



(A California Non-Profit Public Benefit Corporation)

Operating:

**Stella Middle Charter Academy (SMCA)
Bright Star Secondary Charter Academy (BSSCA)
Rise Kohyang Middle (Rise)**

**Audited Financial Statements
for the Year Ended
June 30, 2013**

BRIGHT STAR SCHOOLS
(A California Non-Profit Public Benefit Corporation)

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Bright Star Schools
Los Angeles, CA

Report on the Financial Statements

We have audited the accompanying financial statements of Bright Star Schools (the Organization), a California nonprofit public benefit corporation, which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, and cash flows 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 Organization'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 Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Board of Directors
Bright Star Schools

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2013, 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 opinion on the financial statements that collectively comprise the Organization's financial statements as a whole. The accompanying supplementary schedules on pages 14-20 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 relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated November 1, 2013 on our consideration of the Organization'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 this 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 Organization's internal control over financial reporting and compliance.



VICENTI, LLOYD & STUTZMAN LLP
Glendora, CA
November 1, 2013

BRIGHT STAR SCHOOLS
(A California Non-Profit Public Benefit Corporation)

STATEMENT OF FINANCIAL POSITION
June 30, 2013

ASSETS

	<u>SMCA</u>	<u>BSSCA</u>	<u>Rise</u>	<u>CMO</u>	<u>Total</u>
CURRENT ASSETS:					
Cash and cash equivalents	\$ 101,369	\$ 47,573	\$ 50,212	\$ 116,366	\$ 315,520
Cash - board designated for facility	465,000			5,570,733	6,035,733
Cash - temporarily restricted	254,900				254,900
Investments - temporarily restricted	13,274,420				13,274,420
Investments - board designated for facility	380,593				380,593
Accounts receivable	1,566,046	1,451,136	434,101		3,451,283
Prepaid expenses and deposits	43,481	40,083	37,371	19,348	140,283
Intracompany receivable (payable)	201,760	(433,696)	(303,177)	535,113	-
Total current assets	16,287,569	1,105,096	218,507	6,241,560	23,852,732
PROPERTY, PLANT AND EQUIPMENT:					
Property, plant and equipment	61,435	31,125		33,932	126,492
Less accumulated depreciation	(52,812)	(22,502)		(27,163)	(102,477)
Total property, plant and equipment	8,623	8,623	-	6,769	24,015
Total assets	\$ 16,296,192	\$ 1,113,719	\$ 218,507	\$ 6,248,329	\$ 23,876,747
<u>LIABILITIES AND NET ASSETS</u>					
CURRENT LIABILITIES:					
Accounts payable	\$ 126,774	\$ 134,978	22,593	\$ 40,272	\$ 324,617
Accrued liabilities	15,524	12,008	1,598	2,852	31,982
Payroll liabilities	101,968	73,819	19,850	44,299	239,936
Total current liabilities	244,266	220,805	44,041	87,423	596,535
LONG-TERM LIABILITIES:					
Loans payable	6,764,660				6,764,660
Total long-term liabilities	6,764,660	-	-	-	6,764,660
Total liabilities	7,008,926	220,805	44,041	87,423	7,361,195
NET ASSETS:					
Unrestricted - undesignated	2,142,013	892,914	174,466	125,173	3,334,566
Unrestricted - board designated for facility	380,593			6,035,733	6,416,326
Temporarily restricted	6,764,660				6,764,660
Total net assets	9,287,266	892,914	174,466	6,160,906	16,515,552
Total liabilities and net assets	\$ 16,296,192	\$ 1,113,719	\$ 218,507	\$ 6,248,329	\$ 23,876,747

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

BRIGHT STAR SCHOOLS
(A California Non-Profit Public Benefit Corporation)

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2013

	SMCA	BSSCA	Rise	CMO	Eliminations	Total
OPERATING ACTIVITIES						
Revenue and grants:						
Apportionment revenue	\$ 2,450,907	\$ 2,033,336	301,910	\$ -	\$ -	\$ 4,786,153
Categorical grant revenue	511,452	299,263	68,281			878,996
Property taxes	834,024	571,693	111,857			1,517,574
Other state revenue	889,607	288,744	253,973			1,432,324
Federal revenue	325,657	466,552	440,602			1,232,811
Local revenue	112,854	96,924	4,760			214,538
Other revenue	10,011	105,268	544	1,378,677	(797,819)	696,681
Total operating revenue and grants	<u>5,134,512</u>	<u>3,861,780</u>	<u>1,181,927</u>	<u>1,378,677</u>	<u>(797,819)</u>	<u>10,759,077</u>
Expenses:						
Programs services	2,790,940	2,258,657	466,819	90,448		5,606,864
Support services	1,943,408	951,642	607,130	1,231,386	(782,782)	3,950,784
Fundraising			2,250	15,037	(15,037)	2,250
Total operating expenses	<u>4,734,348</u>	<u>3,210,299</u>	<u>1,076,199</u>	<u>1,336,871</u>	<u>(797,819)</u>	<u>9,559,898</u>
Change in net assets from operating activities	<u>400,164</u>	<u>651,481</u>	<u>105,728</u>	<u>41,806</u>	<u>-</u>	<u>1,199,179</u>
NON-OPERATING ACTIVITIES						
Non-operating revenue:						
Interest income	2,895			11,796		14,691
Investment income, net	162,362					162,362
Net unrealized loss on investments	(14,323)					(14,323)
Total non-operating revenue	<u>150,934</u>	<u>-</u>	<u>-</u>	<u>11,796</u>	<u>-</u>	<u>162,730</u>
Non-operating expenses						
Facility expenses	74,080					74,080
Total non-operating expenses	<u>74,080</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>74,080</u>
Change in net assets from non-operating activities	<u>76,854</u>	<u>-</u>	<u>-</u>	<u>11,796</u>	<u>-</u>	<u>88,650</u>
Transfer of board designated net assets from/(to) CMO (see Notes 7 and 11)	<u>(465,000)</u>			<u>465,000</u>		<u>-</u>
Total change in net assets	12,018	651,481	105,728	518,602	-	1,287,829
Beginning total net assets	<u>9,275,248</u>	<u>241,433</u>	<u>68,738</u>	<u>5,642,304</u>	<u>-</u>	<u>15,227,723</u>
Ending total net assets	<u>\$ 9,287,266</u>	<u>\$ 892,914</u>	<u>\$ 174,466</u>	<u>\$ 6,160,906</u>	<u>\$ -</u>	<u>\$ 16,515,552</u>

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

BRIGHT STAR SCHOOLS
(A California Non-Profit Public Benefit Corporation)

STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2013

	<u>SMCA</u>	<u>BSSCA</u>	<u>Rise</u>	<u>CMO</u>	<u>Total</u>
CASH FLOWS from OPERATING ACTIVITIES:					
Change in Net Assets	\$ 12,018	\$ 651,481	\$ 105,728	\$ 518,602	\$ 1,287,829
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:					
Depreciation	2,082	2,082		10,541	14,705
Net unrealized gains on investments	(14,323)				(14,323)
(Increase) and decrease in operating assets:					
Accounts receivable	(45,190)	(331,711)	(434,101)		(811,002)
Prepaid expenses and deposits	(13,315)	(24,994)	(37,371)	12,246	(63,434)
Intracompany receivable/(payable)	631,228	(418,075)	303,177	(516,330)	-
Increase and (decrease) in operating liabilities:					
Accounts payable	5,270	55,947	22,593	25,881	109,691
Accrued liabilities	7,001	(140,302)	1,598	(55,108)	(186,811)
Payroll liabilities	(150,897)	73,819	19,850	44,299	(12,929)
Net cash provided (used) by operating activities	<u>433,874</u>	<u>(131,753)</u>	<u>(18,526)</u>	<u>40,131</u>	<u>323,726</u>
CASH FLOWS from INVESTING ACTIVITIES:					
Proceeds from sale of investments	118,293				118,293
Purchase of fixed assets	(10,705)	(10,705)			(21,410)
Net cash provided (used) by investing activities	<u>107,588</u>	<u>(10,705)</u>	<u>-</u>	<u>-</u>	<u>96,883</u>
Net increase (decrease) in cash and cash equivalents	541,462	(142,458)	(18,526)	40,131	420,609
Cash and cash equivalents at the beginning of the year	<u>279,807</u>	<u>190,031</u>	<u>68,738</u>	<u>5,646,968</u>	<u>6,185,544</u>
Cash and cash equivalents at the end of the year	<u>\$ 821,269</u>	<u>\$ 47,573</u>	<u>\$ 50,212</u>	<u>\$ 5,687,099</u>	<u>\$ 6,606,153</u>
Supplemental cash flow disclosure:					
Interest paid during the fiscal year	<u>\$ 1,624</u>	<u>\$ 1,208</u>	<u>\$ 330</u>	<u>\$ 184</u>	<u>\$ 3,346</u>

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

BRIGHT STAR SCHOOLS
(A California Non-Profit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Activities – Bright Star Schools (the Organization) 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 Organization is comprised of the Charter Management Organization (CMO), and three charter schools, Stella Middle Charter Academy (SMCA), Bright Star Secondary Charter Academy (BSSCA) and Rise Kohyang Middle School (Rise), herein referred to as the Schools. Rise began serving students in September 2012. The CMO delivers a range of back-office services such as finance, human resources, and IT to each school Bright Star operates. The CMO's related statements of activities and cash flows are distributed to each school by its average daily attendance. The Organization is funded principally through State of California public education monies received through the California Department of Education and the Los Angeles Unified School District.

Net Asset Classes – Under applicable accounting standards, the Organization 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 Organization consist of the following:

- Unrestricted: All resources over which the governing board has discretionary control to use in carrying on the general operations of the Organization.
- Temporarily restricted: These net assets are restricted by donors to be used for specific purposes. The Organization's temporarily net assets as of June 30, 2013 were comprised of \$6,764,660 received for facilities acquisition and development (see Note 6).
- Permanently restricted: These net assets are permanently restricted by donors and cannot be used by the Organization. The Organization does not currently have any permanently restricted net assets.

Revenue Recognition – Amounts received from the California Department of Education are recognized as revenue by the Organization 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.

Cash and Cash Equivalents – The Organization defines its cash and cash equivalents to include only cash on hand, 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 and liabilities and disclosures. Accordingly, actual results could differ from those estimates.

BRIGHT STAR SCHOOLS
(A California Non-Profit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

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 – The cost of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supportive services benefited.

Revenues – All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for specific use in future periods are reported as temporarily restricted. When the restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets for expenditure.

Gains and losses on investments and expenses on investments are reported as increases or decreases to the appropriate net asset category. Expirations of temporary restrictions on net assets are reported as reclassifications from temporarily restricted net assets to unrestricted net assets. Temporary restrictions on gifts to acquire long lived assets are met in the period in which the assets are acquired or placed into service.

Donated Services – The Organization receives donated services from a variety of unpaid volunteers assisting in the operation of the facility. No amounts have been recognized in the statement of activities because the criteria for recognition of volunteer efforts have not been satisfied.

Property, Plant and Equipment – Property, plant and equipment are stated at cost if purchased or at estimated fair market value if donated. Depreciation of buildings and equipment is provided on a straight-line basis over the estimated useful lives of the asset. The Organization capitalizes all expenditures for land, buildings and equipment in excess of \$5,000.

Allocations Between Charter Schools – For the year ended June 30, 2013, the Organization 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). All significant transactions between the Schools and the CMO have been eliminated.

Income Taxes – The Organization 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.

BRIGHT STAR SCHOOLS
(A California Non-Profit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

Income Taxes (continued) – Management has evaluated its tax positions and the certainty as to whether those positions will be sustained in the event of an audit by taxing authorities at the federal and state levels. The primary tax positions evaluated are related to the Organization's continued qualification as a tax-exempt organization and whether there is unrelated business income activities conducted would be taxable. Management has determined that all income tax positions are more likely than not (>50%) of being sustained upon potential audit or examination; therefore, no disclosures of uncertain income tax positions are required.

The Organization 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.

Evaluation of Subsequent Events – The Organization has evaluated subsequent events through November 1, 2013, the date these financial statements were available to be issued. See Note 13 for subsequent events.

NOTE 2 – CONCENTRATION OF CREDIT RISK:

The Organization maintains its interest-bearing cash in bank deposit accounts at various institutions. The Organization occasionally has a need to maintain a cash balance with a single financial institution in excess of the \$250,000 insured by the Federal Deposit Insurance Corporation (FDIC). At times, cash in these accounts exceeds the insured amounts. The Organization 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 – ACCOUNTS RECEIVABLE:

Accounts receivable primarily consists of funds due from state and federal governments, and private grants receivable. All amounts are considered collectible; therefore, no provisions for uncollectible accounts were recorded.

NOTE 4 – CONDITIONAL PLEDGES:

In August 2012, the Organization received a conditional pledge of \$1 million over three years for school expansion project. The Organization received \$500,510 as of June 30, 2013.

In May 2013, the Organization received another conditional pledge of \$50,000 over two years. The Organization received \$25,000 as of June 30, 2013.

BRIGHT STAR SCHOOLS
(A California Non-Profit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

NOTE 5 – 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 Organization'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, 2013 were as follows:

Money Market (Level 1)	\$ 1,044,927.00
Fixed Income (Level 1)	12,107,803
Certificates of Deposit (Level 2)	<u>502,283</u>
Total investments	<u>\$ 13,655,013</u>

Returns on investments for the year ended June 30, 2013 consisted of the following:

Dividend and interest income	\$ 157,180
Unrealized losses on investments	(14,323)
Realized gains on investments	29,148
Investment expenses	<u>(23,966)</u>
Total investment income, net	<u>\$ 148,039</u>

NOTE 6 – LOANS PAYABLE:

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 semi-annual 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.

BRIGHT STAR SCHOOLS
(A California Non-Profit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

NOTE 6 – LOANS PAYABLE: (continued)

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, 2013 SMCA is still looking for a site within a 5 mile radius of its current facility at 2636 S. Mansfield Avenue, Los Angeles.

NOTE 7 – BOARD-DESIGNATED NET ASSETS:

In December 2009, SMCA was scheduled to receive an additional \$6 million augmentation grant from Los Angeles Unified School District's (LAUSD) local bond funds for SMCA's Proposition 1D award. This augmentation grant is to reimburse land acquisition costs that would provide SMCA an additional 200 seats. Due to the budget crisis of the state of California, CSFP funds awarded to Green Dot Public Schools (GDPS) were put on hold indefinitely. SMCA signed an agreement with GDPS to forgo SMCA's \$6 million grant from LAUSD to allow for GDPS to receive it for its Oscar De La Hoya Animo Charter High School project. In exchange, GDPS provided \$6 million from its general fund to SMCA during fiscal year ended June 30, 2011. The board has designated this \$6 million plus the interest earned for facilities. During fiscal year of June 30, 2013, the board authorized the CMO to reverse prior year allocation of \$465,000 from SMCA and recorded it as CMO activity. As of June 30, 2013, the board designated net assets balance was \$6,035,733.

NOTE 8 – OPERATING LEASES:

On July 1, 2008, SMCA entered into a lease for the property located at 2636 S. Mansfield Avenue, Los Angeles, California. The lease term commenced on August 1, 2008 and ends July 31, 2013. SMCA extended the lease and the new agreement commenced on August 1, 2013 and ends July 31, 2018. Rent expense for the fiscal year 2012-13 was \$123,000.

In June 2012, Rise entered into a lease for the property located at 631 S. Commonwealth Avenue, Los Angeles, California. The lease term commenced on July 1, 2012 and ends June 30, 2013 with a renewal option of 1 year. Rise exercised the option to extend for one year and rent expense for the fiscal year 2012-13 was \$144,000.

In June 2012, CMO entered into a lease for the property located at 5800 Hannum Avenue, Culver City, California. The lease term commenced on July 1, 2012 and ends June 30, 2014. Rent expense for the fiscal year 2012-13 was \$46,780.

On July 1, 2013, Valor Middle School (Valor, charter number 1095) merged with the Organization. Valor leases property from Panorama Baptist Church. The term of the lease was initially from August 1, 2009 to July 31, 2011. In August 2011, the lease term was extended to July 31, 2014 with the option to extend the terms of the lease for two additional five-year terms.

BRIGHT STAR SCHOOLS
(A California Non-Profit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

NOTE 8 – OPERATING LEASES: (continued)

Future minimum lease payments are as follows:

Year Ended June 30,	SMCA	Rise	CMO	Valor	Total
2014	\$ 175,649	\$192,639	\$ 52,976	\$ 154,788	\$ 576,052
2015	159,720			18,544	178,264
2016	143,500				143,500
2017	149,500				149,500
2018	155,500				155,500
Thereafter	13,000				13,000
Total	<u>\$ 796,869</u>	<u>\$192,639</u>	<u>\$ 52,976</u>	<u>\$ 173,332</u>	<u>\$ 1,215,816</u>

NOTE 9 – 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.

NOTE 10 – EMPLOYEE RETIREMENT:

State Teachers' Retirement System (STRS)

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

The risks of participating in this multi-employer defined benefit pension plan 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 detailed in Teachers' Retirement Law, and (c) if the Organization chooses to stop participating in the multi-employer plan, it may be required to pay a withdrawal liability to the plan. The Organization has no plans to withdraw from this multi-employer plan.

BRIGHT STAR SCHOOLS
(A California Non-Profit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

NOTE 10 – EMPLOYEE RETIREMENT: (continued)

Plan Description

The Organization 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, 2012, total plan net assets are \$151 billion, the total actuarial present value of accumulated plan benefits is \$270 billion, contributions from all employers totaled \$2.1 billion, and the plan is 67% funded. The Organization did not contribute more than 5% of the total contributions to the plan.

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

Funding Policy

Active plan members are required to contribute 8.0% of their salary and the Organization 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 fiscal year 2012-13 was 8.25% of annual payroll. The contribution requirements of the plan members are established and may be amended by State statute.

Contributions to STRS

The Organization's contributions to STRS for each of the last three fiscal years are as follows:

<u>Year Ended</u> <u>June 30</u>	<u>SMCA</u> <u>STRS</u> <u>Required</u> <u>Contribution</u>	<u>BSSCA</u> <u>STRS</u> <u>Required</u> <u>Contribution</u>	<u>Rise</u> <u>STRS</u> <u>Required</u> <u>Contribution</u>	<u>CMO</u> <u>STRS</u> <u>Required</u> <u>Contribution</u>	<u>STRS</u> <u>Percent</u> <u>Contributed</u>
2011	\$106,335	\$71,105	\$0	\$0	100%
2012	\$126,860	\$84,329	\$0	\$0	100%
2013	\$139,742	\$94,073	\$27,539	\$1,381	100%

BRIGHT STAR SCHOOLS
(A California Non-Profit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

NOTE 11 – RECLASSIFICATION OF NET ASSETS:

The Organization reclassified net assets to reverse prior year transfer from CMO to SMCA for the portable expenditures of \$465,000 (see Note 7).

NOTE 12 – LINE OF CREDIT:

In November 2012, the Organization 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, 2013 the Organization had no outstanding balance.

NOTE 13 – SUBSEQUENT EVENTS:

On July 1, 2013 Valor Middle School (charter number 1095) merged with the Organization. Also, the Organization opened a new charter school, Valor High School (charter number 1539).

Future minimum lease payments for Valor are disclosed in Note 8.

At the beginning of fiscal year 2013-14, the Board of Bright Star Schools adopted a resolution to accept a new non-profit organization, Bright Star Education Group, as its sole member. Bright Star Education Group was created to provide back office services to Bright Star Schools and to manage the growth of the network of schools. In the beginning of 2014, most back-office employees of Bright Star Schools will transfer to Bright Star Education Group and will work on behalf of Bright Star Schools according to the terms of a managed services agreement between the two organizations. As part of the corporate reorganization process, and when approved by the California Attorney General's Office, many of the assets of Bright Star Schools (including cash and intellectual property) will transfer to the custody of Bright Star Education Group, which will use them for the benefit of Bright Star Schools and consistent with their established charitable purpose.

SUPPLEMENTARY INFORMATION

BRIGHT STAR SCHOOLS
(A California Non-Profit Public Benefit Corporation)

HISTORY AND ORGANIZATION
June 30, 2013

Bright Star Schools is a non-profit public benefit corporation and operates three 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

The Board of Directors and the Administrators for the fiscal year ended June 30, 2013 were as follows:

Board of Directors

<u>Member</u>	<u>Office</u>	<u>Term Expires</u>
Michael D. Kaplan	Board Chairman	2014
James McGrath	Secretary	2014
Sister Ramona Bascom	Member	2013
Aaron Cervantes	Member	2016
Stephen Green	Member	2016
Brooke Hanson	Member	2016
Dr. Jeanne Huybrechts	Member	2014
Hon. Jeffrey Johnson	Member	2014
Lawrence Klein	Member	2013
Murray McQueen	Member	2015
John Miller	Member	2014
James Min	Member	2016
Marc Mitchell	Member	2015
Joyce Richards	Member	2015
Steve Selcer	Member	2015

Administrators

Ari Engelberg	Executive Director
Melissa Kaplan	Head of Schools

BRIGHT STAR SCHOOLS
(A California Non-Profit Public Benefit Corporation)

SCHEDULE OF EXPENDITURES BY STATE CATEGORIES
For the Year Ended June 30, 2013

	<u>Program Services</u>	<u>Supporting Services</u>	<u>Fundraising</u>	<u>Eliminations</u>	<u>Total</u>
SMCA:					
Certificated salaries	\$ 1,331,640	\$ 158,000	\$ -	\$ -	\$ 1,489,640
Classified salaries	541,391	640,430			1,181,821
Employee benefits	371,029	158,161			529,190
Books and supplies	70,632	37,642			108,274
Services and other operating expense	476,248	472,818			949,066
Capital expense		74,080			74,080
Indirect costs		474,275			474,275
Depreciation expense		2,082			2,082
Total	<u>\$ 2,790,940</u>	<u>\$ 2,017,488</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,808,428</u>
BSSCA:					
Certificated salaries	\$ 1,008,597	\$ 105,000	\$ -	\$ -	\$ 1,113,597
Classified salaries	379,088	290,629			669,717
Employee benefits	281,845	80,354			362,199
Books and supplies	59,435	14,146			73,581
Services and other operating expense	529,692	120,321			650,013
Capital expense		11,795			11,795
Indirect costs		327,315			327,315
Depreciation expense		2,082			2,082
Total	<u>\$ 2,258,657</u>	<u>\$ 951,642</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,210,299</u>
Rise:					
Certificated salaries	\$ 217,516	\$ 99,500	\$ -	\$ -	\$ 317,016
Classified salaries	605	155,932			156,537
Employee benefits	46,453	54,400			100,853
Books and supplies	11,806	11,662			23,468
Services and other operating expense	190,439	204,501			394,940
Capital expense		17,030			17,030
Indirect costs		64,105			64,105
Fundraising			2,250		2,250
Total	<u>\$ 466,819</u>	<u>\$ 607,130</u>	<u>\$ 2,250</u>	<u>\$ -</u>	<u>\$ 1,076,199</u>

See the notes to the supplementary information.

BRIGHT STAR SCHOOLS
(A California Non-Profit Public Benefit Corporation)

SCHEDULE OF EXPENDITURES BY STATE CATEGORIES (CONTINUED)
For the Year Ended June 30, 2013

	<u>Program Services</u>	<u>Supporting Services</u>	<u>Fundraising</u>	<u>Eliminations</u>	<u>Total</u>
CMO:					
Certificated salaries	\$ -	\$ 550	\$ -	\$ -	\$ 550
Classified salaries		722,997		(412,094)	310,903
Employee benefits		110,038		(32,312)	77,726
Books and supplies		13,560			13,560
Services and other operating expense	90,448	373,516		(338,376)	125,588
Indirect costs		184			184
Depreciation expense		10,541			10,541
Fundraising			15,037	(15,037)	-
Total	<u>\$ 90,448</u>	<u>\$ 1,231,386</u>	<u>\$ 15,037</u>	<u>\$ (797,819)</u>	<u>\$ 539,052</u>
Total:					
Certificated salaries	\$ 2,557,753	\$ 363,050	\$ -	\$ -	\$ 2,920,803
Classified salaries	921,084	1,809,988		(412,094)	2,318,978
Employee benefits	699,327	402,953		(32,312)	1,069,968
Books and supplies	141,873	77,010			218,883
Services and other operating expense	1,286,827	1,171,156		(338,376)	2,119,607
Capital expense		102,905			102,905
Indirect costs		865,879			865,879
Depreciation expense		14,705			14,705
Fundraising			17,287	(15,037)	2,250
Total	<u>\$ 5,606,864</u>	<u>\$ 4,807,646</u>	<u>\$ 17,287</u>	<u>\$ (797,819)</u>	<u>\$ 9,633,978</u>

See the notes to the supplementary information.

BRIGHT STAR SCHOOLS
(A California Non-Profit Public Benefit Corporation)

SCHEDULE OF INSTRUCTIONAL MINUTES
For the Year Ended June 30, 2013

	2012-13 Minutes			Status
	Requirement	Reduced	Actual	
SMCA:				
Grade 5	54,000	52,457	64,161	In compliance
Grade 6	54,000	52,457	64,161	In compliance
Grade 7	54,000	52,457	64,161	In compliance
Grade 8	54,000	52,457	64,161	In compliance
BSSCA:				
Grade 9	64,800	62,949	66,720	In compliance
Grade 10	64,800	62,949	66,720	In compliance
Grade 11	64,800	62,949	66,720	In compliance
Grade 12	64,800	62,949	66,720	In compliance
RISE:				
Grade 6	54,000	52,457	61,376	In compliance

See the notes to the supplementary information.

BRIGHT STAR SCHOOLS
(A California Non-Profit Public Benefit Corporation)

SCHEDULE OF AVERAGE DAILY ATTENDANCE (ADA)
For the Year Ended June 30, 2013

	<u>Second Period Report</u>		<u>Annual Report</u>	
	<u>Classroom</u>	<u>Total</u>	<u>Classroom</u>	<u>Total</u>
	<u>Based</u>		<u>Based</u>	
SMCA:				
Grades 5 through 6	269.81	269.81	269.85	269.85
Grades 7 through 8	324.97	324.97	320.81	320.81
Subtotal	<u>594.78</u>	<u>594.78</u>	<u>590.66</u>	<u>590.66</u>
BSSCA:				
Grades 9 through 12	407.70	407.70	401.46	401.46
Subtotal	<u>407.70</u>	<u>407.70</u>	<u>401.46</u>	<u>401.46</u>
RISE:				
Grade 6	79.77	79.77	79.99	79.99
Subtotal	<u>79.77</u>	<u>79.77</u>	<u>79.99</u>	<u>79.99</u>
ADA Totals	<u>1,082.25</u>	<u>1,082.25</u>	<u>1,072.11</u>	<u>1,072.11</u>

See the notes to the supplementary information.

BRIGHT STAR SCHOOLS
(A California Non-Profit Public Benefit Corporation)

**RECONCILIATION OF ANNUAL FINANCIAL
REPORT WITH AUDITED FINANCIAL STATEMENTS**
For the Year Ended June 30, 2013

	SMCA	BSSCA	Rise
June 30, 2013 Annual Financial Report			
Fund Balance (Net Assets)	\$ 9,290,129	\$ 918,768	\$ 167,354
Adjustments and Reclassifications:			
Increasing (Decreasing) the Fund Balance (Net Assets):			
Accounts receivable	(189,098)	(14,654)	8,144
Prepaid and desposits			20,000
Intracompany receivable (payable)	201,760	(433,696)	(303,177)
Accounts payable	101,967	508,323	303,593
Accrued liabilities	(117,492)	(85,827)	(21,448)
Net Adjustments and Reclassifications	(2,863)	(25,854)	7,112
June 30, 2013 Audited Financial Statement			
Fund Balance (Net Assets)	\$ 9,287,266	\$ 892,914	\$ 174,466

See the notes to the supplementary information.

BRIGHT STAR SCHOOLS
(A California Non-Profit Public Benefit Corporation)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2013

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass Through Entity Identifying Number	SMCA	BSSCA	Rise	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	\$ 202,344	\$ 103,065	\$ -	\$ 305,409
Title II, Part A, Teacher Quality	84.367	14341	5,587	2,684		8,271
Title V, Part B, Public Charter Schools Grants	84.282	14531			425,000	425,000
Special Ed: IDEA Basic Local Assistance						
Entitlement, Part B, Sec 611 (formerly PL 94-142)	84.027	13379	116,327	79,738	15,602	211,667
Education Jobs	84.410	25152	1,399	815		2,214
Subtotal: Pass-Through Programs			<u>325,657</u>	<u>186,302</u>	<u>440,602</u>	<u>952,561</u>
Pass Through Program From Youth Policy Institute:						
NCLB: Title IV, Part B, 21st Century Community Learning Centers (CCLC) - High School ASSETS	84.287	14535		280,250		280,250
<i>Total U.S. Department of Education</i>			<u>325,657</u>	<u>466,552</u>	<u>440,602</u>	<u>1,232,811</u>
Total Expenditures of Federal Awards			<u>\$ 325,657</u>	<u>\$ 466,552</u>	<u>\$ 440,602</u>	<u>\$ 1,232,811</u>

N/A – Not Applicable or Not Available

See the notes to the supplementary information.

BRIGHT STAR SCHOOLS
(A California Non-Profit Public Benefit Corporation)

NOTES TO SUPPLEMENTARY INFORMATION
For the Year Ended June 30 2013

NOTE 1 - PURPOSE OF SCHEDULES

A. Schedule of Expenditures by State Categories

This schedule presents expenses by object codes according to state categories for analysis purposes.

B. Schedule of Instructional Minutes

This schedule presents information on the amount of instructional time offered by the Organization and whether the Organization complied with the provisions of Education Code Sections 46200 through 46206.

C. Schedule of Average Daily Attendance (ADA)

Average daily attendance is a measurement of the number of pupils attending classes of the Organization. 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.

D. Reconciliation of Annual Financial Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance (net assets) of each charter school, as reported on the Annual Financial Report forms to the audited financial statements.

E. Schedule of Expenditures of Federal Awards

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



**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 Organization), a California non-profit public benefit corporation, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Organization's financial statements, and have issued our report thereon dated November 1, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of financial statements, we considered the Organization'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 Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization'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 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 the Organization'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 Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



VICENTI, LLOYD & STUTZMAN LLP
Glendora, CA
November 1, 2013



**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 Organization) 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, 2013. The Organization'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 Organization'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 Organization'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 Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization 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, 2013.

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

Report on Internal Control Over Compliance

Management of the Organization 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 Organization'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 Organization'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
Glendora, CA
November 1, 2013



INDEPENDENT AUDITOR’S REPORT ON STATE COMPLIANCE

Board of Directors
 Bright Star Schools
 Los Angeles, CA

We have audited Bright Star Schools’ (the Organization) compliance with the types of compliance requirements described in the *2012-13 Standards and Procedures for Audits of California K-12 Local Educational Agencies*, published by the Education Audit Appeals Panel for the year ended June 30, 2013. The Organization’s State compliance requirements are identified in the table below.

Management’s Responsibility

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

Auditor’s Responsibility

Our responsibility is to express an opinion on the Organization’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 *2012-13 Standards and Procedures for Audits of California K-12 Local Educational Agencies*, 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 Organization’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 Organization’s compliance.

Compliance Requirements Tested

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

<u>Description</u>	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Attendance accounting:		
Attendance reporting	6	Not applicable
Teacher certification and misassignments	3	Not applicable
Kindergarten continuance	3	Not applicable
Continuation education	10	Not applicable
Independent study	23	Not applicable
Instructional time:		
School Districts	6	Not applicable
County Offices of Education	3	Not applicable

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

<u>Description</u>	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Class size reduction program (including charter schools):		
General requirements	7	Not applicable
Option 1	3	Not applicable
Option 2	4	Not applicable
One school serving K-3	4	Not applicable
Instructional materials general requirements	8	Not applicable
Ratios of administrative employees to teachers	1	Not applicable
Classroom teacher salaries	1	Not applicable
Early retirement incentive	4	Not applicable
GANN limit calculation	1	Not applicable
School Accountability Report Card	3	Not applicable
Juvenile Court Schools	8	Not applicable
After School Education and Safety Program:		
General requirements	4	Yes
After school	5	Yes
Before school	6	Not applicable
Charter Schools:		
Contemporaneous records of attendance	1	Yes
Mode of Instruction	1	Yes
Nonclassroom-based instructional/independent study	15	Not applicable
Determination of funding for nonclassroom-based instruction	3	Not applicable
Annual instructional minutes – classroom based	4	Yes

Opinion on State Compliance

In our opinion, the Organization complied with the laws and regulations of the state programs referred to above in all material respects.

Purpose of this Report

The purpose of this report on state compliance is solely to describe the results of testing based on requirements of the *2012-13 Standards and Procedures for Audits of California K-12 Local Education Agencies*, published by the Education Appeals Panel. Accordingly, this report is not suitable for any other purpose.



VICENTI, LLOYD & STUTZMAN LLP
Glendora, CA
November 1, 2013

BRIGHT STAR SCHOOLS
(A California Non-Profit Public Benefit Corporation)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
SUMMARY OF AUDITOR RESULTS
June 30, 2013

Financial Statements

Type of auditor's report issued November 1, 2013:	<i>Unmodified</i>
Internal control over financial reporting:	
Material weakness(es) identified?	<i>No</i>
Significant deficiencies identified that are not considered to be material weakness(es)?	<i>No</i>
Noncompliance material to financial statements noted?	<i>No</i>

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	<i>No</i>
Significant deficiencies identified that are not considered to be material weakness(es)?	<i>No</i>
Type of auditor's report issued on compliance for major programs:	<i>Unmodified</i>
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of (Circular A-133)?	<i>No</i>

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.282	Title V, Part B, Public Charter Schools Grants
84.027	Special Ed: IDEA Basic Local Assistance Entitlement, Part B, Sec 611 (formerly PL 94-142)

Dollar threshold used to distinguish between type A and type B programs:	\$300,000
Auditee qualified as low-risk auditee?	<i>No</i>

BRIGHT STAR SCHOOLS
(A California Non-Profit Public Benefit Corporation)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FINANCIAL STATEMENTS, FEDERAL AWARDS AND STATE AWARDS
June 30, 2013

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

<u>Five Digit Code</u>	<u>Finding Types</u>
10000	Attendance
20000	Inventory of Equipment
30000	Internal Control
40000	State Compliance
41000	CalSTRS
50000	Federal Compliance
60000	Miscellaneous
61000	Teacher Classroom Salaries
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

There were no findings and questioned costs related to basic financial statements, federal awards or state awards for the year ended June 30, 2013.

BRIGHT STAR SCHOOLS
(A California Non-Profit Public Benefit Corporation)

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
June 30, 2013

There were no findings and questioned costs related to basic financial statements, federal awards or state awards for the year ended June 30, 2012.