Information

**BRIGHT STAR SCHOOLS
RECONCILIATION OF ANNUAL FINANCIAL REPORT WITH
AUDITED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018**

| | <u>SMCA</u> | <u>BSSCA</u> | <u>RKMS</u> | <u>RKHS</u> | <u>VAES</u> | <u>VAMS</u> | <u>VAHS</u> |
|---|---------------------|---------------------|-------------------|-------------------|-------------------|---------------------|---------------------|
| June 30, 2018 Annual Financial Report Fund Balances (Net Assets) | \$ 1,418,141 | \$ 943,757 | \$ 765,468 | \$ 132,273 | \$ 232,411 | \$ 1,807,290 | \$ 1,430,873 |
| Adjustments and Reclassifications: | | | | | | | |
| Increase (Decrease) of Fund Balance (Net Assets): | | | | | | | |
| Cash and Cash Equivalents | (3,907) | 210 | (7,760) | (50,010) | (10) | (150,916) | (5,817) |
| Accounts Receivable - Federal and State | (102,175) | 31,231 | 8,570 | (192,854) | 18,291 | (19,256) | 26,251 |
| Accounts Receivable - Other | 83,337 | 274,601 | 90,888 | 391,304 | 69,000 | 1,979 | 306,942 |
| Accounts Receivable - BSEG | 87,318 | 274,601 | 212,450 | 72,910 | - | 173,937 | - |
| Intercompany Receivables | 580,994 | 1,605,768 | - | - | - | 131,545 | 95,802 |
| Prepaid Expenses and Other Assets | (5,940,156) | (320,340) | (611,392) | (391,412) | (62,747) | (46,766) | (896,175) |
| Note Receivable | - | - | - | - | - | (142,339) | - |
| Property, Plant, and Equipment, Net | 221,183 | - | 672,304 | - | 35,415 | 7,848 | 216,295 |
| Accounts Payable | 523,714 | 1,556,151 | 1,272,194 | 1,052,279 | 674,492 | 19,945 | 749,097 |
| Accrued Liabilities | (332,765) | (371,451) | (29,367) | (43,992) | (44,526) | (48,784) | (279,255) |
| Intercompany Payables | - | - | (1,157,354) | (849,069) | (487,247) | - | - |
| Deferred Revenue | 5,010,849 | - | - | - | - | - | - |
| Payable to BSEG | (188,216) | - | (360,110) | (14,395) | (215,753) | - | (562,107) |
| Loans Payable | - | - | - | - | - | 55,206 | - |
| Net Adjustments and Reclassifications | <u>(59,824)</u> | <u>3,050,771</u> | <u>90,423</u> | <u>(25,239)</u> | <u>(13,085)</u> | <u>(17,601)</u> | <u>(348,967)</u> |
| June 30, 2018 Audited Financial Statement Fund Balances (Net Assets) | <u>\$ 1,358,317</u> | <u>\$ 3,994,528</u> | <u>\$ 855,891</u> | <u>\$ 107,034</u> | <u>\$ 219,326</u> | <u>\$ 1,789,689</u> | <u>\$ 1,081,906</u> |

See accompanying Auditors' Report and the Notes to Supplementary Information

**BRIGHT STAR SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2018**

| Federal Grantor/Pass-Through Grantor Program or Cluster Title | Federal CFDA Number | Pass-Through Entity Identifying Number | SMCA | BSSCA | RKMS | RKHS | VAES | VAMS | VAHS | Total |
|--|---------------------------|--|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|---------------------|
| U.S. Department of Education | | | | | | | | | | |
| Pass-Through Program From | | | | | | | | | | |
| California Department of Education: | | | | | | | | | | |
| Title I, Part A, Basic Grants: | | | | | | | | | | |
| Low-Income and Neglected | 84.010 | 14329 | \$ 249,065 | \$ 237,441 | 156,853 | \$ 65,546 | \$ 72,147 | \$ 218,811 | \$ 188,290 | \$ 1,188,153 |
| Title V, Public Charter Schools Grant Program | 84.282A | 14941 | - | - | - | 163,198 | 148,241 | - | - | 311,439 |
| Special Education - IDEA Basic Local | 84.027 | 13379 | 91,215 | 93,327 | 90,445 | 31,185 | 38,539 | 91,681 | 88,231 | 524,623 |
| <i>Subtotal</i> | | | <u>340,280</u> | <u>330,768</u> | <u>247,298</u> | <u>259,929</u> | <u>258,927</u> | <u>310,492</u> | <u>276,521</u> | <u>2,024,215</u> |
| Pass-Through Program From | | | | | | | | | | |
| Youth Policy Institute: | | | | | | | | | | |
| NCLB: Title IV, Part B, 21st Century Community | | | | | | | | | | |
| Learning Centers (CCLC) - High School | | | | | | | | | | |
| ASSETS | 84.287 | 14535 | - | 248,400 | - | - | - | - | - | 248,400 |
| <i>Total U.S Department of Education</i> | | | <u>340,280</u> | <u>579,168</u> | <u>247,298</u> | <u>259,929</u> | <u>258,927</u> | <u>310,492</u> | <u>276,521</u> | <u>2,272,615</u> |
| Total Federal Expenditures | | | <u>\$ 340,280</u> | <u>\$ 579,168</u> | <u>\$ 247,298</u> | <u>\$ 259,929</u> | <u>\$ 258,927</u> | <u>\$ 310,492</u> | <u>\$ 276,521</u> | <u>\$ 2,272,615</u> |

N/A - Pass-through entity number not readily available or not applicable.

**BRIGHT STAR SCHOOLS
NOTES TO SUPPLEMENTARY INFORMATION
JUNE 30, 2018**

PURPOSE OF SCHEDULES

NOTE 1 SCHEDULE OF INSTRUCTIONAL TIME

This schedule presents information on the amount of instructional time offered by the School and whether the School complied with the provisions of California Education Code.

NOTE 2 SCHEDULE OF AVERAGE DAILY ATTENDANCE

Average daily attendance is a measurement of the number of pupils attending classes of the School. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of state funds are made to charter schools. This schedule provides information regarding the attendance of students at various grade levels.

NOTE 3 RECONCILIATION OF ANNUAL FINANCIAL REPORT WITH AUDITED FINANCIAL STATEMENTS

This schedule provides the information necessary to reconcile the net assets of the charter schools as reported on the Annual Financial Report form to the audited financial statements.

NOTE 4 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the School under programs of the federal governmental for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of the Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 5 INDIRECT COST RATE

The School has elected to use a rate other than the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.



**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 Star Schools
Los Angeles, California

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 Star Schools (the School), a nonprofit California public benefit corporation, which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, cash flows, and functional expenses for the year then ended, the related notes to the financial statements, and have issued our report thereon dated January 21, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School'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 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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs (see Finding 2018-001), we identified certain deficiencies in internal control that we consider to be a material weakness.

Compliance and Other Matters

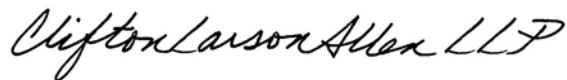
As part of obtaining reasonable assurance about whether the School’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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*.

The School’s Response to Findings

The School’s response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The School’s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 entity’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 entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Glendora, California
January 21, 2019



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM, AND REPORT ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDE**

Board of Directors
Bright Star Schools
Los Angeles, California

Report on Compliance for Each Major Federal Program

We have audited the compliance of Bright Star Schools (the School) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018. The School's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and terms and conditions of federal awards applicable to its federal program.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the School's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School'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 the School's compliance.

Opinion on Each Major Federal Program

In our opinion, the School 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 June 30, 2018.

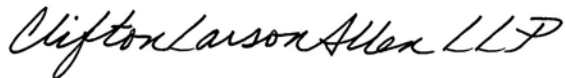
Report on Internal Control Over Compliance

Management of the School 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 the School'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 the Uniform Guidance, 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 the School'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, 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



CliftonLarsonAllen LLP

Glendora, California
January 21, 2019

INDEPENDENT AUDITORS’ REPORT ON STATE COMPLIANCE

Board of Directors
 Bright Star Schools
 Los Angeles, California

We have audited Bright Star Schools’s (the School) compliance with the types of compliance requirements described in the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel for the year ended June 30, 2018. The School’s state compliance requirements are identified in the table below.

Management’s Responsibility

Management is responsible for the compliance with the state laws and regulations as identified below.

Auditors’ Responsibility

Our responsibility is to express an opinion on the School’s compliance based on our audit of the types of compliance requirements referred to below. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the specific areas listed below has occurred. An audit includes examining, on a test basis, evidence about the School’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 state compliance. Our audit does not provide a legal determination of the School’s compliance.

Compliance Requirements Tested

In connection with the audit referred to above, we selected and tested transactions and records to determine the School’s compliance with the laws and regulations applicable to the following items:

| <u>Description</u> | <u>Procedures Performed</u> |
|---|-----------------------------|
| School Districts, County Offices of Education, and Charter Schools: | |
| Educator Effectiveness | Yes |
| California Clean Energy Jobs Act | Yes |
| Before/After School Education and Safety Program | Yes |
| Proper Expenditure of Education Protection Account Funds | Yes |


| <u>Description</u> | <u>Procedures Performed</u> |
|---|-----------------------------|
| Unduplicated Local Control Funding Formula Pupil Counts | Yes |
| Local Control and Accountability Plan | Yes |
| Independent Study-Course Based | Not applicable |
| Charter Schools: | |
| Attendance | Yes |
| Mode of Instruction | Yes |
| Nonclassroom-based instructional/independent study | Not applicable |
| Determination of funding for nonclassroom-based instruction | Not applicable |
| Annual instructional minutes – classroom based | Yes |
| Charter School Facility Grant Program | Yes |

Opinion on State Compliance

In our opinion, the School complied with the laws and regulations of the state programs referred to above in all material respects for the year ended June 30, 2018.

Purpose of this Report

The purpose of this report on state compliance is solely to describe the results of testing based on the requirements of the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel. Accordingly, this report is not suitable for any other purpose.



CliftonLarsonAllen LLP

Glendora, California
January 21, 2019

**BRIGHT STAR SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018**

Section I – Summary of Auditors’ Results

Financial Statements

1. Type of auditors’ report issued: Unmodified
2. Internal control over financial reporting:
- Material weakness(es) identified? x yes no
 - Significant deficiency(ies) identified? yes x none reported
3. Noncompliance material to financial statements noted? yes x no

Federal Awards

1. Internal control over major federal programs:
- Material weakness(es) identified? yes x no
 - Significant deficiency(ies) identified? yes x none reported
2. Type of auditors’ report issued on compliance for major federal programs: Unmodified
3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? yes x no

Identification of Major Federal Programs

| CFDA Number(s) | Name of Federal Program or Cluster |
|--|---|
| 84.010 | Title I |
| Dollar threshold used to distinguish between Type A and Type B programs: | \$ <u>750,000</u> |
| Auditee qualified as low-risk auditee? | <u> x </u> yes <u> </u> no |

**BRIGHT STAR SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2018**

All audit findings must be identified as one or more of the following categories:

| <u>Five Digit Code</u> | <u>Finding Types</u> |
|------------------------|-----------------------------------|
| 10000 | Attendance |
| 20000 | Inventory of Equipment |
| 30000 | Internal Control |
| 40000 | State Compliance |
| 42000 | Charter School Facilities Program |
| 50000 | Federal Compliance |
| 60000 | Miscellaneous |
| 61000 | Classroom Teacher Salaries |
| 62000 | Local Control Accountability Plan |
| 70000 | Instructional Materials |
| 71000 | Teacher Misassignments |
| 72000 | School Accountability Report Card |

Section II – Financial Statement Findings

Finding 2018-001 – Internal Control Relating to Closing Process **30000**

Criteria: Internal control processes should be followed throughout the year to ensure accurate financial information in accordance with Generally Accepted Accounting Principles.

Condition: Throughout the audit process, extensive revisions to the trial balance were made by management to correct balances and transactions after the audit process began. The number of journal entries required indicates that internal control processes were not operating effectively throughout the fiscal year and that the closing process was not completed in a timely manner.

Effect: Potential errors in reporting account balances and risk that material errors may not be prevented or detected and corrected on a timely basis.

Cause: Month-end closing procedures were not sufficient to ensure correct balances at the time of the audit.

Questioned Costs and Units: None.

Recommendation: We recommend the School review its current internal control procedures related to month-end closings and to ensure it has adequate capacity to perform all functions of its internal control processes.

BRIGHT STAR SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2018

Corrective Action Plan: Management will ensure that the accounting office will have the adequate staffing and capacity to perform the month-end closing procedures. In response to these findings, accounting department has revised the month end closing procedures to ensure all major accounts that were previously reconciled on a quarterly and annual basis will now be reconciled on a monthly basis. Further, management will no longer hold off posting certain complex one-time journal entries to be booked during the audit for the purpose of getting audit guidance. Management will take action to seek and obtain any additional accounting expertise needed for these journal entries at the time of the transaction and well before the audit.

Section III – Findings and Questioned Costs – Major Federal Programs

Our audit did not disclose any matters required to be reported in accordance with 2 CFR 200.516(a).

Section IV – State Compliance Findings

Our audit did not disclose any matters required to be reported in accordance with the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*.

**BRIGHT STAR SCHOOLS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2018**

There were no findings and questioned costs related to the basic financial statements in the prior year.

The findings from the prior audit's schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the prior year.

FINDINGS—STATE COMPLIANCE

2017-001 Teaching Credential

10000

Criteria: Education Code Section 47605(1) states that all teachers who are either providing classroom instruction, or who are authorized to provide classroom instruction, must possess a valid teaching credential issued from the California Commission on Teaching Credential (CCTC).

Condition: It was noted during testing that a teacher did not have a valid credential for the period under review. The credential held by the teacher expired on March 1, 2017 and another credential was not issued until May 22, 2017.

Effect: A teacher who provided classroom instruction was not properly credentialed.

Cause: Delays in filing forms necessary for the credential process.

Questioned Costs and Units: None. After disallowing core instructional minutes for the teacher and period in question, the total instructional minutes dropped from 69,110 to 66,095 for grades 9-10. After reducing the instructional minutes for the non-credentialed teacher, the School is still in compliance with the minimum instructional minutes requirement.

Recommendation: It is recommended that a process for annually verifying teaching credentials for all teachers be stabled along with a method to keep track of credentials that expire during the school year so a renewal is obtained to avoid any lapse in teaching credential periods.

Corrective Action Plan: Management has worked with the Human Resources department to develop a process where credentials are reviewed upon hiring and again in each subsequent month. This allows management to take prompt corrective actions to ensure there is always a properly credentialed teacher in every classroom at all times.

Status: Implemented.