



**Independent Auditor's Report
and Financial Statements
For the Year Ended
June 30, 2016**

Operating:

**Stella Middle Charter Academy (SMCA)
Bright Star Secondary Charter Academy (BSSCA)
Rise Kohyang Middle (Rise)
Rise Kohyang High (RKH)
Valor Academy Elementary School (VES)
Valor Academy Middle School (VMS)
Valor Academy High School (VHS)**

BRIGHT STAR SCHOOLS

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Bright Star Schools
Los Angeles, CA

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, 2016, 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.

Auditor's 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Board of Directors
Bright Star Schools

Opinion

In our opinion, the financial statements referred to on page one present fairly, in all material respects, the financial position of the School as of June 30, 2016, 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.

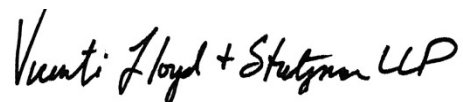
Other Matters

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 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The accompanying supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated November 30, 2016 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.



VICENTI, LLOYD & STUTZMAN LLP
Glendora, CA
November 30, 2016

BRIGHT STAR SCHOOLS

STATEMENT OF FINANCIAL POSITION June 30, 2016

	<u>SMCA</u>	<u>BSSCA</u>	<u>Rise</u>	<u>RKH</u>	<u>1st Page Total</u>
<u>ASSETS</u>					
CURRENT ASSETS:					
Cash and cash equivalents	\$ 13,933,089	\$ 381,502	\$ 672,401	\$ -	\$ 14,986,992
Investments - temporarily restricted	2	-	-	-	2
Accounts receivable - federal and state	475,868	551,185	551,200	-	1,578,253
Accounts receivable - other	-	-	143,064	-	143,064
Prepaid expenses and deposits	46,773	19,117	101,928	-	167,818
Intracompany receivable	<u>2,620,006</u>	<u>2,593,554</u>	<u>138,438</u>	<u>71,627</u>	<u>5,423,625</u>
Total current assets	<u>17,075,738</u>	<u>3,545,358</u>	<u>1,607,031</u>	<u>71,627</u>	<u>22,299,754</u>
LONG-TERM ASSETS:					
Long-term accounts receivable	-	-	-	-	-
Property, plant and equipment, net	<u>71,283</u>	<u>18,843</u>	<u>22,762</u>	<u>44,331</u>	<u>157,219</u>
Total long-term assets	<u>71,283</u>	<u>18,843</u>	<u>22,762</u>	<u>44,331</u>	<u>157,219</u>
Total assets	<u>\$ 17,147,021</u>	<u>\$ 3,564,201</u>	<u>\$ 1,629,793</u>	<u>\$ 115,958</u>	<u>\$ 22,456,973</u>
<u>LIABILITIES AND NET ASSETS</u>					
CURRENT LIABILITIES:					
Accounts payable	\$ 121,666	\$ 164,329	\$ 72,842	\$ 5,222	\$ 364,059
Payroll liabilities	-	-	-	-	-
Intracompany payable	2,015,914	2,514,988	958,963	27,402	5,517,267
Payable to BSEG	<u>178,938</u>	<u>121,444</u>	<u>89,859</u>	<u>15,000</u>	<u>405,241</u>
Total current liabilities	<u>2,316,518</u>	<u>2,800,761</u>	<u>1,121,664</u>	<u>47,624</u>	<u>6,286,567</u>
LONG-TERM LIABILITIES:					
Loans payable	<u>13,529,320</u>	-	-	-	<u>13,529,320</u>
Total long-term liabilities	<u>13,529,320</u>	-	-	-	<u>13,529,320</u>
Total liabilities	<u>15,845,838</u>	<u>2,800,761</u>	<u>1,121,664</u>	<u>47,624</u>	<u>19,815,887</u>
NET ASSETS:					
Unrestricted - undesignated	<u>1,301,183</u>	<u>763,440</u>	<u>508,129</u>	<u>68,334</u>	<u>2,641,086</u>
Total net assets	<u>1,301,183</u>	<u>763,440</u>	<u>508,129</u>	<u>68,334</u>	<u>2,641,086</u>
Total liabilities and net assets	<u>\$ 17,147,021</u>	<u>\$ 3,564,201</u>	<u>\$ 1,629,793</u>	<u>\$ 115,958</u>	<u>\$ 22,456,973</u>

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

BRIGHT STAR SCHOOLS

STATEMENT OF FINANCIAL POSITION June 30, 2016

	<u>1st Page</u> <u>Total</u>	<u>VES</u>	<u>VMS</u>	<u>VHS</u>	<u>General</u> <u>Support</u>	<u>Total</u>
<u>ASSETS</u>						
CURRENT ASSETS:						
Cash and cash equivalents	\$ 14,986,992	\$ -	\$ 483,007	\$ 483,011	\$ 7,231	\$ 15,960,241
Investments - temporarily restricted	2	-	-	-	-	2
Accounts receivable - federal and state	1,578,253	-	471,272	617,087	-	2,666,612
Accounts receivable - other	143,064	-	-	14,495	-	157,559
Prepaid expenses and deposits	167,818	20,000	150,426	150,000	-	488,244
Intracompany receivable	<u>5,423,625</u>	<u>137,008</u>	<u>1,469,510</u>	<u>550,101</u>	<u>305,092</u>	<u>7,885,336</u>
Total current assets	<u>22,299,754</u>	<u>157,008</u>	<u>2,574,215</u>	<u>1,814,694</u>	<u>312,323</u>	<u>27,157,994</u>
LONG-TERM ASSETS:						
Long-term accounts receivable	-	-	1,652,873	-	-	1,652,873
Property, plant and equipment, net	<u>157,219</u>	<u>40,419</u>	<u>197,382</u>	-	-	<u>395,020</u>
Total long-term assets	<u>157,219</u>	<u>40,419</u>	<u>1,850,255</u>	-	-	<u>2,047,893</u>
Total assets	<u>\$ 22,456,973</u>	<u>\$ 197,427</u>	<u>\$ 4,424,470</u>	<u>\$ 1,814,694</u>	<u>\$ 312,323</u>	<u>\$ 29,205,887</u>
<u>LIABILITIES AND NET ASSETS</u>						
CURRENT LIABILITIES:						
Accounts payable	\$ 364,059	\$ 56,015	\$ 96,020	\$ 52,428	\$ 60,001	\$ 628,523
Payroll liabilities	-	-	20,469	-	-	20,469
Intracompany payable	5,517,267	16,520	1,484,403	771,163	95,983	7,885,336
Payable to BSEG	<u>405,241</u>	<u>13,250</u>	<u>220,507</u>	<u>318,025</u>	-	<u>957,023</u>
Total current liabilities	<u>6,286,567</u>	<u>85,785</u>	<u>1,821,399</u>	<u>1,141,616</u>	<u>155,984</u>	<u>9,491,351</u>
LONG-TERM LIABILITIES:						
Loans payable	<u>13,529,320</u>	-	941,923	-	-	<u>14,471,243</u>
Total long-term liabilities	<u>13,529,320</u>	-	<u>941,923</u>	-	-	<u>14,471,243</u>
Total liabilities	<u>19,815,887</u>	<u>85,785</u>	<u>2,763,322</u>	<u>1,141,616</u>	<u>155,984</u>	<u>23,962,594</u>
NET ASSETS:						
Unrestricted - undesignated	<u>2,641,086</u>	<u>111,642</u>	<u>1,661,148</u>	<u>673,078</u>	<u>156,339</u>	<u>5,243,293</u>
Total net assets	<u>2,641,086</u>	<u>111,642</u>	<u>1,661,148</u>	<u>673,078</u>	<u>156,339</u>	<u>5,243,293</u>
Total liabilities and net assets	<u>\$ 22,456,973</u>	<u>\$ 197,427</u>	<u>\$ 4,424,470</u>	<u>\$ 1,814,694</u>	<u>\$ 312,323</u>	<u>\$ 29,205,887</u>

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

BRIGHT STAR SCHOOLS
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016

	<u>SMCA</u>	<u>BSSCA</u>	<u>Rise</u>	<u>RKH</u>	<u>1st Page Total</u>
OPERATING ACTIVITIES					
Revenue and grants:					
State aid	\$ 3,415,518	\$ 4,392,034	\$ 2,403,980	\$ -	\$ 10,211,532
Property taxes	980,392	1,027,864	707,386	-	2,715,642
Other state revenue	1,145,985	690,314	874,307	-	2,710,606
Federal revenue	326,378	532,512	190,835	-	1,049,725
Contributions	39,570	53,430	25,739	250,000	368,739
Other revenue	107,891	349,537	28,707	-	486,135
Total operating revenue and grants	<u>6,015,734</u>	<u>7,045,691</u>	<u>4,230,954</u>	<u>250,000</u>	<u>17,542,379</u>
Expenses:					
Programs services	4,930,497	5,929,532	3,487,392	180,692	14,528,113
Management and general	925,347	1,007,962	616,091	974	2,550,374
Total operating expenses	<u>5,855,844</u>	<u>6,937,494</u>	<u>4,103,483</u>	<u>181,666</u>	<u>17,078,487</u>
Change in net assets from operating activities	<u>159,890</u>	<u>108,197</u>	<u>127,471</u>	<u>68,334</u>	<u>463,892</u>
TEMPORARILY RESTRICTED NET ASSETS					
Net assets released from restriction	<u>(6,764,660)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(6,764,660)</u>
Change in temporarily restricted net assets	<u>(6,764,660)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(6,764,660)</u>
NON-OPERATING ACTIVITIES					
Non-operating revenue:					
Net assets released from restriction	<u>6,764,660</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,764,660</u>
Total non-operating revenue	<u>6,764,660</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,764,660</u>
Non-operating expenses:					
Write-off of Prop 1D	6,764,660	-	-	-	6,764,660
Facility expenses	52	-	-	-	52
Total non-operating expenses	<u>6,764,712</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,764,712</u>
Change in net assets from non-operating activities	<u>(52)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(52)</u>
Total change in net assets	<u>(6,604,822)</u>	<u>108,197</u>	<u>127,471</u>	<u>68,334</u>	<u>(6,300,820)</u>
Beginning total net assets	<u>7,906,005</u>	<u>655,243</u>	<u>380,658</u>	<u>-</u>	<u>8,941,906</u>
Ending total net assets	<u>\$ 1,301,183</u>	<u>\$ 763,440</u>	<u>\$ 508,129</u>	<u>\$ 68,334</u>	<u>\$ 2,641,086</u>

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

BRIGHT STAR SCHOOLS
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016

	<u>1st Page</u> <u>Total</u>	<u>VES</u>	<u>VMS</u>	<u>VHS</u>	<u>General</u> <u>Support</u>	<u>Total</u>
OPERATING ACTIVITIES						
Revenue and grants:						
State aid	\$ 10,211,532	\$ -	\$ 3,110,435	\$ 2,759,592	\$ -	\$ 16,081,559
Property taxes	2,715,642	-	926,142	628,910	-	4,270,694
Other state revenue	2,710,606	-	1,166,231	384,759	-	4,261,596
Federal revenue	1,049,725	-	668,789	443,949	-	2,162,463
Contributions	368,739	250,000	456,269	37,303	359	1,112,670
Other revenue	486,135	-	65,304	41,273	-	592,712
Total operating revenue and grants	<u>17,542,379</u>	<u>250,000</u>	<u>6,393,170</u>	<u>4,295,786</u>	<u>359</u>	<u>28,481,694</u>
Expenses:						
Programs services	14,528,113	135,637	4,790,228	3,487,407	-	22,941,385
Management and general	2,550,374	2,721	946,941	578,872	360	4,079,268
Total operating expenses	<u>17,078,487</u>	<u>138,358</u>	<u>5,737,169</u>	<u>4,066,279</u>	<u>360</u>	<u>27,020,653</u>
Change in net assets from operating activities	<u>463,892</u>	<u>111,642</u>	<u>656,001</u>	<u>229,507</u>	<u>(1)</u>	<u>1,461,041</u>
TEMPORARILY RESTRICTED NET ASSETS						
Net assets released from restriction	<u>(6,764,660)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(6,764,660)</u>
Change in temporarily restricted net assets	<u>(6,764,660)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(6,764,660)</u>
NON-OPERATING ACTIVITIES						
Non-operating revenue:						
Net assets released from restriction	<u>6,764,660</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,764,660</u>
Total non-operating revenue	<u>6,764,660</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,764,660</u>
Non-operating expenses:						
Write-off of Prop 1D	6,764,660	-	-	-	-	6,764,660
Facility expenses	52	-	-	-	-	52
Total non-operating expenses	<u>6,764,712</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,764,712</u>
Change in net assets from non-operating activities	<u>(52)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(52)</u>
Total change in net assets	<u>(6,300,820)</u>	<u>111,642</u>	<u>656,001</u>	<u>229,507</u>	<u>(1)</u>	<u>(5,303,671)</u>
Beginning total net assets	<u>8,941,906</u>	<u>-</u>	<u>1,005,147</u>	<u>443,571</u>	<u>156,340</u>	<u>10,546,964</u>
Ending total net assets	<u>\$ 2,641,086</u>	<u>\$ 111,642</u>	<u>\$ 1,661,148</u>	<u>\$ 673,078</u>	<u>\$ 156,339</u>	<u>\$ 5,243,293</u>

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

BRIGHT STAR SCHOOLS

STATEMENT OF CASH FLOWS For the Year Ended June 30, 2016

	SMCA	BSSCA	Rise	RKH	1st Page Total
CASH FLOWS from OPERATING ACTIVITIES:					
Change in Net Assets	\$ (6,604,822)	\$ 108,197	\$ 127,471	\$ 68,334	\$ (6,300,820)
Adjustments to reconcile change in net assets to net cash flows from operating activities:					
Depreciation	69,554	23,945	15,996	-	109,495
Write-off of Prop 1D	6,764,660	-	-	-	6,764,660
(Increase) and decrease in operating assets:					
Accounts receivable - federal and state	88,167	67,248	(99,859)	-	55,556
Accounts receivable - other	-	-	(77,493)	-	(77,493)
Prepaid expenses and deposits	(25,023)	3,312	(50,219)	-	(71,930)
Intracompany receivable	(1,349,074)	(1,446,893)	47,468	(71,627)	(2,820,126)
Increase and (decrease) in operating liabilities:					
Accounts payable	63,845	(30,349)	28,155	5,222	66,873
Payroll liabilities	(39,888)	-	-	-	(39,888)
Intracompany payable	1,101,760	1,375,416	562,276	27,402	3,066,854
Payable to BSEG	(24,412)	35,998	9,494	15,000	36,080
Net cash flows from operating activities	44,767	136,874	563,289	44,331	789,261
CASH FLOWS from INVESTING ACTIVITIES:					
Proceeds from sale of investments	13,642,997	-	-	-	13,642,997
Purchase of fixed assets	(15,495)	-	(24,254)	(44,331)	(84,080)
Net cash flows from investing activities	13,627,502	-	(24,254)	(44,331)	13,558,917
CASH FLOWS from FINANCING ACTIVITIES:					
Repayments of debt	-	-	-	-	-
Net cash flows from financing activities	-	-	-	-	-
Net increase (decrease) in cash and cash equivalents	13,672,269	136,874	539,035	-	14,348,178
Cash and cash equivalents at the beginning of the year	260,820	244,628	133,366	-	638,814
Cash and cash equivalents at the end of the year	\$ 13,933,089	\$ 381,502	\$ 672,401	\$ -	\$ 14,986,992
Supplemental cash flow disclosure:					
Interest paid during the fiscal year	\$ 351	\$ 367	\$ 260	\$ -	\$ 978

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

BRIGHT STAR SCHOOLS

**STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2016**

	<u>1st Page</u>				<u>General</u>	
	<u>Total</u>	<u>VES</u>	<u>VMS</u>	<u>VHS</u>	<u>Support</u>	<u>Total</u>
CASH FLOWS from OPERATING ACTIVITIES:						
Change in Net Assets	\$ (6,300,820)	\$ 111,642	\$ 656,001	\$ 229,507	\$ (1)	\$ (5,303,671)
Adjustments to reconcile change in net assets to net cash flows from operating activities:						
Depreciation	109,495	-	23,495	-	-	132,990
Write-off of Prop 1D	6,764,660	-	-	-	-	6,764,660
(Increase) and decrease in operating assets:						
Accounts receivable - federal and state	55,556	-	162,971	(260,554)	-	(42,027)
Accounts receivable - other	(77,493)	-	-	(14,495)	-	(91,988)
Prepaid expenses and deposits	(71,930)	(20,000)	(90,606)	(150,000)	-	(332,536)
Intracompany receivable	(2,820,126)	(137,008)	(861,869)	(154,946)	(305,092)	(4,279,041)
Increase and (decrease) in operating liabilities:						
Accounts payable	66,873	56,015	19,718	50,676	60,001	253,283
Payroll liabilities	(39,888)	-	-	-	-	(39,888)
Intracompany payable	3,066,854	16,520	792,145	455,032	(51,510)	4,279,041
Payable to BSEG	36,080	13,250	(202,200)	176,553	-	23,683
Net cash flows from operating activities	<u>789,261</u>	<u>40,419</u>	<u>499,655</u>	<u>331,773</u>	<u>(296,602)</u>	<u>1,364,506</u>
CASH FLOWS from INVESTING ACTIVITIES:						
Proceeds from sale of investments	13,642,997	-	-	-	-	13,642,997
Purchase of fixed assets	(84,080)	(40,419)	(197,382)	-	-	(321,881)
Net cash flows from investing activities	<u>13,558,917</u>	<u>(40,419)</u>	<u>(197,382)</u>	<u>-</u>	<u>-</u>	<u>13,321,116</u>
CASH FLOWS from FINANCING ACTIVITIES:						
Repayments of debt	-	-	(58,077)	-	-	(58,077)
Net cash flows from financing activities	<u>-</u>	<u>-</u>	<u>(58,077)</u>	<u>-</u>	<u>-</u>	<u>(58,077)</u>
Net increase (decrease) in cash and cash equivalents	14,348,178	-	244,196	331,773	(296,602)	14,627,545
Cash and cash equivalents at the beginning of the year	638,814	-	238,811	151,238	303,833	1,332,696
Cash and cash equivalents at the end of the year	<u>\$ 14,986,992</u>	<u>\$ -</u>	<u>\$ 483,007</u>	<u>\$ 483,011</u>	<u>\$ 7,231</u>	<u>\$ 15,960,241</u>
Supplemental cash flow disclosure:						
Interest paid during the fiscal year	<u>\$ 978</u>	<u>\$ -</u>	<u>\$ 321</u>	<u>\$ 229</u>	<u>\$ -</u>	<u>\$ 1,528</u>

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

BRIGHT STAR SCHOOLS

STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2016

	Program Services	Management and General	Total
Salaries and wages	\$ 11,564,510	\$ 898,384	\$ 12,462,894
Pension expense	943,467	65,071	1,008,538
Other employee benefits	1,138,737	78,540	1,217,277
Payroll taxes	349,245	24,091	373,336
Management fees	204,420	2,739,979	2,944,399
Legal expenses	-	91,362	91,362
Instructional materials	1,684,681	-	1,684,681
Other fees for services	1,789,480	-	1,789,480
Advertising and promotion	18,792	-	18,792
Office expenses	332,505	39,593	372,098
Printing and postage	158,144	-	158,144
Information technology	780,794	-	780,794
Occupancy	1,454,391	-	1,454,391
Travel expenses	156,858	-	156,858
Interest	-	1,528	1,528
Depreciation	132,990	-	132,990
Insurance	-	140,720	140,720
Direct student services	2,133,599	-	2,133,599
Other expenses	98,772	-	98,772
Total	<u>\$ 22,941,385</u>	<u>\$ 4,079,268</u>	<u>\$ 27,020,653</u>

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

BRIGHT STAR SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS For the Year Ended June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities – Bright Star Schools (the School) is a California non-profit 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 (Rise)
- Rise Kohyang High School (RKH)
- Valor Academy Elementary School (VES)
- Valor Academy Middle School (VMS)
- Valor Academy High School (VHS)
- 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 THE FINANCIAL STATEMENTS For the Year Ended June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 School does not currently have any temporarily restricted net assets.
- 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, 2016. 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 non-cash 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.

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.

BRIGHT STAR SCHOOLS

**NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 non-profit 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. The statute of limitations for federal and California state purposes is generally three and four years, respectively.

Allocations Between Charter Schools – For the year ended June 30, 2016, 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 November 30, 2016, 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.

BRIGHT STAR SCHOOLS

**NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

NOTE 3: INVESTMENTS AND FAIR VALUE MEASUREMENTS

Investments are stated at fair value and are measured on a recurring basis. Levels 1 through 3 have been assigned to the fair value measurement of investments. The fair value level of measurement is determined as follows:

Level 1 - Quoted prices in an active market for identical assets.

Level 2 - Quoted prices for similar assets and market-corroborated inputs.

Level 3 - The School's own assumptions about market participation, including assumptions about risk, developed based on the best information available in the circumstances.

Fair values of investments as of June 30, 2016 were as follows:

Fixed income (Level 1)	\$ <u>2</u>
------------------------	-------------

Returns on investments have been designated for BSEG as part of a re-structuring agreement between Bright Star Schools and BSEG.

NOTE 4: 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 \$132,990 for the year ended June 30, 2016.

The components of property, plant and equipment as of June 30, 2016 are as follows:

Equipment	\$ 603,671
Less: accumulated depreciation	<u>(208,651)</u>
Property, plant and equipment, net	<u>\$ 395,020</u>

NOTE 5: 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.

BRIGHT STAR SCHOOLS

**NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

NOTE 5: LONG-TERM LIABILITIES

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, 2016, 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 will repay the total Prop 1D funding received of \$13,529,320. This amount is due when requested by the state; as of June 30, 2016 a repayment plan has not been established.

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 VMS. The note bears an interest rate of 1.2% and matures on November 1, 2020. The note includes a \$1,612,873 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, 2016 was \$941,923.

NOTE 6: LINE OF CREDIT

In November 2012, the School obtained an unsecured line of credit of \$1 million from City National Bank (CNB). The line of credit bears a variable interest rate equal to CNB's prime rate plus 2.50%. As of June 30, 2016 the School had no outstanding balance.

NOTE 7: COMMITMENT

BSSCA entered into a lease agreement with Los Angeles Unified School District (LAUSD) for the property located at 5431 W. 98th Street, Los Angeles, California. The agreement commenced in August 2009 and carries a term that coincides with BSSCA's charter. The agreement does not require BSSCA to pay a lease amount for the use of the property, but instead BSSCA pays a Pro Rata Share Charge for the maintenance of the facility and other services. This Pro Rata Share Charge is negotiated annually and therefore cannot be estimated for future years.

VHS entered into a single year co-location agreement with Los Angeles Unified School District for the property located at 8015 Van Nuys Blvd., Los Angeles, California. The agreement does not require VHS to pay a lease amount for the use of the property, but instead VHS pays a Pro Rata Share Charge for the maintenance of the facility and other services. For fiscal year 2016-17 the Pro Rata Share estimated is \$143,088.

BRIGHT STAR SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS For the Year Ended June 30, 2016

NOTE 8: EMPLOYEE RETIREMENT

Multi-employer Defined Benefit Pension Plans

Qualified employees are covered under multi-employer defined benefit pension plans maintained by agencies of the State of California.

The risks of participating in these multi-employer defined benefit pension plans are different from single-employer plans because: (a) assets contributed to the multi-employer 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 (c) if the School chooses to stop participating in the multi-employer plan, it may be required to pay a withdrawal liability to the plan. The School has no plans to withdraw from this multi-employer plan.

State Teachers' Retirement System (STRS)

Plan Description

The School contributes to the State Teachers' Retirement System (STRS), a cost-sharing multi-employer public employee retirement system defined benefit pension plan administered by STRS. Plan information for STRS is not publicly available. 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, 2015, total STRS net assets are \$181 billion, the total actuarial present value of accumulated plan benefits is \$242 billion, contributions from all employers totaled \$2.55 billion, and the plan is 68.5% funded. The School did not contribute more than 5% of the total contributions to the plan.

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

Funding Policy

Active plan members hired before December 31, 2012 are required to contribute 9.20% of their salary and those hired after are required to contribute 8.56% 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 2020–21. The required employer contribution rate for year ended June 30, 2016 was 10.73% of annual payroll. The contribution requirements of the plan members are established and may be amended by State statute.

BRIGHT STAR SCHOOLS

**NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

NOTE 8: EMPLOYEE RETIREMENT

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

Year Ended June 30,	Required Contribution	Percent Contributed
2014	\$ 502,037	100%
2015	\$ 704,265	100%
2016	\$ 1,008,538	100%

NOTE 9: OPERATING LEASES

On July 1, 2008, SMCA entered into a lease for the property located at 2636 S. Mansfield Avenue, Los Angeles, California. The lease term commenced on August 1, 2008 and ends July 31, 2013. SMCA extended the lease and the new agreement commenced on August 1, 2013 and ends July 31, 2018. Rent expense for the year ended June 30, 2016 was \$155,500.

In May 2014, Rise 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, 2016 was \$496,248.

In August 2014, the School entered into a lease agreement for property in Los Angeles, California to be used by VMS. The lease commenced on July 1, 2015 and ends June 30, 2025. Rent expense for the year ended June 30, 2016 was \$451,459.

Future minimum lease payments are as follows:

Year Ended June 30,	SMCA	Rise	VMS	Total
2017	\$ 149,500	\$ 554,376	\$ 546,996	\$ 1,250,872
2018	155,500	572,256	546,996	1,274,752
2019	13,000	333,816	546,996	893,812
2020	-	-	546,996	546,996
2021	-	-	546,996	546,996
Thereafter	-	-	2,910,996	2,910,996
Total	\$ 318,000	\$ 1,460,448	\$ 5,645,976	\$ 7,424,424

BRIGHT STAR SCHOOLS

**NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

NOTE 10: RELATED PARTY TRANSACTIONS

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, 2016, the School paid \$2,739,979 of management fees and \$17 of other fees to BSEG. The School has a related party liability as of June 30, 2016 of \$957,023 related to expenses paid by BSEG for the School.

NOTE 11: 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.

NOTE 12: SUBSEQUENT EVENTS

Rise Kohyang High School and Valor Academy Elementary School opened in August 2016.

SUPPLEMENTARY INFORMATION

BRIGHT STAR SCHOOLS

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE For the Year Ended June 30, 2016

Bright Star Schools is a non-profit 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 (Rise) charter number 1315 – established in 2012
- Rise Kohyang High School (RKH) charter number 1786 - established in 2016
- Valor Academy Elementary School (VES) charter number 1787 - established in 2016
- Valor Academy Middle School (VMS) charter number 1095 – established in 2009
- Valor Academy High School (VHS) charter number 1539 – established in 2013

The Board of Directors and the Administrators as of the year ended June 30, 2016 were as follows:

BOARD OF DIRECTORS

<u>Member</u>	<u>Office</u>	<u>Term Expires/Term Length</u>
Larry Klein	Board Chairman	2016 (3 years)
James McGrath	Secretary	2017 (3 years)
Stephen Green	Member	2018 (3 years)
Elizabeth Yeo	Member	2019 (3 years)
Joyce Richards	Member	2018 (3 years)
Lois Levy	Member	2016 (1 year)
Esther Perez	Member	2018 (3 years)
Greg Gonzalez	Member	2018 (3 years)
George Leftwich	Member	2019 (3 years)
Kimako Desvignes	Member	2019 (3 years)
Andrew Murr	Member	2017 (1 year)
Julie Robles	Member	2019 (3 years)
Andrew Wang	Member	2018 (3 years)
Monica Briseño	Member	2017 (1 year)
Carrie Wagner	Member	2017 (1 year)
John Miller	Member	2017 (1 year)

ADMINISTRATORS

Hrag Hamalian	Executive Director
Melissa Kaplan	Head of City Schools
Hrag Hamalian	Head of Valley Schools

BRIGHT STAR SCHOOLS

**SCHEDULE OF INSTRUCTIONAL TIME
For the Year Ended June 30, 2016**

	<u>2015-16 Minutes</u>			
	<u>Requirement</u>	<u>Actual</u>	<u>Days</u>	<u>Status</u>
SMCA:				
Grade 5	54,000	69,098	179	In compliance
Grade 6	54,000	69,098	179	In compliance
Grade 7	54,000	62,452	179	In compliance
Grade 8	54,000	62,452	179	In compliance
BSSCA:				
Grade 9	64,800	71,920	179	In compliance
Grade 10	64,800	71,920	179	In compliance
Grade 11	64,800	71,920	179	In compliance
Grade 12	64,800	71,920	179	In compliance
Rise:				
Grade 6	54,000	70,170	179	In compliance
Grade 7	54,000	70,170	179	In compliance
VMS:				
Grade 5	54,000	73,328	179	In compliance
Grade 6	54,000	73,328	179	In compliance
Grade 7	54,000	74,943	179	In compliance
Grade 8	54,000	74,943	179	In compliance
VHS:				
Grade 9	64,800	68,262	179	In compliance
Grade 10	64,800	68,262	179	In compliance

See independent auditor's report and the notes to the supplementary information.

BRIGHT STAR SCHOOLS

**SCHEDULE OF AVERAGE DAILY ATTENDANCE
For the Year Ended June 30, 2016**

	<u>Second Period Report</u>		<u>Annual Report</u>	
	<u>Classroom Based</u>	<u>Total</u>	<u>Classroom Based</u>	<u>Total</u>
SMCA:				
Grades 5 through 6	239.80	239.80	238.58	238.58
Grades 7 through 8	<u>257.99</u>	<u>257.99</u>	<u>255.81</u>	<u>255.81</u>
Subtotal	<u>497.79</u>	<u>497.79</u>	<u>494.39</u>	<u>494.39</u>
BSSCA:				
Grades 9 through 12	<u>522.60</u>	<u>522.60</u>	<u>506.87</u>	<u>506.87</u>
Subtotal	<u>522.60</u>	<u>522.60</u>	<u>506.87</u>	<u>506.87</u>
Rise:				
Grade 6	122.72	122.72	121.91	121.91
Grade 7	<u>237.85</u>	<u>237.85</u>	<u>237.18</u>	<u>237.18</u>
Subtotal	<u>360.57</u>	<u>360.57</u>	<u>359.09</u>	<u>359.09</u>
VMS:				
Grades 5 through 6	241.38	241.38	240.50	240.50
Grades 7 through 8	<u>229.53</u>	<u>229.53</u>	<u>228.53</u>	<u>228.53</u>
Subtotal	<u>470.91</u>	<u>470.91</u>	<u>469.03</u>	<u>469.03</u>
VHS:				
Grades 9 through 10	<u>321.88</u>	<u>321.88</u>	<u>318.17</u>	<u>318.17</u>
Subtotal	<u>321.88</u>	<u>321.88</u>	<u>318.17</u>	<u>318.17</u>
ADA Totals	<u>2,173.75</u>	<u>2,173.75</u>	<u>2,147.55</u>	<u>2,147.55</u>

See independent auditor's report and the notes to the supplementary information.

BRIGHT STAR SCHOOLS

**RECONCILIATION OF ANNUAL FINANCIAL REPORT
WITH AUDITED FINANCIAL STATEMENTS**

For the Year Ended June 30, 2016

	<u>SMCA</u>	<u>BSSCA</u>	<u>Rise</u>	<u>VMS</u>	<u>VHS</u>	<u>Total</u>
June 30, 2016 Annual Financial Report						
Fund Balances (Net Assets)	\$ 1,272,573	\$ 825,707	\$ 276,617	\$ 1,592,331	\$ 513,032	\$ 4,480,260
Adjustments and Reclassifications:						
Increasing (Decreasing) the Fund Balance (Net Assets):						
Cash and cash equivalents	13,530,261	-	-	-	-	13,530,261
Investments - temporarily restricted	(13,530,258)	-	-	-	-	(13,530,258)
Accounts receivable	(46,564)	(43,512)	287,974	1,397,050	272,609	1,867,557
Prepaid expenses and desoposits	(531,156)	(92,229)	101,928	(1,696,030)	(14,495)	(2,231,982)
Intracompany receivable	2,620,006	2,593,554	138,438	1,469,510	550,101	7,371,609
Property, plant and equipment, net	2,235	(5,060)	16,169	197,382	-	210,726
Accounts payable	(2,194,852)	(2,515,020)	(958,963)	(1,484,441)	(771,163)	(7,924,439)
Deferred revenue	13,708,258	-	-	-	-	13,708,258
Loans payable	<u>(13,529,320)</u>	<u>-</u>	<u>645,966</u>	<u>185,346</u>	<u>122,994</u>	<u>(12,575,014)</u>
Net Adjustments and Reclassifications	<u>28,610</u>	<u>(62,267)</u>	<u>231,512</u>	<u>68,817</u>	<u>160,046</u>	<u>426,718</u>
June 30, 2016 Audited Financial Statement						
Fund Balances (Net Assets)	<u>\$ 1,301,183</u>	<u>\$ 763,440</u>	<u>\$ 508,129</u>	<u>\$ 1,661,148</u>	<u>\$ 673,078</u>	<u>\$ 4,906,978</u>

See independent auditor's report and the notes to the supplementary information.

BRIGHT STAR SCHOOLS

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2016**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass Through Entity Identifying Number	SMCA	BSSCA	Rise	VMS	VHS	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	\$ 234,218	\$ 188,607	\$ 123,829	\$ 172,115	\$ 127,214	\$ 845,983
Special Ed: IDEA Basic Local Assistance								
Entitlement, Part B, Sec 611 (formerly PL 94-142)	84.027	13379	92,160	95,505	67,006	87,964	59,679	402,314
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>326,378</u>	<u>532,512</u>	<u>190,835</u>	<u>260,079</u>	<u>186,893</u>	<u>1,496,697</u>
U.S. Department of Agriculture:								
Pass Through Program From								
California Department of Education:								
Child Nutrition Cluster:								
Especially Needy Breakfast Program	10.553	13526	-	-	-	147,159	92,997	240,156
National School Lunch Program	10.555	23165	-	-	-	232,806	142,227	375,033
Meal Supplements	10.557	N/A	-	-	-	28,745	21,832	50,577
<i>Total U.S. Department of Agriculture</i>			<u>-</u>	<u>-</u>	<u>-</u>	<u>408,710</u>	<u>257,056</u>	<u>665,766</u>
Total Expenditures of Federal Awards			<u>\$ 326,378</u>	<u>\$ 532,512</u>	<u>\$ 190,835</u>	<u>\$ 668,789</u>	<u>\$ 443,949</u>	<u>\$ 2,162,463</u>

See independent auditor's report and the notes to the supplementary information.

BRIGHT STAR SCHOOLS

**NOTES TO THE SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2016**

NOTE 1: PURPOSE OF SCHEDULES

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 the Educational Code.

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.

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.

Schedule of Expenditures of Federal Awards

The accompanying schedule of expenditures of federal awards (the Schedule) is presented on the accrual basis of accounting and includes the federal award activity of the School under programs of the federal government for the year ended June 30, 2016. 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). Because the Schedule presents only a selected portion of operations of the School, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the School.

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 AUDITOR'S 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, CA

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, 2016, 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 November 30, 2016.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

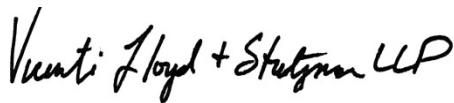
**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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 non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.



VICENTI, LLOYD & STUTZMAN LLP
Glendora, CA
November 30, 2016



Vicenti, Lloyd & Stutzman, CPAs

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR FEDERAL PROGRAM; AND REPORT ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED
BY THE UNIFORM GUIDANCE**

Board of Directors
Bright Star Schools
Los Angeles, CA

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, 2016. The School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's 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, 2016.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED
BY THE UNIFORM GUIDANCE**

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.

Purpose of this Report

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.


VICENTI, LLOYD & STUTZMAN LLP
Glendora, CA
November 30, 2016

INDEPENDENT AUDITOR’S REPORT ON STATE COMPLIANCE

Board of Directors
Bright Star Schools
Los Angeles, CA

We have audited Bright Star Schools’s (the School) compliance with the types of compliance requirements described in the *2015-2016 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, 2016. 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.

Auditor’s 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 *2015-2016 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	Not applicable
After School Education and Safety Program	Yes
Proper Expenditure of Education Protection Account Funds	Yes

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

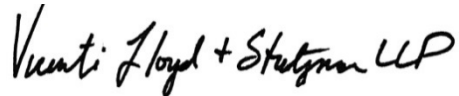
<u>Description</u>	<u>Procedures Performed</u>
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study-Course Based	Not applicable
Immunizations	Yes
Charter Schools:	
Attendance	Yes
Mode of Instruction	Yes
Nonclassroom-based instructional/independent 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, 2016.

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 *2015-2016 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.



VICENTI, LLOYD & STUTZMAN LLP
Glendora, CA
November 30, 2016

BRIGHT STAR SCHOOLS

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2016**

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? Yes X No
Significant deficiency(ies) identified? Yes X None Reported

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major federal awards:

Material weakness(es) identified? Yes X No
Significant deficiency(ies) identified? Yes X None Reported

Type of auditor’s report issued on compliance for major federal programs: Unmodified

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:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I, Part A – Low Income and Neglected

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? X Yes No

BRIGHT STAR SCHOOLS

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2016**

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

There were no findings and questioned costs related to the basic financial statements, federal awards or state awards for June 30, 2016.

BRIGHT STAR SCHOOLS

**STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2016**

There were no findings and questioned costs related to the basic financial statements, federal awards or state awards for the prior year.