



**Independent Auditors' Report
and Financial Statements
For the Year Ended
June 30, 2014**

**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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INDEPENDENT AUDITORS' 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, 2014, 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.

Auditors' 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, 2014, 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.

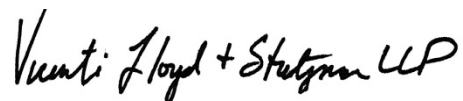
Other Matters

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 on page 20 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 on pages 17-19 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated December 2, 2014 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
Glendora, CA
December 2, 2014

BRIGHT STAR SCHOOLS

STATEMENT OF FINANCIAL POSITION
June 30, 2014

	<u>SMCA</u>	<u>BSSCA</u>	<u>Rise</u>	<u>VMS</u>	<u>VHS</u>	<u>CMO</u>	<u>Total</u>
ASSETS							
CURRENT ASSETS:							
Cash and cash equivalents	\$ 195,658	\$ 314,860	\$ 216,785	\$ 261,426	\$ 308,787	\$ 174,157	\$ 1,471,673
Investments - temporarily restricted	14,055,249	-	-	-	-	-	14,055,249
Accounts receivable	646,602	836,923	413,343	791,678	382,975	169,474	3,240,995
Prepaid expenses and deposits	38,152	23,610	115,856	216,184	3,837	-	397,639
Intracompany receivable	1,303,269	687,101	-	427,854	-	-	2,418,224
Total current assets	<u>16,238,930</u>	<u>1,862,494</u>	<u>745,984</u>	<u>1,697,142</u>	<u>695,599</u>	<u>343,631</u>	<u>21,583,780</u>
PROPERTY, PLANT AND EQUIPMENT:							
Property, plant and equipment	283,309	102,960	23,734	967,631	-	33,932	1,411,566
Less accumulated depreciation	<u>(75,298)</u>	<u>(32,659)</u>	<u>(1,319)</u>	<u>(237,905)</u>	<u>-</u>	<u>(31,031)</u>	<u>(378,212)</u>
Total property, plant and equipment	<u>208,011</u>	<u>70,301</u>	<u>22,415</u>	<u>729,726</u>	<u>-</u>	<u>2,901</u>	<u>1,033,354</u>
Total assets	<u>\$ 16,446,941</u>	<u>\$ 1,932,795</u>	<u>\$ 768,399</u>	<u>\$ 2,426,868</u>	<u>\$ 695,599</u>	<u>\$ 346,532</u>	<u>\$ 22,617,134</u>
LIABILITIES AND NET ASSETS							
CURRENT LIABILITIES:							
Accounts payable	\$ 78,904	\$ 191,495	\$ 25,521	\$ 34,152	\$ -	\$ -	\$ 330,072
Payroll liabilities	211,897	33,679	13,812	34,929	(23,668)	-	270,649
Intracompany payable	425,270	709,138	330,182	319,690	412,585	221,359	2,418,224
Payable to BSEG	859,049	349,303	101,785	481,952	108,281	-	1,900,370
Total current liabilities	<u>1,575,120</u>	<u>1,283,615</u>	<u>471,300</u>	<u>870,723</u>	<u>497,198</u>	<u>221,359</u>	<u>4,919,315</u>
LONG-TERM LIABILITIES:							
Loans payable	<u>6,764,660</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,764,660</u>
Total long-term liabilities	<u>6,764,660</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,764,660</u>
Total liabilities	<u>8,339,780</u>	<u>1,283,615</u>	<u>471,300</u>	<u>870,723</u>	<u>497,198</u>	<u>221,359</u>	<u>11,683,975</u>
NET ASSETS:							
Unrestricted - undesignated	1,342,501	649,180	297,099	1,556,145	198,401	125,173	4,168,499
Temporarily restricted	<u>6,764,660</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,764,660</u>
Total net assets	<u>8,107,161</u>	<u>649,180</u>	<u>297,099</u>	<u>1,556,145</u>	<u>198,401</u>	<u>125,173</u>	<u>10,933,159</u>
Total liabilities and net assets	<u>\$ 16,446,941</u>	<u>\$ 1,932,795</u>	<u>\$ 768,399</u>	<u>\$ 2,426,868</u>	<u>\$ 695,599</u>	<u>\$ 346,532</u>	<u>\$ 22,617,134</u>

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

BRIGHT STAR SCHOOLS

**STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2014**

	<u>SMCA</u>	<u>BSSCA</u>	<u>Rise</u>	<u>VMS</u>	<u>VHS</u>	<u>CMO</u>	<u>Total</u>
OPERATING ACTIVITIES							
Revenue and grants:							
State aid	\$ 2,871,983	\$ 2,969,824	\$ 909,679	\$ 2,267,578	\$ 634,377	\$ -	\$ 9,653,441
Property taxes	970,449	834,773	298,304	823,552	139,143	-	3,066,221
Other state revenue	804,276	343,102	414,072	757,922	56,736	-	2,376,108
Federal revenue	300,147	439,469	235,573	710,382	351,428	-	2,036,999
Contributions	3,004	50,514	3,085	36,469	255,679	252,588	601,339
Other revenue	<u>187,947</u>	<u>93,677</u>	<u>8,150</u>	<u>46,069</u>	<u>1,728</u>	<u>942,151</u>	<u>1,279,722</u>
Total operating revenue and grants	<u>5,137,806</u>	<u>4,731,359</u>	<u>1,868,863</u>	<u>4,641,972</u>	<u>1,439,091</u>	<u>1,194,739</u>	<u>19,013,830</u>
Expenses:							
Programs services	3,479,945	3,084,941	1,343,841	3,491,726	880,177	9,859	12,290,489
Management and general	1,637,324	1,623,784	402,389	1,119,765	360,513	1,180,640	6,324,415
Fundraising	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,240</u>	<u>4,240</u>
Total operating expenses	<u>5,117,269</u>	<u>4,708,725</u>	<u>1,746,230</u>	<u>4,611,491</u>	<u>1,240,690</u>	<u>1,194,739</u>	<u>18,619,144</u>
Change in net assets from operating activities	<u>20,537</u>	<u>22,634</u>	<u>122,633</u>	<u>30,481</u>	<u>198,401</u>	<u>-</u>	<u>394,686</u>
NON-OPERATING ACTIVITIES							
Non-operating expenses							
Facility expenses	<u>13,895</u>	<u>19,514</u>	<u>-</u>	<u>9,254</u>	<u>-</u>	<u>-</u>	<u>42,663</u>
Total non-operating expenses	<u>13,895</u>	<u>19,514</u>	<u>-</u>	<u>9,254</u>	<u>-</u>	<u>-</u>	<u>42,663</u>
Change in net assets from non-operating activities	<u>(13,895)</u>	<u>(19,514)</u>	<u>-</u>	<u>(9,254)</u>	<u>-</u>	<u>-</u>	<u>(42,663)</u>
Transfer of assets to BSEG	<u>(1,186,747)</u>	<u>(246,854)</u>	<u>-</u>	<u>(246,992)</u>	<u>-</u>	<u>(6,035,733)</u>	<u>(7,716,326)</u>
Total change in net assets	<u>(1,180,105)</u>	<u>(243,734)</u>	<u>122,633</u>	<u>(225,765)</u>	<u>198,401</u>	<u>(6,035,733)</u>	<u>(7,364,303)</u>
Beginning total net assets	<u>9,287,266</u>	<u>892,914</u>	<u>174,466</u>	<u>1,781,910</u>	<u>-</u>	<u>6,160,906</u>	<u>18,297,462</u>
Ending total net assets	<u>\$ 8,107,161</u>	<u>\$ 649,180</u>	<u>\$ 297,099</u>	<u>\$ 1,556,145</u>	<u>\$ 198,401</u>	<u>\$ 125,173</u>	<u>\$ 10,933,159</u>

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

BRIGHT STAR SCHOOLS

STATEMENT OF CASH FLOWS For the Year Ended June 30, 2014

	SMCA	BSSCA	Rise	VMS	VHS	CMO	Total
CASH FLOWS from OPERATING ACTIVITIES:							
Change in Net Assets	\$ (1,180,105)	\$ (243,734)	\$ 122,633	\$ (225,765)	\$ 198,401	\$ (6,035,733)	\$ (7,364,303)
Adjustments to reconcile change in net assets to net cash from operating activities:							
Depreciation	22,486	10,158	1,319	149,071	-	3,868	186,902
(Increase) and decrease in operating assets:							
Accounts receivable	919,444	614,213	20,758	531,110	(382,975)	(169,474)	1,533,076
Prepaid expenses and deposits	5,329	16,473	(78,485)	(175,201)	(3,837)	19,348	(216,373)
Intracompany receivable	(675,484)	(192,072)	-	(427,854)	-	535,113	(760,297)
Increase and (decrease) in operating liabilities:							
Accounts payable	(47,870)	56,517	2,928	(184,662)	-	(40,272)	(213,359)
Payroll liabilities	94,405	(52,148)	(7,636)	8,009	(23,668)	(47,151)	(28,189)
Intracompany payable	(755)	(219,587)	27,005	319,690	412,585	221,359	760,297
Payable to BSEG	859,049	349,303	101,785	481,952	108,281	-	1,900,370
Net cash from operating activities	<u>(3,501)</u>	<u>339,123</u>	<u>190,307</u>	<u>476,350</u>	<u>308,787</u>	<u>(5,512,942)</u>	<u>(4,201,876)</u>
CASH FLOWS from INVESTING ACTIVITIES:							
Purchase of investments	(400,236)	-	-	-	-	-	(400,236)
Purchase of fixed assets	(221,874)	(71,836)	(23,734)	-	-	-	(317,444)
Net cash from investing activities	<u>(622,110)</u>	<u>(71,836)</u>	<u>(23,734)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(717,680)</u>
CASH FLOWS from FINANCING ACTIVITIES:							
Repayments of long-term debt	-	-	-	(281,625)	-	-	(281,625)
Net cash from financing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>(281,625)</u>	<u>-</u>	<u>-</u>	<u>(281,625)</u>
Net increase (decrease) in cash and cash equivalents	(625,611)	267,287	166,573	194,725	308,787	(5,512,942)	(5,201,181)
Cash and cash equivalents at the beginning of the year	821,269	47,573	50,212	66,701	-	5,687,099	6,672,854
Cash and cash equivalents at the end of the year	<u>\$ 195,658</u>	<u>\$ 314,860</u>	<u>\$ 216,785</u>	<u>\$ 261,426</u>	<u>\$ 308,787</u>	<u>\$ 174,157</u>	<u>\$ 1,471,673</u>
Supplemental cash flow disclosure:							
Interest paid during the fiscal year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,237</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,237</u>

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

BRIGHT STAR SCHOOLS

**STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2014**

	Program Services	Management and General	Fundraising	Total
Salaries and wages	\$ 5,943,317	\$ 2,903,531	\$ -	\$ 8,846,848
Pension expense	368,918	133,119	-	502,037
Other employee benefits	577,297	284,037	-	861,334
Payroll taxes	179,000	118,770	-	297,770
Management fees	110,222	2,084,091	-	2,194,313
Legal expenses	-	67,328	-	67,328
Instructional materials	1,271,751	-	-	1,271,751
Other fees for services	1,463,990	83,174	-	1,547,164
Advertising and promotion	6,950	27,025	4,240	38,215
Office expenses	-	186,387	-	186,387
Printing and postage	105,972	7,444	-	113,416
Information technology	314,745	44,033	-	358,778
Occupancy	637,766	26,446	-	664,212
Travel expenses	66,786	15,511	-	82,297
Conference and meeting exper	-	-	-	-
Interest	-	6,237	-	6,237
Depreciation	-	186,902	-	186,902
Insurance	-	124,269	-	124,269
Direct student services	1,122,600	-	-	1,122,600
Other expenses	121,175	26,111	-	147,286
Total	<u>\$ 12,290,489</u>	<u>\$ 6,324,415</u>	<u>\$ 4,240</u>	<u>\$ 18,619,144</u>

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

BRIGHT STAR SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS For the Year Ended June 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The School is comprised of:

- Charter Management Organization (CMO)
- 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)

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

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

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

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

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

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

BRIGHT STAR SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS For the Year Ended June 30, 2014

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, 2014 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, 2014. 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.

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 \$88,118, 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.

BRIGHT STAR SCHOOLS

**NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2014**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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, 2014, the School has chosen to identify each charter school separately within the basic financial statements. In cases where specific identification of each charter's activities was not possible, items were allocated according to Average Daily Attendance (ADA).

Evaluation of Subsequent Events – The School has evaluated subsequent events through December 2, 2014, the date these financial statements were available to be issued.

NOTE 2: CONCENTRATION OF CREDIT RISK

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

BRIGHT STAR SCHOOLS

**NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2014**

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, 2014 were as follows:

Fixed income (Level 1)	<u>\$ 14,055,249</u>
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Returns on investments have been designated for BSEG as part of a re-structuring agreement between Bright Star Schools and BSEG. See note 10.

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 \$186,902 as of June 30, 2014.

The components of property, plant and equipment as of June 30, 2014 are as follows:

Buildings	\$ 30,989
Leasehold improvements	860,069
Equipment	519,710
Work in progress	798
Less: accumulated depreciation	<u>(378,212)</u>
Property, plant and equipment, net	<u>\$ 1,033,354</u>

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.

BRIGHT STAR SCHOOLS

**NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2014**

NOTE 5: LONG-TERM LIABILITIES

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, 2014 SMCA is still looking for a site within a 5 mile radius of its current facility at 2636 S. Mansfield Avenue, Los Angeles.

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, 2014 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.

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.

BRIGHT STAR SCHOOLS

**NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2014**

NOTE 8: EMPLOYEE RETIREMENT

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, 2013, total plan net assets are \$166.3 billion, the total actuarial present value of accumulated plan benefits is \$277 billion, contributions from all employers totaled \$2.3 billion, and the plan is 66.9% funded. The School 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 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, 2014 was 8.25% 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:

<u>Year Ended June 30,</u>	<u>Required Contribution</u>	<u>Percent Contributed</u>
2012	\$ 293,233	100%
2013	\$ 375,959	100%
2014	\$ 502,037	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 2013-14 was \$131,500.

BRIGHT STAR SCHOOLS

**NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2014**

NOTE 9: OPERATING LEASES

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 2013-14 was \$194,439. 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.

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 2013-14 was \$24,433.

VMS and VHS lease 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. The first extension option was subsequently used and the term has been extended to July 31, 2019.

Future minimum lease payments are as follows:

Year Ended June 30,	SMCA	Rise	VMS	Total
2015	\$ 159,720	\$ 429,192	\$ 222,528	\$ 811,440
2016	143,500	500,724	222,528	866,752
2017	149,500	554,376	230,652	934,528
2018	155,500	572,256	230,652	958,408
2019	13,000	333,816	239,184	586,000
Thereafter	-	-	19,932	19,932
Total	<u>\$ 621,220</u>	<u>\$ 2,390,364</u>	<u>\$ 1,165,476</u>	<u>\$ 4,177,060</u>

NOTE 10: TRANSFER TO BSEG

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 were transferred to Bright Star Education Group who works 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, many of the assets of Bright Star Schools (including cash and intellectual property) transferred to the custody of Bright Star Education Group, which uses them for the benefit of Bright Star Schools and consistent with their established charitable purpose.

BRIGHT STAR SCHOOLS

**NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2014**

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

BRIGHT STAR SCHOOLS

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE For the Year Ended June 30, 2014

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

BRIGHT STAR SCHOOLS

**LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE (continued)
For the Year Ended June 30, 2014**

The Board of Directors and the Administrators as of the year ended June 30, 2014 were as follows:

BOARD OF DIRECTORS

<u>Member</u>	<u>Office</u>	<u>Term Expires</u>
Larry Klein	Board Chairman	2014
James McGrath	Secretary	2014
Aaron Cervantes	Member	2016
Stephen Green	Member	2016
Brooke Hanson	Member	2016
Hon. Jeffrey Johnson	Member	2014
Joyce Richards	Member	2015

ADMINISTRATORS

Ari Engleberg	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, 2014**

	2013-14 Minutes			Days	Status
	Requirement	Reduced	Actual		
SMCA:					
Grade 5	54,000	52,457	63,180	177	In compliance
Grade 6	54,000	52,457	63,180	177	In compliance
Grade 7	54,000	52,457	65,164	177	In compliance
Grade 8	54,000	52,457	65,164	177	In compliance
BSSCA:					
Grade 9	64,800	62,949	65,960	177	In compliance
Grade 10	64,800	62,949	65,960	177	In compliance
Grade 11	64,800	62,949	65,960	177	In compliance
Grade 12	64,800	62,949	65,960	177	In compliance
RISE:					
Grade 6	54,000	52,457	73,299	178	In compliance
Grade 7	64,800	62,949	74,358	178	In compliance
VMS:					
Grade 5	54,000	52,457	68,875	177	In compliance
Grade 6	54,000	52,457	68,875	177	In compliance
Grade 7	64,800	62,949	74,026	177	In compliance
Grade 8	64,800	62,949	68,962	177	In compliance
VHS:					
Grade 9	64,800	62,949	68,220	178	In compliance

See auditors' report and the notes to the supplementary information.

BRIGHT STAR SCHOOLS

**SCHEDULE OF AVERAGE DAILY ATTENDANCE
For the Year Ended June 30, 2014**

	<u>Second Period Report</u>		<u>Annual Report</u>	
	Classroom		Classroom	
	Based	Total	Based	Total
SMCA:				
Grades 5 through 6	246.23	246.23	245.90	245.90
Grades 7 through 8	<u>294.56</u>	<u>294.56</u>	<u>292.00</u>	<u>292.00</u>
Subtotal	<u>540.79</u>	<u>540.79</u>	<u>537.90</u>	<u>537.90</u>
BSSCA:				
Grades 9 through 12	<u>484.16</u>	<u>484.16</u>	<u>478.97</u>	<u>478.97</u>
Subtotal	<u>484.16</u>	<u>484.16</u>	<u>478.97</u>	<u>478.97</u>
RISE:				
Grade 6	109.61	109.61	109.17	109.17
Grade 7	<u>75.44</u>	<u>75.44</u>	<u>76.13</u>	<u>76.13</u>
Subtotal	<u>185.05</u>	<u>185.05</u>	<u>185.30</u>	<u>185.30</u>
VMS:				
Grades 5 through 6	239.71	239.71	238.33	238.33
Grades 7 through 8	<u>226.95</u>	<u>226.95</u>	<u>225.29</u>	<u>225.29</u>
Subtotal	<u>466.66</u>	<u>466.66</u>	<u>463.62</u>	<u>463.62</u>
VHS:				
Grades 9 through 12	<u>93.11</u>	<u>93.11</u>	<u>93.26</u>	<u>93.26</u>
Subtotal	<u>93.11</u>	<u>93.11</u>	<u>93.26</u>	<u>93.26</u>
ADA Totals	<u>1,769.77</u>	<u>1,769.77</u>	<u>1,759.05</u>	<u>1,759.05</u>

See auditors' 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, 2014

	<u>SMCA</u>	<u>BSSCA</u>	<u>Rise</u>	<u>VMS</u>	<u>VHS</u>
June 30, 2014 Annual Financial Report Fund Balances (Net Assets)	\$ 8,088,460	\$ 633,183	\$ 310,914	\$ 1,556,831	\$ 389,716
Adjustments and Reclassifications:					
Increasing (Decreasing) the Fund Balance (Net Assets):					
Cash and cash equivalents	26,344	2,140	49	-	(16,827)
Accounts receivable	-	-	-	(17,961)	(170,818)
Prepaid expenses and desopits	-	-	-	-	-
Intracompany receivable	425,270	687,101	-	347,861	-
Property, plant and equipment, net	10,885	9,676	-	(25,675)	-
Accounts payable	<u>(443,798)</u>	<u>(682,920)</u>	<u>(13,864)</u>	<u>(304,911)</u>	<u>(3,670)</u>
Net Adjustments and Reclassifications	<u>18,701</u>	<u>15,997</u>	<u>(13,815)</u>	<u>(686)</u>	<u>(191,315)</u>
June 30, 2014 Audited Financial Statement Fund Balances (Net Assets)	<u>\$ 8,107,161</u>	<u>\$ 649,180</u>	<u>\$ 297,099</u>	<u>\$ 1,556,145</u>	<u>\$ 198,401</u>

See auditors' report and the notes to the supplementary information.

BRIGHT STAR SCHOOLS

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2014**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal		SMCA	BSSCA	Rise	VMS	VHS	Total
	CFDA Number	Pass Through Entity Identifying Number						
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	\$ 198,720	\$ 101,219	\$ 51,095	\$ 259,276	\$ 30,152	\$ 640,462
Title II, Part A, Teacher Quality	84.367	14341	3,636	2,299	1,015	3,263	624	10,837
Title V, Part B, Public Charter Schools Grants	84.282	14531			150,000		234,433	384,433
Special Ed: IDEA Basic Local Assistance								
Entitlement, Part B, Sec 611 (formerly PL 94-142)	84.027	13379	97,791	87,551	33,463	84,386	16,837	320,028
E-Rate	N/A	N/A				1,253		1,253
Subtotal: Pass-Through Programs			<u>300,147</u>	<u>191,069</u>	<u>235,573</u>	<u>348,178</u>	<u>282,046</u>	<u>1,357,013</u>
Pass Through Program From								
Youth Policy Institute:								
NCLB: Title IV, Part B, 21st Century Community								
Learning Centers (CCLC) - High School ASSETS	84.287	14535		248,400				248,400
<i>Total U.S. Department of Education</i>			<u>300,147</u>	<u>439,469</u>	<u>235,573</u>	<u>348,178</u>	<u>282,046</u>	<u>1,605,413</u>
U.S. Department of Agriculture:								
Pass Through Program From								
California Department of Education:								
Child Nutrition Cluster:								
Especially Needy Breakfast Program	10.553	13526				121,240	21,472	142,712
National School Lunch Program	10.555	23165				194,167	39,784	233,951
Meal Supplements	10.557	N/A				46,797	8,126	54,923
<i>Total U.S. Department of Agriculture</i>			<u>-</u>	<u>-</u>	<u>-</u>	<u>362,204</u>	<u>69,382</u>	<u>431,586</u>
Total Expenditures of Federal Awards			<u>\$ 300,147</u>	<u>\$ 439,469</u>	<u>\$ 235,573</u>	<u>\$ 710,382</u>	<u>\$ 351,428</u>	<u>\$ 2,036,999</u>

See auditors' report and the notes to the supplementary information.

BRIGHT STAR SCHOOLS

**NOTES TO THE SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2014**

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 Education Code Sections 46200 through 46206.

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.

**INDEPENDENT AUDITORS' 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, 2014, and the related statements of activities, cash flows and functional expenses for the year then ended, the related notes to the financial statements, and have issued our report thereon dated December 2, 2014.

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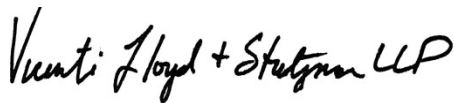
**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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
Glendora, CA
December 2, 2014

**INDEPENDENT AUDITORS' 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, 2014. 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.

Auditors' 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, 2014.

**INDEPENDENT AUDITORS' 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 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
Glendora, CA
December 2, 2014

INDEPENDENT AUDITORS' 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 *2013-2014 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, 2014. 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 *2013-2014 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 School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion on State compliance. Our audit does not provide a legal determination of the School's compliance.

Compliance Requirements Tested

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

<u>Description</u>	<u>Procedures 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
Independent study	23	Not applicable
Continuation education	10	Not applicable

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INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

<u>Description</u>	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Instructional time for School Districts	10	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
Local Control Funding Formula Certification	1	Yes
California Clean Energy Jobs Act	3	Not applicable
After School Education and Safety Program:		
General requirements	4	Yes
After school	5	Yes
Before school	6	Not applicable
Education Protection Account Funds	1	Yes
Common Core Implementation Funds	3	Yes
Unduplicated Local Control Funding Formula Pupil Counts	3	Yes
Charter Schools:		
Contemporaneous records of attendance	8	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
Charter School Facility Grant Program	1	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, 2014.

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 *2013-2014 Standards and Procedures for Audits of California K-12 Local Education Agencies*, published by the Education Audit Appeals Panel. Accordingly, this report is not suitable for any other purpose.



VICENTI, LLOYD & STUTZMAN LLP
 Glendora, CA
 December 2, 2014

BRIGHT STAR SCHOOLS

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2014**

Section I - Summary of Auditors' 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:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.287	21 st Century Community Learning Centers
10.553	Especially Needy Breakfast Program
10.555	National School Lunch Program
10.557	Meal Supplements

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, 2014**

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	Classroom Teacher Salaries
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, 2014.

BRIGHT STAR SCHOOLS

**STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2014**

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