Independent Auditor's Report
and Financial Statements
For the Year Ended
June 30, 2015

Operating:

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

BRIGHT STAR SCHOOLS

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VICENTI ◆ LLOYD ◆ STUTZMAN LLP
BUSINESS CONSULTANTS AND CPAs

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, 2015, 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.

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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, 2015, 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 U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. 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.

<u>Other Reporting Required by Government Auditing Standards</u>

In accordance with *Government Auditing Standards*, we have also issued a report dated November 15, 2015 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

Vicenti Lloyd + Stutzman LLP

VICENTI, LLOYD & STUTZMAN LLP
Glendora, CA
November 15, 2015

BRIGHT STAR SCHOOLS

STATEMENT OF FINANCIAL POSITION
June 30, 2015

	SMCA	BSSCA	Rise	VMS	VHS	Support	Total
ASSETS							
CURRENT ASSETS:							
Cash and cash equivalents	$ 260,820	$ 244,628	$ 133,366	$ 238,811	$ 151,238	$ 303,833	$ 1,332,696
Investments - temporarily restricted	13,642,999	-	-	-	-	-	13,642,999
Accounts receivable - federal and state	564,035	618,433	451,341	634,243	356,533	-	2,624,585
Accounts receivable - other	-	-	65,571	40,000	-	-	105,571
Prepaid expenses and deposits	21,750	22,429	51,709	59,820	-	-	155,708
Intracompany receivable	1,270,932	1,146,661	185,906	607,641	395,155	-	3,606,295
Total current assets	15,760,536	2,032,151	887,893	1,580,515	902,926	303,833	21,467,854
LONG-TERM ASSETS							
Long-term accounts receivable	-	-	-	1,612,873	-	-	1,612,873
Property, plant and equipment, net	125,342	42,788	14,504	23,495	-	-	206,129
Total long-term assets	125,342	42,788	14,504	1,636,368	-	-	1,819,002
Total assets	$ 15,885,878	$ 2,074,939	$ 902,397	$ 3,216,883	$ 902,926	$ 303,833	$ 23,286,856
LIABILITIES AND NET ASSETS							
CURRENT LIABILITIES:							
Accounts payable	$ 57,821	$ 194,678	$ 44,687	$ 76,302	$ 1,752	$ -	$ 375,240
Payroll liabilities	39,888	-	-	20,469	-	-	60,357
Intracompany payable	914,154	1,139,572	396,687	692,258	316,131	147,493	3,606,295
Payable to BSEG	203,350	85,446	80,365	422,707	141,472	-	933,340
Total current liabilities	1,215,213	1,419,696	521,739	1,211,736	459,355	147,493	4,975,232
LONG-TERM LIABILITIES:							
Loans payable	6,764,660	-	-	1,000,000	-	-	7,764,660
Total long-term liabilities	6,764,660	-	-	1,000,000	-	-	7,764,660
Total liabilities	7,979,873	1,419,696	521,739	2,211,736	459,355	147,493	12,739,892
NET ASSETS:							
Unrestricted - undesignated	1,141,345	655,243	380,658	1,005,147	443,571	156,340	3,782,304
Temporarily restricted	6,764,660	-	-	-	-	-	6,764,660
Total net assets	7,906,005	655,243	380,658	1,005,147	443,571	156,340	10,546,964
Total liabilities and net assets	$ 15,885,878	$ 2,074,939	$ 902,397	$ 3,216,883	$ 902,926	$ 303,833	$ 23,286,856

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

BRIGHT STAR SCHOOLS

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2015

	SMCA	BSSCA	Rise	VMS	VHS	Support	Total
OPERATING ACTIVITIES							
Revenue and grants:							
State aid	$ 3,237,629	$ 3,752,977	$ 1,777,750	$ 2,665,158	$ 1,554,656	$ -	$ 12,988,170
Property taxes	901,391	870,903	520,175	789,882	338,386	-	3,420,737
Other state revenue	838,046	431,265	606,135	705,415	139,143	-	2,720,004
Federal revenue	343,934	540,336	192,226	659,601	611,865	-	2,347,962
Contributions	3,697	7,110	984,439	151,785	17,588	34,473	1,199,092
Other revenue	102,501	317,077	43,072	60,850	7,617	-	531,117
Total operating revenue and grants	5,427,198	5,919,668	4,123,797	5,032,691	2,669,255	34,473	23,207,082
Expenses:							
Programs services	4,586,940	4,950,928	2,610,059	4,107,861	2,077,879	2,901	18,336,568
Management and general	921,271	962,677	511,815	816,947	346,206	405	3,559,321
Total operating expenses	5,508,211	5,913,605	3,121,874	4,924,808	2,424,085	3,306	21,895,889
Change in net assets from operating activities	(81,013)	6,063	1,001,923	107,883	245,170	31,167	1,311,193
NON-OPERATING ACTIVITIES							
Non-operating expenses							
Write-off of fixed assets	-	-	-	658,881	-	-	658,881
Facility expenses	120,143	-	918,364	-	-	-	1,038,507
Total non-operating expenses	120,143	-	918,364	658,881	-	-	1,697,388
Change in net assets from non-operating activities	(120,143)	-	(918,364)	(658,881)	-	-	(1,697,388)
Total change in net assets	(201,156)	6,063	83,559	(550,998)	245,170	31,167	(386,195)
Beginning total net assets	8,107,161	649,180	297,099	1,556,145	198,401	125,173	10,933,159
Ending total net assets	$ 7,906,005	$ 655,243	$ 380,658	$ 1,005,147	$ 443,571	$ 156,340	$ 10,546,964

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

BRIGHT STAR SCHOOLS

STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2015

	SMCA	BSSCA	Rise	VMS	VHS	Support	Total
CASH FLOWS from OPERATING ACTIVITIES:							
Change in Net Assets	$ (201,156)	$ 6,063	$ 83,559	$ (550,998)	$ 245,170	$ 31,167	$ (386,195)
Adjustments to reconcile change in net assets to net cash flows from operating activities:							
Depreciation	82,669	27,513	7,911	47,350	-	2,901	168,344
Loss on disposition of assets	-	-	-	658,881	-	-	658,881
(Increase) and decrease in operating assets:							
Accounts receivable - federal and state	82,567	218,490	(37,998)	157,435	26,442	-	446,936
Accounts receivable - other	-	-	(65,571)	-	-	169,474	103,903
Prepaid expenses and deposits	16,402	1,181	64,147	156,364	3,837	-	241,931
Intracompany receivable	32,337	(459,560)	(185,906)	(179,787)	(395,155)	-	(1,188,071)
Increase and (decrease) in operating liabilities:							
Accounts payable	(21,083)	3,183	19,166	42,150	1,752	-	45,168
Payroll liabilities	(172,009)	(33,679)	(13,812)	(14,460)	23,668	-	(210,292)
Intracompany payable	488,884	430,434	66,505	372,568	(96,454)	(73,866)	1,188,071
Payable to BSEG	(655,699)	(263,857)	(21,420)	(59,245)	33,191	-	(967,030)
Net cash flows from operating activities	(347,088)	(70,232)	(83,419)	630,258	(157,549)	129,676	101,646
CASH FLOWS from INVESTING ACTIVITIES:							
Purchase of investments	(2,199,964)	-	-	-	-	-	(2,199,964)
Proceeds from sale of investments	2,612,214	-	-	-	-	-	2,612,214
Net cash flows from investing activities	412,250	-	-	-	-	-	412,250
CASH FLOWS from FINANCING ACTIVITIES:							
Facilities financing payments	-	-	-	(1,652,873)	-	-	(1,652,873)
Proceeds from debt	-	-	-	1,000,000	-	-	1,000,000
Net cash flows from financing activities	-	-	-	(652,873)	-	-	(652,873)
Net increase (decrease) in cash and cash equivalents	65,162	(70,232)	(83,419)	(22,615)	(157,549)	129,676	(138,977)
Cash and cash equivalents at the beginning of the year	195,658	314,860	216,785	261,426	308,787	174,157	1,471,673
Cash and cash equivalents at the end of the year	$ 260,820	$ 244,628	$ 133,366	$ 238,811	$ 151,238	$ 303,833	$ 1,332,696

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

BRIGHT STAR SCHOOLS

STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2015

	Program Services	Management and General	Total
Salaries and wages	$ 9,598,558	$ 684,686	$ 10,283,244
Pension expense	654,028	50,237	704,265
Other employee benefits	967,681	74,329	1,042,010
Payroll taxes	281,162	21,596	302,758
Management fees	173,645	2,309,180	2,482,825
Legal expenses	-	263,991	263,991
Instructional materials	1,497,794	-	1,497,794
Other fees for services	1,591,181	-	1,591,181
Advertising and promotion	17,316	-	17,316
Office expenses	180,982	39,996	220,978
Printing and postage	115,453	-	115,453
Information technology	288,711	-	288,711
Occupancy	1,199,625	-	1,199,625
Travel expenses	99,588	-	99,588
Depreciation	168,344		168,344
Insurance	-	115,306	115,306
Direct student services	1,397,003	-	1,397,003
Other expenses	105,497	-	105,497
Total	$ 18,336,568	$ 3,559,321	$ 21,895,889

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

NOTE 1: <u>SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES</u>

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

The School is comprised of:

- Stella Middle Charter Academy (SMCA)
- Bright Star Secondary Charter Academy (BSSCA)
- Rise Kohyang Middle School (Rise)
- Valor Academy Middle School (VMS)
- Valor Academy High School (VHS)
- General Support

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

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

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

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

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

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

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's temporarily net assets as of June 30, 2015 were comprised of $6,764,660 received for facilities acquisition and development (see Note 5).
- 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, 2015. 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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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. The entire amount of the liability is $39,888, included under payroll liabilities on the statement of financial position. Employees of the School are paid for days or hours worked based upon Board approved schedules which include vacation and sick time.

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

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

Income Taxes **–** The School is a 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, 2015, the School has chosen to identify each charter school separately within the basic financial statements. In cases where specific identification of each charter's activities was not possible, items were allocated according to Average Daily Attendance (ADA).

Evaluation of Subsequent Events **–** The School has evaluated subsequent events through November 15, 2015, the date these financial statements were available to be issued.

NOTE 2: CONCENTRATION OF CREDIT RISK

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

NOTE 3: INVESTMENTS AND FAIR VALUE MEASUREMENTS

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

Level 1 - Quoted prices in an active market for identical assets.
Level 2 - Quoted prices for similar assets and market-corroborated inputs.
Level 3 - The School's own assumptions about market participation, including assumptions about risk, developed based on the best information available in the circumstances.

Fair values of investments as of June 30, 2015 were as follows:

Fixed income (Level 1)	$ 13,642,999

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

NOTE 4: PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment in the accompanying financial statements is presented net of accumulated depreciation. The School capitalizes all expenditures for land, buildings and equipment in excess of $5,000. Depreciation expense was $168,344 for the year ended June 30, 2015.

The components of property, plant and equipment as of June 30, 2015 are as follows:

Leasehold improvements	$ 46,358
Equipment	363,584
Less: accumulated depreciation	(203,813)
Property, plant and equipment, net	$ 206,129

NOTE 5: LONG-TERM LIABILITIES

Office of Public School Construction

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

SMCA will repay the State $11,713,272 by making either annual or semiannual installments starting at July 1 after one full year of the Project being opened and having commenced its educational program. The loan matures in 30 years and requires an assumed interest rate determined by the rate paid on monies in the Pooled Money Investment Account described in the California Government Code 16840 et seq.

As of June 30, 2013, SMCA has received CSFP advanced apportionments of $12,519,144 from OPSC during fiscal year ended June 30, 2011, and $1,010,176 from Charter School Facility Administration during fiscal year ended June 30, 2010. SMCA recognized $6,764,660 as long term debt, and $6,764,660 as temporarily restricted net assets. At June 30, 2015 SMCA is still looking for a site within a 5 mile radius of its current facility at 2636 S. Mansfield Avenue, Los Angeles.

Note Payable

In December 2014, the School obtained a promissory note for $1,000,000 to fund the Bright Star Leverage Loan in an attempt to secure new market tax credit financing to obtain a facility for long-term use by VMS. The note bears an interest rate of 1.2% and matures on November 1, 2020. The note includes a $1,612,873 loan to the Pacific Charter School Development Facility Project, which is presented as a long-term receivable in the statement of financial position. The financing matures on November 1, 2020. The loan balance as of June 30, 2015 was $1,000,000.

NOTE 6: LINE OF CREDIT

In November 2012, the School obtained an unsecured line of credit of $1 million from City National Bank (CNB). The line of credit bears a variable interest rate equal to CNB's prime rate plus 2.50%. As of June 30, 2015 the School had no outstanding balance.

NOTE 7: COMMITMENT

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

VHS entered into a single year co-location agreement with Los Angeles Unified School District for the property located at 8015 Van Nuys Blvd., Los Angeles, California. The agreement does not require VHS to pay a lease amount for the use of the proprerty, but instead VHS pays a Pro Rata Share Charge for the maintenance of the facility and other services. In April 2015 another single year co-location agreement was executed. For fiscal year 2015-16 the Pro Rata Share estimated is $103,823.

NOTE 8: EMPLOYEE RETIREMENT

Multi-employer Defined Benefit Pension Plans

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

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

State Teachers' Retirement System (STRS)

Plan Description

The School contributes to the State Teachers' Retirement System (STRS), a cost-sharing multi-employer public employee retirement system defined benefit pension plan administered by STRS. Plan information for STRS is not publicly available. The plan provides retirement, disability and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. According to the most recently available Comprehensive Annual Financial Report and Actuarial Valuation Report for the year ended June 30, 2014, total plan net assets are $191 billion, the total actuarial present value of accumulated plan benefits is $287 billion, contributions from all employers totaled $2.3 billion, and the plan is 68.5% funded. The School did not contribute more than 5% of the total contributions to the plan.

NOTE 8: EMPLOYEE RETIREMENT

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

Funding Policy

Active plan members are required to contribute 8.15% of their salary and 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. The required employer contribution rate for year ended June 30, 2015 was 8.88% of annual payroll. The contribution requirements of the plan members are established and may be amended by State statute.

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

Year Ended June 30,	Required Contribution	Percent Contributed
2013	$ 375,959	100%
2014	$ 502,037	100%
2015	$ 704,265	100%

NOTE 9: OPERATING LEASES

On July 1, 2008, SMCA entered into a lease for the property located at 2636 S. Mansfield Avenue, Los Angeles, California. The lease term commenced on August 1, 2008 and ends July 31, 2013. SMCA extended the lease and the new agreement commenced on August 1, 2013 and ends July 31, 2018. Rent expense for the fiscal year 2014-15 was $137,500.

In May 2014, Rise entered into a sublease for the property located at 3020 Wilshire Blvd., Los Angeles, California. The term is from July 1, 2014 through January 31, 2019. Rent expense for the fiscal year 2014-15 was $435,153.

VMS leases property from Panorama Baptist Church. The term of the lease was extended to July 31, 2019. Rent expense for the fiscal year 2014-15 was $222,528.

In August 2014, the School entered into a lease agreement for property in Los Angeles, California to be used by VMS. The lease commenced on July 1, 2015 and ends June 30, 2025.

NOTE 9: OPERATING LEASES

Future minimum lease payments are as follows:

Year Ended June 30,	SMCA	Rise	VMS	Total
2016	$ 143,500	$ 500,724	$ 852,528	$ 1,496,752
2017	149,500	554,376	860,652	1,564,528
2018	155,500	572,256	860,652	1,588,408
2019	13,000	333,816	869,184	1,216,000
2020	-	-	649,932	649,932
Thereafter	-	-	3,444,683	3,444,683
Total	$ 461,500	$ 1,961,172	$ 7,537,631	$ 9,960,303

NOTE 10: RELATED PARTY TRANSACTIONS

Bright Star Education Group (BSEG) is a non-profit corporation organized to provide back office services to Bright Star Schools and to manage the growth of the network of schools. As of June 30, 2015, the School paid $2,309,179 of management fees and $42,396 of other fees to BSEG. The School has a related party liability as of June 30, 2015 of $933,340 related to expenses paid by BSEG for the School. During the year BSEG also donated an in-kind contribution of facility maintenance and repair expenses of $918,364.

NOTE 11: CONTINGENCIES

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

SUPPLEMENTARY INFORMATION

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
For the Year Ended June 30, 2015

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

- Stella Middle Charter Academy (SMCA) charter number 0535 – established in 2003
- Bright Star Secondary Charter Academy (BSSCA) charter number 0826 – established in 2006
- Rise Kohyang Middle School (Rise) charter number 1315 – established in 2012
- Valor Middle School (VMS) charter number 1095 – established in 2009
- Valor High School (VHS) charter number 1539 – established in 2013

The Board of Directors and the Administrators as of the year ended June 30, 2015 were as follows:

BOARD OF DIRECTORS

Member	Office	Term Expires
Larry Klein	Board Chairman	2016
James McGrath	Secretary	2017
Aaron Cervantes	Member	2016
Stephen Green	Member	2018
Steve Selcer	Member	2018
Hon. Jeffrey Johnson	Member	2017
Joyce Richards	Member	2018
Lois Levy	Member	2016
Esther Perez	Member	2018
Greg Gonzalez	Member	2018
George Leftwich	Member	2016

ADMINISTRATORS

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

BRIGHT STAR SCHOOLS

SCHEDULE OF INSTRUCTIONAL TIME
For the Year Ended June 30, 2015

	2014-15 Minutes				
	Requirement	Reduced	Actual	Days	Status
SMCA:					
Grade 5	54,000	52,457	67,785	176	In compliance
Grade 6	54,000	52,457	67,785	176	In compliance
Grade 7	54,000	52,457	63,180	176	In compliance
Grade 8	54,000	52,457	63,180	176	In compliance
BSSCA:					
Grade 9	64,800	62,949	66,240	176	In compliance
Grade 10	64,800	62,949	66,240	176	In compliance
Grade 11	64,800	62,949	66,240	176	In compliance
Grade 12	64,800	62,949	66,240	176	In compliance
RISE:					
Grade 6	54,000	52,457	66,488	176	In compliance
Grade 7	54,000	52,457	66,488	176	In compliance
VMS:					
Grade 5	54,000	52,457	70,015	176	In compliance
Grade 6	54,000	52,457	70,015	176	In compliance
Grade 7	54,000	52,457	71,940	176	In compliance
Grade 8	54,000	52,457	71,940	176	In compliance
VHS:					
Grade 9	64,800	62,949	69,488	176	In compliance
Grade 10	64,800	62,949	69,488	176	In compliance

See auditor’s report and the notes to the supplementary information.

BRIGHT STAR SCHOOLS

SCHEDULE OF AVERAGE DAILY ATTENDANCE
For the Year Ended June 30, 2015

	Second Period Report		Annual Report	
	Classroom Based	**Total**	**Classroom Based**	**Total**
SMCA:				
Grades 5 through 6	238.70	238.70	236.44	236.44
Grades 7 through 8	297.11	297.11	294.72	294.72
Subtotal	535.81	535.81	531.16	531.16
BSSCA:				
Grades 9 through 12	522.99	522.99	514.49	514.49
Subtotal	522.99	522.99	514.49	514.49
RISE:				
Grade 6	104.24	104.24	104.72	104.72
Grade 7	205.66	205.66	203.46	203.46
Subtotal	309.90	309.90	308.18	308.18
VMS:				
Grades 5 through 6	241.38	241.38	239.27	239.27
Grades 7 through 8	228.31	228.31	227.59	227.59
Subtotal	469.69	469.69	466.86	466.86
VHS:				
Grades 9 through 10	203.63	203.63	200.70	200.70
Subtotal	203.63	203.63	200.70	200.70
ADA Totals	2,042.02	2,042.02	2,021.39	2,021.39

See 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, 2015

	SMCA	BSSCA	Rise	VMS	VHS	Total
June 30, 2015 Annual Financial Report						
Fund Balances (Net Assets)	$ 7,953,751	$ 648,153	$ 284,179	$ 970,661	$ 463,890	$ 10,320,634
Adjustments and Reclassifications:						
Increasing (Decreasing) the Fund Balance (Net Assets):						
Accounts receivable	(28,486)	14,471	255,361	1,679,718	(20,476)	1,900,588
Prepaid expenses and desposits	21,750	(7,089)	51,709	(1,568,256)	-	(1,501,886)
Intracompany receivable	892,405	1,146,661	185,906	607,641	316,131	3,148,744
Property, plant and equipment, net	(19,916)	(8,034)	-	7,848	-	(20,102)
Accounts payable	(913,499)	(1,138,919)	(396,497)	(692,465)	(315,974)	(3,457,354)
Net Adjustments and Reclassifications	(47,746)	7,090	96,479	34,486	(20,319)	69,990
June 30, 2015 Audited Financial Statement						
Fund Balances (Net Assets)	$ 7,906,005	$ 655,243	$ 380,658	$ 1,005,147	$ 443,571	$ 10,390,624

See 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, 2015

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass Through Entity Identifying Number	SMCA	BSSCA	Rise	VMS	VHS	Total
U.S. Department of Education:								
Pass Through Program From								
California Department of Education:								
Title I, Part A, Basic Grants								
Low-Income and Neglected	84.010	14329	$ 239,543	$ 192,895	$ 131,081	$ 176,028	$ 83,187	$ 822,734
Title II, Part A, Teacher Quality	84.367	14341	3,511	2,887	1,906	4,220	1,223	13,747
Title V, Part B, Public Charter Schools Grants	84.282	14531	-	-	-	-	340,567	340,567
Special Ed: IDEA Basic Local Assistance								
Entitlement, Part B, Sec 611								
(formerly PL 94-142)	84.027	13379	100,880	96,154	59,239	99,956	38,893	395,122
Subtotal: Pass-Through Programs			343,934	291,936	192,226	280,204	463,870	1,572,170
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
Total U.S. Department of Education			343,934	540,336	192,226	280,204	463,870	1,820,570
U.S. Department of Agriculture:								
Pass Through Program From								
California Department of Education:								
Child Nutrition Cluster:								
Breakfast Program	10.553	13390	-	-	-	34,404	13,421	47,825
Especially Needy Breakfast Program	10.553	13526	-	-	-	96,095	37,484	133,579
National School Lunch Program	10.555	23165	-	-	-	212,950	83,067	296,017
Meal Supplements	10.557	N/A	-	-	-	35,948	14,023	49,971
Total U.S. Department of Agriculture			-	-	-	379,397	147,995	527,392
Total Expenditures of Federal Awards			$ 343,934	$ 540,336	$ 192,226	$ 659,601	$ 611,865	$ 2,347,962

See auditor’s report and the notes to the supplementary information.

NOTES TO THE SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2015

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

OMB Circular A-133 requires a disclosure of the financial activities of all federally funded programs and is presented on the accrual basis of accounting.

VICENTI ♦ LLOYD ♦ STUTZMAN LLP
BUSINESS CONSULTANTS AND CPAs

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, 2015, and the related statements of activities, cash flows and functional expenses for the year then ended, the related notes to the financial statements, and have issued our report thereon dated November 15, 2015.

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.

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

Compliance and Other Matters

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

Purpose of this Report

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

Vicenti Lloyd + Stutzman LLP

VICENTI, LLOYD & STUTZMAN LLP
Glendora, CA
November 15, 2015

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015. 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 the requirements of laws, regulations, contracts and grants 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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, 2015.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

<u>Report on Internal Control Over Compliance</u>

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 OMB Circular A-133, 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Vicenti Lloyd + Stutzman LLP

VICENTI, LLOYD & STUTZMAN LLP
Glendora, CA
November 15, 2015

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 *2014-2015 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, 2015. 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 *2014-2015 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:

Description	Procedures Performed
School Districts, County Offices of Education, and Charter Schools:	
California Clean Energy Jobs Act	Not applicable
After School Education and Safety Program	Yes
Proper Expenditure of Education Protection Account Funds	Yes
Common Core Implementation Funds	Yes

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Description	Procedures Performed
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	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, 2015.

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 *2014-2015 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel. Accordingly, this report is not suitable for any other purpose.

Vicenti Lloyd + Stutzman LLP

VICENTI, LLOYD & STUTZMAN LLP
Glendora, CA
November 15, 2015

BRIGHT STAR SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2015

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	*Unmodified*
Internal control over financial reporting:	
Material weakness(es) identified?	*No*
Significant deficiencies identified that are not considered to be material weakness(es)?	*None Reported*
Noncompliance material to financial statements noted?	*No*

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	*No*
Significant deficiencies identified that are not considered to be material weakness(es)?	*None Reported*
Type of auditor's report issued on compliance for major programs:	*Unmodified*
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of (Circular A-133)?	*No*

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.010	Title I, Part A Basic Grants

Dollar threshold used to distinguish between type A and type B programs:	$300,000
Auditee qualified as low-risk auditee?	*Yes*

BRIGHT STAR SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2015

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

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

There were no findings and questioned costs related to the basic financial statements, federal awards or state awards for June 30, 2015.

BRIGHT STAR SCHOOLS

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2015

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