



BRIGHTSTAR **S C H O O L S**

**Independent Auditor's Report
and Financial Statements
For the Year Ended
June 30, 2017**

Operating:

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

BRIGHT STAR SCHOOLS

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Bright Star Schools
Los Angeles, CA

Report on the Financial Statements

We have audited the accompanying financial statements of Bright Star Schools (the School), a California nonprofit public benefit corporation, which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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



Board of Directors
Bright Star Schools

Opinion

In our opinion, the financial statements referred to on page one present fairly, in all material respects, the financial position of the School as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the School's financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The columns by location are presented in the statements of financial position, activities, and cash flows and the accompanying supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated December 11, 2017 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP
Glendora, CA
December 11, 2017

BRIGHT STAR SCHOOLS

STATEMENT OF FINANCIAL POSITION June 30, 2017

	<u>SMCA</u>	<u>BSSCA</u>	<u>RKMS</u>	<u>RKHS</u>	<u>1st Page Total</u>
<u>ASSETS</u>					
CURRENT ASSETS:					
Cash and cash equivalents	\$ 14,300,054	\$ 683,190	\$ 386,914	\$ 253,397	\$ 15,623,555
Accounts receivable - federal and state	451,815	573,495	581,696	367,334	1,974,340
Accounts receivable - other	-	-	89,630	-	89,630
Prepaid expenses and deposits	41,574	64,645	104,489	-	210,708
Intracompany receivable	<u>1,435,574</u>	<u>830,594</u>	<u>699,184</u>	<u>-</u>	<u>2,965,352</u>
Total current assets	<u>16,229,017</u>	<u>2,151,924</u>	<u>1,861,913</u>	<u>620,731</u>	<u>20,863,585</u>
LONG-TERM ASSETS:					
Long-term accounts receivable	-	-	-	-	-
Property, plant and equipment, net	<u>12,069</u>	<u>-</u>	<u>18,002</u>	<u>29,554</u>	<u>59,625</u>
Total long-term assets	<u>12,069</u>	<u>-</u>	<u>18,002</u>	<u>29,554</u>	<u>59,625</u>
Total assets	<u>\$ 16,241,086</u>	<u>\$ 2,151,924</u>	<u>\$ 1,879,915</u>	<u>\$ 650,285</u>	<u>\$ 20,923,210</u>
<u>LIABILITIES AND NET ASSETS</u>					
CURRENT LIABILITIES:					
Accounts payable	\$ 71,342	\$ 168,949	\$ 41,131	\$ 53,621	\$ 335,043
Payroll liabilities	34,824	45,668	10,403	25,150	116,045
Deferred revenue	291,292	2,465	1,628	-	295,385
Intracompany payable	918,238	1,143,594	1,047,783	429,620	3,539,235
Payable to BSEG	75,857	(70,636)	256,100	70,866	332,187
Loans payable, current portion	<u>13,529,320</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,529,320</u>
Total current liabilities	<u>14,920,873</u>	<u>1,290,040</u>	<u>1,357,045</u>	<u>579,257</u>	<u>18,147,215</u>
LONG-TERM LIABILITIES:					
Loans payable	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total long-term liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>14,920,873</u>	<u>1,290,040</u>	<u>1,357,045</u>	<u>579,257</u>	<u>18,147,215</u>
NET ASSETS:					
Unrestricted - undesignated	<u>1,320,213</u>	<u>861,884</u>	<u>522,870</u>	<u>71,028</u>	<u>2,775,995</u>
Total net assets	<u>1,320,213</u>	<u>861,884</u>	<u>522,870</u>	<u>71,028</u>	<u>2,775,995</u>
Total liabilities and net assets	<u>\$ 16,241,086</u>	<u>\$ 2,151,924</u>	<u>\$ 1,879,915</u>	<u>\$ 650,285</u>	<u>\$ 20,923,210</u>

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

BRIGHT STAR SCHOOLS

STATEMENT OF FINANCIAL POSITION

June 30, 2017

	<u>1st Page</u>				<u>General</u>	
	<u>Total</u>	<u>VAES</u>	<u>VAMS</u>	<u>VAHS</u>	<u>Support</u>	<u>Total</u>
<u>ASSETS</u>						
CURRENT ASSETS:						
Cash and cash equivalents	\$ 15,623,555	\$ 192,529	\$ 609,017	\$ 612,045	\$ (116,568)	\$ 16,920,578
Accounts receivable - federal and state	1,974,340	219,869	537,178	402,355	-	3,133,742
Accounts receivable - other	89,630	-	-	14,495	-	104,125
Prepaid expenses and deposits	210,708	40,000	154,403	362,287	43,852	811,250
Intracompany receivable	<u>2,965,352</u>	<u>206,581</u>	<u>1,121,750</u>	<u>731,288</u>	<u>5,513,347</u>	<u>10,538,318</u>
Total current assets	<u>20,863,585</u>	<u>658,979</u>	<u>2,422,348</u>	<u>2,122,470</u>	<u>5,440,631</u>	<u>31,508,013</u>
LONG-TERM ASSETS:						
Long-term accounts receivable	-	-	1,652,873	-	-	1,652,873
Property, plant and equipment, net	<u>59,625</u>	<u>26,946</u>	<u>140,547</u>	<u>-</u>	<u>-</u>	<u>227,118</u>
Total long-term assets	<u>59,625</u>	<u>26,946</u>	<u>1,793,420</u>	<u>-</u>	<u>-</u>	<u>1,879,991</u>
Total assets	<u>\$ 20,923,210</u>	<u>\$ 685,925</u>	<u>\$ 4,215,768</u>	<u>\$ 2,122,470</u>	<u>\$ 5,440,631</u>	<u>\$ 33,388,004</u>
<u>LIABILITIES AND NET ASSETS</u>						
CURRENT LIABILITIES:						
Accounts payable	\$ 335,043	\$ 5,910	\$ 6,732	\$ 156,767	\$ 4,981	\$ 509,433
Payroll liabilities	116,045	4,750	31,251	14,620	-	166,666
Deferred revenue	295,385	-	283,249	1,954	250,000	830,588
Intracompany payable	3,539,235	429,666	1,140,707	403,739	5,024,971	10,538,318
Payable to BSEG	332,187	109,498	182,434	416,210	492	1,040,821
Loans payable, current portion	<u>13,529,320</u>	<u>-</u>	<u>55,216</u>	<u>-</u>	<u>-</u>	<u>13,584,536</u>
Total current liabilities	<u>18,147,215</u>	<u>549,824</u>	<u>1,699,589</u>	<u>993,290</u>	<u>5,280,444</u>	<u>26,670,362</u>
LONG-TERM LIABILITIES:						
Loans payable	<u>-</u>	<u>-</u>	<u>836,833</u>	<u>-</u>	<u>-</u>	<u>836,833</u>
Total long-term liabilities	<u>-</u>	<u>-</u>	<u>836,833</u>	<u>-</u>	<u>-</u>	<u>836,833</u>
Total liabilities	<u>18,147,215</u>	<u>549,824</u>	<u>2,536,422</u>	<u>993,290</u>	<u>5,280,444</u>	<u>27,507,195</u>
NET ASSETS:						
Unrestricted - undesignated	<u>2,775,995</u>	<u>136,101</u>	<u>1,679,346</u>	<u>1,129,180</u>	<u>160,187</u>	<u>5,880,809</u>
Total net assets	<u>2,775,995</u>	<u>136,101</u>	<u>1,679,346</u>	<u>1,129,180</u>	<u>160,187</u>	<u>5,880,809</u>
Total liabilities and net assets	<u>\$ 20,923,210</u>	<u>\$ 685,925</u>	<u>\$ 4,215,768</u>	<u>\$ 2,122,470</u>	<u>\$ 5,440,631</u>	<u>\$ 33,388,004</u>

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

BRIGHT STAR SCHOOLS
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2017

	<u>SMCA</u>	<u>BSSCA</u>	<u>RKMS</u>	<u>RKHS</u>	<u>1st Page Total</u>
OPERATING ACTIVITIES					
Revenue and grants:					
State aid	\$ 3,529,853	\$ 4,700,032	\$ 2,736,980	\$ 648,606	\$ 11,615,471
Property taxes	1,072,094	1,147,932	844,697	152,222	3,216,945
Other state revenue	899,173	615,222	797,219	40,405	2,352,019
Federal revenue	332,177	574,111	214,555	455,931	1,576,774
Contributions	111,696	42,258	236,873	75,977	466,804
Other revenue	<u>113,587</u>	<u>331,860</u>	<u>70,263</u>	<u>51,713</u>	<u>567,423</u>
Total operating revenue and grants	<u>6,058,580</u>	<u>7,411,415</u>	<u>4,900,587</u>	<u>1,424,854</u>	<u>19,795,436</u>
Expenses:					
Programs services	4,931,375	6,382,387	3,654,902	1,163,870	16,132,534
Management and general	1,108,126	929,856	1,225,758	250,727	3,514,467
Fundraising	<u>49</u>	<u>728</u>	<u>5,186</u>	<u>7,563</u>	<u>13,526</u>
Total operating expenses	<u>6,039,550</u>	<u>7,312,971</u>	<u>4,885,846</u>	<u>1,422,160</u>	<u>19,660,527</u>
Change in net assets from operating activities	<u>19,030</u>	<u>98,444</u>	<u>14,741</u>	<u>2,694</u>	<u>134,909</u>
Total change in net assets	19,030	98,444	14,741	2,694	134,909
Beginning total net assets	<u>1,301,183</u>	<u>763,440</u>	<u>508,129</u>	<u>68,334</u>	<u>2,641,086</u>
Ending total net assets	<u>\$ 1,320,213</u>	<u>\$ 861,884</u>	<u>\$ 522,870</u>	<u>\$ 71,028</u>	<u>\$ 2,775,995</u>

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

BRIGHT STAR SCHOOLS

**STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2017**

	<u>1st Page</u>				<u>General</u>	
	<u>Total</u>	<u>VAES</u>	<u>VAMS</u>	<u>VAHS</u>	<u>Support</u>	<u>Total</u>
OPERATING ACTIVITIES						
Revenue and grants:						
State aid	\$ 11,615,471	\$ 638,745	\$ 3,350,924	\$ 3,918,001	\$ -	\$ 19,523,141
Property taxes	3,216,945	163,386	1,042,589	948,568	-	5,371,488
Other state revenue	2,352,019	213,102	937,654	473,606	-	3,976,381
Federal revenue	1,576,774	468,577	287,264	256,037	-	2,588,652
Contributions	466,804	8,905	175,611	47,991	7,240	706,551
Other revenue	<u>567,423</u>	<u>9,089</u>	<u>155,356</u>	<u>41,139</u>	<u>-</u>	<u>773,007</u>
Total operating revenue and grants	<u>19,795,436</u>	<u>1,501,804</u>	<u>5,949,398</u>	<u>5,685,342</u>	<u>7,240</u>	<u>32,939,220</u>
Expenses:						
Programs services	16,132,534	1,111,987	4,502,955	4,460,233	1,113	26,208,822
Management and general	3,514,467	364,109	1,423,088	764,348	2,279	6,068,291
Fundraising	<u>13,526</u>	<u>1,249</u>	<u>5,157</u>	<u>4,659</u>	<u>-</u>	<u>24,591</u>
Total operating expenses	<u>19,660,527</u>	<u>1,477,345</u>	<u>5,931,200</u>	<u>5,229,240</u>	<u>3,392</u>	<u>32,301,704</u>
Change in net assets from operating activities	<u>134,909</u>	<u>24,459</u>	<u>18,198</u>	<u>456,102</u>	<u>3,848</u>	<u>637,516</u>
Total change in net assets	134,909	24,459	18,198	456,102	3,848	637,516
Beginning total net assets	<u>2,641,086</u>	<u>111,642</u>	<u>1,661,148</u>	<u>673,078</u>	<u>156,339</u>	<u>5,243,293</u>
Ending total net assets	<u>\$ 2,775,995</u>	<u>\$ 136,101</u>	<u>\$ 1,679,346</u>	<u>\$ 1,129,180</u>	<u>\$ 160,187</u>	<u>\$ 5,880,809</u>

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

BRIGHT STAR SCHOOLS

**STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2017**

	<u>SMCA</u>	<u>BSSCA</u>	<u>RKMS</u>	<u>RKHS</u>	<u>1st Page Total</u>
CASH FLOWS from OPERATING ACTIVITIES:					
Change in Net Assets	\$ 19,030	\$ 98,444	\$ 14,741	\$ 2,694	\$ 134,909
Adjustments to reconcile change in net assets to net cash flows from operating activities:					
Depreciation	59,213	18,843	18,492	14,777	111,325
(Increase) and decrease in operating assets:					
Accounts receivable - federal and state	24,054	(22,310)	(30,496)	(367,334)	(396,086)
Accounts receivable - other	-	-	53,434	-	53,434
Prepaid expenses and deposits	5,199	(45,528)	(2,561)	-	(42,890)
Intracompany receivable	1,184,432	1,762,960	(560,746)	71,627	2,458,273
Increase and (decrease) in operating liabilities:					
Accounts payable	(50,324)	4,620	(31,711)	48,399	(29,016)
Payroll liabilities	34,824	45,668	10,403	25,150	116,045
Deferred revenue	291,292	2,465	1,628	-	295,385
Intracompany payable	(1,097,676)	(1,371,394)	88,820	402,218	(1,978,032)
Payable to BSEG	(103,079)	(192,080)	166,241	55,866	(73,052)
Deferred rent liability	-	-	-	-	-
Net cash flows from operating activities	<u>366,965</u>	<u>301,688</u>	<u>(271,755)</u>	<u>253,397</u>	<u>650,295</u>
CASH FLOWS from INVESTING ACTIVITIES:					
Purchase of fixed assets	<u>-</u>	<u>-</u>	<u>(13,732)</u>	<u>-</u>	<u>(13,732)</u>
Net cash flows from investing activities	<u>-</u>	<u>-</u>	<u>(13,732)</u>	<u>-</u>	<u>(13,732)</u>
CASH FLOWS from FINANCING ACTIVITIES:					
Repayments of debt	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net cash flows from financing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	366,965	301,688	(285,487)	253,397	636,563
Cash and cash equivalents at the beginning of the year	<u>13,933,089</u>	<u>381,502</u>	<u>672,401</u>	<u>-</u>	<u>14,986,992</u>
Cash and cash equivalents at the end of the year	<u>\$ 14,300,054</u>	<u>\$ 683,190</u>	<u>\$ 386,914</u>	<u>\$ 253,397</u>	<u>\$ 15,623,555</u>

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

BRIGHT STAR SCHOOLS

STATEMENT OF CASH FLOWS For the Year Ended June 30, 2017

	<u>1st Page Total</u>	<u>VAES</u>	<u>VAMS</u>	<u>VAHS</u>	<u>General Support</u>	<u>Total</u>
CASH FLOWS from OPERATING ACTIVITIES:						
Change in Net Assets	\$ 134,909	\$ 24,459	\$ 18,198	\$ 456,102	\$ 3,848	\$ 637,516
Adjustments to reconcile change in net assets to net cash flows from operating activities:						
Depreciation	111,325	13,473	70,274	-	-	195,072
(Increase) and decrease in operating assets:						
Accounts receivable - federal and state	(396,086)	(219,869)	(65,906)	214,732	-	(467,129)
Accounts receivable - other	53,434	-	-	-	-	53,434
Prepaid expenses and deposits	(42,890)	(20,000)	(3,977)	(212,287)	(43,852)	(323,006)
Intracompany receivable	2,458,273	(69,573)	347,760	(181,187)	(5,208,255)	(2,652,982)
Increase and (decrease) in operating liabilities:						
Accounts payable	(29,016)	(50,105)	(89,288)	104,339	(55,020)	(119,090)
Payroll liabilities	116,045	4,750	10,782	14,620	-	146,197
Deferred revenue	295,385	-	283,249	1,954	250,000	830,588
Intracompany payable	(1,978,032)	413,146	(343,696)	(367,424)	4,928,988	2,652,982
Payable to BSEG	(73,052)	96,248	(38,073)	98,185	492	83,800
Deferred rent liability	-	-	-	-	-	-
Net cash flows from operating activities	<u>650,295</u>	<u>192,529</u>	<u>189,323</u>	<u>129,034</u>	<u>(123,799)</u>	<u>1,037,382</u>
CASH FLOWS from INVESTING ACTIVITIES:						
Purchase of fixed assets	<u>(13,732)</u>	<u>-</u>	<u>(13,439)</u>	<u>-</u>	<u>-</u>	<u>(27,171)</u>
Net cash flows from investing activities	<u>(13,732)</u>	<u>-</u>	<u>(13,439)</u>	<u>-</u>	<u>-</u>	<u>(27,171)</u>
CASH FLOWS from FINANCING ACTIVITIES:						
Repayments of debt	<u>-</u>	<u>-</u>	<u>(49,874)</u>	<u>-</u>	<u>-</u>	<u>(49,874)</u>
Net cash flows from financing activities	<u>-</u>	<u>-</u>	<u>(49,874)</u>	<u>-</u>	<u>-</u>	<u>(49,874)</u>
Net increase (decrease) in cash and cash equivalents	636,563	192,529	126,010	129,034	(123,799)	960,337
Cash and cash equivalents at the beginning of the year	<u>14,986,992</u>	<u>-</u>	<u>483,007</u>	<u>483,011</u>	<u>7,231</u>	<u>15,960,241</u>
Cash and cash equivalents at the end of the year	<u>\$ 15,623,555</u>	<u>\$ 192,529</u>	<u>\$ 609,017</u>	<u>\$ 612,045</u>	<u>\$ (116,568)</u>	<u>\$ 16,920,578</u>

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

BRIGHT STAR SCHOOLS

STATEMENT OF FUNCTIONAL EXPENSES For the Year Ended June 30, 2017

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 16,223,154	\$ -	\$ -	\$ 16,223,154
Pension expense	1,471,589	-	-	1,471,589
Other employee benefits	1,575,905	-	-	1,575,905
Payroll taxes	488,159	-	-	488,159
Management fees	-	2,666,246	-	2,666,246
Legal expenses	-	25,387	-	25,387
Instructional materials	1,192,637	-	-	1,192,637
Other fees for services	1,894,360	528,073	-	2,422,433
Advertising and promotion	-	-	24,591	24,591
Office expenses	261,337	221,783	-	483,120
Printing and postage	-	184,842	-	184,842
Information technology	577,052	-	-	577,052
Occupancy	-	1,914,647	-	1,914,647
Travel expenses	90,890	5,141	-	96,031
Depreciation	-	195,072	-	195,072
Insurance	-	204,115	-	204,115
Direct student services	2,415,164	-	-	2,415,164
Other expenses	<u>18,575</u>	<u>122,985</u>	<u>-</u>	<u>141,560</u>
Total	<u>\$ 26,208,822</u>	<u>\$ 6,068,291</u>	<u>\$ 24,591</u>	<u>\$ 32,301,704</u>

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

BRIGHT STAR SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS For the Year Ended June 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities – Bright Star Schools (the School) is a California non-profit public benefit corporation. Bright Star Schools was incorporated in November 2002 as Stella Middle Charter Academy and was renamed in 2005.

The School is comprised of:

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

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

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

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosures. Accordingly, actual results could differ from those estimates.

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

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

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

BRIGHT STAR SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS For the Year Ended June 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

- Unrestricted: All resources over which the governing board has discretionary control to use in carrying on the general operations of the School.
- Temporarily restricted: These net assets are restricted by donors to be used for specific purposes. The School does not currently have any temporarily restricted net assets.
- Permanently restricted: These net assets are permanently restricted by donors and cannot be used by the School. The School does not currently have any permanently restricted net assets.

Receivables – Accounts receivable primarily represent amounts due from federal and state governments as of June 30, 2017. Management believes that all receivables are fully collectible, therefore no provisions for uncollectible accounts were recorded.

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

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

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

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

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

BRIGHT STAR SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS For the Year Ended June 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Income Taxes – The School is a non-profit entity exempt from the payment of income taxes under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d. Accordingly, no provision has been made for income taxes. Management has determined that all income tax positions are more likely than not of being sustained upon potential audit or examination; therefore, no disclosures of uncertain income tax positions are required. The School files informational returns in the U.S. federal jurisdiction, and the state of California. The statute of limitations for federal and California state purposes is generally three and four years, respectively.

Allocations Between Charter Schools – For the year ended June 30, 2017, the School has chosen to identify each charter school separately within the basic financial statements. In cases where specific identification of each charter's activities was not possible, items were allocated according to Average Daily Attendance (ADA).

Evaluation of Subsequent Events – The School has evaluated subsequent events through December 11, 2017, the date these financial statements were available to be issued.

NOTE 2: CONCENTRATION OF CREDIT RISK

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

BRIGHT STAR SCHOOLS

**NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2017**

NOTE 3: PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment in the accompanying financial statements is presented net of accumulated depreciation. The School capitalizes all expenditures for land, buildings and equipment in excess of \$5,000. Depreciation expense was \$195,072 for the year ended June 30, 2017.

The components of property, plant and equipment as of June 30, 2017 are as follows:

Equipment	\$ 630,841
Less: accumulated depreciation	<u>(403,723)</u>
Property, plant and equipment, net	<u>\$ 227,118</u>

NOTE 4: LONG-TERM LIABILITIES

Office of Public School Construction

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

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

Note Payable

In December 2014, the School obtained a promissory note for \$1,000,000 to fund the Bright Star Leverage Loan in an attempt to secure new market tax credit financing to obtain a facility for long-term use by VAMS. The note bears an interest rate of 1.2% and matures on November 1, 2020. The note includes a \$1,612,873 loan to the Pacific Charter School Development Facility Project, which is presented as a long-term receivable in the statement of financial position. The financing matures on November 1, 2020. The loan balance as of June 30, 2017 was \$892,049.

BRIGHT STAR SCHOOLS

**NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2017**

NOTE 4: LONG-TERM LIABILITIES

Repayments of principle as due as follows:

<u>Year Ended June 30,</u>	<u>VAMS</u>
2018	\$ 55,216
2019	56,040
2020	56,886
2021	<u>723,907</u>
Total	<u>\$ 892,049</u>

NOTE 5: LINE OF CREDIT

In November 2012, the School obtained an unsecured line of credit from City National Bank (CNB). The line of credit is for up to \$2 million and bears a variable interest rate equal to CNB's prime rate plus 2.50%. As of June 30, 2017 the School had no outstanding balance.

NOTE 6: COMMITMENT

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

VAHS entered into a single year co-location agreement with Los Angeles Unified School District for the property located at 8015 Van Nuys Blvd., Los Angeles, California. The agreement does not require VAHS to pay a lease amount for the use of the property, but instead VAHS pays a Pro Rata Share Charge for the maintenance of the facility and other services. For fiscal year 2017-18 the Pro Rata Share estimated is \$203,585.

NOTE 7: EMPLOYEE RETIREMENT

Multi-employer Defined Benefit Pension Plans

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

BRIGHT STAR SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS For the Year Ended June 30, 2017

NOTE 7: EMPLOYEE RETIREMENT

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

State Teachers' Retirement System (STRS)

Plan Description

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

The plan provides retirement, disability and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. According to the most recently available Comprehensive Annual Financial Report and Actuarial Valuation Report for the year ended June 30, 2016, total plan net assets are \$189 billion, the total actuarial present value of accumulated plan benefits is \$333 billion, contributions from all employers totaled \$3.4 billion, and the plan is 63.7% funded. The School did not contribute more than 5% of the total contributions to the plan.

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

Funding Policy

Active plan members hired before January 1, 2013 are required to contribute 10.25% of their salary and those hired after are required to contribute 9.205% of their salary. The School is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. Under the 2014 funding plan, employer contributions on compensation creditable to the program will increase every year for the next seven years, up to 19.10% in 2020–21. The required employer contribution rate for the year ended June 30, 2017 was 12.58% of annual payroll. The contribution requirements of the plan members are established and may be amended by State statute.

BRIGHT STAR SCHOOLS

**NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2017**

NOTE 7: EMPLOYEE RETIREMENT

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

Year Ended June 30,	Required Contribution	Percent Contributed
2015	\$ 704,265	100%
2016	\$ 1,008,538	100%
2017	\$ 1,471,589	100%

NOTE 8: OPERATING LEASES

On July 1, 2008, SMCA entered into a lease for the property located at 2636 S. Mansfield Avenue, Los Angeles, California. The lease term commenced on August 1, 2008 and ends July 31, 2013. SMCA extended the lease and the new agreement commenced on August 1, 2013 and ends July 31, 2018. Rent expense for the year ended June 30, 2017 was \$155,500.

In May 2014, RKMS entered into a sublease for the property located at 3020 Wilshire Blvd., Los Angeles, California. The term is from July 1, 2014 through January 31, 2019. Rent expense for the year ended June 30, 2017 was \$639,479.

In August 2014, the School entered into a lease agreement for property in Los Angeles, California to be used by VAMS. The lease commenced on July 1, 2015 and ends June 30, 2025. Rent expense for the year ended June 30, 2017 was \$536,951.

In 2016, Valor Elementary School entered into a lease agreement for property located at 17081 Devonshire St., Los Angeles, California. The lease commenced on July 1, 2016 and ends on June 30, 2018. Rent expense for the year ended June 30, 2017 was \$120,000.

Future minimum lease payments are as follows:

Year Ended June 30,	SMCA	RKMS	VAMS	VAES	Total
2018	\$ 155,500	\$ 572,256	\$ 546,996	\$ 240,000	\$ 1,514,752
2019	13,000	333,816	546,996	-	893,812
2020	-	-	546,996	-	546,996
2021	-	-	546,996	-	546,996
2022	-	-	546,996	-	546,996
Thereafter	-	-	2,364,000	-	2,364,000
Total	<u>\$ 168,500</u>	<u>\$ 906,072</u>	<u>\$ 5,098,980</u>	<u>\$ 240,000</u>	<u>\$ 6,413,552</u>

BRIGHT STAR SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS For the Year Ended June 30, 2017

NOTE 9: RELATED PARTY TRANSACTIONS

Bright Star Education Group

Bright Star Education Group (BSEG) is a non-profit corporation organized to provide back office services to Bright Star Schools and to manage the growth of the network of schools. As of June 30, 2017, the School paid \$2,666,247 of management and oversight fees to BSEG. The School has a related party liability as of June 30, 2017 of \$1,040,821 related to expenses paid by BSEG for the School.

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

BSDG 600 La Fayette LLC

In February 2017, BSDG 990 La Fayette LLC was created for the purpose of supporting and providing facilities for the School. The LLC is the sole member of BSEG. BSDG 600 La Fayette LLC had no amounts due to or from the School in the year ended June 30, 2017

NOTE 10: CONTINGENCIES

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

NOTE 11: SUBSEQUENT EVENTS

In July 2017, the School was awarded \$17,750,000 in a settlement from Los Angeles World Airports to enable the relocation of BSSCA and SMCA. Of this amount, \$16,000,000 is for the acquisition of a new site, and \$1,750,000 is for moving expenses and professional fees related to the relocation.

In September 2017, RKHS moved facilities to 600 South Lafayette, Los Angeles, California. This property is leased from BSDG 990 La Fayette LLC, and lease payments commence in September 2017.

BRIGHT STAR SCHOOLS

**NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2017**

NOTE 11: SUBSEQUENT EVENTS

Future payments for this lease are as follows:

<u>Year Ended June 30,</u>	<u>RKHS</u>
2018	\$ 651,184
2019	753,935
2020	864,836
2021	1,067,349
2022	1,099,369
Thereafter	<u>38,154,658</u>
Total	<u><u>\$42,591,331</u></u>

SUPPLEMENTARY INFORMATION

BRIGHT STAR SCHOOLS

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE For the Year Ended June 30, 2017

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

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

The Board of Directors and the Administrators as of the year ended June 30, 2017 were as follows:

BOARD OF DIRECTORS

<u>Member</u>	<u>Office</u>	<u>Term Expires/Term Length</u>
Larry Klein	Board Chairman	2019 (3 years)
James McGrath	Secretary	2017 (3 years)
Stephen Green	Member	2018 (3 years)
Elizabeth Yeo	Member	2019 (3 years)
Joyce Richards	Member	2018 (3 years)
Lois Levy	Member	2019 (3 years)
Esther Perez	Member	2018 (3 years)
Greg Gonzalez	Member	2018 (3 years)
George Leftwich	Member	2019 (3 years)
Kimako Desvignes	Member	2019 (3 years)
Andrew Murr	Member	2020 (3 years)
Julie Robles	Member	2019 (3 years)
Andrew Wang	Member	2020 (3 years)
Monica Briseño	Member	2017 (1 year)
Carrie Wagner	Member	2017 (1 year)

ADMINISTRATORS

Hrag Hamalian	Executive Director
Melissa Kaplan	Chief Academic Officer

BRIGHT STAR SCHOOLS

**SCHEDULE OF INSTRUCTIONAL TIME
For the Year Ended June 30, 2017**

	<u>2016-17 Minutes</u>		Traditional	Status
	Requirement	Actual	Calendar Days	
SMCA:				
Grade 5	54,000	66,107	176	In compliance
Grade 6	54,000	66,107	176	In compliance
Grade 7	54,000	61,874	176	In compliance
Grade 8	54,000	61,752	176	In compliance
BSSCA:				
Grade 9	64,800	66,095	179	In compliance
Grade 10	64,800	66,095	179	In compliance
Grade 11	64,800	69,110	179	In compliance
Grade 12	64,800	69,110	179	In compliance
RKMS:				
Grade 6	54,000	71,726	179	In compliance
Grade 7	54,000	71,726	179	In compliance
RKHS:				
Grade 9	64,800	67,518	179	In compliance
Grade 10	64,800	67,518	179	In compliance
VAES:				
Grade TK	36,000	55,915	179	In compliance
Grade K	36,000	55,915	179	In compliance
VAMS:				
Grade 5	54,000	60,482	179	In compliance
Grade 6	54,000	60,482	179	In compliance
Grade 7	54,000	64,425	179	In compliance
Grade 8	54,000	64,425	179	In compliance
VAHS:				
Grade 9	64,800	70,040	179	In compliance
Grade 10	64,800	70,040	179	In compliance

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

BRIGHT STAR SCHOOLS

SCHEDULE OF AVERAGE DAILY ATTENDANCE

For the Year Ended June 30, 2017

	<u>Second Period Report</u>		<u>Annual Report</u>	
	<u>Classroom Based</u>	<u>Total</u>	<u>Classroom Based</u>	<u>Total</u>
SMCA:				
Grades 5 through 6	250.78	250.78	244.97	244.97
Grades 7 through 8	<u>236.82</u>	<u>236.82</u>	<u>235.48</u>	<u>235.48</u>
Subtotal	<u>487.60</u>	<u>487.60</u>	<u>480.45</u>	<u>480.45</u>
BSSCA:				
Grades 9 through 12	<u>521.92</u>	<u>521.92</u>	<u>514.16</u>	<u>514.16</u>
Subtotal	<u>521.92</u>	<u>521.92</u>	<u>514.16</u>	<u>514.16</u>
RKMS:				
Grade 6	112.49	112.49	112.50	112.50
Grade 7	<u>272.43</u>	<u>272.43</u>	<u>270.97</u>	<u>270.97</u>
Subtotal	<u>384.92</u>	<u>384.92</u>	<u>383.47</u>	<u>383.47</u>
RKHS:				
Grades 9 through 12	71.72	71.72	71.31	71.31
Subtotal	<u>71.72</u>	<u>71.72</u>	<u>71.31</u>	<u>71.31</u>
VAES				
Grades TK through 3	76.98	76.98	78.43	78.43
Subtotal	<u>76.98</u>	<u>76.98</u>	<u>78.43</u>	<u>78.43</u>
VAMS:				
Grades 5 through 6	240.12	240.12	239.11	239.11
Grades 7 through 8	<u>234.04</u>	<u>234.04</u>	<u>232.93</u>	<u>232.93</u>
Subtotal	<u>474.16</u>	<u>474.16</u>	<u>472.04</u>	<u>472.04</u>
VAHS:				
Grades 9 through 10	<u>435.26</u>	<u>435.26</u>	<u>430.18</u>	<u>430.18</u>
Subtotal	<u>435.26</u>	<u>435.26</u>	<u>430.18</u>	<u>430.18</u>
ADA Totals	<u>2,452.56</u>	<u>2,452.56</u>	<u>2,430.04</u>	<u>2,430.04</u>

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

BRIGHT STAR SCHOOLS

**RECONCILIATION OF ANNUAL FINANCIAL REPORT
WITH AUDITED FINANCIAL STATEMENTS
For the Year Ended June 30, 2017**

	<u>SMCA</u>	<u>BSSCA</u>	<u>RKMS</u>	<u>RKHS</u>	<u>1st page Total</u>
June 30, 2017 Annual Financial Report Fund Balances (Net Assets)	\$ 1,281,000	\$ 885,733	\$ 281,425	\$ 8,839	\$ 2,456,997
Adjustments and Reclassifications:					
Increasing (Decreasing) the Fund Balance (Net Assets):					
Cash and cash equivalents	154,230	(426,389)	93,635	18,836	(159,688)
Accounts receivable	(497,001)	47,228	332,199	59,712	(57,862)
Prepaid expenses and desposits	41,574	-	(97,672)	-	(56,098)
Intracompany receivable	1,435,574	830,594	699,184	-	2,965,352
Property, plant and equipment, net	(59,214)	(18,843)	(4,760)	(14,777)	(97,594)
Accounts payable	(1,036,286)	(1,110,514)	(1,050,854)	(453,675)	(3,651,329)
Deferred revenue	336	-	-	452,093	452,429
Loans payable	<u>-</u>	<u>654,075</u>	<u>269,713</u>	<u>-</u>	<u>923,788</u>
Net Adjustments and Reclassifications	<u>39,213</u>	<u>(23,849)</u>	<u>241,445</u>	<u>62,189</u>	<u>318,998</u>
June 30, 2017 Audited Financial Statement Fund Balances (Net Assets)	<u>\$ 1,320,213</u>	<u>\$ 861,884</u>	<u>\$ 522,870</u>	<u>\$ 71,028</u>	<u>\$ 2,775,995</u>

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

BRIGHT STAR SCHOOLS

**RECONCILIATION OF ANNUAL FINANCIAL REPORT
WITH AUDITED FINANCIAL STATEMENTS
For the Year Ended June 30, 2017**

	1st page				
	Total	VAES	VAMS	VAHS	Total
June 30, 2017 Annual Financial Report					
Fund Balances (Net Assets)	\$ 2,456,997	\$ 39,722	\$ 1,544,423	\$ 1,366,965	\$ 10,322,101
Adjustments and Reclassifications:					
Increasing (Decreasing) the Fund Balance (Net Assets):					
Cash and cash equivalents	(159,688)	12,070	85,797	117,329	(263,868)
Accounts receivable	(57,862)	61,454	1,819,522	(21,785)	1,685,605
Prepaid expenses and desposits	(56,098)	-	(1,964,495)	(764,514)	(2,897,303)
Intracompany receivable	2,965,352	206,581	1,121,750	731,288	10,955,675
Property, plant and equipment, net	(97,594)	(13,473)	(56,835)	-	(363,090)
Accounts payable	(3,651,329)	(436,701)	(920,690)	(300,103)	(12,611,481)
Deferred revenue	452,429	-	-	-	1,357,287
Loans payable	923,788	266,448	49,874	-	3,087,686
Net Adjustments and Reclassifications	<u>318,998</u>	<u>96,379</u>	<u>134,923</u>	<u>(237,785)</u>	<u>950,511</u>
June 30, 2017 Audited Financial Statement					
Fund Balances (Net Assets)	<u>\$ 2,775,995</u>	<u>\$ 136,101</u>	<u>\$ 1,679,346</u>	<u>\$ 1,129,180</u>	<u>\$ 11,272,612</u>

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

BRIGHT STAR SCHOOLS

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2017**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass Through Entity Identifying Number	SMCA	BSSCA	RKMS	RKHS	VAES	VAMS	VAHS	Total
U.S. Department of Education:										
Pass Through Program From										
California Department of Education:										
Title I, Part A, Basic Grants										
Low-Income and Neglected	84.010	14329	\$ 235,614	\$ 217,565	\$ 138,728	\$ 30,298	\$ 27,972	\$ 194,204	\$ 170,501	\$ 1,014,882
Title V, Public Charter Schools Grant Program	84.282A	14941	-	-	-	411,802	425,759	-	-	837,561
Special Ed: IDEA Basic Local Assistance										
Entitlement, Part B, Sec 611										
(formerly PL 94-142)	84.027	13379	96,563	108,146	75,827	13,831	14,846	93,060	85,536	487,809
Subtotal: Pass-Through Programs			<u>332,177</u>	<u>325,711</u>	<u>214,555</u>	<u>455,931</u>	<u>468,577</u>	<u>287,264</u>	<u>256,037</u>	<u>2,340,252</u>
Pass Through Program From										
Youth Policy Institute:										
NCLB: Title IV, Part B, 21st Century Community Learning Centers (CCLC) - High School ASSETS	84.287	14535	-	248,400	-	-	-	-	-	248,400
<i>Total U.S. Department of Education</i>			<u>332,177</u>	<u>574,111</u>	<u>214,555</u>	<u>455,931</u>	<u>468,577</u>	<u>287,264</u>	<u>256,037</u>	<u>2,588,652</u>
Total Expenditures of Federal Awards			<u>\$ 332,177</u>	<u>\$ 574,111</u>	<u>\$ 214,555</u>	<u>\$ 455,931</u>	<u>\$ 468,577</u>	<u>\$ 287,264</u>	<u>\$ 256,037</u>	<u>\$ 2,588,652</u>

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

BRIGHT STAR SCHOOLS

**NOTES TO THE SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2017**

NOTE 1: PURPOSE OF SCHEDULES

Schedule of Instructional Time

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

Schedule of Average Daily Attendance

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

Reconciliation of Annual Financial Report with Audited Financial Statements

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

Schedule of Expenditures of Federal Awards

The accompanying schedule of expenditures of federal awards (the Schedule) is presented on the accrual basis of accounting and includes the federal award activity of the School under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of the Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of operations of the School, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the School.

Indirect Cost Rate

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

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

Board of Directors
Bright Star Schools
Los Angeles, CA

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Bright Star Schools (the School), a nonprofit California public benefit corporation, which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, cash flows and functional expenses for the year then ended, the related notes to the financial statements, and have issued our report thereon dated December 11, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School’s internal control. Accordingly, we do not express an opinion on the effectiveness of the School’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency or a combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Glendora, CA

December 11, 2017

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

Board of Directors
Bright Star Schools
Los Angeles, CA

Report on Compliance for Each Major Federal Program

We have audited the compliance of Bright Star Schools (the School) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017. The School’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

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

Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for each of the School’s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the School’s compliance.

Opinion on Each Major Federal Program

In our opinion, the School complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

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

Report on Internal Control Over Compliance

Management of the School is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance, for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies in internal control over compliance such that there is a reasonable possibility, that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



CliftonLarsonAllen LLP

Glendora, CA

December 11, 2017

INDEPENDENT AUDITOR’S REPORT ON STATE COMPLIANCE

Board of Directors
 Bright Star Schools
 Los Angeles, CA

We have audited Bright Star Schools’s (the School) compliance with the types of compliance requirements described in the *2016-2017 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel for the year ended June 30, 2017. The School’s State compliance requirements are identified in the table below.

Management’s Responsibility

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

Auditor’s Responsibility

Our responsibility is to express an opinion on the School’s compliance based on our audit of the types of compliance requirements referred to below. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *2016-2017 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the specific areas listed below has occurred. An audit includes examining, on a test basis, evidence about the School’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion on state compliance. Our audit does not provide a legal determination of the School’s compliance.

Compliance Requirements Tested

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

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

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

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

Opinion on State Compliance

In our opinion, the School complied with the laws and regulations of the state programs referred to above in all material respects for the year ended June 30, 2017.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the *2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel, and which are described in the accompanying schedule of findings and questioned costs as item 2017-001. Our opinion on each state program is not modified with respect to these matters.

The School's Response to Findings

The School's response to the noncompliance findings is identified in the accompanying schedule of findings and questioned costs. The School's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report on state compliance is solely to describe the results of testing based on the requirements of the *2016-2017 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel. Accordingly, this report is not suitable for any other purpose.



CliftonLarsonAllen LLP

Glendora, CA

December 11, 2017

BRIGHT STAR SCHOOLS

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2017**

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

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

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major federal awards:

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

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? Yes X No

Identification of Major Federal Programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.282A	Title V, Public Charter Schools Grant Program

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

Auditee qualified as low-risk auditee? X Yes No

BRIGHT STAR SCHOOLS

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2017**

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

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

There were no findings and questioned costs related to the basic financial statements or federal awards for the year ended June 30, 2017.

STATE COMPLIANCE FINDINGS

2017-01 Attendance: Teaching Credential 10000

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

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

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

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

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

BRIGHT STAR SCHOOLS

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2017**

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

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

BRIGHT STAR SCHOOLS

**STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2017**

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