



Financial Statements
June 30, 2022

Bright Star Schools

Stella Elementary Charter Academy (SECA)
(Charter Number 1866)

Stella Middle Charter Academy (SMCA)
(Charter Number 0535)

Bright Star Secondary Charter Academy (BSSCA)
(Charter Number 0826)

Rise Kohyang Elementary School (RKES)
(Charter Number 1927)

Rise Kohyang Middle School (RKMS)
(Charter Number 1315)

Rise Kohyang High School (RKHS)
(Charter Number 1786)

Valor Academy Elementary School (VAES)
(Charter Number 1787)

Valor Academy Middle School (VAMS)
(Charter Number 1095)

Valor Academy High School (VAHS)
(Charter Number 1539)

Independent Auditor’s Report	1
Financial Statements	
Statement of Financial Position	4
Statement of Activities	5
Statement of Functional Expenses	6
Statement of Cash Flows	7
Notes to Financial Statements	8
Supplementary Information	
Schedules of Expenditures of Federal Awards	19
Local Education Agency Organization Structure	20
Schedule of Average Daily Attendance	21
Schedule of Instructional Time	24
Reconciliation of Annual Financial Report with Audited Financial Statements	27
Combining Statement of Financial Position	28
Combining Statement of Activities	31
Combining Statement of Functional Expenses	34
Notes to Supplementary Information	39
Independent Auditor’s Reports	
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 <i>Government Auditing Standards</i>	41
Independent Auditor’s Report on Compliance for the Major Program and on Internal Control over Compliance Required by the Uniform Guidance	43
Independent Auditor’s Report on State Compliance	46
Schedule of Findings and Questioned Costs	
Summary of Auditor’s Results	50
Financial Statement Findings	51
Federal Awards Findings and Questioned Costs	53
State Compliance Findings and Questioned Costs	54
Summary Schedule of Prior Audit Findings	55



Independent Auditor's Report

Governing Board
Bright Star Schools
(California Nonprofit Public Benefit Corporations)
Los Angeles, California

Report on the Financial Statements

Opinion

We have audited the financial statements of Bright Star Schools (BSS) (a California Nonprofit Public Benefit Corporation), which comprise the statement of financial position as of June 30, 2022, and the related statement of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of BSS as of June 30, 2022, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of BSS and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Correction of Error

As discussed in Note 11 to the financial statements, certain errors resulting in an understatement of amounts previously reported for property and equipment and refundable advances as of June 30, 2021, were discovered during the current year. Accordingly, a restatement has been made to net assets as of July 1, 2021, to correct the error. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about BSS' ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 BSS' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about BSS' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information such as the Schedule of Expenditures of Federal Awards, as required by Title 2 *U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and other supplementary information as listed on pages 19-38 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards and other supplementary information as listed in the table of contents is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2022 on our consideration of BSS' 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 of BSS' 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 BSS' internal control over financial reporting and compliance.



Rancho Cucamonga, California
December 15, 2022

Bright Star Schools
Statement of Financial Position
June 30, 2022

Assets		
Current assets		
Cash		\$ 17,134,136
Restricted cash		26,971,711
Receivables		11,495,553
Due from BSEG		2,495,548
Prepaid expenses		<u>990,285</u>
Total current assets		<u>59,087,233</u>
Non-current assets		
Security deposit		169,744
Property and equipment, net		<u>51,082,653</u>
Total non-current assets		<u>51,252,397</u>
Total assets		<u>\$ 110,339,630</u>
Liabilities		
Current liabilities		
Accounts payable		\$ 4,296,400
Refundable advance		80,558,661
Due to BSEG		165,302
Deferred rent asset		<u>(752,174)</u>
Total current liabilities		<u>84,268,189</u>
Net Assets		
Without donor restrictions		<u>26,071,441</u>
Total liabilities and net assets		<u>\$ 110,339,630</u>

Bright Star Schools
Statement of Activities
June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenues			
Local Control Funding Formula	\$ 42,723,331	\$ -	\$ 42,723,331
Federal revenue	9,733,326	-	9,733,326
Other state revenue	10,554,397	-	10,554,397
PPP loan forgiveness revenue	5,846,300	-	5,846,300
Local revenues			
Other revenues	1,662,117	-	1,662,117
Contributions	116,586	-	116,586
Net assets released from restrictions	112,890	(112,890)	-
Total support and revenues	<u>70,748,947</u>	<u>(112,890)</u>	<u>70,636,057</u>
Expenses			
Program services	56,392,632	-	56,392,632
Management and general	5,393,228	-	5,393,228
Total expenses	<u>61,785,860</u>	<u>-</u>	<u>61,785,860</u>
Change In Net Assets Before Non-Operating Activity	<u>8,963,087</u>	<u>(112,890)</u>	<u>8,850,197</u>
Non-Operating Activities			
Non-Operating Expenses			
Transfer of assets to Bright Star Education Group	(1,652,873)	-	(1,652,873)
Proposition expenses	(189,217)	-	(189,217)
Total non-operating activities	<u>(1,842,090)</u>	<u>-</u>	<u>(1,842,090)</u>
Change in Net Assets	7,120,997	(112,890)	7,008,107
Net Assets, Beginning of Year, as restated	<u>18,950,444</u>	<u>112,890</u>	<u>19,063,334</u>
Net Assets, End of Year	<u>\$ 26,071,441</u>	<u>\$ -</u>	<u>\$ 26,071,441</u>

Bright Star Schools
Statement of Functional Expenses
Year Ended June 30, 2022

	Program Services	Management and General	Total Expenses
Salaries	\$ 28,153,180	\$ 2,918,195	\$ 31,071,375
Employee benefits	3,175,957	316,169	3,492,126
Payroll taxes	6,393,525	205,120	6,598,645
Fees for services	4,506,052	349,851	4,855,903
Advertising and promotions	51,486	270,559	322,045
Office expenses	546,310	24,919	571,229
Information technology	1,244,839	180,174	1,425,013
Occupancy	5,778,379	178,028	5,956,407
Travel (credit)	(1,988)	244	(1,744)
Interest	-	23,093	23,093
Depreciation and amortization	483,238	-	483,238
Insurance	457,470	33,134	490,604
Other expenses	10,000	-	10,000
Equipment	321,244	7,432	328,676
Professional development	344,997	196,525	541,522
Professional and business fees	245,751	247,427	493,178
Student service	1,146,003	456	1,146,459
Fundraising expense	185,944	-	185,944
Instructional materials	1,280,176	1,092	1,281,268
Legal and audit	143,416	143,512	286,928
Communication	412,865	27,762	440,627
Utilities	379,791	-	379,791
Management fees	1,133,997	269,536	1,403,533
	<u>\$ 56,392,632</u>	<u>\$ 5,393,228</u>	<u>\$ 61,785,860</u>
Total	<u>\$ 56,392,632</u>	<u>\$ 5,393,228</u>	<u>\$ 61,785,860</u>

Bright Star Schools
Statement of Cash Flows
Year Ended June 30, 2022

Operating Activities	
Change in net assets	\$ 7,008,107
Adjustments to reconcile change in net assets to net cash from (used for) operating activities	
Depreciation and amortization expense	483,238
PPP loan forgiveness	(5,846,300)
Changes in operating assets and liabilities	
Receivables	2,719,562
Due to BSEG	(1,000)
Prepaid expenses	(105,009)
Security deposits	(61,980)
Accounts payable	2,107,055
Refundable advance	52,106,366
Due to BSEG	165,302
Deferred rent asset	(752,174)
Net Cash from (used for) Operating Activities	<u>57,823,167</u>
Investing Activities	
Purchases of property and equipment	(24,657,765)
Cancellation of note receivable	1,652,873
Net Cash from (used for) Investing Activities	<u>(23,004,892)</u>
Financing Activities	
Principal payments on notes	(966,162)
Net Change in Cash and Restricted Cash	33,852,113
Cash and Restricted Cash, Beginning of Year	<u>10,253,734</u>
Cash and Restricted Cash, End of Year	<u>\$ 44,105,847</u>
Cash	\$ 17,134,136
Cash restricted for construction	<u>26,971,711</u>
Total Cash and Restricted Cash	<u>\$ 44,105,847</u>
Supplemental Cash Flow Disclosure	
Cash paid during the year in interest	<u>\$ 23,093</u>

Note 1 - Principal Activity and Significant Accounting Policies

Organization

Bright Star Schools (BSS) was incorporated in the State of California in 2002 as Stella Middle Charter Academy and renamed in 2005, as a nonprofit public benefit corporation that is organized under the Nonprofit Public Benefit Corporation Law exclusively for charitable and educational purposes within the meaning of 501(c)(3) of the Internal Revenue Code of 1954 or the corresponding provision of any future United States internal revenue law.

BSS provides services such as education, encompassing instruction, student and staff support activities, facilities maintenance and operations, and food services. Supporting services include management and general services which are BSS' overall related administrative activities.

BSS is comprised of the following charter schools and related business operations:

- Stella Middle Charter Academy (SMCA)
- Bright Star Secondary Charter Academy (BSSCA)
- Rise Kohyang Elementary School (RKES)
- Rise Kohyang Middle School (RKMS)
- Rise Kohyang High School (RKHS)
- Valor Academy Elementary (VAES)
- Valor Academy Middle School (VAMS)
- Valor Academy High School (VAHS)
- Stella Elementary Charter Academy (SECA)
- Business Office Team
- General Support

The charter schools are funded principally through the State of California public education monies received through the California Department of Education and the Los Angeles Unified School District.

Basis of Accounting

The accompanying financial statements were prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America as applicable to nonprofit organizations. Revenues are recognized as discussed below, and expenditures are recognized in the accounting period in which the liability is incurred.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor restrictions. Net assets without donor restrictions also include the investment in property and equipment, net accumulated depreciation. BSS’ policy is to designate donor funds without restriction at the discretion of the board of directors. As of June 30, 2022, BSS has not designated any net assets for a specific purpose.

Net Assets with Donor Restrictions – Net assets subject to donor (or certain grantor) restrictions. Some donor imposed (or grantor) restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. BSS did not have net assets with donor restrictions for the year ended June 30, 2022.

Restricted Cash

Restricted cash in the amount of \$26,971,711 represents the remaining balance of funds received which are limited in use for the payment of costs of constructing and operating new facilities resulting from proceeds of the proposition 51 bonds and proposition 55 bonds.

Receivables and Credit Policies

Receivables consist primarily of noninterest-bearing amounts due for educational programs. Management determines the allowance for uncollectable receivables based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Receivables are written off when deemed uncollectable. No allowance for doubtful accounts has been established, as BSS deems all amounts to be fully collectible. Substantially all outstanding receivables as of June 30, 2022 are due from state and/or federal sources related to grant contributions and are expected to be collected within a period of less than one year.

Intra-Entity Transactions

Intra-entity transactions result from a net cumulative difference between resources provided by the business office team and general support to each charter school and reimbursement for those resources from each charter school to the business office team and general support. Intra-entity transfers include certain costs of shared liabilities and shared assets between charter schools.

Property and Equipment

Property and equipment additions over \$5,000 are recorded at cost, or if donated, at fair value on the date of donation. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets ranging from 3 to 30 years, or in the case of capitalized leased assets or leasehold improvements, the lesser of the useful life of the asset or the lease term. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any remaining gain or loss is included in the Statement of activities. Cost of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

BSS reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the year ended June 30, 2022.

Deferred Rent

BSS recognizes escalating rent provisions on a straight-line basis over the lease term. The difference between the rent expense and the required lease payments is reflected as deferred rent in the accompanying statement of financial position.

Revenue and Revenue Recognition

Operating funds for BSS are derived principally from state and federal sources. BSS receives state funding based on each of the enrolled student's average daily attendance (ADA) in its school. Contributions are recognized when cash or notification of an entitlement is received.

A portion of BSS' revenue is derived from cost-reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when BSS has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the statement of financial position. Consequently, at June 30, 2022, no conditional contributions, for which no amounts had been received in advance, have not been recognized in the accompanying financial statements.

BSS was granted a \$5,846,300 loan under the PPP administered by a Small Business Administration (SBA) approved partner. The loan is uncollateralized and is fully guaranteed by the Federal government. BSS has elected to account for the funding as a conditional contribution by applying ASC 958-605, *Not-for-Profit – Revenue Recognition*. BSS initially recorded the loan as a refundable advance and subsequently recognized grant revenue in accordance with guidance for conditional contributions, that is, once the measurable performance or other barrier and right of return of the PPP loan no longer existed. BSS has recognized \$5,846,300 as PPP loan forgiveness revenue for the year ended June 30, 2022.

BSS received Proposition 1D grants, which are conditioned upon certain performance requirements and the incurrence of allowable qualifying expenses. Amounts received are recognized as one-half of the approved project costs paid under the award are reimbursed in the form of a state grant (recorded as proposition construction revenue) and one-half of the approved project costs paid under the award are required to be remitted back to the state in the form of loan payments over a period not to exceed thirty (30) years, when BSS has met certain performance requirements and the incurrence of allowable qualifying expenses. Amounts received prior to meeting performance requirements and incurring qualifying expenditures are reported as refundable advances in the statement of financial position.

Donated Services and In-Kind Contributions

Volunteers contribute significant amounts of time to program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation. Donated professional services are recorded at the respective fair values of the services received. No significant contributions of such goods or services were received during the year ended June 30, 2022.

Functional Allocation of Expenses

The financial statements report categories of expenses that are attributed to program service activities or supporting services activities. The costs of providing the various program and supporting services have been summarized on a functional basis in the statement of activities and the statement of functional expenses. The statement of functional expenses present the natural classification detail of expenses by function. Each charter reports its own direct program service activities and supporting services that are specifically identifiable to the individual charter. Shared support services are charged to the business office team (BOT) in the financial statements and are allocated to the individual charter schools when they cannot be specifically identifiable to each charter's activity. BSS allocates these support services based on average daily attendance.

Income Taxes

BSS is organized as a California nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3) and qualifies for the charitable contribution. It is also exempt from State franchise and income taxes under Section 23701(d) of the California Revenue and Taxation Code. BSS is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, BSS is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purpose. BSS determined that it is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

Management believes that BSS has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. BSS would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

Estimates

The preparation of financial Statements in conformity with generally accepted accounting principles requires BSS to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial Statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Financial Instruments and Credit Risk

Deposit concentration risk is managed by placing cash, money market accounts, and certificates of deposit with financial institutions believed by management to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, no losses have been experienced in any of these accounts. Credit risk associated with receivables is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from and governmental agencies supportive of BSS’ mission. Investments are made by diversified investment managers whose performance is monitored by BSS.

Recent Accounting Pronouncements

In February 2016, FASB issued Accounting Standards Update (ASU) 2016-02, *Leases*. ASU 2016-02 requires a lessee to recognize a lease asset representing its right to use the underlying asset for the lease term, and a lease liability for the payments to be made to lessor, on its consolidated statement of financial position for all operating leases greater than 12 months. Although the full impact of this update on BSS’ consolidated financial statements has not yet been determined, the future adoption of this guidance will require BSS to record assets and liabilities on its consolidated statement of financial position relating to facility and other leases currently being accounted for as operating leases. The ASU is effective for BSS for the year ended June 30, 2023. Management is evaluating the impact of the adoption of this standard.

Note 2 - Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the Statement of financial position date, comprises the following:

Cash	\$ 17,134,136
Receivables	11,495,553
Due from BSEG	2,495,548
	\$ 31,125,237

As part of BSS’ liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due. To help manage unanticipated liquidity needs, BSS has committed lines of credit in the amount of \$5,000,000, which it could draw upon. Occasionally, the board will designate a portion of any operating surplus to its operating reserve. As of June 30, 2022, no reserves are recorded.

Note 3 - Note Receivable

In December 2014, BSS extended a loan of \$1,652,873 to the Pacific Charter School Development Facility Project, which was presented as a long-term receivable in the Statement of financial position. The note bears an interest rate of 1.50% and the financing was scheduled to mature on December 10, 2029. Principal payments were scheduled to begin in January 2022. During the 2022 fiscal year, the remaining note receivable was transferred to BSDG 4115 MLK LLC. As such, there is no remaining balance as of June 30, 2022.

Note 4 - Property and Equipment

Property and equipment at June 30, 2022, consisted of the following:

Land	\$ 32,901,232
Building/leasehold improvements	637,236
Computer equipment	2,792,172
Work in progress	<u>16,906,604</u>
Subtotal	53,237,244
Less: accumulated depreciation	<u>(2,154,591)</u>
	<u><u>\$ 51,082,653</u></u>

During the year ended June 30, 2022, \$483,238 was charged to BSS for depreciation expense.

Note 5 - Notes Payable

In December 2014, BSS 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 1.5%. BSS had signed a loan extension agreement and the loan matured on October 1, 2021. The note included a \$1,652,873 loan to the Pacific Charter School Development Facility Project (Note 4), was presented as a long-term receivable in the Statement of Financial Position and was scheduled to mature on December 10, 2029, before being transferred to BSDG 4115 MLK LLC during the current year. There is no remaining balance as of June 30, 2022.

In May 2020, BSS obtained a promissory note for \$300,000 to fund Bright Star Schools and provide support for distance or remote learning. The note bears a zero percent interest rate and matured on November 30, 2021. There is no remaining balance as of June 30, 2022.

Note 6 - Operating Leases

BSS entered into various lease agreements in which BSS will occupy the properties noted below for campus locations for the duration noted. Lease expense is included in occupancy in the statement of functional expenses.

Operating Leases for School Sites

SMCA entered into a lease for the property located in Los Angeles, California. The term is from June 20, 2021, through June 1, 2060. Lease expense for the year ended June 30, 2022 was \$685,316.

SECA entered into a lease agreement for the property in Los Angeles, California to be used by SECA. The lease commenced on August 1, 2018 and ends on July 31, 2024. Lease expense for the year ended June 30, 2022, was \$198,400.

SECA entered into a lease agreement for the property in Los Angeles, California to be used by SECA. The lease commenced on July 1, 2020 and ends on June 30, 2025. Lease expense for the year ended June 30, 2022, was \$169,345.

BSSCA entered into a lease agreement for the property in Los Angeles, California to be used by BSSCA. The lease commenced on August 1, 2019, and ends on July 31, 2021, with a three, one-year option periods from August 1, 2021, through July 31, 2023. Lease expense for the year ended June 30, 2022 was \$697,582.

VAES entered into a lease agreement for a property in Arleta, California to be used by VAES. The lease commenced on December 1, 2019 and ends June 30, 2021. An additional two-year option was entered into ending June 30, 2023. Lease expense for the year ended June 30, 2022 was \$578,448.

VAMS entered into a lease agreement for property in Los Angeles, California to be used by VAMS. The lease commenced on December 1, 2021 and ends June 30, 2071. Lease expense for the year ended June 30, 2022 was \$229,795.

VAHS entered into a lease agreement for property in Los Angeles, California to be used by VAHS. The lease commenced on January 20, 2022 and ends June 30, 2071. Lease expense for the year ended June 30, 2022 was \$564,285.

RKMS entered into a sublease for the property located at 3020 Wilshire Blvd., Los Angeles, California. The term is from July 1, 2014, through June 30, 2021. A second amendment to lease was entered into on September 1, 2020, for an additional year ending June 30, 2022. Lease expense for the year ended June 30, 2022 was \$894,150.

Future minimum lease payments are as follows:

Year Ending June 30	SMCA	SECA	BSSCA	VAES	VAMS	VAHS	Total
2023	\$ 819,878	\$ 367,745	\$ 548,499	\$ 601,586	\$ 813,584	\$ 871,765	\$ 4,023,057
2024	819,593	185,879	43,209	-	814,060	863,689	2,726,430
2025	836,628	169,345	-	-	774,129	857,868	2,637,970
2026	808,567	-	-	-	462,211	852,551	2,123,329
2027	808,531	-	-	-	461,178	852,515	2,122,224
Thereafter	21,750,147	-	-	-	14,471,551	23,799,305	60,021,003
	<u>\$ 25,843,344</u>	<u>\$ 722,969</u>	<u>\$ 591,708</u>	<u>\$ 601,586</u>	<u>\$ 17,796,713</u>	<u>\$ 28,097,693</u>	<u>\$ 73,654,013</u>

BSS receives no sublease rental revenues nor pays any contingent rentals associated with these leases.

Note 7 - Net Assets

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose.

Satisfaction of purpose restrictions	
Restricted lottery	<u>\$ 112,890</u>

Note 8 - Employee Retirement Systems

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

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 BSS chooses to stop participating in the multi-employer plan, it may be required to pay a withdrawal liability to the plan. BSS has no plans to withdraw from this multi-employer plan.

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

BSS contributes to the State Teachers Retirement Plan (STRP) administered by the California State Teachers' Retirement System (CalSTRS). STRP is a cost-sharing multiple-employer public employee retirement system defined benefit pension plan. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2020, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/member-publications>.

Benefits Provided

The STRP provides retirement, disability and survivor benefits to beneficiaries. Benefits are based on members’ final compensation, age and years of service credit. Members hired on or before December 31, 2012, with five years of credited service are eligible for the normal retirement benefit at age 60. Members hired on or after January 1, 2013, with five years of credited service are eligible for the normal retirement benefit at age 62. The normal retirement benefit is equal to 2.0% of final compensation for each year of credited service.

The STRP is comprised of four programs: Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program and Replacement Benefits Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs. CalSTRS also uses plan assets to defray reasonable expenses of administering the STRP. Although CalSTRS is the administrator of the STRP, the State is the sponsor of the STRP and obligor of the trust. In addition, the State is both an employer and nonemployer contributing entity to the STRP.

BSS contributes exclusively to the STRP Defined Benefit Program; thus, disclosures are not included for the other plans.

The STRP provisions and benefits in effect at June 30, 2022, are summarized as follows:

	STRP Defined Benefit Program	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	10.25%	10.205%
Required employer contribution rate	16.92%	16.92%
Required state contribution rate	10.828%	10.828%

Contributions

Required members, BSS and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers’ Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1% of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2022, are presented above and BSS’ total contributions were \$3,405,986.

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of BSS. These payments consist of State General Fund contributions to CalSTRS in the amount of \$2,127,996 (10.828% of annual payroll). Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements.

Note 9 - Contingencies, Risks, and Uncertainties

BSS 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 reimbursement, if required, would not be material.

The Organization applied for and received loan forgiveness from the SBA on its PPP loan in \$5,846,300. In accordance PPP loan requirements, the Organization is required to maintain PPP loan files and certain underlying supporting documents for periods ranging from three to six years. The Organization is also required to permit access to such files upon request by the SBA. Accordingly, there is potential the PPP loan could be subject to further review by the SBA and that previously recognized forgiveness could be reversed based on the outcome of this review.

Note 10 - Related Party Transactions

The Bright Star Education Group (BSEG) was incorporated in the State of California in 2013, as a nonprofit public benefit corporation that is organized under the Nonprofit Public Benefit Corporation Law exclusively for charitable and educational purposes within the meaning of 501(c)(3) of the Internal Revenue Code of 1954 or the corresponding provision of any future United States internal revenue law. BSEG's purpose is to manage the growth of the network of Bright Star Schools operating in the Los Angeles area. In 2017, BSEG created the following limited liability corporations: Bright Star Development Group (BSDG) 990 La Fayette LLC (LF LLC), BSDG 4115 MLK LLC (MLK LLC), and BSDG 934 Lemona LLC (Lemona LLC). These corporations were created for the purpose of supporting and providing facilities for Bright Star Schools. BSEG is the sole member of each of the LLCs.

In August 2017, BSEG entered into a sublease agreement with RKHS for office space at 600 S. Lafayette, Los Angeles, California. In February 2017, BSDG 990 La Fayette LLC was created for the purpose of supporting and providing facilities for BSS. The LLC is the sole member of BSEG. The LLC subleased facilities to RKHS and the total rent expenses for RKHS was \$766,000 as of June 30, 2022. As part of the lease agreement, RKES rents, on a temporary basis, a portion of the facilities with annual rent expense of \$200,000. In addition, BSS business office team also rents a portion of facilities with annual rent expense of \$176,007. Both of the lease terms for RKES and the business office team are renewed annually.

In December 2021, BSEG entered into a lease agreement with VAHS for office space at 9334-9356 Lemona Avenue, California. Lemona, LLC leased facilities to VAHS and the total rent expense for VAHS was \$564,285 as of June 30, 2022.

In December 2021, BSEG entered into a sublease agreement with SMCA for the property located in Los Angeles, California. MLK LLC subleased facilities to SMCA, and total rent expense was \$685,316.

In January 2022, BSEG entered into a lease with VAMS for the property located in Los Angeles, California. MLK LLC leased facilities to VAMS , and total rent expense was \$229,795.

BSS has a \$2,495,548 receivable from BSEG related to expenses paid by BSS for the BSEG as of June 30, 2022. BSS has a related party liability as of June 30, 2022 of \$165,302 related to expenses paid by BSEG for BSS.

Note 11 - Restatement

BSS' prior year net assets have been restated as of July 1, 2021 to correct certain errors reported in the prior year financial statements. The errors were related to the financial statements for Rise Kohyang Middle School, where certain property and equipment and associated refundable advance attributed to Proposition 1D funding were not recorded on the financial statements, resulting in an understatement of these accounts.

The effect of the restatement is as follows:

Beginning Net Assets, as previously reported on June 30, 2021	\$ 19,063,334
Understatement of property and equipment	15,534,000
Understatement of refundable advance	<u>(15,534,000)</u>
Beginning Net Assets, as restated on July 1, 2021	<u><u>\$ 19,063,334</u></u>

Note 12 - Subsequent Events

BSS' management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements through December 15, 2022, which is the date the financial statements were available to be issued. Management has determined that there were no subsequent events or transactions that would have a material impact on the current year financial statements.



Supplementary Information
June 30, 2022

Bright Star Schools

Bright Star Schools
Schedules of Expenditures of Federal Awards
Year Ended June 30, 2022

Federal Grantor/Pass-Through Grantor/Program	Federal Financial Assistance Listing Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Education			
Passed Through the California Department of Education (CDE)			
Education Stabilization Fund			
COVID-19 Elementary and Secondary School Emergency Relief II (ESSER II) Fund	84.425D	15547	\$ 3,983,033
COVID-19 Elementary and Secondary School Emergency Relief III (ESSER III) Fund	84.425U	15559	2,974,310
COVID-19 Expanded Learning Opportunities (ELO) Grant GEER II	84.425C	15619	5,508
COVID-19 Governor's Emergency Education Relief (GEER) Fund: Learning Loss Mitigation	84.425C	15517	<u>93,617</u>
Subtotal Education Stabilization Fund			<u>7,056,468</u>
Title I Grants to Local Educational Agencies	84.010	14329	1,421,393
Supporting Effective Instruction State Grants	84.367	14341	184,045
Student Support and Academic Enrichment Program	84.424	15396	115,409
Passed Through Los Angeles Unified School District (LAUSD)			
Special Education (IDEA) Cluster			
Basic Local Assistance Entitlement, Part B, Section 611	84.027	13379	<u>956,011</u>
Subtotal Special Education (IDEA) Cluster			<u>956,011</u>
Total U.S. Department of Education			<u>9,733,326</u>
Total Federal Financial Assistance			<u>\$ 9,733,326</u>

Organization

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

- Stella Elementary Charter Academy (SECA) charter number 1866 – established in 2018
- 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 Elementary School (RKES) charter number 1927 – established in 2019
- Rise Kohyang Middle School (RKMS) charter number 1315 – established in 2012
- Rise Kohyang High 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, 2022 were as follows:

Governing Board

Member	Office	Term Expires
Andrew Murr	Board Chairman	2023
Jennifer Cole	Secretary	2023
Manny Aceves	Member	2023
Dora Dome	Member	2023
Stephen Green	Member	2023
Lawrence Klein	Member	2023
Marisol Leon	Member	2023
Lois Levy	Member	2023
George Leftwich	Member	2023
James McGrath	Member	2023
Andrew Wang	Member	2023
Louisa Wee	Member	2023
Robin Elledge	Member	2023

Administration

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

Bright Star Schools
Schedule of Average Daily Attendance
Year Ended June 30, 2022

	Final Report	
	Second Period Report	Annual Report
Stella Elementary Charter Academy (SECA)		
Regular ADA		
Transitional kindergarten through third	164.59	165.72
Fourth	32.44	32.81
Total Regular ADA	197.03	198.53
Classroom based ADA		
Transitional kindergarten through third	157.20	158.41
Fourth	30.57	31.01
Total Classroom Based ADA	187.77	189.42
Stella Middle Charter Academy (SMCA)		
Regular ADA		
Fifth and sixth	171.48	172.10
Seventh and eighth	242.16	244.00
Total Regular ADA	413.64	416.10
Classroom based ADA		
Fifth and sixth	163.76	163.99
Seventh and eighth	234.30	236.09
Total Classroom Based ADA	398.06	400.08
Bright Star Secondary Charter Academy (BSSCA)		
Regular ADA		
Ninth through twelfth	454.17	450.02
Total Regular ADA	454.17	450.02
Classroom based ADA		
Ninth through twelfth	431.12	438.40
Total Classroom Based ADA	431.12	438.40

Bright Star Schools
Schedule of Average Daily Attendance
Year Ended June 30, 2022

	Final Report	
	Second Period Report	Annual Report
Rise Kohyang Elementary School (RKES)		
Regular ADA		
Transitional kindergarten through second	98.02	97.97
Total Regular ADA	98.02	97.97
Classroom based ADA		
Transitional kindergarten through second	97.19	97.34
Total Classroom Based ADA	97.19	97.34
Rise Kohyang Middle School (RKMS)		
Regular ADA		
Sixth	87.57	88.94
Seventh and eighth	233.40	234.96
Total Regular ADA	320.97	323.90
Classroom based ADA		
Sixth	85.29	87.01
Seventh and eighth	231.58	233.27
Total Classroom Based ADA	316.87	320.28
Rise Kohyang High School (RKHS)		
Regular ADA		
Ninth through twelfth	407.17	401.33
Total Regular ADA	407.17	401.33
Classroom based ADA		
Ninth through twelfth	399.25	394.37
Total Classroom Based ADA	399.25	394.37

Bright Star Schools
Schedule of Average Daily Attendance
Year Ended June 30, 2022

	Final Report	
	Second Period Report	Annual Report
Valor Academy Elementary School (VAES)		
Regular ADA		
Transitional kindergarten through third	270.87	269.62
Fourth	68.18	68.27
Total Regular ADA	339.05	337.89
Classroom based ADA		
Transitional kindergarten through third	261.14	260.08
Fourth	67.08	67.13
Total Classroom Based ADA	328.22	327.21
Valor Academy Middle School (VAMS)		
Regular ADA		
Fifth and sixth	238.35	238.55
Seventh and eighth	236.05	236.44
Total Regular ADA	474.40	474.99
Classroom based ADA		
Fifth and sixth	235.47	235.89
Seventh and eighth	228.20	228.82
Total Classroom Based ADA	463.67	464.71
Valor Academy High School (VAHS)		
Regular ADA		
Ninth through twelfth	482.58	469.84
Total Regular ADA	482.58	469.84
Classroom based ADA		
Ninth through twelfth	473.25	461.53
Total Classroom Based ADA	473.25	461.53

Bright Star Schools
Schedule of Instructional Time
Year ended June 30, 2022

Stella Elementary Charter Academy (SECA)

Grade Level	1986-87 Minutes Requirement	2021-2022 Actual Minutes	Number of Minutes Credited Form J-13A	Total Minutes Offered	Number of Days		Number of Days Credited Form J-13A	Total Days Offered	Status
					Traditional Calendar	Multitrack Calendar			
Kindergarten	36,000	54,874	-	54,874	175	-	-	175	Complied
Grades 1 - 3	50,400								
Grade 1		54,874	-	54,874	175	-	-	175	Complied
Grade 2		54,874	-	54,874	175	-	-	175	Complied
Grade 3		54,874	-	54,874	175	-	-	175	Complied
Grade 4	54,000	54,874	-	54,874	175	-	-	175	Complied

Stella Middle Charter Academy (SMCA)

Grade Level	1986-87 Minutes Requirement	2021-2022 Actual Minutes	Number of Minutes Credited Form J-13A	Total Minutes Offered	Number of Days		Number of Days Credited Form J-13A	Total Days Offered	Status
					Traditional Calendar	Multitrack Calendar			
Grades 5 - 6	54,000								
Grade 5		55,103	-	55,103	175	-	-	175	Complied
Grade 6		55,103	-	55,103	175	-	-	175	Complied
Grades 7 - 8	54,000								
Grade 7		55,103	-	55,103	175	-	-	175	Complied
Grade 8		55,103	-	55,103	175	-	-	175	Complied

Bright Star Secondary Charter Academy (BSSCA)

Grade Level	1986-87 Minutes Requirement	2021-2022 Actual Minutes	Number of Minutes Credited Form J-13A	Total Minutes Offered	Number of Days		Number of Days Credited Form J-13A	Total Days Offered	Status
					Traditional Calendar	Multitrack Calendar			
Grades 9 - 12	64,800								
Grade 9		67,480	-	67,480	175	-	-	175	Complied
Grade 10		67,480	-	67,480	175	-	-	175	Complied
Grade 11		67,480	-	67,480	175	-	-	175	Complied
Grade 12		67,480	-	67,480	175	-	-	175	Complied

Bright Star Schools
Schedule of Instructional Time
Year ended June 30, 2022

Rise Kohyang Elementary School (RKES)

Grade Level	1986-87 Minutes Requirement	2021-2022 Actual Minutes	Number of Minutes Credited Form J-13A	Total Minutes Offered	Number of Days		Number of Days Credited Form J-13A	Total Days Offered	Status
					Traditional Calendar	Multitrack Calendar			
Kindergarten	36,000	55,735	-	55,735	175	-	-	175	Complied
Grades 1 - 2	50,400								
Grade 1		55,315	-	55,315	175	-	-	175	Complied
Grade 2		55,540	-	55,540	175	-	-	175	Complied

Rise Kohyang Middle School (RKMS)

Grade Level	1986-87 Minutes Requirement	2021-2022 Actual Minutes	Number of Minutes Credited Form J-13A	Total Minutes Offered	Number of Days		Number of Days Credited Form J-13A	Total Days Offered	Status
					Traditional Calendar	Multitrack Calendar			
Grades 6	54,000								
Grade 6		56,587	-	56,587	175	-	-	175	Complied
Grades 7 - 8	54,000								
Grade 7		56,587	-	56,587	175	-	-	175	Complied
Grade 8		56,587	-	56,587	175	-	-	175	Complied

Rise Kohyang High School (RKHS)

Grade Level	1986-87 Minutes Requirement	2021-2022 Actual Minutes	Number of Minutes Credited Form J-13A	Total Minutes Offered	Number of Days		Number of Days Credited Form J-13A	Total Days Offered	Status
					Traditional Calendar	Multitrack Calendar			
Grades 9 - 12	64,800								
Grade 9		64,920	-	64,920	179	-	-	179	Complied
Grade 10		64,920	-	64,920	179	-	-	179	Complied
Grade 11		64,920	-	64,920	179	-	-	179	Complied
Grade 12		64,920	-	64,920	179	-	-	179	Complied

Bright Star Schools
Schedule of Instructional Time
Year ended June 30, 2022

Valor Academy Elementary School (VAES)

Grade Level	1986-87 Minutes Requirement	2021-2022 Actual Minutes	Number of Minutes Credited Form J-13A	Total Minutes Offered	Number of Days		Number of Days Credited Form J-13A	Total Days Offered	Status
					Traditional Calendar	Multitrack Calendar			
Kindergarten	36,000	55,910	-	55,910	175	-	-	175	Complied
Grades 1 - 3	50,400								
Grade 1		52,695	-	52,695	175	-	-	175	Complied
Grade 2		54,880	-	54,880	175	-	-	175	Complied
Grade 3		54,880	-	54,880	175	-	-	175	Complied
Grades 4	54,000	54,880	-	54,880	175	-	-	175	Complied

Valor Academy Middle School (VAMS)

Grade Level	1986-87 Minutes Requirement	2021-2022 Actual Minutes	Number of Minutes Credited Form J-13A	Total Minutes Offered	Number of Days		Number of Days Credited Form J-13A	Total Days Offered	Status
					Traditional Calendar	Multitrack Calendar			
Grades 5 - 6	54,000								
Grade 5		58,625	-	58,625	175	-	-	175	Complied
Grade 6		58,625	-	58,625	175	-	-	175	Complied
Grades 7 - 8	54,000								
Grade 7		58,625	-	58,625	175	-	-	175	Complied
Grade 8		58,625	-	58,625	175	-	-	175	Complied

Valor Academy High School (VAHS)

Grade Level	1986-87 Minutes Requirement	2021-2022 Actual Minutes	Number of Minutes Credited Form J-13A	Total Minutes Offered	Number of Days		Number of Days Credited Form J-13A	Total Days Offered	Status
					Traditional Calendar	Multitrack Calendar			
Grades 9 - 12	64,800								
Grade 9		64,838	-	64,838	180	-	-	180	Complied
Grade 10		64,838	-	64,838	180	-	-	180	Complied
Grade 11		64,838	-	64,838	180	-	-	180	Complied
Grade 12		64,838	-	64,838	180	-	-	180	Complied

Bright Star Schools
Reconciliation of Annual Financial Report with Audited Financial Statements
Year ended June 30, 2022

	SMCA	BCCSA	RKMS	VAMS	VAHS
Net Assets					
Balance, June 30, 2022, Unaudited Actuals	\$ 2,919,075	\$ 4,475,117	\$ 2,220,747	\$ 4,477,580	\$ 2,129,918
Decrease in					
Receivables	-	-	-	-	(912,159)
Property and equipment	-	-	-	(1,652,873)	-
Accounts payable	68,294	-	-	233,875	1,290,224
Refundable advance	-	-	-	29,532	245,837
Increase in					
Receivables	278,295	574,812	252,294	40,729	-
Prepays	153,147	-	1,500	307,342	106,250
Property and equipment	-	-	15,517,369	-	-
Refundable advance	(10,064)	-	(15,534,000)	-	-
Balance, June 30, 2022,					
Audited Financial Statements	<u>\$ 3,408,747</u>	<u>\$ 5,049,929</u>	<u>\$ 2,457,910</u>	<u>\$ 3,436,185</u>	<u>\$ 2,860,070</u>
	RKHS	VAES	SECA	RKES	Total
Net Assets					
Balance, June 30, 2022, Unaudited Actuals	\$ 2,227,227	\$ 1,440,331	\$ 611,316	\$ 726,175	\$ 21,227,486
Decrease in					
Receivables	-	(1,175,192)	-	-	(2,087,351)
Property and equipment	(172,586)	-	-	-	(1,825,459)
Accounts payable	300,457	1,300,968	977,551	-	4,171,369
Deferred revenue	-	-	-	-	275,369
Increase in					
Receivables	46,216	-	(628,798)	254,983	818,531
Prepays	-	-	-	-	568,239
Property and equipment	-	-	-	-	15,517,369
Refundable advance	-	-	-	-	(15,544,064)
Balance, June 30, 2022,					
Audited Financial Statements	<u>\$ 2,401,314</u>	<u>\$ 1,566,107</u>	<u>\$ 960,069</u>	<u>\$ 981,158</u>	<u>\$ 23,121,489</u>

Bright Star Schools
Combining Statement of Financial Position
Year Ended June 30, 2022

	General Support	Stella Middle Charter Academy	Bright Star Secondary Charter Academy	Rise Kohyang Middle School
Assets				
Current assets				
Cash	\$ 887,177	\$ 2,131,043	\$ 2,242,491	\$ 1,503,254
Restricted cash	-	-	-	-
Receivables	2,800	1,738,739	1,912,070	1,176,384
Due from BSEG	-	1,372,979	-	-
Intra-entity receivable	-	26,489,720	10,008,280	8,375,126
Prepaid expenses	362	10,598	65,205	577,787
Total current assets	890,339	31,743,079	14,228,046	11,632,551
Non-current assets				
Security deposit	-	7,332	8,250	61,398
Property and equipment, net	6,982	458,665	64,754	18,598,041
Total non-current assets	6,982	465,997	73,004	18,659,439
	\$ 897,321	\$ 32,209,076	\$ 14,301,050	\$ 30,291,990
Liabilities				
Current liabilities				
Accounts payable	\$ 606	\$ 201,365	\$ 342,479	\$ 115,604
Refundable advance	270	4,877,678	653,308	17,048,861
Intra-entity payable	251,435	23,957,803	8,255,334	10,669,615
Due to BSEG	-	88,902	-	-
Deferred rent asset	-	(325,419)	-	-
Total current liabilities	252,311	28,800,329	9,251,121	27,834,080
Net Assets				
Without donor restrictions	645,010	3,408,747	5,049,929	2,457,910
Total liabilities and net assets	\$ 897,321	\$ 32,209,076	\$ 14,301,050	\$ 30,291,990

Bright Star Schools
Combining Statement of Financial Position
Year Ended June 30, 2022

	Valor Academy Middle School	Valor Academy High School	Rise Kohyang High School	Valor Academy Elementary School
Assets				
Current assets				
Cash	\$ 2,252,282	\$ 2,248,686	\$ 2,062,514	\$ 1,509,793
Restricted cash	-	-	26,971,711	-
Receivables	1,572,356	1,728,649	1,255,864	888,402
Due from BSEG	-	1,122,569	-	-
Intra-entity receivable	7,930,797	5,633,583	16,700,133	5,067,940
Prepaid expenses	(7,836)	16,358	151,540	57,716
Total current assets	11,747,599	10,749,845	47,141,762	7,523,851
Non-current assets				
Security deposit	-	-	2,764	90,000
Property and equipment, net	310,424	136,163	29,833,305	1,369,210
Total non-current assets	310,424	136,163	29,836,069	1,459,210
	\$ 12,058,023	\$ 10,886,008	\$ 76,977,831	\$ 8,983,061
Liabilities				
Current liabilities				
Accounts payable	\$ 229,766	\$ 534,322	\$ 1,895,945	\$ 402,191
Refundable advance	557,709	648,853	55,634,085	629,572
Intra-entity payable	8,154,868	6,872,613	17,046,487	6,385,191
Due to BSEG	-	76,400	-	-
Deferred rent asset	(320,505)	(106,250)	-	-
Total current liabilities	8,621,838	8,025,938	74,576,517	7,416,954
Net Assets				
Without donor restrictions	3,436,185	2,860,070	2,401,314	1,566,107
Total liabilities and net assets	\$ 12,058,023	\$ 10,886,008	\$ 76,977,831	\$ 8,983,061

Bright Star Schools
Combining Statement of Financial Position
Year Ended June 30, 2022

	Stella Elementary Charter Academy	Rise Kohyang Elementary School	Business Office Team	Eliminations	Total
Assets					
Current assets					
Cash	\$ 1,056,090	\$ 851,700	\$ 389,106	\$ -	\$ 17,134,136
Restricted cash	-	-	-	-	26,971,711
Receivables	625,609	583,663	11,017	-	11,495,553
Due from BSEG	-	-	-	-	2,495,548
Intra-entity receivable	2,516,757	977,325	2,217,034	(85,916,695)	-
Prepaid expenses	36,864	10,646	71,045	-	990,285
Total current assets	4,235,320	2,423,334	2,688,202	(85,916,695)	59,087,233
Non-current assets					
Security deposit	-	-	-	-	169,744
Property and equipment, net	272,001	33,108	-	-	51,082,653
Total non-current assets	272,001	33,108	-	-	51,252,397
	\$ 4,507,321	\$ 2,456,442	\$ 2,688,202	\$ (85,916,695)	\$ 110,339,630
Liabilities					
Current liabilities					
Accounts payable	\$ 82,879	\$ 107,983	\$ 383,260	\$ -	\$ 4,296,400
Refundable advance	320,065	188,260	-	-	80,558,661
Intra-entity payable	3,144,308	1,179,041	-	(85,916,695)	-
Due to BSEG	-	-	-	-	165,302
Deferred rent asset	-	-	-	-	(752,174)
Total current liabilities	3,547,252	1,475,284	383,260	(85,916,695)	84,268,189
Net Assets					
Without donor restrictions	960,069	981,158	2,304,942	-	26,071,441
Total liabilities and net assets	\$ 4,507,321	\$ 2,456,442	\$ 2,688,202	\$ (85,916,695)	\$ 110,339,630

Bright Star Schools
Combining Statement of Activities
Year Ended June 30, 2022

	General Support	Stella Middle Charter Academy	Bright Star Secondary Charter Academy	Rise Kohyang Middle School
Net Assets without Donor Restriction				
Support and Revenues				
Local Control Funding Formula	\$ -	\$ 5,134,176	\$ 6,961,219	\$ 3,901,656
Federal revenue	-	1,374,032	1,440,583	1,050,258
Other State revenue	-	1,715,914	1,290,568	1,216,350
PPP loan forgiveness revenue	-	292,315	292,315	1,169,260
Local revenues				
Other revenue	925	125,300	262,629	170,991
Contributions	27,367	335,190	152,000	82,989
Net assets released from restrictions	-	16,172	16,340	13,917
Total revenues	<u>28,292</u>	<u>8,993,099</u>	<u>10,415,654</u>	<u>7,605,421</u>
Expenses				
Program services	28,291	7,662,189	8,805,570	5,536,894
Management and general	-	749,805	944,149	688,729
Total expenses	<u>28,291</u>	<u>8,411,994</u>	<u>9,749,719</u>	<u>6,225,623</u>
Change in Net Assets Without Donor Restriction	<u>1</u>	<u>581,105</u>	<u>665,935</u>	<u>1,379,798</u>
Net Assets with Donor Restriction				
Net assets release from restriction	<u>-</u>	<u>(16,172)</u>	<u>(16,340)</u>	<u>(13,917)</u>
Non-Operating Activities				
Non-Operating Expenses				
Transfer of Assets to Bright Star Education Group	-	-	-	-
Proposition expenses	-	-	-	(16,631)
Total non-operating activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>(16,631)</u>
Change in Net Assets	1	564,933	649,595	1,349,250
Net Assets, Beginning of Year, as restated	<u>645,009</u>	<u>2,843,814</u>	<u>4,400,334</u>	<u>1,108,660</u>
Net Assets, End of Year	<u>\$ 645,010</u>	<u>\$ 3,408,747</u>	<u>\$ 5,049,929</u>	<u>\$ 2,457,910</u>

Bright Star Schools
Combining Statement of Activities
Year Ended June 30, 2022

	Valor Academy Middle School	Valor Academy High School	Rise Kohyang High School	Valor Academy Elementary School
Net Assets without Donor Restriction				
Support and Revenues				
Local Control Funding Formula	\$ 5,737,663	\$ 7,106,010	\$ 6,010,877	\$ 4,240,162
Federal revenue	1,312,491	1,388,553	1,236,122	929,207
Other State revenue	1,499,485	1,458,871	1,276,288	1,168,744
PPP loan forgiveness revenue	-	-	584,630	1,169,260
Local revenues				
Other revenue	139,336	297,471	115,436	141,599
Contributions	40	-	-	-
Net assets released from restrictions	16,577	16,265	13,479	12,109
Total revenues	<u>8,705,592</u>	<u>10,267,170</u>	<u>9,236,832</u>	<u>7,661,081</u>
Expenses				
Program services	6,770,144	8,271,025	6,943,544	6,028,383
Management and general	768,233	915,684	851,596	702,014
Total expenses	<u>7,538,377</u>	<u>9,186,709</u>	<u>7,795,140</u>	<u>6,730,397</u>
Change in Net Assets Without Donor Restriction	<u>1,167,215</u>	<u>1,080,461</u>	<u>1,441,692</u>	<u>930,684</u>
Net Assets with Donor Restriction				
Net assets release from restriction	<u>(16,577)</u>	<u>(16,265)</u>	<u>(13,479)</u>	<u>(12,109)</u>
Non-Operating Activities				
Non-Operating Expenses				
Transfer of Assets to Bright Star Education Group	(1,652,873)	-	-	-
Proposition expenses	-	-	(172,586)	-
Total non-operating activities	<u>(1,652,873)</u>	<u>-</u>	<u>(172,586)</u>	<u>-</u>
Change in Net Assets	(502,235)	1,064,196	1,255,627	918,575
Net Assets, Beginning of Year, as restated	<u>3,938,420</u>	<u>1,795,874</u>	<u>1,145,687</u>	<u>647,532</u>
Net Assets, End of Year	<u>\$ 3,436,185</u>	<u>\$ 2,860,070</u>	<u>\$ 2,401,314</u>	<u>\$ 1,566,107</u>

Bright Star Schools
Combining Statement of Activities
Year Ended June 30, 2022

	Stella Elementary Charter Academy	Rise Kohyang Elementary School	Business Office Team	Eliminations	Total
Net Assets without Donor Restriction					
Support and Revenues					
Local Control Funding Formula	\$ 2,413,519	\$ 1,218,049	\$ -	\$ -	\$ 42,723,331
Federal revenue	600,695	401,385	-	-	9,733,326
Other State revenue	632,317	295,860	-	-	10,554,397
PPP loan forgiveness revenue	1,169,260	1,169,260	-	-	5,846,300
Local revenues					
Other revenue	61,898	62,585	6,409,301	(6,125,354)	1,662,117
Contributions	350,000	250,000	-	(1,081,000)	116,586
Net assets released from restrictions	5,634	2,397	-	-	112,890
Total revenues	<u>5,233,323</u>	<u>3,399,536</u>	<u>6,409,301</u>	<u>(7,206,354)</u>	<u>70,748,947</u>
Expenses					
Program services	4,018,464	2,240,172	1,168,956	(1,081,000)	56,392,632
Management and general	473,703	311,653	5,113,016	(6,125,354)	5,393,228
Total expenses	<u>4,492,167</u>	<u>2,551,825</u>	<u>6,281,972</u>	<u>(7,206,354)</u>	<u>61,785,860</u>
Change in Net Assets Without Donor Restriction	<u>741,156</u>	<u>847,711</u>	<u>127,329</u>	<u>-</u>	<u>8,963,087</u>
Net Assets with Donor Restriction					
Net assets release from restriction	<u>(5,634)</u>	<u>(2,397)</u>	<u>-</u>	<u>-</u>	<u>(112,890)</u>
Non-Operating Activities					
Non-Operating Expenses					
Transfer of Assets to Bright Star Education Group	-	-	-	-	(1,652,873)
Proposition expenses	-	-	-	-	(189,217)
Total non-operating activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,842,090)</u>
Change in Net Assets	735,522	845,314	127,329	-	7,008,107
Net Assets, Beginning of Year, as restated	<u>224,547</u>	<u>135,844</u>	<u>2,177,613</u>	<u>-</u>	<u>19,063,334</u>
Net Assets, End of Year	<u>\$ 960,069</u>	<u>\$ 981,158</u>	<u>\$ 2,304,942</u>	<u>\$ -</u>	<u>\$ 26,071,441</u>

Bright Star Schools
Combining Statement of Functional Expenses
Year Ended June 30, 2022

	General Support		Stella Middle Charter Academy		Bright Star Secondary Charter Academy	
	Program Services	Management and General	Program Services	Management and General	Program Services	Management and General
Salaries	\$ -	\$ -	\$ 3,743,571	\$ -	\$ 4,609,651	\$ -
Employee benefits	90	-	424,038	-	475,609	-
Payroll taxes	-	-	1,039,381	-	985,115	-
Fees for services	-	-	546,877	-	369,862	-
Advertising and promotions	-	-	5,212	-	7,559	-
Office expenses	-	-	86,319	-	82,102	-
Information technology	-	-	173,498	-	271,426	-
Occupancy	416	-	790,813	-	747,699	-
Travel (credit)	-	-	297	-	1,800	-
Interest	-	-	-	-	-	-
Depreciation and amortization	20,919	-	103,790	-	40,018	-
Insurance	-	-	76,809	-	53,570	-
Other expenses	-	-	-	-	2,000	-
Grants back to schools	-	-	-	-	-	-
Equipment	-	-	16,097	-	60,244	-
Professional development	4,805	-	42,172	-	54,396	-
Professional and business fees	1,875	-	36,117	-	42,913	-
Student service	-	-	111,736	-	503,787	-
Fundraising expense	-	-	106	-	10,440	-
Instructional materials	-	-	133,523	-	285,244	-
Legal and audit	-	-	7,424	-	8,773	-
Communication	-	-	77,327	-	29,860	-
Utilities	186	-	103,718	-	514	-
Management fees	-	-	143,364	749,805	162,988	944,149
Total	\$ 28,291	\$ -	\$ 7,662,189	\$ 749,805	\$ 8,805,570	\$ 944,149

Bright Star Schools
Combining Statement of Functional Expenses
Year Ended June 30, 2022

	Rise Kohyang Middle School		Valor Academy Middle School		Valor Academy High School	
	Program Services	Management and General	Program Services	Management and General	Program Services	Management and General
Salaries	\$ 2,587,409	\$ -	\$ 3,517,023	\$ -	\$ 4,054,200	\$ -
Employee benefits	302,407	-	394,594	-	448,920	-
Payroll taxes	594,092	-	819,446	-	903,201	-
Fees for services	454,845	-	521,074	-	610,420	-
Advertising and promotions	10,337	-	4,769	-	4,858	-
Office expenses	65,005	-	55,809	-	79,313	-
Information technology	91,647	-	155,876	-	172,247	-
Occupancy	964,802	-	460,711	-	746,631	-
Travel (credit)	19	-	(4,340)	-	115	-
Interest	-	-	-	4,218	-	6,458
Depreciation and amortization	2,021	-	112,808	-	74,824	-
Insurance	37,620	-	77,845	-	81,325	-
Other expenses	-	-	-	-	-	-
Grants back to schools	-	-	-	-	-	-
Equipment	23,387	-	52,480	-	78,690	-
Professional development	31,837	-	32,094	-	62,465	-
Professional and business fees	19,184	-	29,892	-	34,697	-
Student service	86,469	-	66,562	-	213,999	-
Fundraising expense	10,412	-	73,382	-	55,832	-
Instructional materials	106,272	-	88,284	-	266,218	-
Legal and audit	10,265	-	19,413	-	46,791	-
Communication	27,642	-	71,504	-	68,652	-
Utilities	-	-	56,718	-	89,152	-
Management fees	111,222	688,729	164,200	764,015	178,475	909,226
Total	\$ 5,536,894	\$ 688,729	\$ 6,770,144	\$ 768,233	\$ 8,271,025	\$ 915,684

Bright Star Schools
Combining Statement of Functional Expenses
Year Ended June 30, 2022

	Rise Kohyang High School		Valor Academy Elementary School		Stella Elementary Charter School	
	Program Services	Management and General	Program Services	Management and General	Program Services	Management and General
Salaries	\$ 3,412,007	\$ -	\$ 3,184,244	\$ -	\$ 1,890,542	\$ -
Employee benefits	401,845	-	394,860	-	214,663	-
Payroll taxes	760,994	-	641,149	-	377,783	-
Fees for services	437,817	-	627,358	-	632,816	-
Advertising and promotions	4,181	-	4,076	-	8,830	-
Office expenses	58,970	-	42,288	-	54,374	-
Information technology	150,080	-	121,449	-	50,691	-
Occupancy	887,370	-	581,844	-	391,678	-
Travel (credit)	-	-	115	-	6	-
Interest	-	-	-	-	-	-
Depreciation and amortization	26,723	-	7,405	-	73,514	-
Insurance	52,659	-	39,509	-	24,456	-
Other expenses	8,000	-	-	-	-	-
Grants back to schools	-	-	-	-	-	-
Equipment	17,467	-	15,795	-	50,450	-
Professional development	36,243	-	35,938	-	23,530	-
Professional and business fees	26,694	-	24,649	-	15,655	-
Student service	100,608	-	18,974	-	15,161	-
Fundraising expense	1,159	-	28,940	-	5,502	-
Instructional materials	224,537	-	112,677	-	31,372	-
Legal and audit	6,946	-	18,562	-	19,651	-
Communication	48,600	-	11,000	-	67,489	-
Utilities	130,470	-	(1,769)	-	802	-
Management fees	150,174	851,596	119,320	702,014	69,499	473,703
Total	\$ 6,943,544	\$ 851,596	\$ 6,028,383	\$ 702,014	\$ 4,018,464	\$ 473,703

Bright Star Schools
Combining Statement of Functional Expenses
Year Ended June 30, 2022

	Rise Kohyang			
	Elementary School		Business Office Team	
	Program Services	Management and General	Program Services	Management and General
Salaries	\$ 1,108,797	\$ -	\$ 45,736	\$ 2,918,195
Employee benefits	118,931	-	-	316,169
Payroll taxes	230,144	-	42,220	205,120
Fees for services	304,983	-	-	349,851
Advertising and promotions	1,664	-	-	270,559
Office expenses	22,130	-	-	24,919
Information technology	57,925	-	-	180,174
Occupancy	206,415	-	-	178,028
Travel (credit)	-	-	-	244
Interest	-	-	-	12,417
Depreciation and amortization	21,216	-	-	-
Insurance	13,677	-	-	33,134
Other expenses	-	-	-	-
Grants back to schools	-	-	1,081,000	-
Equipment	6,634	-	-	7,432
Professional development	21,517	-	-	196,525
Professional and business fees	14,075	-	-	247,427
Student service	28,707	-	-	456
Fundraising expense	171	-	-	-
Instructional materials	32,049	-	-	1,092
Legal and audit	5,591	-	-	143,512
Communication	10,791	-	-	27,762
Utilities	-	-	-	-
Management fees	34,755	311,653	-	-
	<u>\$ 2,240,172</u>	<u>\$ 311,653</u>	<u>\$ 1,168,956</u>	<u>\$ 5,113,016</u>
Total	<u>\$ 2,240,172</u>	<u>\$ 311,653</u>	<u>\$ 1,168,956</u>	<u>\$ 5,113,016</u>

Bright Star Schools
Combining Statement of Functional Expenses
Year Ended June 30, 2022

	Eliminations		Total	
	Program Services	Management and General	Program Services	Management and General
Salaries	\$ -	\$ -	\$ 28,153,180	\$ 2,918,195
Employee benefits	-	-	3,175,957	316,169
Payroll taxes	-	-	6,393,525	205,120
Fees for services	-	-	4,506,052	349,851
Advertising and promotions	-	-	51,486	270,559
Office expenses	-	-	546,310	24,919
Information technology	-	-	1,244,839	180,174
Occupancy	-	-	5,778,379	178,028
Travel (credit)	-	-	(1,988)	244
Interest	-	-	-	23,093
Depreciation and amortization	-	-	483,238	-
Insurance	-	-	457,470	33,134
Other expenses	-	-	10,000	-
Grants back to schools	(1,081,000)	-	-	-
Equipment	-	-	321,244	7,432
Professional development	-	-	344,997	196,525
Professional and business fees	-	-	245,751	247,427
Student service	-	-	1,146,003	456
Fundraising expense	-	-	185,944	-
Instructional materials	-	-	1,280,176	1,092
Legal and audit	-	-	143,416	143,512
Communication	-	-	412,865	27,762
Utilities	-	-	379,791	-
Management fees	-	(6,125,354)	1,133,997	269,536
	<u>\$ (1,081,000)</u>	<u>\$ (6,125,354)</u>	<u>\$ 56,392,632</u>	<u>\$ 5,393,228</u>
Total	<u>\$ (1,081,000)</u>	<u>\$ (6,125,354)</u>	<u>\$ 56,392,632</u>	<u>\$ 5,393,228</u>

Note 1 - Purpose of Supplementary Schedules

Schedule of Expenditures of Federal Awards

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the schedule) includes the federal award activity of BSS under programs of the federal government for the year ended June 30, 2022. The information is presented in accordance with the 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). Because the schedule presents only a selected portion of the operations of BSS, it is not intended to and does not present the financial position, changes in net assets, or cash flows of BSS.

Summary of Significant Accounting Policies

Expenditures reported in the schedule are reported on the accrual basis of accounting. When applicable, 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. No federal financial assistance has been provided to a subrecipient.

Indirect Cost Rate

BSS does not draw for indirect administrative expenses and has not elected to use the ten percent de minimis cost rate.

Local Education Agency Organization Structure

This schedule provides information about the charter schools operated by Bright Star Schools, members of the governing board, and members of the administration.

Schedule of Average Daily Attendance (ADA)

Average daily attendance (ADA) is a measurement of the number of pupils attending classes of BSS. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made to school districts. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

Schedule of Instructional Time

This schedule presents information on the amount of instructional time offered by BSS and whether BSS complied with the provisions of *Education Code* Sections 47612 and 47612.5, if applicable. BSS must maintain their instructional minutes at the 1986-87 requirement as required by *Education Code* Section 47612.5.

Reconciliation of Annual Financial Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the net assets reported on the unaudited actual financial report to the audited financial Statements.

Combining Statement of Financial Position, Combining Statement of Activities, and Combining Statement of Functional Expenses

The Combining statement of financial position, Combining statement of activities, and Combining statement of functional expenses report the activities of the charter schools and are presented on the accrual basis of accounting. Eliminating entries in the Combining statement of financial position, Combining statement of activities, and Combining statement of functional expenses are for activities between the charter schools.



Independent Auditor's Reports
June 30, 2022

Bright Star Schools



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*

Governing Board
Bright Star Schools
(A California Nonprofit Public Benefit Corporation)
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 (BSS), which comprise the statement of financial position as of June 30, 2022, and the related statement of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 15, 2022.

Correction of Error

As discussed in Note 11 to the financial statements, certain errors resulting in an understatement of amounts previously reported for property and equipment and refundable advances as of June 30, 2021, were discovered during the current year. Accordingly, a restatement has been made to net position as of July 1, 2021, to correct the error. Our opinion is not modified with respect to this matter.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered BSS’ internal control over financial reporting (internal control) as a basis for designing 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 BSS’ internal control. Accordingly, we do not express an opinion on the effectiveness of BSS’ 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 BSS’ 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 have not been identified. We did identify a deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2022-001 that we consider to be a material weakness.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether BSS' 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 financial statements. 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*.

Bright Star School's Response to Finding

Government Auditing Standards requires the auditor to perform limited procedures on BSS' response to the finding identified in our audit and described in the accompanying Schedule of Findings and Questioned Costs. BSS' response to the finding identified in our audit is described in the accompanying *schedule of findings and questioned costs*. BSS' response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 BSS' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering BSS' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Rancho Cucamonga, California
December 15, 2022



Independent Auditor's Report on Compliance for the Major Program and on Internal Control over Compliance Required by the Uniform Guidance

Governing Board
Bright Star Schools
Los Angeles, California

Report on Compliance for the Major Federal Program

Opinion on the Major Federal Program

We have audited Bright Star Schools' (BSS) compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on BSS' major federal program for the year ended June 30, 2022. BSS' major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, BSS complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2022.

Basis for Opinion on the Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of BSS and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the major federal program. Our audit does not provide a legal determination of BSS' compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to BSS' federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on BSS' compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about BSS' compliance with the requirements of the major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding BSS' compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of BSS' internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 BSS' internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will

not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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.

The image shows a handwritten signature in cursive script that reads "Eide Bailly LLP".

Rancho Cucamonga, California
December 15, 2022



Independent Auditor's Report on State Compliance

Governing Board
Bright Star Schools
Los Angeles, California

Report on Compliance

Opinion on State Compliance

We have audited Bright Star Schools' (BSS) compliance with the requirements specified in the *2021-2022 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, applicable to BSS's state program requirements identified below for the year ended June 30, 2022.

Basis for Opinion

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS), the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *2021-2022 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of BSS and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit does not provide a legal determination of BSS's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to BSS's state programs.

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on BSS's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with

GAAS, *Government Auditing Standards*, and the *2021-2022 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* will always detect a material noncompliance when it exists. The risk of not detecting a material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about BSS’s compliance with the requirements of the state programs as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the *2021-2022 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding BSS’s compliance with the compliance requirements referred to above and performing such other procedures as we consider necessary in the circumstances.
- Obtain an understanding of BSS’s internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the *2021-2022 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, but not for the purpose of expressing an opinion on the effectiveness of BSS’s internal controls over compliance. Accordingly, we express no such opinion; and
- Select and test transactions and records to determine BSS’s compliance with the state laws and regulations applicable to the following items:

2021-2022 K-12 Audit Guide Procedures	Procedures Performed
Local Education Agencies Other Than Charter Schools	
Attendance	No, see below
Teacher Certification and Misassignments	No, see below
Kindergarten Continuance	No, see below
Independent Study	No, see below
Continuation Education	No, see below
Instructional Time	No, see below
Instructional Materials	No, see below
Ratio of Administrative Employees to Teachers	No, see below
Classroom Teacher Salaries	No, see below
Early Retirement Incentive	No, see below
GANN Limit Calculation	No, see below
School Accountability Report Card	No, see below
Juvenile Court Schools	No, see below
Middle or Early College High Schools	No, see below
K-3 Grade Span Adjustment	No, see below
Transportation Maintenance of Effort	No, see below
Apprenticeship: Related and Supplemental Instruction	No, see below
Comprehensive School Safety Plan	No, see below
District of Choice	No, see below

2021-2022 K-12 Audit Guide Procedures	Procedures Performed
School Districts, County Offices of Education, and Charter Schools	
California Clean Energy Jobs Act	No, see below
After/Before School Education and Safety Program:	
General Requirements	Yes
After School	Yes
Before School	No, see below
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study-Course Based	No, see below
Immunizations	Yes
Educator Effectiveness	Yes
Expanded Learning Opportunities Grant (ELO-G)	Yes
Career Technical Education Incentive Grant	No, see below
In Person Instruction Grant	Yes
Charter Schools	
Attendance	Yes
Mode of Instruction	Yes
Nonclassroom-Based Instruction/Independent Study	Yes
Determination of Funding for Nonclassroom-Based Instruction	No, see below
Annual Instructional Minutes – Classroom Based	Yes
Charter School Facility Grant Program	Yes

Programs listed above for “Local Education Agencies Other Than Charter Schools” are not applicable to charter schools; therefore, we did not perform any related procedures.

We did not perform California Clean Energy Jobs Act procedures because BSS did not receive funding for this program.

BSS does not offer a Before School Education and Safety Program; therefore, we did not perform procedures related to the Before School Education and Safety Program.

BSS does not offer an Independent Study-Course Based Program; therefore, we did not perform any procedures related to the Independent Study-Course Based Program.

We did not perform Career Technical Education Incentive Grant procedures because BSS did not receive funding for this grant.

ADA was below the threshold required for testing; therefore, we did not perform any procedures related to Determination of Funding for Nonclassroom-Based Instruction.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identify during the audit.

Report on 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 on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that a material noncompliance with a compliance requirement 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 that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention from those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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 *2021-2022 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Accordingly, this report is not suitable for any other purpose.



Rancho Cucamonga, California
December 15, 2022



Schedule of Findings and Questioned Costs
June 30, 2022

Bright Star Schools

Financial Statements

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weakness identified	Yes
Significant deficiencies identified not considered to be material weaknesses	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	None reported
Type of auditor's report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516(a)	No

Identification of major programs:

Name of Federal Program or Cluster	Federal Financial Assistance Listing
COVID-19 Elementary and Secondary School Emergency Relief II (ESSER II) Fund	84.425D
COVID-19 Elementary and Secondary School Emergency Relief III (ESSER III) Fund	84.425U
COVID-19 Expanded Learning Opportunities (ELO) Grant GEER II	84.425C
COVID-19 Governor's Emergency Education Relief (GEER) Fund: Learning Loss Mitigation	84.425C
Dollar threshold used to distinguish between Type A and Type B programs	\$750,000
Auditee qualified as low-risk auditee?	Yes

State Compliance

Internal control over state compliance for programs:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	None reported
Type of auditor's report issued on compliance for programs	Unmodified

The following finding represents a material weakness related to the financial statements that is required to be reported in accordance with Government Auditing Standards. The finding has been coded as follows:

Five Digit Code	AB 3627 Finding Type
30000	Internal Control

2022-001 30000 – Prior Period Restatement

Criteria or Specific Requirement

Management is responsible for the design, implementation, and maintenance of internal controls to ensure that the financial statements are free of material misstatement, whether due to error or fraud. Such controls should include review and approval of year-end closing entries, as well as entries related to transactions that are not considered routine in nature, to ensure the financial statements are fairly stated.

Condition

During our audit of the financial statements, we identified that a property as well as a refundable advance associated with funding from Proposition 1D funding in the prior year were not recorded in the financial statements as of June 30, 2021. These misstatements were not identified by management.

Questioned cost

There were no questioned costs associated with the condition noted.

Context

The condition was identified through review of BSS records related to the financial account balances associated with Proposition 1D financing that had occurred in the prior year.

Effect

A restatement of the financial statements was needed to correct the misstatement. Entries were posted to correct property and refundable advance balance, both in the amount of \$15,534,000. While the asset and associated liability were both understated, there was no net effect on net assets as a result of the restatement.

Cause

This was an oversight that was not detected by BSS subsequent to the purchase of property as well as receiving of refundable advance.

Repeat Finding

No.

Recommendation

To ensure accurate reporting prior to closing the financial statements, procedures should be established to ensure that property and equipment accounts are recorded correctly, and all transactions are properly accounted for at the time of the occurrence.

Corrective Action Plan and Views of Responsible Officials

BSS has been, and will remain, committed to strengthening the management and review of its financial books on an ongoing basis to ensure that its books remain accurate and in accord with all relevant accounting standards.

None reported.

None reported.

There were no audit findings reported in the prior year's Schedule of Findings and Questioned Costs.