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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial Statements of Bright Star Schools (BSS), (A California Nonprofit Public Benefit Corporation), which are comprised of the Statement of financial position as of June 30, 2019, 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; and the *2018-2019 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial Statements are free from 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 BSS' 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 BSS' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial Statements.

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

Opinion

In our opinion, the financial Statements referred to above present fairly, in all material respects, the respective financial position of the Bright Star Schools, as of June 30, 2019, and the changes in its net assets, and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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 the other supplementary information as listed on the table of contents are presented for purposes of additional analysis and are not a required part of the financial Statements.

The accompanying supplementary 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. Such 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, Schedule of Expenditures of Federal Awards and the other accompanying supplementary 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 our report dated December 11, 2019, 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 11, 2019

Bright Star Schools
Statement of Financial Position
June 30, 2019

	General Support	Stella Middle Charter Academy	Bright Star Secondary Charter Academy	Rise Kohyang Middle School	Valor Academy Middle School
Assets					
Current Assets					
Cash and cash equivalents	\$ 934,488	\$ 9,156,995	\$ 559,275	\$ 712,424	\$ 1,131,944
Accounts receivable	3,758	928,721	1,232,426	761,212	912,612
Due from BSEG	-	430,080	274,574	212,450	173,935
Intercompany receivable	-	3,131,798	1,568,355	-	-
Prepaid expenses/deposits	459	37,208	216,667	196,991	154,560
Total Current Assets	938,705	13,684,802	3,851,297	1,883,077	2,373,051
Non-Current Assets					
Note receivable	-	-	-	-	1,652,873
Fixed assets	107,952	191,010	773,875	734,025	436,265
Less: accumulated depreciation	(38,212)	(191,010)	(82,540)	(70,662)	(218,419)
Total Non-Current Assets	69,740	-	691,335	663,363	1,870,719
	\$ 1,008,445	\$ 13,684,802	\$ 4,542,632	\$ 2,546,440	\$ 4,243,770
Liabilities					
Current Liabilities					
Accounts payable	\$ 28,398	\$ 3,327,113	\$ 234,634	\$ 110,524	\$ 139,193
Deferred revenue	200,000	8,941,957	16,754	1,651	40,617
Intercompany payable	17,070	-	-	1,143,436	879,568
Due to BSEG	217,105	-	-	360,110	-
Loan payable - current portion	-	-	-	-	56,896
Total Current Liabilities	462,573	12,269,070	251,388	1,615,721	1,116,274
Long-Term Liabilities					
Compensated absences	6,571	40,767	45,089	28,850	46,443
Loan payable	-	-	-	-	723,907
Total Long-Term Liabilities	6,571	40,767	45,089	28,850	770,350
	469,144	12,309,837	296,477	1,644,571	1,886,624
Net Assets					
Without Donor Restrictions					
Unrestricted	539,301	1,374,965	4,246,155	901,869	2,357,146
Total Net Assets	539,301	1,374,965	4,246,155	901,869	2,357,146
	\$ 1,008,445	\$ 13,684,802	\$ 4,542,632	\$ 2,546,440	\$ 4,243,770

See Notes to Financial Statements

Bright Star Schools
Statement of Financial Position
June 30, 2019

	Valor Academy High School	Rise Kohyang High School	Valor Academy Elementary School	Stella Elementary Charter Academy
Assets				
Current Assets				
Cash and cash equivalents	\$ 1,271,288	\$ 814,221	\$ 886,692	\$ 346,656
Accounts receivable	881,909	659,778	502,129	91,376
Due from BSEG	-	72,910	-	13,406
Intercompany receivable	-	349,761	-	-
Prepaid expenses/deposits	16,636	624,153	70,498	11,630
Total Current Assets	<u>2,169,833</u>	<u>2,520,823</u>	<u>1,459,319</u>	<u>463,068</u>
Non-Current Assets				
Note receivable	-	-	-	-
Fixed assets	1,771,046	18,682,095	961,788	-
Less: accumulated depreciation	(141,605)	(60,372)	(72,905)	-
Total Non-Current Assets	<u>1,629,441</u>	<u>18,621,723</u>	<u>888,883</u>	<u>-</u>
	<u>\$ 3,799,274</u>	<u>\$ 21,142,546</u>	<u>\$ 2,348,202</u>	<u>\$ 463,068</u>
Liabilities				
Current Liabilities				
Accounts payable	\$ 503,234	\$ 204,790	\$ 297,976	\$ 35,166
Deferred revenue	1,958	20,716,542	-	-
Intercompany payable	1,339,146	-	1,525,268	364,484
Due to BSEG	562,106	14,395	215,753	-
Loan payable - current portion	-	-	-	-
Total Current Liabilities	<u>2,406,444</u>	<u>20,935,727</u>	<u>2,038,997</u>	<u>399,650</u>
Long-Term Liabilities				
Compensated absences	46,022	25,156	19,846	3,886
Loan payable	-	-	-	-
Total Long-Term Liabilities	<u>46,022</u>	<u>25,156</u>	<u>19,846</u>	<u>3,886</u>
	<u>2,452,466</u>	<u>20,960,883</u>	<u>2,058,843</u>	<u>403,536</u>
Net Assets				
Without Donor Restrictions				
Unrestricted	1,346,808	181,663	289,359	59,532
Total Net Assets	<u>1,346,808</u>	<u>181,663</u>	<u>289,359</u>	<u>59,532</u>
	<u>\$ 3,799,274</u>	<u>\$ 21,142,546</u>	<u>\$ 2,348,202</u>	<u>\$ 463,068</u>

See Notes to Financial Statements

Bright Star Schools
Statement of Financial Position
June 30, 2019

	Rise Kohyang Elementary School	Business Office Team	Eliminations	Total
Assets				
Current Assets				
Cash and cash equivalents	\$ -	\$ 345,326	\$ -	\$ 16,159,309
Accounts receivable	101,185	-	-	6,075,106
Due from BSEG	-	713,248	-	1,890,603
Intercompany receivable	-	370,714	(5,420,628)	-
Prepaid expenses/deposits	35,026	15,050	-	1,378,878
Total Current Assets	136,211	1,444,338	(5,420,628)	25,503,896
Non-Current Assets				
Note receivable	-	-	-	1,652,873
Fixed assets	51,800	135,389	-	23,845,245
Less: accumulated depreciation	-	(17,300)	-	(893,025)
Total Non-Current Assets	51,800	118,089	-	24,605,093
	\$ 188,011	\$ 1,562,427	\$ (5,420,628)	\$ 50,108,989
Liabilities				
Current Liabilities				
Accounts payable	\$ 32,229	\$ 104,218	\$ -	\$ 5,017,475
Deferred revenue	-	-	-	29,919,479
Intercompany payable	151,656	-	(5,420,628)	-
Due to BSEG	-	445,715	-	1,815,184
Loan payable - current portion	-	-	-	56,896
Total Current Liabilities	183,885	549,933	(5,420,628)	36,809,034
Long-Term Liabilities				
Compensated absences	3,917	101,944	-	368,491
Loan payable	-	-	-	723,907
Total Long-Term Liabilities	3,917	101,944	-	1,092,398
	187,802	651,877	(5,420,628)	37,901,432
Net Assets				
Without Donor Restrictions				
Unrestricted	209	910,550	-	12,207,557
Total Net Assets	209	910,550	-	12,207,557
	\$ 188,011	\$ 1,562,427	\$ (5,420,628)	\$ 50,108,989

See Notes to Financial Statements

Bright Star Schools
Statement of Activities
June 30, 2019

	<u>General Support</u>	<u>Stella Middle Charter Academy</u>	<u>Bright Star Secondary Charter Academy</u>	<u>Rise Kohyang Middle School</u>	<u>Valor Academy Middle School</u>
Revenues					
Local Control Funding Formula					
State apportionment	\$ -	\$ 3,685,269	\$ 4,743,878	\$ 2,952,303	\$ 3,699,403
In-lieu property taxes	-	1,210,465	1,235,906	977,634	1,225,975
Federal revenue	-	341,391	567,164	256,064	329,953
Other State revenue	-	1,545,786	869,257	1,248,570	1,664,349
Local revenues					
Other revenue	4,948	40,411	273,520	(54,829)	17,724
Interest income	60	-	-	-	-
Contributions	465,769	9,756	5,950	1,198	723
Net assets released from restrictions	-	-	-	-	-
Total Revenues	470,777	6,833,078	7,695,675	5,380,940	6,938,127
Expenses					
Program services	180,662	6,175,478	6,697,541	4,829,738	5,717,827
Management and general	152,492	640,952	746,507	505,224	652,843
Total Expenses	333,154	6,816,430	7,444,048	5,334,962	6,370,670
Non-Operating Activities:					
Non-Operating Revenue					
Settlement Revenue	-	1,254,129	-	-	-
Non-Operating Expenses					
Transfer of Assets to Bright Star Education Group	-	1,254,129	-	-	-
Change in Net Assets	137,623	16,648	251,627	45,978	567,457
Net Assets, Beginning of Year	401,678	1,358,317	3,994,528	855,891	1,789,689
Net Assets, End of Year	\$ 539,301	\$ 1,374,965	\$ 4,246,155	\$ 901,869	\$ 2,357,146

See Notes to Financial Statements

Bright Star Schools
Statement of Activities
June 30, 2019

	Valor Academy High School	Rise Kohyang High School	Valor Academy Elementary School	Stella Elementary Charter Academy
Revenues				
Local Control Funding Formula				
State apportionment	\$ 4,672,320	\$ 2,707,630	\$ 2,498,572	\$ 300,115
In-lieu property taxes	1,216,075	705,571	759,063	90,334
Federal revenue	303,409	222,034	168,573	45,066
Other State revenue	1,384,351	723,938	732,911	144,628
Local revenues				
Other revenue	159,625	141,293	17,076	91
Interest income	-	-	-	-
Contributions	159,430	-	500	450,000
Net assets released from restrictions	(11,077)	-	-	-
Total Revenues	7,884,133	4,500,466	4,176,695	1,030,234
Expenses				
Program services	6,723,761	4,010,231	3,699,665	910,234
Management and general	712,098	415,606	406,997	60,468
Total Expenses	7,435,859	4,425,837	4,106,662	970,702
Non-Operating Activities:				
Non-Operating Revenue				
Settlement Revenue	-	-	-	-
Non-Operating Expenses				
Transfer of Assets to Bright Star Education Group	183,372	-	-	-
Change in Net Assets	264,902	74,629	70,033	59,532
Net Assets, Beginning of Year	1,081,906	107,034	219,326	-
Net Assets, End of Year	<u>\$ 1,346,808</u>	<u>\$ 181,663</u>	<u>\$ 289,359</u>	<u>\$ 59,532</u>

See Notes to Financial Statements

Bright Star Schools
Statement of Activities
June 30, 2019

	Rise Kohyang Elementary School	Business Office Team	Eliminations	Total
Revenues				
Local Control Funding Formula				
State apportionment	\$ -	\$ -	\$ -	\$ 25,259,490
In-lieu property taxes	-	-	-	7,421,023
Federal revenue	129,892	-	-	2,363,546
Other State revenue	-	-	-	8,313,790
Local revenues				
Other revenue	-	3,820,035	(3,820,035)	599,859
Interest income	-	-	-	60
Contributions	-	729,629	-	1,822,955
Net assets released from restrictions	-	-	-	(11,077)
Total Revenues	129,892	4,549,664	(3,820,035)	45,769,646
Expenses				
Program services	129,683	8,621	-	39,083,441
Management and general	-	4,302,325	(3,820,035)	4,775,477
Total Expenses	129,683	4,310,946	(3,820,035)	43,858,918
Non-Operating Activities:				
Non-Operating Revenue				
Settlement Revenue	-	671,832	-	1,925,961
Non-Operating Expenses				
Transfer of Assets to Bright Star Education Group	-	-	-	1,437,501
Change in Net Assets	209	910,550	-	2,399,188
Net Assets, Beginning of Year	-	-	-	9,808,369
Net Assets, End of Year	\$ 209	\$ 910,550	\$ -	\$ 12,207,557

See Notes to Financial Statements

Bright Star Schools
Statement of Cash Flows
Year Ended June 30, 2019

	General Support	Stella Middle Charter Academy	Bright Star Secondary Charter Academy
Operating Activities			
Change in net assets	\$ 137,623	\$ 16,648	\$ 251,627
Adjustments to reconcile change in net assets to net cash provided by operating activities			
Depreciation expense	23,957	3,982	-
Changes in operating assets and liabilities			
(Increase)/Decrease in accounts receivable	(3,758)	(485,554)	(505,486)
Increase/(Decrease) in intercompany receivable/payable, net	102,297	(3,081,782)	37,440
(Increase)/Decrease in prepaid expenses and other assets, net	(459)	(37,208)	(59,158)
Increase/(Decrease) in accounts payable	14,759	2,584,332	(241,613)
Increase/(Decrease) in unearned revenue	(126,111)	8,675,580	-
Increase/(Decrease) in other liabilities	48,255	40,767	45,089
Net Cash Provided by/(Used in) Operating Activities	<u>196,563</u>	<u>7,716,765</u>	<u>(472,101)</u>
Investing Activities			
Change in capital assets, net	<u>(22,422)</u>	<u>241,100</u>	<u>(691,335)</u>
Financing Activities			
Loan payment	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Cash and Cash Equivalents	174,141	7,957,865	(1,163,436)
Cash and Cash Equivalents, Beginning of Year	<u>760,347</u>	<u>1,199,130</u>	<u>1,722,711</u>
Cash and Cash Equivalents, End of Year	<u>\$ 934,488</u>	<u>\$ 9,156,995</u>	<u>\$ 559,275</u>
Supplemental cash flow disclosure			
Cash paid during the period in interest	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See Notes to Financial Statements

Bright Star Schools
Statement of Cash Flows
Year Ended June 30, 2019

	Rise Kohyang Middle School	Valor Academy Middle School	Valor Academy High School
Operating Activities			
Change in net assets	\$ 45,978	\$ 567,457	\$ 264,902
Adjustments to reconcile change in net assets to net cash provided by operating activities			
Depreciation expense	9,641	77,871	133,785
Changes in operating assets and liabilities			
(Increase)/Decrease in accounts receivable	(178,580)	(343,095)	(168,490)
Increase/(Decrease) in intercompany receivable/payable, net	(13,918)	1,011,115	1,434,947
(Increase)/Decrease in prepaid expenses and other assets, net	(97,816)	270	55,525
Increase/(Decrease) in accounts payable	(119,655)	(68,188)	(32,838)
Increase/(Decrease) in unearned revenue	-	(242,662)	-
Increase/(Decrease) in other liabilities	28,850	46,443	46,022
Net Cash Provided by/(Used in) Operating Activities	<u>(325,500)</u>	<u>1,049,211</u>	<u>1,733,853</u>
Investing Activities			
Change in capital assets, net	<u>-</u>	<u>(225,444)</u>	<u>(1,546,931)</u>
Financing Activities			
Loan payment	<u>-</u>	<u>(56,040)</u>	<u>-</u>
Net Change in Cash and Cash Equivalents	(325,500)	767,727	186,922
Cash and Cash Equivalents, Beginning of Year	<u>1,037,924</u>	<u>364,217</u>	<u>1,084,366</u>
Cash and Cash Equivalents, End of Year	<u>\$ 712,424</u>	<u>\$ 1,131,944</u>	<u>\$ 1,271,288</u>
Supplemental cash flow disclosure			
Cash paid during the period in interest	<u>\$ -</u>	<u>\$ 12,168</u>	<u>\$ -</u>

See Notes to Financial Statements

Bright Star Schools
Statement of Cash Flows
Year Ended June 30, 2019

	Rise Kohyang High School	Valor Academy Elementary School	Stella Elementary Charter Academy
Operating Activities			
Change in net assets	\$ 74,629	\$ 70,033	\$ 59,532
Adjustments to reconcile change in net assets to net cash provided by operating activities			
Depreciation expense	30,818	35,138	-
Changes in operating assets and liabilities			
(Increase)/Decrease in accounts receivable	50,134	(49,531)	(104,220)
Increase/(Decrease) in intercompany receivable/payable, net	(1,198,830)	1,038,021	351,078
(Increase)/Decrease in prepaid expenses and other assets, net	(624,153)	(21,477)	(11,630)
Increase/(Decrease) in accounts payable	92,344	187,908	48,010
Increase/(Decrease) in unearned revenue	20,716,542	-	-
Increase/(Decrease) in other liabilities	25,156	19,846	3,886
Net Cash Provided by/(Used in) Operating Activities	<u>19,166,640</u>	<u>1,279,938</u>	<u>346,656</u>
Investing Activities			
Change in capital assets, net	<u>(18,637,764)</u>	<u>(885,954)</u>	<u>-</u>
Financing Activities			
Loan payment	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Cash and Cash Equivalents	528,876	393,984	346,656
Cash and Cash Equivalents, Beginning of Year	<u>285,345</u>	<u>492,708</u>	<u>-</u>
Cash and Cash Equivalents, End of Year	<u>\$ 814,221</u>	<u>\$ 886,692</u>	<u>\$ 346,656</u>
Supplemental cash flow disclosure			
Cash paid during the period in interest	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See Notes to Financial Statements

Bright Star Schools
Statement of Cash Flows
Year Ended June 30, 2019

	Rise Kohyang Elementary School	Business Office Team	Total
Operating Activities			
Change in net assets	\$ 209	\$ 910,550	\$ 2,399,188
Adjustments to reconcile change in net assets to net cash provided by operating activities			
Depreciation expense	-	9,026	324,218
Changes in operating assets and liabilities			
(Increase)/Decrease in accounts receivable	(101,185)	-	(1,889,765)
Increase/(Decrease) in intercompany receivable/payable, net	158,834	(638,247)	(799,045)
(Increase)/Decrease in prepaid expenses and other assets, net	(35,026)	(15,050)	(846,182)
Increase/(Decrease) in accounts payable	25,051	104,218	2,594,328
Increase/(Decrease) in unearned revenue	-	-	29,023,349
Increase/(Decrease) in other liabilities	3,917	101,944	410,175
Net Cash Provided by/(Used in) Operating Activities	<u>51,800</u>	<u>472,441</u>	<u>31,216,266</u>
Investing Activities			
Change in capital assets, net	<u>(51,800)</u>	<u>(127,115)</u>	<u>(21,947,665)</u>
Financing Activities			
Loan payment	<u>-</u>	<u>-</u>	<u>(56,040)</u>
Net Change in Cash and Cash Equivalents	-	345,326	9,212,561
Cash and Cash Equivalents, Beginning of Year	<u>-</u>	<u>-</u>	<u>6,946,748</u>
Cash and Cash Equivalents, End of Year	<u>\$ -</u>	<u>\$ 345,326</u>	<u>\$ 16,159,309</u>
Supplemental cash flow disclosure			
Cash paid during the period in interest	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,168</u>

See Notes to Financial Statements

Bright Star Schools
Statement of Functional Expenses
Year Ended June 30, 2019

	Program Services	Management and General	Total Expenses
Salaries and wages	\$ 19,097,925	\$ 2,822,425	\$ 21,920,350
Pension expense	4,405,331	85,542	4,490,873
Other employment benefits	1,781,113	174,763	1,955,876
Payroll taxes	582,070	191,214	773,284
Management Fees	1,080,840	4,143,974	5,224,814
Legal expenses	47,330	86,366	133,696
Instructional materials	646,126	1,022	647,148
Other fees for services	3,263,067	305,178	3,568,245
Advertising and promotion expenses	24,488	37,752	62,240
Office expenses	534,417	66,289	600,706
Information technology expenses	797,945	94,985	892,930
Occupancy expenses	3,952,414	23,048	3,975,462
Travel expenses	540,839	4,325	545,164
Depreciation expense	315,192	9,026	324,218
Insurance expence	424,588	47,252	471,840
Other expenses	1,589,756	502,351	2,092,107
	<u>39,083,441</u>	<u>8,595,512</u>	<u>47,678,953</u>
Total			
Eliminations	<u>-</u>	<u>(3,820,035)</u>	<u>(3,820,035)</u>
	<u>\$ 39,083,441</u>	<u>\$ 4,775,477</u>	<u>\$ 43,858,918</u>

See Notes to Financial Statements

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

- 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)
- Stella Elementary Charter Academy (SECA)
- Rise Kohyang Elementary School (RKES)
- 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.

Cash and Cash Equivalents

BSS considers all cash and highly liquid financial instruments with original maturities of three months or less, and which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents.

Receivables and Credit Policies

Accounts receivable consist primarily of noninterest-bearing amounts due for educational programs. Management determines the allowance for uncollectable accounts receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Accounts receivable are written off when deemed uncollectable. At June 30, 2019, there was no provision for the allowance for uncollectible accounts receivable.

Intercompany Receivable/Payable

Intercompany receivable/payable results from a net cumulative difference between resources provided by the Business Office account to each charter school and reimbursement for those resources from each charter school to the Business Office account. Operating transfers include certain costs of shared liabilities and shared assets between charter schools.

Prepaid Expenses/Security Deposit

Prepaid expenses represent amounts paid in advance of receiving goods or services. BSS has reported prepaid items either when purchased or during the benefiting period. Security deposits represent amounts paid per the rental agreement of facilities that will not be returned within one year and are recorded as current assets.

Fixed Assets

Fixed assets 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. Depreciation expense for the year ended June 30, 2019, was \$324,218.

BSS reviews the carrying values of fixed assets 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, 2019.

Compensated Absences

Compensated absences are accrued as a liability as the benefits are earned. The entire compensated absence balance is reported on the Statement of financial position.

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 of accumulated depreciation. BSS' policy is to designate donor funds without restriction at the discretion of the board of directors. As of June 30, 2019, the Organization 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 reports contributions restricted by donors as increases in net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statements of activities as net assets released from restrictions. As of June 30, 2019, BSS had no net assets with donor restrictions.

Revenue and Revenue Recognition

Revenue is recognized when earned. 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. BSS receives Federal grants, which are paid through the California Department of Education or other State agencies. Revenues related to these Federal grants are recognized when qualifying expenses have been incurred and when all other grant requirements have been met. Unrestricted support given by the State is recognized as revenue when received. Any such funds received in advance are deferred to the applicable period in which the related services are performed, or expenditures are incurred, respectively.

Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. BSS' Federal and State contracts and grants are conditioned upon certain performance requirements and the incurrence of allowable qualifying expenses. Consequently, at June 30, 2019, conditional contributions approximating \$29,658,499, for which amounts had been received in advance, have not been recognized in the accompanying consolidated financial Statements.

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, 2019.

Functional Allocation of Expenses

The costs of providing the various program and supporting services have been summarized on a functional basis in the Statements of activities and the Statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

The financial Statements report expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. All expenses, excluding depreciation and grant disbursements are allocated on the basis of estimates of time and effort.

Income Taxes

BSS is a California nonprofit public benefit corporation that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation. It is also exempt from State franchise and income taxes under Section 23701(d) of the California Revenue and Taxation Code. Accordingly, no provision for income taxes has been reflected in these financial Statements. Income tax returns for 2015 and forward may be audited by regulatory agencies; however, BSS is not aware of any such actions at this time.

BSS has adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740 that clarifies the accounting for uncertainty in tax positions taken or expected to be taken on a tax return and provides that the tax effects from an uncertain tax position can be recognized in the financial Statements only if, based on its merits, the position is more likely than not to be sustained on audit by the taxing authorities. Management believes that all tax positions taken to date are highly certain, and, accordingly, no accounting adjustment has been made to the financial Statements.

Use of 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. Actual results could differ from those estimates, and those differences could be material.

Change in Accounting Policy

FASB has issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, to clarify and improve the scope and the accounting guidance for contributions received and contributions made. This standard assists the Organization in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. BSS has implemented the provisions of ASU 2018-08 applicable to both contributions received and to contributions made in the accompanying consolidated financial Statements under a modified prospective basis. Accordingly, there is no effect on net assets in connection with the implementation of ASU 2018-08.

As of July 1, 2018, BSS adopted the provisions of Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements for Not-For-Profit Entities*. The provisions of the ASU replace the existing three classes of net assets with two new classes (net assets without donor restrictions and net assets with donor restrictions) and enhance the disclosure requirements for BSS' donor restricted endowment funds and underwater endowments. The ASU introduces new disclosure requirements to provide information about what is included or excluded from BSS' intermediate measure of operations as well as disclosures to improve a financial Statement user's ability to assess BSS' liquidity and exposure to risk. The ASU also introduces new reporting requirements to present expenses by both function and natural classification in a single location and to present investment returns on the Statements of activities net of external and direct internal investment expenses.

The amendments should be applied on a retrospective basis; however, if presenting comparative financial Statements, the ASU allows for the option to omit, for any periods presented before the period of adoption, the analysis of expenses by both natural classification and functional classification (the separate presentation of expenses by functional classification and expenses by natural classification is still required), and the disclosure about liquidity and availability of resources. BSS has elected not to present comparative information for these amendments.

BSS has adopted this standard as management believes the standard improves the usefulness and understandability of BSS' financial reporting.

Adjustments Resulting from Change in Accounting Policy

As disclosed above, BSS adopted the provisions of ASU 2016-14, Presentation of Financial Statements for Not-For-Profit Entities as of June 30, 2019. Following is a summary of the effects of the change in accounting policy in BSS' June 30, 2018 financial Statements.

	As Previously Reported	Adoption of ASU 2016-14	As Adjusted
Unrestricted	\$ 9,797,292	\$ (9,797,292)	\$ -
Temporarily restricted net assets	11,077	(11,077)	-
Net assets without donor restrictions	-	9,797,292	9,797,292
Net assets with donor restrictions	-	11,077	11,077
	<u>\$ 9,808,369</u>	<u>\$ -</u>	<u>\$ 9,808,369</u>

Note 2 - Cash and Cash Equivalents

Cash and cash equivalents at June 30, 2019, consisted of the following:

	Reported Amount	Bank Balance
Deposits		
Cash on hand and in banks	<u>\$ 16,159,309</u>	<u>\$ 16,460,582</u>

Cash balances held in banks are insured up to \$250,000 by the Federal Depository Insurance Corporation (FDIC). BSS maintains its cash in bank deposit accounts that at times may exceed Federally insured limits. BSS has not experienced any losses in such accounts. At June 30, 2019, BSS had a balance of \$16,210,582 in excess of FDIC insured limits. Management believes that BSS is not exposed to any significant risk related to cash.

Note 3 - Liquidity and Availability

Financial assets 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 and cash equivalents	\$ 16,159,309
Accounts receivable and due from BSEG	<u>7,965,709</u>
	<u><u>\$ 24,125,018</u></u>

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. BSS invests cash in excess of daily requirements in county investment pools and money market funds. Occasionally, the board will designate a portion of any operating surplus to its operating reserve. As of June 30, 2019, no reserves are recorded.

Note 4 - Accounts Receivable

Receivables at June 30, 2019, consisted of the following:

Local Control Funding Formula	
State principal apportionment	\$ 2,079,058
In-lieu property taxes	609,310
Federal receivables	2,000,083
Other State receivables	1,218,061
Lottery	164,462
Local receivables	<u>4,132</u>
	<u><u>\$ 6,075,106</u></u>

Note 5 - Prepaid Expenses/Deposits

Prepaid expenses and deposits at June 30, 2019, consisted of the following:

Security deposit	\$ 230,966
Rent	246,569
Insurance	203,511
Materials and supplies	585,695
Other	<u>112,137</u>
	<u><u>\$ 1,378,878</u></u>

Note 6 - Note Receivable

In December 2014, BSS extended a loan of \$1,652,873 to the Pacific Charter School Development Facility Project, which is presented as a long-term receivable in the Statement of financial position. The note bears an interest rate of 1.50 percent and the financing matures on December 1, 2029. Principal payments on the note start in January 2021. The note receivable balance as of June 30, 2019 was \$1,652,873.

Fiscal Year Ending June 30,	Principal	Interest	Total
2020	\$ -	\$ 25,206	\$ 25,206
2021	-	25,137	25,137
2022	97,561	24,830	122,391
2023	197,289	22,285	219,574
2024	200,257	19,314	219,571
2025-2029	1,048,489	47,983	1,096,472
2030	109,277	487	109,764
	<u>\$ 1,652,873</u>	<u>\$ 165,242</u>	<u>\$ 1,818,115</u>

Note 7 - Fixed Assets

Fixed assets at June 30, 2019, consisted of the following:

Land	\$ 17,367,232
Building/leasehold improvements	410,141
Equipment	574,682
Computer equipment	814,229
Work in progress	<u>4,678,961</u>
Subtotal	23,845,245
Less: accumulated depreciation	<u>(893,025)</u>
	<u>\$ 22,952,220</u>

During the year ended June 30, 2019, \$324,218 was charged to BSS for depreciation expense.

Note 8 - Accounts Payable

Accounts payables at June 30, 2019 consisted of the following:

Salaries and benefits	\$ 349,251
Supplies	390,910
Services	969,855
Construction	3,205,512
Other vendor payables	31,780
Due to BSEG	70,167
	<u>\$ 5,017,475</u>

Note 9 - Deferred Revenue

Deferred revenue at June 30, 2019, consists of the following:

Federal financial assistance	\$ 532,922
State categorical aid	20,224,237
Other local	9,162,320
	<u>\$ 29,919,479</u>

Note 10 - Long-Term Liabilities

Loan 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 1.2 percent and matures on November 1, 2020. The note includes a \$1,652,873 loan to the Pacific Charter School Development Facility Project (Note 6), which is presented as a long-term receivable in the Statement of financial position. The loan matures on November 1, 2020. The loan balance as of June 30, 2019 was \$780,803.

Repayments of principal is due as follows:

<u>Fiscal Year Ending June 30,</u>	<u>VAMS</u>
2020	\$ 56,896
2021	723,907
	<u>\$ 780,803</u>

Compensated Absences

Compensated absences (unpaid employee vacation) for BSS at June 30, 2019, amounted to \$368,491.

Note 11 - Operating Leases

Operating Leases for School Sites

SMCA entered into a lease for the property located in Los Angeles, California. The term is from July 1, 2018 through July 31, 2024. Rent expense for the year ended June 30, 2019 was \$262,828.

VAES entered into a lease agreement for property in Los Angeles, California to be used by VAES. The lease commenced on July 1, 2016 and ends June 30, 2020, with an option to extend. Rent expense for the year ended June 30, 2019 was \$268,095.

VAMS 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, 2019 was \$543,615.

VAHS entered into a lease agreement for property in Los Angeles, California to be used by VAHS. The lease commenced on July 1, 2018 and ends June 30, 2020. Rent expense for the year ended June 30, 2019 was \$990,681.

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, 2020. Rent expense for the year ended June 30, 2019 was \$697,377.

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 commenced in September 2017 and ends June 30, 2047. Rent expense for the year ended June 30, 2019 was \$600,614.

Future minimum lease payments are as follows:

Year Ending June 30	SMCA	VAES	VAMS	VAHS	RKMS	RKHS	Total
2020	\$ 192,000	\$ 360,000	\$ 547,000	\$ 911,680	\$ 724,260	\$ 969,504	\$ 3,704,444
2021	192,000	-	547,000	-	-	969,504	1,708,504
2022	198,000	-	687,583	-	-	969,504	1,855,087
2023	204,000	-	788,000	-	-	969,504	1,961,504
2024	210,000	-	788,000	-	-	969,504	1,967,504
Thereafter	-	-	788,000	-	-	22,298,592	23,086,592
	<u>\$ 996,000</u>	<u>\$ 360,000</u>	<u>\$ 4,145,583</u>	<u>\$ 911,680</u>	<u>\$ 724,260</u>	<u>\$ 27,146,112</u>	<u>\$ 34,283,635</u>

Note 12 - Line of Credit

At June 30, 2019, BSS had a \$2,000,000 unsecured line of credit from City National Bank (CNB) to be drawn upon as needed. The line of credit bears a variable interest rate equal to CNB's prime rate plus 2.50 percent. As of June 30, 2019, BSS had no outstanding balance.

Note 13 - 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, 2018, 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 percent 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, 2019, are summarized as follows:

	STRP Defined Benefit Program	
	On or before	On or after
Hire date	2% at 60	2% at 62
Benefit formula	5 years of service	5 years of service
Benefit vesting schedule	Monthly for life	Monthly for life
Benefit payments	60	62
Retirement age	2.0% - 2.4%	2.0% - 2.4%
Monthly benefits as a percentage of eligible compensation	10.25%	10.205%
Required employee contribution rate	16.28%	16.28%
Required employer contribution rate	9.828%	9.828%
Required state contribution rate		

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 percent of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2019, are presented above and BSS' total contributions were \$2,383,266.

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the School. These payments consist of State General Fund contributions to CalSTRS in the amount of \$1,987,702 (9.828 percent of salaries subject to CalSTRS and SB 90 contribution). Senate Bill 90 (Chapter 33, Statutes of 2019), which was signed by the Governor on June 27, 2019, appropriated for an additional 2018-2019 contribution on behalf of school employers of \$2.2456 billion for CalSTRS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, both amounts have been recorded in these financial Statements.

Note 14 - Contingencies

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.

Litigation

BSS is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the BSS at June 30, 2019.

Note 15 - 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 \$732,223 as of June 30, 2019.

BSS has a grant receivable of \$500,000 from BSEG, as well as \$1,390,603 receivable from BSEG related to expenses paid by BSS for the BSEG as of June 30, 2019. BSS has a related party liability as of June 30, 2019 of \$1,815,184 related to expenses paid by BSEG for BSS.

Note 16 - Subsequent Events

BSS' management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial Statements through December 11, 2019, 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, 2019

Bright Star Schools
Schedules of Expenditures of Federal Awards
Year Ended June 30, 2019

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Total Federal Program Expenditures
U.S. Department of Education			
Direct Award			
Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP)	84.334A	[1]	\$ 46,253
Passed Through the California Department of Education (CDE):			
Title I, Part A - Basic Grant, Low Income and Neglected	84.010	14329	1,222,730
Title IV, Part A - Student Support and Academic Enrichment Grants	84.424	15396	90,002
Title V, Part C - Public Charter Schools Grant Program	84.282A	15385	167,584
Passed Through Youth Policy Institutes			
Title IV, Part B - 21st Century Community Learning Centers (CCLC) - High School ASSETS	84.287	14535	233,750
Passed Through Los Angeles Unified School District (LAUSD)			
Special Education (IDEA) Cluster			
Basic Local Assistance Entitlement, Part B, Section 611	84.027	13379	<u>603,227</u>
Total U.S. Department of Education			<u>\$ 2,363,546</u>

[1] Direct Award. Pass-Through Entity Identifying Number not available.

Organization

Bright Star Schools is a nonprofit public benefit corporation and operates nine charter schools approved by the Los Angeles 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, 2019 were as follows:

Governing Board

Member	Office	Term Expires
Larry Klein	Board Chairman	2022
James McGrath	Secretary	2020
Stephen Green	Member	2021
Elizabeth Yeo	Member	2020
David Valentine	Member	2021
Lois Levy	Member	2019
Esther Perez	Member	2021
Greg Gonzalez	Member	2021
George Leftwich	Member	2019
Kiamko Desvignes	Member	2019
Andrew Murr	Member	2020
Andrew Wang	Member	2020
Louisa Wee	Member	2021
Robin Elledge	Member	2020

Administration

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

See Notes to Supplementary Information

Bright Star Schools
Schedule of Average Daily Attendance
Year Ended June 30, 2019

	Final Report	
	Second Period Report	Annual Report
Stella Elementary Charter Academy (SECA)		
Regular ADA		
Transitional kindergarten through third	35.51	36.11
Total Regular ADA	<u>35.51</u>	<u>36.11</u>
Classroom based ADA		
Transitional kindergarten through third	35.51	36.11
Total Classroom Based ADA	<u>35.51</u>	<u>36.11</u>
Stella Middle Charter Academy (SMCA)		
Regular ADA		
Fourth through sixth	221.94	221.28
Seventh and eighth	251.55	249.69
Total Regular ADA	<u>473.49</u>	<u>470.97</u>
Classroom based ADA		
Fourth through sixth	221.94	221.28
Seventh and eighth	251.55	249.69
Total Classroom Based ADA	<u>473.49</u>	<u>470.97</u>
Bright Star Secondary Charter Academy (BSSCA)		
Regular ADA		
Ninth through twelfth	483.29	476.53
Total Regular ADA	<u>483.29</u>	<u>476.53</u>
Classroom based ADA		
Ninth through twelfth	483.29	476.53
Total Classroom Based ADA	<u>483.29</u>	<u>476.53</u>
Rise Kohyang Middle School (RKMS)		
Regular ADA		
Fourth through sixth	134.64	133.51
Seventh and eighth	247.75	246.00
Total Regular ADA	<u>382.39</u>	<u>379.51</u>
Classroom based ADA		
Fourth through sixth	134.64	133.51
Seventh and eighth	247.75	246.00
Total Classroom Based ADA	<u>382.39</u>	<u>379.51</u>

See Notes to Supplementary Information

Bright Star Schools
Schedule of Average Daily Attendance
Year Ended June 30, 2019

	Final Report	
	Second Period Report	Annual Report
Rise Kohyang High School (RKHS)		
Regular ADA		
Ninth through twelfth	276.64	275.53
Total Regular ADA	276.64	275.53
Classroom based ADA		
Ninth through twelfth	276.64	275.53
Total Classroom Based ADA	276.64	275.53
Valor Academy Elementary School (VAES)		
Regular ADA		
Transitional kindergarten through third	297.55	296.73
Total Regular ADA	297.55	296.73
Classroom based ADA		
Transitional kindergarten through third	297.55	296.73
Total Classroom Based ADA	297.55	296.73
Valor Academy Middle School (VAMS)		
Regular ADA		
Fourth through sixth	241.56	241.07
Seventh and eighth	238.00	237.39
Total Regular ADA	479.56	478.46
Classroom based ADA		
Fourth through sixth	241.56	241.07
Seventh and eighth	238.00	237.39
Total Classroom Based ADA	479.56	478.46
Valor Academy High School (VAHS)		
Regular ADA		
Ninth through twelfth	476.31	472.72
Total Regular ADA	476.31	472.72
Classroom based ADA		
Ninth through twelfth	476.31	472.72
Total Classroom Based ADA	476.31	472.72

Stella Elementary Charter Academy (SECA)

Grade Level	1986-87 Minutes Requirement	2018-19 Actual Minutes	Number of Days		Status
			Traditional Calendar	Multitrack Calendar	
Kindergarten	36,000	48,450	175	-	Complied

Stella Middle Charter Academy (SMCA)

Grade Level	1986-87 Minutes Requirement	2018-19 Actual Minutes	Number of Days		Status
			Traditional Calendar	Multitrack Calendar	
Grades 4 - 6	54,000				
Grade 4		57,714	177	-	Complied
Grade 5		57,714	177	-	Complied
Grade 6		57,714	177	-	Complied
Grades 7 - 8	54,000				
Grade 7		57,714	177	-	Complied
Grade 8		57,714	177	-	Complied

Bright Star Secondary Charter Academy (BSSCA)

Grade Level	1986-87 Minutes Requirement	2018-19 Actual Minutes	Number of Days		Status
			Traditional Calendar	Multitrack Calendar	
Grades 9 - 12	64,800				
Grade 9		68,834	177	-	Complied
Grade 10		68,834	177	-	Complied
Grade 11		68,834	177	-	Complied
Grade 12		68,834	177	-	Complied

Rise Kohyang Middle School (RKMS)

Grade Level	1986-87 Minutes Requirement	2018-19 Actual Minutes	Number of Days		Status
			Traditional Calendar	Multitrack Calendar	
Grades 4 - 6	54,000				
Grade 4		59,517	177	-	Complied
Grade 5		59,517	177	-	Complied
Grade 6		59,517	177	-	Complied
Grades 7 - 8	54,000				
Grade 7		59,346	177	-	Complied
Grade 8		59,346	177	-	Complied

Rise Kohyang High School (RKHS)

Grade Level	1986-87 Minutes Requirement	2018-19 Actual Minutes	Number of Days		Status
			Traditional Calendar	Multitrack Calendar	
Grades 9 - 12	64,800				
Grade 9		64,894	178	-	Complied
Grade 10		64,894	178	-	Complied
Grade 11		64,894	178	-	Complied
Grade 12		64,894	178	-	Complied

Valor Academy Elementary School (VAES)

Grade Level	1986-87 Minutes Requirement	2018-19 Actual Minutes	Number of Days		Status
			Traditional Calendar	Multitrack Calendar	
Kindergarten	36,000	54,120	177	-	Complied
Grades 1 - 3	50,400				
Grade 1		56,775	177	-	Complied
Grade 2		56,775	177	-	Complied
Grade 3		56,775	177	-	Complied

Valor Academy Middle School (VAMS)

Grade Level	1986-87 Minutes Requirement	2018-19 Actual Minutes	Number of Days		Status
			Traditional Calendar	Multitrack Calendar	
Grades 4 - 6	54,000				
Grade 4		57,092	176	-	Complied
Grade 5		57,092	176	-	Complied
Grade 6		57,092	176	-	Complied
Grades 7 - 8	54,000				
Grade 7		58,132	176	-	Complied
Grade 8		58,132	176	-	Complied

Valor Academy High School (VAHS)

Grade Level	1986-87 Minutes Requirement	2018-19 Actual Minutes	Number of Days		Status
			Traditional Calendar	Multitrack Calendar	
Grades 9 - 12	64,800				
Grade 9		70,570	176	-	Complied
Grade 10		70,570	176	-	Complied
Grade 11		70,570	176	-	Complied
Grade 12		70,570	176	-	Complied

Bright Star Schools
Reconciliation of Annual Financial Report with Audited Financial Statements
Year ended June 30, 2019

	SMCA	BCCSA	RKMS	VAMS	VAHS
Net Assets					
Balance, June 30, 2019, Unaudited Actuals	\$ 1,557,484	\$ 4,363,232	\$ 1,139,179	\$ 2,617,270	\$ 1,955,842
Decrease in					
Accounts receivable	(146,622)	(118,477)	(1,226,959)	(966,483)	(1,355,776)
Prepays	(25,096)	(125)	(62,331)	(1,698,727)	(160,320)
Fixed assets	-	-	-	-	(172,890)
Accounts payable	-	1,525	1,051,980	-	1,079,952
Deferred revenue	-	-	-	780,803	-
Increase in					
Accounts receivable	-	-	-	-	-
Intercompany receivables	-	-	-	1,652,873	-
Prepays	-	-	-	-	-
Fixed assets	-	-	-	-	-
Accounts payable	(10,501)	-	-	(28,590)	-
Deferred revenue	(300)	-	-	-	-
Balance, June 30, 2019,					
Audited Financial Statements	<u>\$ 1,374,965</u>	<u>\$ 4,246,155</u>	<u>\$ 901,869</u>	<u>\$ 2,357,146</u>	<u>\$ 1,346,808</u>
Net Assets					
	RKHS	VAES	SECA	RKES	Total
Balance, June 30, 2019, Unaudited Actuals	\$ 108,270	\$ 498,440	\$ 124,290	\$ -	\$ 12,364,007
Decrease in					
Accounts receivable	-	(1,528,669)	(364,485)	(24,446)	(5,731,917)
Prepays	(15)	(7,899)	-	-	(1,954,513)
Fixed assets	-	-	-	-	(172,890)
Accounts payable	-	1,327,487	-	(36,145)	3,424,799
Deferred revenue	-	-	-	-	780,803
Increase in					
Accounts receivable	85,091	-	-	-	85,091
Intercompany receivables	-	-	-	-	1,652,873
Prepays	-	-	-	9,000	9,000
Fixed assets	-	-	-	51,800	51,800
Accounts payable	(11,683)	-	299,727	-	248,953
Deferred revenue	-	-	-	-	(300)
Balance, June 30, 2019,					
Audited Financial Statements	<u>\$ 181,663</u>	<u>\$ 289,359</u>	<u>\$ 59,532</u>	<u>\$ 209</u>	<u>\$ 10,757,706</u>

See Notes to Supplementary Information

Note 1 - Purpose of Supplementary Schedules

Schedule of Expenditures of Federal Awards

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity and is presented on the accrual basis of accounting. The information in this schedule 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). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial Statements. Bright Star Schools has not elected to use the ten percent de minimis cost rate as covered in Section 200.414 Indirect (F&A) costs of the Uniform Guidance.

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

This schedule presents information on the amount of instructional time offered by Bright Star Schools for each charter school operated and whether the charter schools complied with provisions of *Education Code* Sections 46200 and 46206. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made through the Los Angeles Unified School District to Bright Star Schools.

Schedule of Instructional Time

This schedule presents information on the amount of instructional time offered by each of the charter schools and whether the charter schools complied with the provisions of *Education Code* Sections 47612 and 47612.5, if applicable.

The charter schools must maintain their instructional minutes at the 1986-87 requirements, 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 of all Bright Star Schools' charter school funds reported on the Unaudited Actual Financial Report to the audited financial Statements.



**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, 2019, and the related Statements of activities, cash flows, and functional expenses for the fiscal year then ended, and the related notes to the financial Statements, and have issued our report thereon dated December 11, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial Statements, we considered Bright Star Schools' internal control over financial reporting (internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial Statements, but not for the purpose of expressing an opinion on the effectiveness of Bright Star Schools' internal control. Accordingly, we do not express an opinion on the effectiveness of Bright Star Schools' 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 Bright Star Schools' financial Statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. 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.

Compliance and Other Matters

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

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

A handwritten signature in black ink that reads "Eide Sully LLP". The signature is written in a cursive, flowing style.

Rancho Cucamonga, California
December 11, 2019



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

Governing Board
Bright Star Schools
Los Angeles, California

Report on Compliance for Each Major Federal Program

We have audited Bright Star Schools' compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of Bright Star Schools' (BSS) major Federal programs for the year ended June 30, 2019. Bright Star Schools' 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 the Federal statutes, regulations, and the terms and conditions of its Federal awards applicable to its Federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Bright Star Schools' 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 Bright Star Schools' 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 Bright Star Schools' compliance.

Opinion on Each Major Federal Program

In our opinion, Bright Star Schools 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, 2019.

Report on Internal Control over Compliance

Management of Bright Star Schools 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 Bright Star Schools' 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 Bright Star Schools' 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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



Rancho Cucamonga, California
December 11, 2019



Independent Auditor's Report on State Compliance

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

Report on State Compliance

We have audited Bright Star Schools' (BSS) compliance with the types of compliance requirements as identified in the 2018-2019 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting that could have a direct and material effect on each of Bright Star Schools' State government programs as noted below for the year ended June 30, 2019.

Management's Responsibility

Management is responsible for compliance with the requirements of State laws, regulations, and the terms and conditions of its State awards applicable to its State programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of Bright Star Schools' State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit 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 2018-2019 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about Bright Star Schools' 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 opinions. Our audit does not provide a legal determination of the Bright Star Schools' compliance with those requirements.

Unmodified Opinion

In our opinion, Bright Star Schools complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2019.

In connection with the audit referred to above, we selected and tested transactions and records to determine Bright Star Schools' compliance with the State laws and regulations applicable to the following items:

	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
School Districts, County Offices of Education, and Charter Schools	
California Clean Energy Jobs Act	Yes
After/Before School Education and Safety Program:	
General Requirements	Yes
After School	Yes
Before School	Yes
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Independent Study - Course Based	No, see below
Charter Schools	
Attendance	Yes
Mode of Instruction	Yes
Nonclassroom-Based Instruction/Independent Study for Charter Schools	No, see below
Determination of Funding for Nonclassroom-Based Instruction	No, see below
Annual Instruction 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 Bright Star Schools; therefore, we did not perform any related procedures.

Bright Star Schools does not operate Independent Study – Course Based instruction; therefore, we did not perform any related procedures.

Bright Star Schools does not offer Nonclassroom-Based Instruction; therefore, we did not perform any procedures related to Nonclassroom-Based Instruction/Independent Study for Charter Schools or Determination of Funding for Nonclassroom-Based Instruction.

A handwritten signature in black ink that reads "Eide Sully LLP". The signature is written in a cursive, flowing style.

Rancho Cucamonga, CA
December 11, 2019

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness identified?	No
Significant deficiency identified?	None Reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major Federal programs:	
Material weakness identified?	No
Significant deficiency identified?	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 Section 200.516(a) of the Uniform Guidance?	No

Identification of major Federal programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I - Part A, Basic Grants Low-Income and Neglected

Dollar threshold used to distinguish between Type A and Type B programs:	\$ 750,000
Auditee qualified as low-risk auditee?	No

State Awards

Type of auditor's report issued on compliance for programs:	Unmodified
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None reported.

None reported.

None reported.

Except as specified in previous sections of this report, summarized below is the current status of all audit findings reported in the prior year's schedule of financial Statement findings Schedule of Findings and Questioned Costs.

Financial Statement Findings

Internal Control Relating to Closing Process

2018-001 Code 30000

Criteria or Specific Requirements

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

Condition

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

Questioned costs

None.

Effect

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

Cause

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

Recommendation

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

Current Status

Implemented