

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**Consolidated Audited Financial Statements
for the Year Ended
June 30, 2010**

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Rocketship Education
San Jose, CA

We have audited the accompanying consolidated statements of financial position of Rocketship Education and its Affiliates (RSED), a California non-profit public benefit corporation, as of June 30, 2010, and the related consolidated statements of activities and cash flows for the year then ended. These financial statements are the responsibility of RSED's management. 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. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements described above present fairly, in all material respects, the financial position of RSED as of June 30, 2010, and the changes in its net assets and cash flows for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary schedules on pages 18-24 are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The supplementary section 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 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.


VICENTI, LLOYD & STUTZMAN LLP

December 1, 2010

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
June 30, 2010**

	<u>Rocketship Schools</u>	<u>Launch Pad</u>	<u>Eliminations</u>	<u>Consolidated Total</u>
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	\$ 3,260,784	\$ 3,780,332	\$ -	\$ 7,041,116
Accounts receivable	1,725,366	7,500		1,732,866
Prepaid expenses and deposits	<u>329,822</u>	<u>139,036</u>	<u>(250,000)</u>	<u>218,858</u>
Total current assets	<u>5,315,972</u>	<u>3,926,868</u>	<u>(250,000)</u>	<u>8,992,840</u>
PROPERTY, PLANT AND EQUIPMENT:				
Property, plant & equipment	79,837	17,999,911		18,079,748
Less: Accumulated depreciation	<u>(63,709)</u>	<u>(668,283)</u>		<u>(731,992)</u>
Total property, plant and equipment, net	<u>16,128</u>	<u>17,331,628</u>	<u>-</u>	<u>17,347,756</u>
Total assets	<u>\$ 5,332,100</u>	<u>\$ 21,258,496</u>	<u>\$ (250,000)</u>	<u>\$ 26,340,596</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES:				
Accounts payable	\$ 211,299	\$ 1,364,646	\$ -	\$ 1,575,945
Accrued liabilities	261,316			261,316
Accrued interest	2,750	89,159		91,909
Current portion of loans payable	<u>158,333</u>	<u>103,791</u>		<u>262,124</u>
Total current liabilities	<u>633,698</u>	<u>1,557,596</u>	<u>-</u>	<u>2,191,294</u>
LONG-TERM LIABILITIES:				
Deposits		250,000	(250,000)	-
Accrued interest	126,494			126,494
Convertible debt	2,450,000			2,450,000
Notes payable	<u>600,000</u>	<u>18,753,844</u>		<u>19,353,844</u>
Total long-term liabilities	<u>3,176,494</u>	<u>19,003,844</u>	<u>(250,000)</u>	<u>21,930,338</u>
NET ASSETS:				
Unrestricted	<u>1,521,908</u>	<u>697,056</u>		<u>2,218,964</u>
Total net assets	<u>1,521,908</u>	<u>697,056</u>	<u>-</u>	<u>2,218,964</u>
Total liabilities and net assets	<u>\$ 5,332,100</u>	<u>\$ 21,258,496</u>	<u>\$ (250,000)</u>	<u>\$ 26,340,596</u>

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

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

CONSOLIDATED STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2010

	<u>Rocketship Schools</u>	<u>Launch Pad</u>	<u>Eliminations</u>	<u>Consolidated Total</u>
REVENUES:				
Apportionment revenue	\$ 1,307,654	\$ -	\$ -	\$ 1,307,654
Categorical grant revenue	802,227			802,227
Property taxes	2,905,691			2,905,691
Other State revenue	1,307,189			1,307,189
Federal revenue	1,438,772			1,438,772
Other local revenue	110,430	1,616,447	(1,603,768)	123,109
Contributions	1,047,856			1,047,856
	<u>8,919,819</u>	<u>1,616,447</u>	<u>(1,603,768)</u>	<u>8,932,498</u>
PROGRAM EXPENSES				
Educational programs	6,278,468		(1,558,768)	4,719,700
SUPPORTING SERVICES				
Site supports	173,089	1,290,919	(45,000)	1,419,008
Program development and expansion	655,990			655,990
Administration and general	772,126	160,295		932,421
Total supporting services	<u>1,601,205</u>	<u>1,451,214</u>	<u>(45,000)</u>	<u>3,007,419</u>
Total expenses	<u>7,879,673</u>	<u>1,451,214</u>	<u>(1,603,768)</u>	<u>7,727,119</u>
Increase in unrestricted net assets	1,040,146	165,233	-	1,205,379
Beginning unrestricted net assets	<u>481,762</u>	<u>531,823</u>	<u>-</u>	<u>1,013,585</u>
Ending unrestricted net assets	<u>\$ 1,521,908</u>	<u>\$ 697,056</u>	<u>\$ -</u>	<u>\$ 2,218,964</u>

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

**ROCKETSHIP EDUCATION
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**CONSOLIDATED STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2010**

	<u>Rocketship Schools</u>	<u>Launch Pad</u>	<u>Eliminations</u>	<u>Consolidated Total</u>
CASH FLOWS from OPERATING ACTIVITIES:				
Change in Net Assets	\$ 1,040,146	\$ 165,233	\$ -	\$ 1,205,379
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:				
Depreciation	3,844	427,057		430,901
Debt forgiven through grant agreement	(650,000)			(650,000)
(Increase) or decrease in operating assets:				
Accounts receivable	(1,035,934)	(7,500)		(1,043,434)
Prepaid expenses and other current assets	(222,690)	(118,236)	250,000	(90,926)
Intercompany receivable (payable)	50,000	(50,000)		-
Increase or (decrease) in operating liabilities:				
Accounts payable and accrued liabilities	326,675	12,420		339,095
Deposits		250,000	(250,000)	-
Net cash provided (used) by operating activities	<u>(487,959)</u>	<u>678,974</u>	<u>-</u>	<u>191,015</u>
CASH FLOWS from INVESTING ACTIVITIES:				
Net sale of investments	1,000,123			1,000,123
Purchases of property, plant and equipment	(19,972)	(6,665,249)		(6,685,221)
Net cash provided (used) by investing activities	<u>980,151</u>	<u>(6,665,249)</u>	<u>-</u>	<u>(5,685,098)</u>
CASH FLOWS from FINANCING ACTIVITIES:				
Proceeds from debt	1,600,000	6,686,077		8,286,077
Repayment of debt	(366,667)			(366,667)
Net cash provided by financing activities	<u>1,233,333</u>	<u>6,686,077</u>	<u>-</u>	<u>7,919,410</u>
Net increase in cash and cash equivalents	1,725,525	699,802	-	2,425,327
Cash and cash equivalents at the beginning of the year	1,535,259	3,080,530	-	4,615,789
Cash and cash equivalents at the end of the year	<u>\$ 3,260,784</u>	<u>\$ 3,780,332</u>	<u>\$ -</u>	<u>\$ 7,041,116</u>
CASH PAID FOR INTEREST (Net of capitalized amount)	<u>\$ 30,339</u>	<u>\$ 565,264</u>	<u>\$ -</u>	<u>\$ 595,603</u>

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

**ROCKETSHIP EDUCATION
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2010**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Activities – Rocketship Education (RSED or Rocketship) is a California nonprofit public benefit corporation that was incorporated in May 2006 and is organized to manage, operate, guide, direct, and promote a network of outstanding inner-city college preparatory elementary charter schools.

Prior to June 30, 2010, RSED also constructed and owned school facilities that were managed by single-member limited liability companies (LLCs) of which Rocketship was the sole member. In June 2010, Rocketship divested ownership of the LLC's to Launchpad Development Company ("Launchpad"), which was organized in 2009 as a nonprofit public benefit corporation to support the mission of Rocketship Education. The sole managing member of each LLC is Launchpad which treats the LLC as a consolidated wholly-owned subsidiary. For tax and financial reporting purposes, the LLCs are considered disregarded entities and its operations are consolidated with Launchpad.

Principles of Consolidation – The accompanying financial statements include the accounts of RSED and its schools. All significant intercompany accounts and transactions have been eliminated in consolidated. Additionally, the accompanying financial statements include the accounts of Launchpad and its wholly-owned LLCs. All significant intercompany accounts and transactions have been eliminated in consolidation. Finally, all significant intercompany accounts and transactions between Rocketship and Launchpad have been eliminated in consolidation.

Listed below are the affiliated organizations included in these financial statements:

Rocketship Schools

Rocketship National / Rocketship Mateo Sheedy Elementary (RMS)

RSED operates its first school as a division of its corporate office (Rocketship National). Its first school, Rocketship Mateo Sheedy Elementary (RMS), charter number 0850, is funded principally through State of California public education monies received through the California Department of Education and the Santa Clara County Office of Education (SCCOE), the Sponsoring District. RSED is governed by a Board of Directors consisting of eight members. SCCOE approved the Charter for RMS for a 3-year term through the 2009/10 school year. The charter was renewed for 5 years and will expire on June 30, 2015. The charter may be revoked by SCCOE for material violations of the charter, failure to meet generally accepted standards of fiscal management, or violation of any provision of the law.

**ROCKETSHIP EDUCATION
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2010**

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

Rocketship Si Se Puede Academy (RSSP)

RSED opened its second school, Rocketship Si Se Puede (RSSP), charter number 1061, on August 31, 2009. RSSP was incorporated as a nonprofit public benefit organization in April 2008 to support Rocketship's mission and is funded principally through State of California public education monies received through the California Department of Education and SCCOE, the Sponsoring District. SCCOE approved the Charter for RSSP for a 5-year term through the 2013/14 school year. The charter may be revoked by SCCOE for material violations of the charter, failure to meet generally accepted standards of fiscal management, or violation of any provision of the law.

Rocketship Three Elementary School (RS3)

RSED incorporated its third school, Rocketship Three Elementary, as a nonprofit public benefit organization in February 2009. SCCOE approved the Charter for RS3, charter number 1127, scheduled to begin operations in the 2010/11 school year. The term of the charter is 5 years and runs through the 2014/15 school year.

Rocketship Four Elementary School (RS4)

RSED incorporated its fourth school, Rocketship Four Elementary School, as a nonprofit public benefit organization in June 2009. Franklin McKinley School District approved the Charter for RS4, charter number 1192 for a 5 year term through the 2016 school year, scheduled to begin operations in the 2011/12 school year.

Rocketship Five Elementary (RS5)

RSED incorporated its fifth school, Rocketship Five Elementary School, as a nonprofit public benefit organization in February 2010. SCCOE approved the Charter for RS5, charter number 1193 for a 5 year term through the 2016 school year, scheduled to begin operations in the 2011/12 school year.

Launchpad

Launchpad was incorporated as a 509(a)(3) not-for-profit public benefit corporation in November 2009. Launchpad was incorporated with the intention of becoming the leading provider of affordable facilities for the burgeoning charter school industry.

**ROCKETSHIP EDUCATION
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2010**

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

Locust Property, LLC

RSED organized Rocketship Locust Property, LLC (Locust LLC) to construct, hold, and manage the facility used in the school operations of RMS. RMS started serving grades K-3 in the 2007/08 school year at a temporary facility with 160 enrolled students. RMS expanded to serving grades K-4 in the 2008/09 school year in its new permanent facility with 320 enrolled students, and it expanded further to serving grades K-5 in the 2009/10 school year. Rocketship divested ownership and sole member status of Locust LLC to Launchpad in June 2010, at which point the name of the entity became Launchpad Development One LLC.

Dobern Property, LLC

RSED organized Rocketship Dobern Property, LLC (Dobern LLC) to construct, hold, and manage the facility used in the school operations of RSSP. RSSP started serving grades K-4 on August 31, 2009 with an initial enrollment of 422 students. RSSP will expand to serving grades K-5 in the 2010/11 school year to reach its full enrollment capacity of 500 students. Rocketship divested ownership and sole member status of Dobern LLC to Launchpad in June 2010, at which point the name of the entity became Launchpad Development Two LLC.

Launchpad Development Three, LLC (LLC3)

Rocketship Three LLC was organized in 2009 to construct, hold, and manage the facility used in the school operations of Rocketship Three Elementary School, scheduled to open in the 2010/11 school year. Launchpad Development Three LLC was organized by Launchpad to take over the construction and management of the facility used by Rocketship Three Elementary School. Rocketship divested ownership and sole member status of Rocketship Three LLC to Launchpad in June 2010 which consolidated all assets into LLC3.

Launchpad Development Four LLC (LLC4)

Launchpad Development Four LLC was organized in September 2009 to construct, hold, and manage the facility used in the school operations of Rocketship Four Elementary School, scheduled to open in the 2011/12 school year.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2010**

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

Launchpad Development Five LLC (LL5)

Launchpad Development Five LLC was organized in September 2009 to construct, hold, and manage the facility used in the school operations of Rocketship Five Elementary School, scheduled to open in the 2011/12 school year.

Basis of Presentation – RSED presents its financial statements as a California Non-profit Public Benefit Corporation in accordance with Financial Accounting Standards which govern generally accepted accounting principles for non-profit organizations.

Net Asset Classes – RSED 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 RSED 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. RSED does not currently have any temporarily restricted net assets.
- **Permanently restricted:** These net assets are permanently restricted by donors and cannot be used by RSED. RSED does not currently have any permanently restricted net assets.

Cash and Cash Equivalents – RSED 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 and liabilities and disclosure. 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, payables and other liabilities.

**ROCKETSHIP EDUCATION
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2010**

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

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

Contributions – 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.

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 assets ranging from three to thirty-five years. RSED capitalizes all expenditures for land, buildings and equipment in excess of \$5,000.

Income Taxes – RSED 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 (>50%) of being sustained upon potential audit or examination; therefore, no disclosures of uncertain income tax positions are required. The organization files all appropriate informational returns in the U.S. federal jurisdiction, and the state of California.

Evaluation of Subsequent Events – The organization has evaluated subsequent events through December 1, 2010, the date these financial statements were available to be issued.

NOTE 2 - CONCENTRATION OF CREDIT RISK:

RSED maintains bank accounts with several institutions. Accounts at each of these institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. RSED occasionally has the need to maintain a cash balance in excess of the FDIC limit.

**ROCKETSHIP EDUCATION
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2010**

NOTE 3 – ACCOUNTS RECEIVABLE:

Accounts receivable primarily consist of funds due from various governmental, non-profit corporations and private individuals. Management believes all of these amounts are collectible; therefore no provisions for uncollectible accounts were recorded. As all June 30, 2010, all amounts are considered collectible within one year.

NOTE 4 – PROPERTY, PLANT AND EQUIPMENT:

Property and equipment consisted of the following:

	<u>RSED Schools</u>	<u>Launch Pad</u>	<u>Total</u>
Land	\$ -	\$ 2,865,970	\$ 2,865,970
Furniture and equipment	79,837	12,414	92,251
Loan Fee		10,038	10,038
Building		11,080,346	11,080,346
Construction in Progress		4,031,143	4,031,143
Less: Accumulated depreciation	<u>(63,709)</u>	<u>(668,283)</u>	<u>(731,992)</u>
Total	<u>\$ 16,128</u>	<u>\$17,331,628</u>	<u>\$ 17,347,756</u>

Depreciation expense was \$430,901 for the year ended June 30, 2010.

NOTE 5 – LEASES:

Operating Leases

Related to the site development of RMS's facility, on October 1, 2007, Locust LLC entered into a 10 year land lease payable at \$10,400 monthly. This lease was modified on December 1, 2007 to increase the term of the lease to 20 years with gradually increasing financial commitments. Lease expense recognized for the year ended June 30, 2010 was \$124,800. As part of this lease agreement, Rocketship Education provided a \$250,000 Letter of Credit payable to the Lessor as additional securitization. The current Letter of Credit expired in May 2010.

Each school rents equipment under various operating leases. As of June 30, 2010, RMS and RSSP each had operating leases with approximately 3 year terms. Lease expense recognized for the year ended June 30, 2010 was approximately \$33,271 and \$19,727, respectively.

**ROCKETSHIP EDUCATION
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2010**

NOTE 5 – LEASES: (continued)

The following is a schedule of future minimum lease payments required under operating leases that have initial noncancelable lease terms in excess of one year:

<u>June 30,</u>	<u>RMS</u>	<u>RSSP</u>	<u>Locust LLC</u>	<u>Total</u>
2011	\$ 26,388	\$ 19,572	\$ 125,320	\$ 171,280
2012	26,388	19,572	131,040	177,000
2013	2,199	1,631	131,040	134,870
2014			131,586	131,586
2015			137,592	137,592
Thereafter			1,964,514	1,964,514
Total	<u>\$ 54,975</u>	<u>\$ 40,775</u>	<u>\$ 2,621,092</u>	<u>\$ 2,716,842</u>

NOTE 6 – DEBT:

California Department of Education Revolving Loan Program

As of June 30, 2010, RSED has three unsecured revolving loans payable to the California Department of Education totaling \$458,333 with an effective interest rates ranging from .54% to 3.94%. The repayment terms require annual principal payments that are deducted from apportionment revenue.

CDFI Facilities Construction Loans

As of June 30, 2010, Locust LLC has two facilities construction loans payable with a Community Development Financial Institution (CDFI). Two of them were entered into during the 2007-2008 fiscal year and as of June 30, 2010 had principal balances of \$4,913,941 on the primary loan and \$663,694 on the subordinate loan with effective interest rates of 5.0 percent and 5.25 percent, respectively. The loan agreement with the CDFI allows RSED to borrow up to \$5,000,000 on the primary loan and \$700,000 on the subsidiary loan. Both loans are for seven years with the primary loan structured as interest-only over the term of the loan and the subsidiary loan structured as interest-only until 10/1/08 at which point it amortizes over a 20 year period. RSED used the proceeds of these loans to construct permanent facilities for its San Jose campus for Rocketship Mateo Sheedy Elementary School. Both loans use the completed facilities as collateral.

**ROCKETSHIP EDUCATION
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2010**

NOTE 7 – DEBT: (continued)

CDFI Facilities Construction Loans (continued)

As of June 30, 2010, Dobern, LLC has a facilities construction loan payable with a CDFI totaling \$6.8 million. This loan is structured as interest-only for seven years with an effective interest rate of 5.5 percent. A modification signed in May 2009 lowered the effective rate to 4.5 percent for the period from May 1, 2009 through November 30, 2009, after which time it returns to 5.5 percent. Rocketship Dobern LLC used the proceeds of this loan to construct permanent facilities for the San Jose campus for Rocketship Si Se Puede Academy. The loan uses the completed facilities as collateral.

For each of these loans, the CDFI requires the borrower to maintain a debt service ratio [EBITDA / (Principal + Interest)] of 1.1, calculated quarterly. As of June 30, 2010, Locust LLC and Dobern LLC had both met the covenants of these loans. As required by the lender, RSED provided a Partial Guaranty of the debt obligation.

Convertible Loan – Charter School Growth Fund

In February 2009, RSED entered into a \$2.3 million Subordinate Loan Agreement with Charter School Growth Fund at an effective interest rate of 4.0 percent. Of this amount, \$2 million plus associated interest will be forgiven and converted into a grant provided that RSED meet specified educational, financial and growth outcomes. In the event that these annual benchmarks are not met, the loan is to be repaid in \$500,000 annual increments, starting October 1, 2014 through October 1, 2017 with all remaining principal and accrued, unpaid interest due on October 1, 2018.

As of June 30, 2009, RSED had substantively met the 2008/09 school year benchmarks and converted \$400,000 of principal into a grant, resulting in \$1.9 million remaining note payable.

As of June 30, 2010, RSED had substantively met the 2009/10 school year benchmarks and converted \$400,000 of principal into a grant, resulting in \$1.5 million remaining note payable.

The remaining \$300,000 of the loan plus accrued interest will be due on June 30, 2017.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2010**

NOTE 7 – DEBT: (continued)

Convertible Loan – Walton Fund

In July 2009, RSED entered into a \$1.5 million Subordinate Loan Agreement with Charter School Growth Fund at an effective interest rate of 4.0 percent. Of this amount, \$1.5 million plus associated interest will be forgiven and converted into a grant provided that RSED meet specified growth outcomes. In the event that these annual benchmarks are not met, all remaining principal and accrued, unpaid interest are due on October 1, 2015.

As of June 30, 2010, RSED had substantively met the 2009/10 school year benchmarks and converted \$250,000 of principal into a grant, resulting in \$1.25 million remaining note payable.

Self Help New Markets V LLC Construction Loan

As of June 30, 2010, LLC3 had entered into a facilities construction loan payable with Self Help New Markets V LLC (SHNM) totaling \$6.48 million. This loan has an effective interest rate of 6.41 percent. The loan will use the completed facilities as collateral.

Commencing on June 1, 2010 and thereafter on the first day of each month until and including September 1, 2010, RSED shall make payments of interest only. Commencing on October 1, 2010, and thereafter on the first day of each successive month, RSED shall make payments of principal and interest in monthly installments based upon an amortization schedule of 25 years, with a final payment of all unpaid principal and interest thereon due on April 19, 2017. As required by the Lender, RSED provided a Lease Guaranty to the Borrower in support of the financing with a projected expiration at the end of the 2012/13 school year. As required by the Lender, LLC3 provided a Pledge to the Lender for segregated Cash Collateral in the amount of \$1 million also with a projected expiration at the end of the 2012/13 school year.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2010**

NOTE 7 – DEBT: (continued)

Futures maturities of debt by instrument:

June 30,	CDE Loans	Locust CDFI	Dobern CDFI	CSGF	Walton	SHNM	Total
2011	\$ 158,333	\$ 24,201	\$ -	\$ -	\$ -	\$ 79,590	\$ 262,124
2012	110,000	23,572				112,322	245,894
2013	110,000	24,813				119,844	254,657
2014	60,000	26,106				127,870	213,976
2015	20,000	5,478,943		500,000		136,434	6,135,377
Thereafter	-		6,800,000	1,000,000	1,250,000	5,903,940	14,953,940
Total	<u>\$ 458,333</u>	<u>\$ 5,577,635</u>	<u>\$ 6,800,000</u>	<u>\$ 1,500,000</u>	<u>\$ 1,250,000</u>	<u>\$ 6,480,000</u>	<u>\$ 22,065,968</u>

Futures maturities of debt by location:

June 30,	Rocketship Education	RMS	RSSP	RS3	RS4	RS5	RSED Schools Total
2011	\$ -	\$ 58,333	\$ 80,000	\$ 20,000	\$ -	\$ -	\$ 158,333
2012	-	50,000	40,000	20,000			110,000
2013	-	50,000	40,000	20,000			110,000
2014	-	-	40,000	20,000			60,000
2015	500,000	-	-	20,000			520,000
Thereafter	1,500,000	-	-	250,000	250,000	250,000	2,250,000
Total	<u>\$ 2,000,000</u>	<u>\$ 158,333</u>	<u>\$ 200,000</u>	<u>\$ 350,000</u>	<u>\$ 250,000</u>	<u>\$ 250,000</u>	<u>\$ 3,208,333</u>

June 30,	Locust LLC	Dobern LLC	LLC3	Launch Pad Total	RSED Schools Total	Consolidated Total
2011	\$ 24,201	\$ -	\$ 79,590	\$ 103,791	\$ 158,333	\$ 262,124
2012	23,572		112,322	135,894	110,000	245,894
2013	24,813		119,844	144,657	110,000	254,657
2014	26,106		127,870	153,976	60,000	213,976
2015	5,478,943		136,434	5,615,377	520,000	6,135,377
Thereafter		6,800,000	5,903,940	12,703,940	2,250,000	14,953,940
Total	<u>\$ 5,577,635</u>	<u>\$ 6,800,000</u>	<u>\$ 6,480,000</u>	<u>\$ 18,857,635</u>	<u>\$ 3,208,333</u>	<u>\$ 22,065,968</u>

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2010**

NOTE 8 - EMPLOYEE RETIREMENT:

Certificated Employees

Qualified certificated employees are covered under a multiple-employer defined benefit pension plan maintained by agencies of the State of California. The certificated employees are members of the State Teachers' Retirement System (STRS).

RSED contributes to the State Teachers' Retirement System (STRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. 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. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the STRS annual financial report may be obtained from STRS, 7667 Folsom Boulevard, Sacramento, CA 95826.

Active plan members are required to contribute 8.0% of their salary and RSED 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 2009-10 was 8.25% of annual payroll. The contribution requirements of the plan members are established and may be amended by State statute.

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

<u>Year Ended</u> <u>June 30,</u>	<u>STRS</u>	
	<u>Required</u> <u>Contribution</u>	<u>Percent</u> <u>Contributed</u>
2008	\$ 33,547	100%
2009	\$ 66,485	100%
2010	\$159,103	100%

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2010**

NOTE 9 – SPONSORING AGREEMENT:

RSED had a Memorandum of Understanding (MOU) with SCCOE from July 1, 2007 through June 30, 2010 which outlined the supervisory oversight provided by the SCCOE. As stated in the Education Code, up to 1% of all Charter School State revenues (excluding grants and private monies outside of the funding model), can be paid to the sponsoring district for the actual expenses incurred in monitoring and overseeing Rocketship's schools.

Rocketship renewed its MOU with SCCOE from July 1, 2010 through June 30, 2013 which outlines the supervisory oversight provided by SCCOE. The fees accrued to SCCOE for oversight in accordance with this agreement were approximately \$38,650 for the year ended June 30, 2010, and are included in accrued expenses on the consolidated statement of financial position.

NOTE 10 – RELATED PARTY TRANSACTIONS:

Facility Leases

Rocketship Mateo Sheedy has entered into a 5 year facility lease with Locust LLC. For school year 2009-10, lease payments equaled \$665,766.

In April 2009, Rocketship Si Se Puede entered into a 7 year facility lease agreement with Dobern LLC. For school year 2009-10, lease payments under these agreement totaled \$743,000.

In April 2010, Rocketship Three Elementary school entered into a 10 year lease with Launchpad Development Three LLC. For school year 2009-10, RS3 made a facility development payment of \$150,000 to Launchpad Development Three, LLC.

Future estimated payments under these leases as of June 30, 2010 are as follows:

<u>June 30,</u>	<u>RMS</u>	<u>RSSP</u>	<u>RS3</u>	<u>Total</u>
2011	\$ 471,583	\$ 488,194	\$ 591,107	\$ 1,550,884
2012	477,573	499,214	664,050	1,640,837
2013	477,851	515,265	664,050	1,657,166
2014	478,684	496,347	634,050	1,609,081
2015	484,985	517,462	634,050	1,636,497
Thereafter		456,529	3,170,251	3,626,780
Total	<u>\$ 2,390,676</u>	<u>\$ 2,973,011</u>	<u>\$ 6,357,558</u>	<u>\$11,721,245</u>

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2010**

NOTE 10 – RELATED PARTY TRANSACTIONS:

Management Contracts

RMS, RSSP, RS3, RS4 and RS5 have all contracted to receive management and support services from Rocketship Education for which they pay management fees.

For the 2009/10 school year, management fees were as follows:

	<u>Management Fee</u>
RMS	\$ 495,845
RSSP	552,424
RS3	37,500
RS4	18,750
RS5	<u>18,750</u>
Total	<u>\$ 1,123,269</u>

NOTE 11 – COMMITMENTS AND CONTINGENCIES:

RSED 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, management believes all compliance requirements have been met.

SUPPLEMENTARY INFORMATION

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

CONSOLIDATING STATEMENT OF FINANCIAL POSITION - ROCKETSHIP SCHOOLS
June 30, 2010

	<u>Rocketship National</u>	<u>Rocketship Mateo Sheedy Elementary</u>	<u>Rocketship Si Se Puede</u>	<u>Rocketship Three School</u>	<u>Rocketship Four School</u>	<u>Rocketship Five School</u>	<u>Eliminations</u>	<u>Total Rocketship Schools</u>
ASSETS								
CURRENT ASSETS:								
Cash and cash equivalents	\$ 2,068,663	\$ 120,848	\$ 125,149	\$ 253,624	\$ 346,250	\$ 346,250	\$ -	\$ 3,260,784
Accounts receivable	221,295	767,744	736,327					1,725,366
Intercompany receivable	450,000						(450,000)	-
Prepaid expenses and deposits	34,085		6,174	288,874		689		329,822
Total current assets	<u>2,774,043</u>	<u>888,592</u>	<u>867,650</u>	<u>542,498</u>	<u>346,250</u>	<u>346,939</u>	<u>(450,000)</u>	<u>5,315,972</u>
PROPERTY, PLANT AND EQUIPMENT:								
Property, plant & equipment		67,351	12,486					79,837
Less: Accumulated depreciation		(61,363)	(2,346)					(63,709)
Total property, plant and equipment, net	<u>-</u>	<u>5,988</u>	<u>10,140</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,128</u>
Total assets	<u>\$ 2,774,043</u>	<u>\$ 894,580</u>	<u>\$ 877,790</u>	<u>\$ 542,498</u>	<u>\$ 346,250</u>	<u>\$ 346,939</u>	<u>\$ (450,000)</u>	<u>\$ 5,332,100</u>
LIABILITIES AND NET ASSETS								
CURRENT LIABILITIES:								
Accounts payable	\$ 79,122	\$ 49,592	\$ 53,380	\$ 28,516	\$ -	\$ 689	\$ -	\$ 211,299
Accrued liabilities	108,243	57,457	73,848	21,768				261,316
Intercompany payable		100,000	100,000	250,000			(450,000)	-
Accrued interest		853	1,897					2,750
Current portion of loans payable		58,333	80,000	20,000				158,333
Total current liabilities	<u>187,365</u>	<u>266,235</u>	<u>309,125</u>	<u>320,284</u>	<u>-</u>	<u>689</u>	<u>(450,000)</u>	<u>633,698</u>
LONG-TERM LIABILITIES:								
Accrued interest	97,645			9,617	9,616	9,616		126,494
Convertible debt	1,700,000			250,000	250,000	250,000		2,450,000
Notes payable	300,000	100,000	120,000	80,000				600,000
Total long-term liabilities	<u>2,097,645</u>	<u>100,000</u>	<u>120,000</u>	<u>339,617</u>	<u>259,616</u>	<u>259,616</u>	<u>-</u>	<u>3,176,494</u>
NET ASSETS:								
Unrestricted	489,033	528,345	448,665	(117,403)	86,634	86,634		1,521,908
Total net assets	<u>489,033</u>	<u>528,345</u>	<u>448,665</u>	<u>(117,403)</u>	<u>86,634</u>	<u>86,634</u>	<u>-</u>	<u>1,521,908</u>
Total liabilities and net assets	<u>\$ 2,774,043</u>	<u>\$ 894,580</u>	<u>\$ 877,790</u>	<u>\$ 542,498</u>	<u>\$ 346,250</u>	<u>\$ 346,939</u>	<u>\$ (450,000)</u>	<u>\$ 5,332,100</u>

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

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

CONSOLIDATING STATEMENT OF ACTIVITIES - ROCKETSHIP SCHOOLS
For the Year Ended June 30, 2010

	Rocketship	Rocketship Mateo Sheedy	Rocketship Si Se	Rocketship Three	Rocketship Four	Rocketship Five	Eliminations	Total Rocketship Schools
REVENUES:								
Apportionment revenue	\$ -	\$ 77,966	\$ 1,229,688	\$ -	\$ -	\$ -	\$ -	\$ 1,307,654
Categorical grant revenue		359,106	443,121					802,227
Property taxes		2,096,065	809,626					2,905,691
Other State revenue	397,426	621,806	287,957					1,307,189
Federal revenue	97,269	368,728	822,775	150,000				1,438,772
Other local revenue	1,179,604	14,881	39,214				(1,123,269)	110,430
Contributions	544,459	10,288	263,109		115,000	115,000		1,047,856
Total unrestricted revenues	<u>2,218,758</u>	<u>3,548,840</u>	<u>3,895,490</u>	<u>150,000</u>	<u>115,000</u>	<u>115,000</u>	<u>(1,123,269)</u>	<u>8,919,819</u>
PROGRAM EXPENSES								
Educational programs	495,188	2,674,809	2,779,984	309,255	9,616	9,616		6,278,468
SUPPORTING SERVICES								
Site supports	173,089							173,089
Program development and expansion	655,990							655,990
Administration and general	772,126	495,845	552,424	37,500	18,750	18,750	(1,123,269)	772,126
Total supporting services	<u>1,601,205</u>	<u>495,845</u>	<u>552,424</u>	<u>37,500</u>	<u>18,750</u>	<u>18,750</u>	<u>(1,123,269)</u>	<u>1,601,205</u>
Total expenses	<u>2,096,393</u>	<u>3,170,654</u>	<u>3,332,408</u>	<u>346,755</u>	<u>28,366</u>	<u>28,366</u>	<u>(1,123,269)</u>	<u>7,879,673</u>
Increase (decrease) in unrestricted net assets	122,365	378,186	563,082	(196,755)	86,634	86,634	-	1,040,146
Beginning unrestricted net assets	366,668	150,159	(114,417)	79,352	-	-	-	481,762
Ending unrestricted net assets	<u>\$ 489,033</u>	<u>\$ 528,345</u>	<u>\$ 448,665</u>	<u>\$ (117,403)</u>	<u>\$ 86,634</u>	<u>\$ 86,634</u>	<u>\$ -</u>	<u>\$ 1,521,908</u>

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

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

CONSOLIDATING SCHEDULE OF EXPENDITURES BY STATE CATEGORIES - ROCKETSHIP SCHOOLS

For the Year Ended June 30, 2010

	Rocketship		Rocketship		Rocketship		Rocketship		Rocketship		TOTAL
	National	Mateo Sheedy	Si Se	Three	Four	Five					
EXPENSES BY STATE CATEGORIES:											
1000 Certificated salaries	\$ 190,816	\$ 989,104	\$ 886,276	\$ 103,598	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,169,794
2000 Classified salaries	798,644	149,889	124,794	17,752							1,091,079
3000 Benefits	157,646	241,620	205,673	21,191							626,130
4000 Books and supplies	65,455	323,735	448,568	2,443							840,201
5000 Other operating expenses	788,599	1,459,691	1,661,210	192,155	18,750	18,750					4,139,155
6000 Capital expenses and depreciation		1,497	2,346								3,843
7000 Interest expenses	95,233	5,118	3,541	9,616	9,616	9,616					132,740
Total expenses	<u>\$ 2,096,393</u>	<u>\$ 3,170,654</u>	<u>\$ 3,332,408</u>	<u>\$ 346,755</u>	<u>\$ 28,366</u>	<u>\$ 28,366</u>	<u>\$ 28,366</u>	<u>\$ 28,366</u>	<u>\$ 28,366</u>	<u>\$ 28,366</u>	<u>\$ 9,002,942</u>

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

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

CONSOLIDATING STATEMENT OF CASH FLOWS - ROCKETSHIP SCHOOLS
For the Year Ended June 30, 2010

	Rocketship	Mateo Sheedy	Rocketship Si Se	Rocketship Three	Rocketship Four	Rocketship Five	Total Rocketship Schools
CASH FLOWS from OPERATING ACTIVITIES:							
Change in Net Assets	\$ 122,365	\$ 378,186	\$ 563,082	\$ (196,755)	\$ 86,634	\$ 86,634	\$ 1,040,146
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:							
Depreciation	(400,000)	1,498	2,346				3,844
Debt forgiven through grant agreement			(250,000)				(650,000)
(Increase) or decrease in operating assets:							
Accounts receivable	(221,295)	(78,312)	(736,327)				(1,035,934)
Prepaid expenses and other current assets	(28,215)	51,347	43,741	(288,874)		(689)	(222,690)
Intercompany receivable (payable)	(400,000)	100,000	100,000	250,000			50,000
Increase or (decrease) in operating liabilities:							
Accounts payable and accrued liabilities	203,095	(68,997)	112,755	59,901	9,616	10,305	326,675
Net cash provided (used) by operating activities	<u>(724,050)</u>	<u>383,722</u>	<u>(164,403)</u>	<u>(175,728)</u>	<u>96,250</u>	<u>96,250</u>	<u>(487,959)</u>
CASH FLOWS from INVESTING ACTIVITIES:							
Net sale of investments	1,000,123						1,000,123
Purchases of property, plant and equipment		(7,486)	(12,486)				(19,972)
Net cash provided (used) by investing activities	<u>1,000,123</u>	<u>(7,486)</u>	<u>(12,486)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>980,151</u>
CASH FLOWS from FINANCING ACTIVITIES:							
Proceeds from debt	500,000		250,000	350,000	250,000	250,000	1,600,000
Repayment of debt		(366,667)					(366,667)
Net cash provided (used) by financing activities	<u>500,000</u>	<u>(366,667)</u>	<u>250,000</u>	<u>350,000</u>	<u>250,000</u>	<u>250,000</u>	<u>1,233,333</u>
Net increase in cash and cash equivalents	776,073	9,569	73,111	174,272	346,250	346,250	1,725,525
Cash and cash equivalents at the beginning of the year	1,292,590	111,279	52,038	79,352	-	-	1,535,259
Cash and cash equivalents at the end of the year	<u>\$ 2,068,663</u>	<u>\$ 120,848</u>	<u>\$ 125,149</u>	<u>\$ 253,624</u>	<u>\$ 346,250</u>	<u>\$ 346,250</u>	<u>\$ 3,260,784</u>
CASH PAID FOR INTEREST (Net of capitalized amount)	<u>\$ 20,909</u>	<u>\$ 7,786</u>	<u>\$ 1,644</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 30,339</u>

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

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

CONSOLIDATING STATEMENT OF FINANCIAL POSITION - LAUNCH PAD
June 30, 2010

	Launch Pad	Locust LLC	Dobern LLC	LLC3	LLC4	LLC5	Eliminations	Total Launch Pad
ASSETS								
CURRENT ASSETS:								
Cash and cash equivalents	\$ 9,788	\$ 79,022	\$ 120,960	\$ 3,559,245	\$ 2,917	\$ 8,400	\$ -	\$ 3,780,332
Accounts receivable	535,000		7,500					7,500
Intercompany receivable	-	20,800	-	24,636	43,500	50,100	(535,000)	139,036
Prepaid expenses and deposits	544,788	99,822	128,460	3,583,881	46,417	58,500	(535,000)	3,926,868
Total current assets								
PROPERTY, PLANT AND EQUIPMENT:								
Property, plant & equipment	23,447	6,027,754	6,936,942	4,669,055	319,204	23,509		17,999,911
Less: Accumulated depreciation		(543,725)	(124,558)					(668,283)
Total property, plant and equipment, net	23,447	5,484,029	6,812,384	4,669,055	319,204	23,509	-	17,331,628
Total assets	<u>\$ 568,235</u>	<u>\$ 5,583,851</u>	<u>\$ 6,940,844</u>	<u>\$ 8,252,936</u>	<u>\$ 365,621</u>	<u>\$ 82,009</u>	<u>\$ (535,000)</u>	<u>\$ 21,258,496</u>
LIABILITIES AND NET ASSETS								
CURRENT LIABILITIES:								
Accounts payable	\$ 46,121	\$ 29	\$ 23,029	1,062,837	\$ 210,621	\$ 22,009	\$ -	\$ 1,364,646
Accrued interest		23,378	31,167	34,614				89,159
Current portion of loans payable		24,201	79,590	79,590				103,791
Total current liabilities	46,121	47,608	54,196	1,177,041	210,621	22,009	-	1,557,596
LONG-TERM LIABILITIES:								
Intercompany payable				320,000	155,000	60,000	(535,000)	-
Deposits				250,000				250,000
Notes payable		5,553,434	6,800,000	6,400,410				18,753,844
Total long-term liabilities	-	5,553,434	6,800,000	6,970,410	155,000	60,000	(535,000)	19,003,844
NET ASSETS:								
Unrestricted	522,114	(17,191)	86,648	105,485	-	-	-	697,056
Total net assets	522,114	(17,191)	86,648	105,485	-	-	-	697,056
Total liabilities and net assets	<u>\$ 568,235</u>	<u>\$ 5,583,851</u>	<u>\$ 6,940,844</u>	<u>\$ 8,252,936</u>	<u>\$ 365,621</u>	<u>\$ 82,009</u>	<u>\$ (535,000)</u>	<u>\$ 21,258,496</u>

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

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

CONSOLIDATING STATEMENT OF ACTIVITIES - LAUNCH PAD
For the Year Ended June 30, 2010

	Launch Pad	Locust LLC	Doborn LLC	LLC3	LCC4	LCC5	Eliminations	Total Launch Pad
REVENUES:								
Other local revenue	\$ 682,409	\$ 665,766	\$ 743,054	\$ 162,627	\$ -	\$ -	\$ (637,409)	\$ 1,616,447
Total unrestricted revenues	682,409	665,766	743,054	162,627	-	-	(637,409)	1,616,447
SUPPORTING SERVICES								
Site supports	160,295	729,418	504,359	57,142			(637,409)	1,290,919
Administration and general	160,295	253,129	384,280					160,295
Total supporting services	160,295	982,547	888,639	57,142	-	-	(637,409)	1,451,214
Total expenses	160,295	982,547	888,639	57,142	-	-	(637,409)	1,451,214
Increase (decrease) in unrestricted net assets	522,114	(316,781)	(145,585)	105,485	-	-	-	165,233
Beginning unrestricted net assets	-	299,590	232,233	-	-	-	-	531,823
Ending unrestricted net assets	\$ 522,114	\$ (17,191)	\$ 86,648	\$ 105,485	\$ -	\$ -	\$ -	\$ 697,056

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

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

CONSOLIDATING STATEMENT OF CASH FLOWS - LAUNCH PAD

For the Year Ended June 30, 2010

	Launch Pad	Locust LLC	Dobern LLC	LLC3	LCC4	LCC5	Total Launch Pad
CASH FLOWS from OPERATING ACTIVITIES:							
Change in Net Assets	\$ 522,114	\$ (316,781)	\$ (145,585)	\$ 105,485	\$ -	\$ -	\$ 165,233
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:							
Depreciation		302,498	124,559				427,057
(Increase) or decrease in operating assets:							
Accounts receivable			(7,500)				(7,500)
Prepaid expenses and other current assets				(24,636)	(43,500)	(50,100)	(118,236)
Intercompany receivable (payable)	(535,000)			270,000	155,000	60,000	(50,000)
Increase or (decrease) in operating liabilities:							
Accounts payable and accrued liabilities	46,121	20,659	(1,383,356)	1,096,366	210,621	22,009	12,420
Deposits				250,000			250,000
Net cash provided (used) by operating activities	<u>33,235</u>	<u>6,376</u>	<u>(1,411,882)</u>	<u>1,697,215</u>	<u>322,121</u>	<u>31,909</u>	<u>678,974</u>
CASH FLOWS from INVESTING ACTIVITIES:							
Purchases of property, plant and equipment	(23,447)	(177,378)	(1,500,591)	(4,621,120)	(319,204)	(23,509)	(6,665,249)
Net cash used by investing activities	<u>(23,447)</u>	<u>(177,378)</u>	<u>(1,500,591)</u>	<u>(4,621,120)</u>	<u>(319,204)</u>	<u>(23,509)</u>	<u>(6,665,249)</u>
CASH FLOWS from FINANCING ACTIVITIES:							
Proceeds from debt		206,077		6,480,000			6,686,077
Net cash provided (used) by financing activities	<u>-</u>	<u>206,077</u>	<u>-</u>	<u>6,480,000</u>	<u>-</u>	<u>-</u>	<u>6,686,077</u>
Net increase (decrease) in cash and cash equivalents	9,788	35,075	(2,912,473)	3,556,095	2,917	8,400	699,802
Cash and cash equivalents at the beginning of the year	-	43,947	3,033,433	3,150	-	-	3,080,530
Cash and cash equivalents at the end of the year	<u>\$ 9,788</u>	<u>\$ 79,022</u>	<u>\$ 120,960</u>	<u>\$ 3,559,245</u>	<u>\$ 2,917</u>	<u>\$ 8,400</u>	<u>\$ 3,780,332</u>
CASH PAID FOR INTEREST (Net of capitalized amount)	<u>\$ -</u>	<u>\$ 2,549,961</u>	<u>\$ 288,579</u>	<u>\$ 21,724</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 565,264</u>

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