



**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

TABLE OF CONTENTS
June 30, 2014

Independent Auditors' Report..... 1

Statement of Financial Position 3

Statement of Activities..... 4



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 cor

2210 E. Pechette Ave, Suite 100, Chousand Oaks, CA 91320

BRIGHT STAR SCHOOLS
STATEMENT OF FINANCIAL POSITION
June 30, 2014

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>
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

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**

	<u>SMCA</u>	<u>BSSCA</u>	<u>Rise</u>	<u>VMS</u>	<u>VHS</u>	<u>CMO</u>	<u>Total</u>	
CASH FLOWS from OPERATING ACTIVITIES:								
Change in Net Assets	\$ (1,180,105)	\$ (243,734)	\$ 122,663	\$ 357,332	\$ 25,765	\$ 198,401	\$ (6,035,733)	\$ (7,364,303)

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	\$ 12,290,489	\$ 6,324,415	\$ 4,240	\$ 18,619,144

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

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.

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

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:

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

BRIGHT STAR SCHOOLS

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

NOTE 9:

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

**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

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



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS**

2210 E. Pentec 66, Suite 100, Chandler, CA 91710

**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

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

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.