

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**Consolidated Audited Financial Statements
for the Year Ended
June 30, 2012**

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Rocketship Education and its Affiliates
San Jose, CA

We have audited the accompanying consolidated statement of financial position of Rocketship Education and its Affiliates (RSEA), a California non-profit public benefit corporation, as of June 30, 2012, and the related consolidated statements of activities and cash flows for the year then ended. These financial statements are the responsibility of RSEA's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from RSEA's 2011 financial statements, and in our report dated November 29, 2011, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *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 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 RSEA as of June 30, 2012, 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 16, 2012 on our consideration of RSEA'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* and should be considered in assessing the results of our audit.

Board of Directors
Rocketship Education and its Affiliates

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards on page 49 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* and is not a required part of the financial statements. The accompanying supplementary schedules on pages 30-48 are presented for purposes of additional analysis and are also 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, including the schedule of expenditures of federal awards, 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.



VICENTI, LLOYD & STUTZMAN LLP

November 16, 2012

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2012

with comparative totals for June 30, 2011

	Rocketship Schools	Launchpad	Eliminations	2012 Total	2011 Total
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents (notes 1,2)	\$ 6,418,611	\$ 2,754,271	\$ -	\$ 9,172,882	\$ 9,369,115
Restricted cash (note 1)		1,927,649		1,927,649	909,959
Accounts receivable (note 3)	9,653,828	630,278	(2,356,725)	7,927,381	4,154,307
Grants receivable (note 4)	333,598			333,598	1,083,000
Prepaid expenses and deposits	261,631	157,884	(12,470)	407,045	145,658
Total current assets	<u>16,667,668</u>	<u>5,470,082</u>	<u>(2,369,195)</u>	<u>19,768,555</u>	<u>15,662,039</u>
LONG-TERM ASSETS:					
Grants receivable (note 4)	582,367			582,367	-
Security deposits	1,725,000		(1,725,000)	-	-
Deferred rent asset		601,008	(601,008)	-	-
Property, plant & equipment	113,957	44,884,973		44,998,930	33,809,829
Less: Accumulated depreciation	(71,893)	(2,330,216)		(2,402,109)	(1,339,161)
Total property, plant and equipment, net (note 5)	<u>42,064</u>	<u>42,554,757</u>	<u>-</u>	<u>42,596,821</u>	<u>32,470,668</u>
Total long-term assets	<u>2,349,431</u>	<u>43,155,765</u>	<u>(2,326,008)</u>	<u>43,179,188</u>	<u>32,470,668</u>
Total assets	<u>\$ 19,017,099</u>	<u>\$ 48,625,847</u>	<u>\$ (4,695,203)</u>	<u>\$ 62,947,743</u>	<u>\$ 48,132,707</u>
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES:					
Accounts payable	\$ 552,023	\$ 2,961,520	\$ (364,516)	\$ 3,149,027	\$ 2,860,799
Accrued liabilities	1,362,393			1,362,393	977,248
Deferred revenues		12,470	(12,470)	-	62,500
Accrued interest	12,521	233,310	(20,929)	224,902	89,014
Lines of credit (note 12)	1,000,000			1,000,000	-
Current portion of loans payable (note 6)	1,210,000	2,836,712	(1,971,280)	2,075,432	256,660
Total current liabilities	<u>4,136,937</u>	<u>6,044,012</u>	<u>(2,369,195)</u>	<u>7,811,754</u>	<u>4,246,221</u>
LONG-TERM LIABILITIES:					
Security deposits		1,725,000	(1,725,000)	-	-
Accrued interest	203,554			203,554	190,407
Deferred rent liability	601,008		(601,008)	-	-
Convertible loans (note 6)	1,800,000			1,800,000	1,800,000
Loans payable (note 6)	600,000	40,599,336		41,199,336	32,683,939
Total long-term liabilities	<u>3,204,562</u>	<u>42,324,336</u>	<u>(2,326,008)</u>	<u>43,202,890</u>	<u>34,674,346</u>
NET ASSETS:					
Unrestricted	10,105,767	257,499		10,363,266	7,629,140
Temporarily restricted (note 7)	1,569,833			1,569,833	1,583,000
Total net assets	<u>11,675,600</u>	<u>257,499</u>	<u>-</u>	<u>11,933,099</u>	<u>9,212,140</u>
Total liabilities and net assets	<u>\$ 19,017,099</u>	<u>\$ 48,625,847</u>	<u>\$ (4,695,203)</u>	<u>\$ 62,947,743</u>	<u>\$ 48,132,707</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, 2012
with comparative totals for the Year Ended June 30, 2011**

	Rocketship Schools	Launchpad	Eliminations	2012 Total	2011 Total
UNRESTRICTED NET ASSETS:					
Revenues					
Apportionment revenue	\$ 7,750,396	\$ -	\$ -	\$ 7,750,396	\$ 3,808,147
Categorical grant revenue	2,234,521			2,234,521	1,286,595
Property taxes	4,178,669			4,178,669	2,757,142
Other State revenue	3,612,096			3,612,096	2,158,917
Federal revenue	2,791,168			2,791,168	1,846,344
Other local revenue	213,005	3,161,065	(3,214,812)	159,258	1,284,251
Contributions	3,855,090	187,546	(194,233)	3,848,403	5,833,925
Amounts released from restriction	1,583,000			1,583,000	-
Total unrestricted revenues	26,217,945	3,348,611	(3,409,045)	26,157,511	18,975,321
Program Expenses					
Educational programs	16,278,559	-	(3,148,297)	13,130,262	7,620,063
Supporting Services					
Site supports	1,950,305	3,783,288	(59,823)	5,673,770	2,719,223
Program development and expansion	1,247,345		(100,000)	1,147,345	735,481
Administration and general	2,902,390	670,543	(100,925)	3,472,008	2,490,378
Total supporting services	6,100,040	4,453,831	(260,748)	10,293,123	5,945,082
Total expenses	22,378,599	4,453,831	(3,409,045)	23,423,385	13,565,145
Increase (decrease) in unrestricted net assets	3,839,346	(1,105,220)	-	2,734,126	5,410,176
TEMPORARILY RESTRICTED NET ASSETS:					
Amounts released from restriction	(1,583,000)			(1,583,000)	-
Contributions	1,569,833	-	-	1,569,833	1,583,000
Increase (decrease) in temporarily restricted net assets	(13,167)	-	-	(13,167)	1,583,000
Beginning net assets	7,849,421	1,362,719	-	9,212,140	2,218,964
Ending net assets	\$ 11,675,600	\$ 257,499	\$ -	\$ 11,933,099	\$ 9,212,140

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

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**CONSOLIDATED STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2012
with comparative totals for the Year Ended June 30, 2011**

	<u>Rocketship Schools</u>	<u>Launchpad</u>	<u>Eliminations</u>	<u>2012 Total</u>	<u>2011 Total</u>
CASH FLOWS from OPERATING ACTIVITIES:					
Change in Net Assets	\$ 3,826,179	\$ (1,105,220)	\$ -	\$ 2,720,959	\$ 6,993,176
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:					
Depreciation and amortization	4,189	1,060,954		1,065,143	607,170
Debt forgiven through grant agreement	(539,232)			(539,232)	(650,000)
Donation of in-kind property	(6,687)			(6,687)	-
(Increase) or decrease in operating assets:					
Accounts receivable	(6,816,740)	276,352	1,637,130	(4,903,258)	(3,141,035)
Grants receivable	167,035			167,035	(1,083,000)
Prepaid expenses and other current assets	(1,089,404)	(84,453)	912,470	(261,387)	73,200
Deferred rent asset		(601,008)	601,008	-	-
Increase or (decrease) in operating liabilities:					
Accounts payable and accrued liabilities	1,990,829	(381,889)	334,150	1,943,090	1,339,028
Deferred revenues	(62,500)	12,470	(12,470)	(62,500)	62,500
Deferred rent liability	601,008		(601,008)	-	-
Net cash provided (used) by operating activities	<u>(1,925,323)</u>	<u>(822,794)</u>	<u>2,871,280</u>	<u>123,163</u>	<u>4,201,039</u>
CASH FLOWS from INVESTING ACTIVITIES:					
Payment on notes receivable	3,513,614		(3,513,614)	-	-
Purchases of property, plant and equipment	(27,433)	(11,106,248)		(11,133,681)	(14,287,712)
Net cash provided (used) by investing activities	<u>3,486,181</u>	<u>(11,106,248)</u>	<u>(3,513,614)</u>	<u>(11,133,681)</u>	<u>(14,287,712)</u>
CASH FLOWS from FINANCING ACTIVITIES:					
Change in restricted cash		(1,017,690)		(1,017,690)	(869,940)
Receipt of long-term security deposits		900,000	(900,000)	-	-
Change in lines of credit	1,000,000			1,000,000	-
Proceeds from debt	1,850,000	16,447,646	(1,971,280)	16,326,366	(236,428)
Repayment of debt	(3,660,000)	(5,348,005)	3,513,614	(5,494,391)	13,561,059
Net cash provided (used) by financing activities	<u>(810,000)</u>	<u>10,981,951</u>	<u>642,334</u>	<u>10,814,285</u>	<u>12,454,691</u>
Net increase (decrease) in cash and cash equivalents	750,858	(947,091)	-	(196,233)	2,368,018
Cash and cash equivalents at the beginning of the year	5,667,753	3,701,362	-	9,369,115	7,001,097
Cash and cash equivalents at the end of the year	<u>\$ 6,418,611</u>	<u>\$ 2,754,271</u>	<u>\$ -</u>	<u>\$ 9,172,882</u>	<u>\$ 9,369,115</u>
CASH PAID FOR INTEREST (Net)	<u>\$ 39,575</u>	<u>\$ 2,261,005</u>	<u>\$ -</u>	<u>\$ 2,300,580</u>	<u>\$ 1,145,472</u>
CAPITALIZED INTEREST	<u>\$ -</u>	<u>\$ 120,316</u>	<u>\$ -</u>	<u>\$ 120,316</u>	<u>\$ 152,186</u>

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

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2012**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Activities – Rocketship Education and its Affiliates (RSEA) are organized to manage, operate, guide, direct, and promote a network of outstanding inner-city college preparatory elementary charter schools.

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

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

Rocketship Education (RSED)

Rocketship Education (RSED) 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. It operates Rocketship National (RSN) and Rocketship Mateo Sheedy (RMS) as divisions of its organization. RSED is governed by a Board of Directors consisting of eleven members.

Rocketship National (RSN)

Rocketship National (RSN) operates as a division of RSED and provides management services and back office support to the RSED charter school network.

Rocketship Mateo Sheedy Elementary (RMS)

RSED's first school, Rocketship Mateo Sheedy Elementary (RMS), charter number 0850, which opened August 2007, operates as a division of RSED. RMS 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 Agency. The SCCOE Board of Education (SCCBE) 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 SCCBE 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
AND ITS AFFILIATES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2012**

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, in August 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 Agency. SCCBE approved the Charter for RSSP for a 5-year term through the 2016/17 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 Los Suenos Academy (RLS)

RSED opened its third school, Rocketship Los Suenos (RLS), charter number 1127, in August 2010. RLS was incorporated as a nonprofit public benefit organization in February 2009 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 Agency. SCCBE approved the Charter for RLS for a 5-year term through the 2014/15 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 Mosaic Elementary School (RME)

RSED opened its fourth school, Rocketship Mosaic Elementary (RME), charter number 1192, in August 2011. RME was incorporated as a nonprofit public benefit organization in June 2009 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. Franklin McKinley School District (FMSD) approved the Charter for RLS for a 5-year term through the 2015/16 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 EDUCATION
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2012**

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

Rocketship Discovery Prep (RDP)

RSED opened its fifth school, Rocketship Discovery Prep (RDP), charter number 1193, in August 2011. RDP was incorporated as a nonprofit public benefit organization in February 2010 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 Agency. SCCBE approved the Charter for RLS for a 5-year term through the 2015/16 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 Six Elementary (RS6)

RSED incorporated its sixth school, Rocketship Six Elementary School (RS6), as a nonprofit public benefit organization in February 2010. The SCCBE approved a separate charter for RS6 on November 16, 2011, charter number 1393. The school is scheduled to start operations in August 2012 and will be named Rocketship Academy for Brilliant Minds.

Rocketship Seven Elementary (RS7)

RSED incorporated its seventh school, Rocketship Seven Elementary School (RS7), as a nonprofit public benefit organization in May 2011. The SCCBE approved a separate charter for RS7 on November 16, 2011, charter number 1394. The school is scheduled to start operations in August 2012 and will be named Rocketship Alma Academy.

Rocketship Eight Elementary (RS8)

RSED incorporated its eighth school, Rocketship Eight Elementary School (RS8), as a nonprofit public benefit organization in May 2011. The SCCBE approved a separate charter for RS8 on November 16, 2011, charter number 1404. The school is scheduled to start operations in August 2013.

Rocketship Nine Elementary (RS9)

The FMSD approved a separate charter for RS9 on January 2012, charter number 1389. The school is scheduled to start operations in August 2013.

**ROCKETSHIP EDUCATION
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2012**

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

Rocketship Ten Elementary (RS10)

The SCCBE approved a separate charter for RS10, which will be followed by assignment of a new charter number by the State Board of Education.

***Rocketship Education Wisconsin Inc.
& Rocketship One Milwaukee Elementary (RS1M)***

RSED incorporated Rocketship Education Wisconsin Inc., as a nonprofit public benefit organization in October 2012 to hold its first Elementary School in Wisconsin, Rocketship One Milwaukee Elementary (RS1M). The City of Milwaukee Common Council approved a separate charter for RS1M in November 2011.

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.

Launchpad Development Milwaukee One LLC (MLLC1)

Launchpad Development Milwaukee One LLC (MLLC1) was organized in March 2012 to be the master tenant of the Canyon-Agassi Lease for the facility used in the school operations of Milwaukee Rocketship Elementary School One.

Launchpad Development One LLC(LLC1)

Launchpad Development One LLC was organized to construct, hold, and manage the facility used in the school operations of RMS.

Launchpad Development Two LLC (LLC2)

Launchpad Development Two LLC was organized to construct, hold, and manage the facility used in the school operations of RSSP.

Launchpad Development Three, LLC (LLC3)

Launchpad Development Three LLC was organized to construct, hold, and manage the facility used in the school operations of RLS.

**ROCKETSHIP EDUCATION
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2012**

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

Launchpad Development Four LLC (LLC4)

Launchpad Development Four LLC (LLC4) was organized to construct, hold, and manage the facility used in the school operations of RME.

Launchpad Development Five LLC (LLC5)

Launchpad Development Five LLC (LLC5) was organized to construct, hold, and manage the facility used in the school operations of RDP.

Launchpad Development Six LLC (LLC6)

Launchpad Development Six LLC (LLC6) was organized to construct, hold, and manage the facility used in the school operations of RS6, however, the site originally acquired to develop RS6 was not utilized and the school was opened elsewhere. At present the Launchpad is considering divestiture.

Launchpad Development Seven LLC (LLC7)

Launchpad Development Seven LLC (LLC7) was organized to construct, hold, and manage the facility used in the school operations of RS7, however, the site originally acquired for RS7 was not utilized.

Launchpad Development Eight LLC (LLC8)

Launchpad Development Eight LLC (LLC8) was organized in July 2011 to construct, hold, and manage the facility used in the school operations of RS7, scheduled to open in the 2012/13 school year.

Launchpad Development Nine LLC (LLC9)

Launchpad Development Nine LLC (LLC9) was organized in July 2011 to construct, hold, and manage the facility used in the school operations of RS8, scheduled to open in the 2013/14 school year.

Launchpad Development Ten LLC (LLC10)

Launchpad Development Ten LLC (LLC10) was organized in March 2012 to construct, hold, and manage the facility used in the school operations of RS9, scheduled to open in the 2013/14 school year.

**ROCKETSHIP EDUCATION
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2012**

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

Launchpad Development Eleven LLC (LLC11)

Launchpad Development Eleven LLC (LLC11) was organized in March 2012 to construct, hold, and manage the facility used in the school operations of RS6, scheduled to open the facility in the 2013/14 school year.

Launchpad Development Twelve LLC (LLC12)

Launchpad Development Twelve LLC (LLC12) was organized in March 2012 to construct, hold, and manage the facility used in the school operations of RS12, scheduled to open in the 2014/15 school year.

Launchpad Community Initiatives LLC (LCI)

Launchpad Communities Initiatives LLC (LCI) was organized in June 2011 to make qualified low income community investments or other activities which qualify under the New Markets Tax credit (NMTC) program of the U.S. Treasury Department's CDFI Fund.

Basis of Presentation – RSEA 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 – RSEA 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 RSEA 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.
- Permanently restricted: These net assets are permanently restricted by donors and cannot be used by RSEA. RSEA does not currently have any permanently restricted net assets.

**ROCKETSHIP EDUCATION
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2012**

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

Cash and Cash Equivalents – RSEA 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.

Restricted Cash – Restricted cash includes certain cash balances that are maintained according to debt reserve requirements.

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.

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. RSEA capitalizes all expenditures for land, buildings and equipment in excess of \$5,000.

**ROCKETSHIP EDUCATION
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2012**

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

Income Taxes – RSEA, with the exception of LLC5, is comprised of various non-profit entities 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 related to these entities. LLC5 is organized as a for-profit Limited Liability Corporation and provisions for income taxes have been recorded accordingly. 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. RSEA files all appropriate tax returns in the U.S. federal jurisdiction, and the state of California.

RSEA files informational returns in the U.S. federal jurisdiction, and the state of California. The statute of limitations for federal and California state purposes is generally three and four years, respectively.

Evaluation of Subsequent Events – The organization has evaluated subsequent events through November 16, 2012, the date these financial statements were available to be issued. Subsequent events requiring recognition or disclosure are discussed in Note 6 and 14.

Comparative Totals – The financial statements include certain prior year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with RSEA's financial statements for the year ended June 30, 2011, from which the summarized information was derived. Certain reclassifications have been made to the 2011 financial information to conform to the 2012 presentation.

NOTE 2 - CONCENTRATION OF CREDIT RISK:

RSEA 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. RSEA occasionally has the need to maintain a cash balance in excess of the FDIC limit.

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2012**

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 of June 30, 2012, all amounts are considered collectible within one year.

NOTE 4 - GRANTS RECEIVABLE:

Grants receivable consist of funds due from grantor agencies based upon RSN meeting various conditions or milestones. As of June 30, 2012 grant amounts connected with met milestones have been recorded as grants receivable and have been classified as temporarily restricted contributions due to implied time restriction. Management believes all of these amounts are collectible; therefore no provisions for uncollectible accounts were recorded.

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT:

Property and equipment consisted of the following:

	<u>RSED Schools</u>	<u>Launchpad</u>	<u>RSEA Total</u>
Land	\$ -	\$ 8,889,946	\$ 8,889,946
Furniture and equipment	79,837	261,273	341,110
Loan Fee		639,650	639,650
Building	34,120	30,415,313	30,449,433
Construction in Progress		4,678,791	4,678,791
Less: Accumulated depreciation	<u>(71,893)</u>	<u>(2,330,216)</u>	<u>(2,402,109)</u>
Total	<u>\$ 42,064</u>	<u>\$42,554,757</u>	<u>\$ 42,596,821</u>

Depreciation and amortization expense was \$1,065,143 for the year ended June 30, 2012.

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2012**

NOTE 6 - DEBT:

Convertible Debt

RSN – Charter School Growth Fund

In February 2009, RSN entered into a \$2.3 million Subordinate Loan Agreement with Charter School Growth Fund (CSGF) at an effective interest rate of 4.0 percent. Of this amount, \$2.0 million plus associated interest will be forgiven and converted into a grant provided that RSN meet specified educational, financial and growth outcomes.

In October 2010, RSN and CSGF amended and restated the original Subordinate Loan Agreement to reflect a total loan of \$3.4 million at an effective interest rate of 3.25 percent. As of June 30, 2012, RSN has borrowed \$2.65 million of the \$3.4 million total available. Of the amended amount, \$2.35 million plus associated interest will be forgiven and converted into a grant provided that RSN meet specified educational, financial and growth outcomes.

In the event that these annual benchmarks are not met, the balance of the unconverted \$2.35 million loan is to be repaid with all accrued and unpaid interest on June 30, 2018.

As of June 30, 2012, RSN had substantively met the school year benchmarks and converted \$1.45 million of principal into a grant. No amounts were converted based on June 30, 2012 results pending notification of debt forgiveness from CSGF.

Over the 2012/13 school year, \$1,300,000 of the remaining note payable is eligible to be forgiven and converted into a grant provided the RSN meet specified educational, financial and growth outcomes. The remaining \$300,000 of the loan plus accrued interest will be due on June 30, 2017.

RSN Convertible Loan – Walton Fund

In July 2009, RSN 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 RSN 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, 2012, certain schools had substantively met the school year benchmarks and converted \$500,000 of principal into a grant, resulting in \$500,000 remaining note payable.

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2012**

NOTE 6 - DEBT: (continued)

Loans Payable

Charter School Growth Fund/RSN

In March 2012, RSN entered into a \$1 million Subordinated Loan Agreement with Charter School Growth Fund (CSGF) to finance the RS7-LLC8 project (the LLC8 Construction Loan). This loan had an effective interest rate of 4 percent and a maturity date of October 2013. Interest was to accrue from the effective date of the loan and quarterly interest payments were to begin in September 2012. As of June 30, 2012, \$1 million remained outstanding on the loan.

Rocketship's Schools - California Department of Education Revolving Loan Program

As of June 30, 2012, Rocketship's Schools has five unsecured revolving loans payable to the California Department of Education totaling \$510,000 with effective interest rates ranging from 0.38% to 3.43%. The repayment terms require annual principal payments that are deducted from apportionment revenue.

LLC1 - CDFI Facilities Construction Loan

As of June 30, 2012, LLC1 has two facilities construction loans payable with a Community Development Financial Institution (CDFI). Both of them were entered into during the 2007-2008 fiscal year and as of June 30, 2012 had principal balances of \$5,000,000 on the primary loan and \$641,405 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 October 1, 2008 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. As of June 30, 2012, \$5,617,915 remains outstanding with CDFI.

This loan is subject to reporting requirements and covenants customary to this type of credit transaction. As required by the lender, RSED provided a Partial Guaranty of the debt obligation.

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2012**

NOTE 6 - DEBT: (continued)

LLC2 - CDFI Facilities Construction Loan

As of June 30, 2012, LLC2 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. LLC2 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.

This loan is subject to reporting requirements and covenants customary to this type of credit transaction. As required by the lender, RSED provided a Partial Guaranty of the debt obligation.

LLC3 - Self Help New Markets V LLC Loan

As of June 30, 2010, LLC3 had entered into a facilities 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, LLC3 made payments of interest only. Commencing on October 1, 2010, and thereafter on the first day of each successive month, LLC3 has made and will 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. As of June 30, 2012, \$6,293,093 remains outstanding with SHNM.

This loan is subject to reporting requirements and financial covenants customary for this type of credit transaction.

LLC4 - RME Bonds Payable

In September 2011, Launchpad completed a bond financing in the amount of \$10.1 million (the Series 2011 Bonds), proceeds from which were used to refinance the outstanding principal and accrued interest balance under a Senior Note and Junior Note and to fund certain project expenses remaining for the RME construction project. Interest is paid semi-annually at a coupon rate of 8.5% to 9.0%.

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2012**

NOTE 6 - DEBT: (continued)

LLC4 - RME Bonds Payable (continued)

The Series 2011 Bonds are divided into a \$9.6 million Series 2011A Bond and a \$0.5 million Series 2011B Bond. The Series 2011A Bond matures December 2041 and the Series 2011B Bond matures December 2018. Both Series 2011A and Series 2011B are subject to mandatory redemptions prior to their stated maturity by a Sinking Accounts Payment fund established in December 2018 and December 2013 respectively.

LLC5 - Low Income Investment Fund Sub-CDE VIII LLC Loan

LLC5 borrowed debt capital for the RS5 project from LIIF Sub-CDE VIII, LLC (the LIIF LLC), a Delaware limited liability company formed by the Low Income Investment Fund (LIIF), a CDFI under the leverage loan model of the New Markets Tax Credits program under Section 45D of the Internal Revenue Code of 1986. US Bank CDC purchased the tax credits from the LIIF LLC, the proceeds of which were used in part to fund a “qualified equity investment”. LIIF and other participating institutions provided the leverage debt capital. The LIIF LLC made three (3) loans to LLC5, the Borrower, in the aggregate original principal amount of \$9,975,000 (the “*QLICI Loan*”), which *QLICI Loan* is expected to constitute a “qualified low-income community investment” (“*QLICF*”) being made to a “qualified active low-income community business” (“*QALICB*”) under the NMTC Program, and which includes subordinated debt provided by Launchpad of \$560K. The debt is required to have a term of not less than seven (7) years and was made on an interest-only payment basis. As required by the Lender, RSN provided a partial Lease Guaranty to the Borrower in support of the financing. This loan is subject to reporting requirements and covenants customary to this type of credit transaction.

LLC6 and LLC8 - LISC Recoverable Loan

In August 2011, Launchpad Development Company received a recoverable grant from Local Initiatives Support Corporation (LISC) in a draw-to amount of up to \$500,000 available between September 1, 2011 and September 1, 2013. The recoverable grant was provided to fund predevelopment costs for new facilities in San Jose. Launchpad drew on the grant in the amounts of \$105,540 and \$102,606 for LLC6 and LLC8, respectively. As of June 30, 2012, the balance drawn by LLC8 is classified as a current liability to be repaid upon completion of permanent financing subsequent to year-end. The balance drawn by LLC6 is classified as a long term liability to be repaid upon completion of financing or September 1, 2013.

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2012**

NOTE 6 - DEBT: (continued)

LLC6 LISC Loan

In December 2011, LLC6 entered into a loan agreement with Local Initiatives Support Corporation (LISC) totaling \$625,478. This loan has an effective interest rate of 6 percent. LLC6 used the proceeds of the loan to acquire real estate intended for a permanent facility for RS6. The loan is payable in full upon the earlier of closing of permanent financing for the project, or April 1, 2013. The loan uses the property financed as collateral. As of June 30, 2012, \$618,387 remains outstanding on the loan.

This loan is subject to reporting requirements and covenants customary to this type of credit transaction.

Construction Loan – RSN

Also in March 2012, RSN issued a Promissory Note in the original principal amount of \$1.971 million to Launchpad Development Eight, LLC. This loan had an effective interest rate of 4 percent and a maturity date of March 31, 2014. Interest was to accrue from the effective date of the loan and quarterly interest payments were to begin in September 2012. As of June 30, 2012, \$1.971 million remained outstanding on the loan.

In September 2012, LLC8 completed bond financing (see Note 14) in the amount of \$9.46 million (the Series 2012 Bonds), proceeds from which were used to refinance the outstanding principal and accrued interest balance under the Promissory Note described above. Subsequently, RSN used the proceeds from the repayment of the Promissory Note to repay the outstanding principal and accrued interest balance on the LLC8 Construction Loan with CSGF.

LLC8 Construction Loan Agreement

In March 2012, LLC8 entered into a Construction Loan Agreement with Bank of America in the amount of \$6 million at an effective interest rate equal to the LIBOR daily floating interest rate plus 290 basis points. Beginning May 1, 2012, accrued interest for the previous month was applied to the loan. The loan's initial maturity date was October 1, 2013, with an option to extend to April 1, 2015 over a 25 year amortization schedule. As of June 30, 2012, \$1.848 million remained outstanding on the loan. In September 2012, the entire loan was repaid through the Series 2012 Bond refinancing (see note 14).

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2012**

NOTE 6 - DEBT: (continued)

Futures maturities of debt in summary:

<u>June 30,</u>	<u>RSED Schools Total (1)</u>	<u>Launchpad Total (1)</u>	<u>RSEA Total</u>
2013	\$ 1,210,000	\$ 2,836,712	\$ 4,046,712
2014	160,000	2,192,847	2,352,847
2015	70,000	5,793,331	5,863,331
2016	570,000	7,044,324	7,614,324
2017	300,000	5,870,128	6,170,128
Thereafter	1,300,000	19,710,000	21,010,000
Discount	<u>-</u>	<u>(11,294)</u>	<u>(11,294)</u>
Total	<u>\$ 3,610,000</u>	<u>\$ 43,436,048</u>	<u>\$47,046,048</u>

(1) See supplementary schedule of long-term debt for detailed maturity schedules by debt instrument and location.

NOTE 7 - NET ASSET RESTRICTIONS:

Temporarily restricted net assets of \$1,569,833 relate to grants that are specifically restricted to 2012/13 operations.

NOTE 8 - OPERATING LEASES:

Related to the site development of RMS's facility, LLC1 has a 20 year land lease payable at \$10,400 monthly. Lease expense recognized for the year ended June 30, 2012 was \$129,480.

RSED had a lease for facilities that expired 2012/13.

RS6 has a one year lease for facilities payable at \$5,725 monthly starting August 1, 2012.

**ROCKETSHIP EDUCATION
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2012**

NOTE 8 - OPERATING LEASES: (continued)

Each school rents equipment under various operating leases. As of June 30, 2012, RMS, RSSP, RLS, RME and RDP each had equipment operating leases. Lease expenses recognized for the year ended June 30, 2012 totaled \$79,900.

The following is a schedule of future minimum lease payments required under operating leases.

<u>June 30,</u>	<u>RSED</u>	<u>RMS</u>	<u>RSSP</u>	<u>RLS</u>	<u>RME</u>
2013	\$ 63,864	\$ 10,380	\$ 11,988	\$ 12,975	\$ 11,136
2014		10,380	11,988	12,975	11,136
2015			11,988	12,975	11,136
2016			999	2,132	11,136
2017					1,856
Thereafter					
Total	<u>\$ 63,864</u>	<u>\$ 20,760</u>	<u>\$ 36,963</u>	<u>\$ 41,057</u>	<u>\$ 46,400</u>

<u>June 30,</u>	<u>RDP</u>	<u>RS6</u>	<u>LLC1</u>	<u>Total</u>
2013	\$ 11,136	\$ 62,975	\$ 131,040	\$ 315,494
2014	11,136		131,040	188,655
2015	11,136		135,954	183,189
2016	11,136		137,592	162,995
2017	1,856		137,592	141,304
Thereafter			1,902,438	1,902,438
Total	<u>\$ 46,400</u>	<u>\$ 62,975</u>	<u>\$ 2,575,656</u>	<u>\$ 2,894,075</u>

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2012**

NOTE 9 - 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 2011-12 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>
2010	\$159,103	100%
2011	\$217,858	100%
2012	\$414,135	100%

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2012**

NOTE 10 - SPONSORING AGREEMENT:

Rocketship had a Memorandum of Understanding (MOU) with SCCOE from July 1, 2010 through June 30, 2013 which outlines the supervisory oversight provided by SCCOE. The fees to SCCOE for oversight in accordance with this agreement were \$88,448 for the year ended June 30, 2012.

NOTE 11 - RELATED PARTY TRANSACTIONS:

Facility Leases

In June 2010, RMS has entered into a 5-year facility lease with LLC1. The lease agreement was amended in September 2010 and again in November 2010 to reflect a modified schedule of lease payments. For the school year 2011/12, lease payments equaled \$483,751.

In April 2009, RSSP entered into a 7-year facility lease agreement with LLC2. The lease agreement was amended in September 2010 to reflect a modified schedule of lease payments. For the school year 2011/12, lease payments under this agreement totaled \$511,089.

In April 2010, RLS entered into a 10-year lease with LLC3. For the school year 2011/12, lease payments under this agreement totaled \$676,894.

In May 2011, RME school entered into a 15-year lease with LLC4. The lease was amended in September 2011 to reflect a modified schedule of rent payments. Due to an uneven payment schedule, lease expense is accrued on a straight line basis over the life of the lease in accordance with FASB Accounting Standards Codification Topic 840 (Leases), formerly FAS 13. Based on interpretation of Topic 840, total lease expense of \$802,631 has been accrued. For school year 2011/12, lease payments under this agreement totaled \$425,283. For the school year 2011/12, LLC4 incurred facility development fees to Launchpad totaling \$55,484.

In March 2011, RDP school entered into a 20 year lease with LLC5. Due to an uneven payment schedule, lease expense is accrued on a straight line basis over the life of the lease in accordance with FASB Accounting Standards Codification Topic 840 (Leases), formerly FAS 13. Based on interpretation of Topic 840, total lease expense of \$673,932 has been accrued. For school year 2011/12, lease payments under this agreement totaled \$450,272. For the school year 2011/12, LLC5 incurred facility development fees to Launchpad totaling \$77,700. \$325,000 was placed into a fully pledged reserve account at LDC for the benefit of the lender.

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2012**

NOTE 11 - RELATED PARTY TRANSACTIONS: (continued)

Future estimated payments under these leases as of June 30, 2012 are as follows:

<u>June 30,</u>	<u>RMS</u>	<u>RSSP</u>	<u>RLS</u>	<u>RME</u>	<u>RDP</u>	<u>Total</u>
2013	\$ 468,300	\$ 479,200	\$ 634,050	\$ 767,135	\$ 557,994	\$ 2,906,679
2014	468,300	459,200	634,050	944,641	557,994	3,064,185
2015	468,452	479,200	634,050	944,865	557,994	3,084,561
2016		474,000	634,050	943,563	557,994	2,609,607
2017			634,050	942,474	557,994	2,134,518
Thereafter			<u>1,902,150</u>	<u>8,522,397</u>	<u>12,279,138</u>	<u>22,703,685</u>
Total	<u>\$ 1,405,052</u>	<u>\$ 1,891,600</u>	<u>\$ 5,072,400</u>	<u>\$13,065,075</u>	<u>\$ 15,069,108</u>	<u>\$ 36,503,235</u>

Development Fees

In connection with the construction development projects at LLC4, LLC5, and LLC8, Launchpad has contracted to receive development fees which are accrued based on project-specific milestones.

For the 2011/12 school year, development fees were as follows:

	<u>Development Fees</u>
LLC4	55,484
LLC5	77,700
LLC8	<u>194,093</u>
Total	<u>\$ 327,277</u>

**ROCKETSHIP EDUCATION
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2012**

NOTE 11 - RELATED PARTY TRANSACTIONS: (continued)

Launchpad – Working Capital Line of Credit from RSN

In October 2010, Launchpad entered into a revolving line of credit agreement (LP LOC) with RSN in the amount of \$682,000 to support working capital needs associated with the startup phase of each school development project. The applicable annual interest rate is 4.0 percent on outstanding balances under this facility. As of June 30, 2012, the outstanding balance under this agreement was \$301,910 with \$4,052 accrued interest receivable. During 2011/12, RSN charged LP at total of \$13,379 in interest on the LOC. The LP LOC is subject to reporting requirements and covenants customary to this type of credit facility.

Management Contracts

RMS, RSSP, RLS, RME, RDP, RS6, RS7, and RS8 have all contracted to receive management and support services from RSN for which they pay management fees.

For the 2011/12 school year, management fees were as follows:

	<u>Management Fees</u>
RMS	\$ 878,978
RSSP	913,101
RLS	662,853
RME	510,746
RDP	506,496
RS6	52,500
RS7	52,500
RS8	<u>87,500</u>
Total	<u>\$ 3,664,674</u>

Donated Capital Property

Launchpad LLC3 provided an in-kind donation of capital property to RLS during the 2011/12 school year, valued at \$6,687. RLS recorded the asset as a capital addition and in-kind donation revenue.

**ROCKETSHIP EDUCATION
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2012**

NOTE 11 - RELATED PARTY TRANSACTIONS: (continued)

Donated Services

RSN provided certain organizational support services, including accounting, finance, and human resources, as well as shared office space to Launchpad (Donated Services) during the 2011/12 school year. For the 2011/12 school year, the amount of Donated Services from RSN to Launchpad was \$87,546.

RSED Grants to Schools

During the 2011/12 school year, RSN provided a \$310,000 grant to RME.

RSED Contribution to Launchpad

During 2011/12 school year, RSN received a grant of \$100,000 on behalf of Launchpad Development Company's facility development efforts. In accordance with the intent of the grant, RSN contributed the funds to Launchpad to use directly.

NOTE 12 - LINES OF CREDIT:

Focus Bank – Revolving Lines of Credit

RSN entered into a series of revolving line of credit agreements (the Revolver) with Focus Business Bank for RSN/RMS, RSSP, RLS, RME and RDP. The amount available under each Revolver is determined by an advance rate not to exceed 80 percent of total accounts receivable. The applicable interest rate is the Prime Rate + 0.50 percent with a minimum total interest rate of 4.25 percent.

Total availability under the Revolver for RSN/RMS, RSSP, RLS, RME and RDP was \$500,000, \$400,000, \$400,000, \$300,000 and \$300,000 respectively. As of June 30, 2012, there were outstanding balances under the Revolver at RLS, RME and RDP of \$400,000, \$300,000 and \$300,000, respectively.

Each Revolver is subject to reporting requirements and covenants customary to this type of credit facility. As required by the Lender, RSN provided a Payment Guaranty to the Lender in support of the financings of RSSP, RLS, RME and RDP.

**ROCKETSHIP EDUCATION
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2012**

NOTE 13 - COMMITMENTS AND CONTINGENCIES:

RSEA 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.

NOTE 14 - SUBSEQUENT EVENTS:

Revenue Anticipation Note

On October of 2012 RSED signed a Revenue Anticipation Note with Low Income Investment Fund (LIIF) and NCB Capital Impact (NCB) on behalf of its seven California schools. The Maximum Borrowing Capacity under the note is the lesser amount of \$6.0 million or 90% of the deferred revenue payments from the State of California. Repayment of each draw amount will be made through an intercept facility that will provide for diverting of future state payments and divert to a trustee who will repay note holders based on a schedule agreed to at time of each specific draw. Repayment will be made in full no later than the final state payment for the 12/13 school year in August 2013. Interest Rate is LIBOR plus 450 basis points with a floor of 4.75%. Security for the note is all receivables expected from deferred California Revenue Payments. The first draw on the note was received in October 2012 in the following amounts:

RSSP	\$ 300,000
RLS	350,000
RME	250,000
RDP	<u>400,000</u>
Total	<u>\$ 1,300,000</u>

RSA Bonds Payable

In September 2012, Launchpad completed a bond financing in the amount of \$9.46 million (the Series 2012 Bonds proceeds from which were used to finance and refinance the acquisition, construction, improvement and equipping of a charter school owned by the Borrower in San Jose, California, fund a deposit to the Reserve Account, pay interest on a portion of the Series 2012 Bonds through December 1, 2012 and pay certain costs of issuance of the Series 2012 Bonds.

The Series 2012 Bonds are divided into a \$9.105 million Series 2012A Bond and a \$0.355 million Series 2012B Bond. The Series 2012A Bond matures June 1, 2043 and the Series 2012B Bond matures June 1, 2016. Interest is paid semi-annually at a rate of 6.25% on the Series 2012A Bonds and 8.5% on the Series 2012B Bonds.

**ROCKETSHIP EDUCATION
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2012**

NOTE 14 - SUBSEQUENT EVENTS: (continued)

Consolidation Approved

On November 6, 2012 the Rocketship Education Board of Directors approved consolidation of the RSSP, RLS, RME, RDP, RS6, RS7, and RS8 entities. Each entity will be consolidated into Rocketship Education before 6/30/13. Management is in the process of notifying parties in contract with these entities about the consolidation and obtaining consents where necessary.

SUPPLEMENTARY INFORMATION

**ROCKETSHIP EDUCATION
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**HISTORY AND ORGANIZATION
For the Year Ended June 30, 2012**

Rocketship Education (RSED) is a California non-profit 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.

Rocketship Mateo Sheedy Elementary (RMS)	Charter Number: 0850 – Active
Rocketship Si Se Puede Academy (RSSP)	Charter Number: 1061 – Active
Rocketship Los Suenos Elementary School (RLS)	Charter Number: 1127 – Active
Rocketship Mosiac Elementary School (RME)	Charter Number: 1192 – Active
Rocketship Discovery Prep (RDP)	Charter Number: 1193 – Active
Rocketship Six Elementary (RS6)	Charter Number: 1393 – Begins 2012/13
Rocketship Seven Elementary (RS7)	Charter Number: 1394 – Begins 2012/13
Rocketship Eight Elementary (RS8)	Charter Number: 1404 – Begins 2013/14
Rocketship Nine Elementary (RS9)	Charter Number: 1389 – Begins 2013/14
Rocketship Ten Elementary (RS10)	Charter Number: Pending
Rocketship Education One Milwaukee (RS1M)	Begins 2013/14

Board of Directors

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Marcus Cole	President	2014
Alex Terman	Treasurer	2014
Shawn Carolan	Secretary	2014
Alex Hernandez	Member	2014
Fred Ferrer	Member	2014
Kim Smith	Member	2014
Al Crites	Member	2014
Jennifer Niles	Member	2014
Louis Jordan	Member	2014
Tim Sheehy	Member	2014
Tim Ranzetta	Member	2013
Deborah McGriff	Member	2013
Jeff Wetzler	Member	2013
John Rosenburg	Member	2013

Administration

John Danner	Co-Founder and CEO
Preston Smith	Co-Founder and President
Andrew Stern	Chief Financial Officer

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**CONSOLIDATING STATEMENT OF FINANCIAL POSITION - ROCKETSHIP SCHOOLS
June 30, 2012**

	<u>Rocketship National</u>	<u>Rocketship Mateo Sheedy Elementary</u>	<u>Rocketship Si Se Puede</u>	<u>Rocketship Los Suenos Academy</u>	<u>Rocketship Mosaic Elementary</u>	<u>Rocketship Discovery Prep</u>	<u>Rocketship Six Elementary</u>	<u>Total Page 1</u>
ASSETS								
CURRENT ASSETS:								
Cash and cash equivalents	\$ 4,524,664	\$ 979,638	\$ 106,669	\$ 137,440	\$ 346,244	\$ 123,466	\$ 66,740	\$ 6,284,861
Accounts receivable	4,463,090	778,318	1,579,132	1,554,787	1,161,687	1,447,647	63,523	11,048,184
Grants receivable	333,598							333,598
Intracompany receivable	625,000							625,000
Prepaid expenses and deposits	142,193	9,305	21,664	10,982	30,667	25,484	16,336	256,631
Total current assets	<u>10,088,545</u>	<u>1,767,261</u>	<u>1,707,465</u>	<u>1,703,209</u>	<u>1,538,598</u>	<u>1,596,597</u>	<u>146,599</u>	<u>18,548,274</u>
LONG-TERM ASSETS:								
Grants receivable	582,367							582,367
Security deposits				250,000	250,000	250,000	250,000	1,000,000
Property, plant & equipment		67,351	12,486	29,034	5,086			113,957
Less: Accumulated depreciation		(64,357)	(7,341)	(138)	(57)			(71,893)
Total property, plant and equipment, net	<u>-</u>	<u>2,994</u>	<u>5,145</u>	<u>28,896</u>	<u>5,029</u>	<u>-</u>	<u>-</u>	<u>42,064</u>
Total long-term assets	<u>582,367</u>	<u>2,994</u>	<u>5,145</u>	<u>278,896</u>	<u>255,029</u>	<u>250,000</u>	<u>250,000</u>	<u>1,624,431</u>
Total assets	<u>\$ 10,670,912</u>	<u>\$ 1,770,255</u>	<u>\$ 1,712,610</u>	<u>\$ 1,982,105</u>	<u>\$ 1,793,627</u>	<u>\$ 1,846,597</u>	<u>\$ 396,599</u>	<u>\$ 20,172,705</u>
LIABILITIES AND NET ASSETS								
CURRENT LIABILITIES:								
Accounts payable	\$ 144,066	\$ 73,611	\$ 102,261	\$ 77,181	\$ 79,545	\$ 58,212	\$ 64,023	\$ 598,899
Accrued liabilities	467,780	189,071	274,369	659,025	389,188	675,600	5,906	2,660,939
Accrued interest	10,000	611	419	502	883	106		12,521
Intracompany payable						400,000		400,000
Lines of credit				400,000	300,000	300,000		1,000,000
Current portion of loans payable	1,000,000	50,000	40,000	70,000	50,000			1,210,000
Total current liabilities	<u>1,621,846</u>	<u>313,293</u>	<u>417,049</u>	<u>1,206,708</u>	<u>819,616</u>	<u>1,433,918</u>	<u>69,929</u>	<u>5,882,359</u>
LONG-TERM LIABILITIES:								
Accrued interest	143,554						30,000	173,554
Deferred rent liability					377,348	223,660		601,008
Convertible loans	1,300,000						250,000	1,550,000
Loans payable	300,000		40,000	110,000	150,000			600,000
Total long-term liabilities	<u>1,743,554</u>	<u>-</u>	<u>40,000</u>	<u>110,000</u>	<u>527,348</u>	<u>223,660</u>	<u>280,000</u>	<u>2,924,562</u>
NET ASSETS:								
Unrestricted	5,745,679	1,456,962	1,255,561	665,397	436,663	189,019	46,670	9,795,951
Temporarily restricted	1,559,833				10,000			1,569,833
Total net assets	<u>7,305,512</u>	<u>1,456,962</u>	<u>1,255,561</u>	<u>665,397</u>	<u>446,663</u>	<u>189,019</u>	<u>46,670</u>	<u>11,365,784</u>
Total liabilities and net assets	<u>\$ 10,670,912</u>	<u>\$ 1,770,255</u>	<u>\$ 1,712,610</u>	<u>\$ 1,982,105</u>	<u>\$ 1,793,627</u>	<u>\$ 1,846,597</u>	<u>\$ 396,599</u>	<u>\$ 20,172,705</u>

See the accompanying notes to supplementary information.

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

CONSOLIDATING STATEMENT OF FINANCIAL POSITION - ROCKETSHIP SCHOOLS (Continued)
June 30, 2012

	<u>Total From Page 1</u>	<u>Rocketship Seven Elementary</u>	<u>Rocketship Eight Elementary</u>	<u>Rocketship Nine Elementary</u>	<u>Rocketship Ten Elementary</u>	<u>Rocketship One Milwaukee</u>	<u>Eliminations</u>	<u>Total Rocketship Schools</u>
ASSETS								
CURRENT ASSETS:								
Cash and cash equivalents	\$ 6,284,861	\$ 78,489	\$ 55,261	\$ -	\$ -	\$ -	\$ -	\$ 6,418,611
Accounts receivable	11,048,184	62,633					(1,456,989)	9,653,828
Grants receivable	333,598							333,598
Intracompany receivable	625,000						(625,000)	-
Prepaid expenses and deposits	256,631	5,000						261,631
Total current assets	<u>18,548,274</u>	<u>146,122</u>	<u>55,261</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,081,989)</u>	<u>16,667,668</u>
LONG-TERM ASSETS:								
Grants receivable	582,367							582,367
Security deposits	1,000,000	250,000	250,000	75,000	75,000	75,000		1,725,000
Property, plant & equipment	113,957							113,957
Less: Accumulated depreciation	(71,893)							(71,893)
Total property, plant and equipment, net	<u>42,064</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>42,064</u>
Total long-term assets	<u>1,624,431</u>	<u>250,000</u>	<u>250,000</u>	<u>75,000</u>	<u>75,000</u>	<u>75,000</u>	<u>-</u>	<u>2,349,431</u>
Total assets	<u>\$ 20,172,705</u>	<u>\$ 396,122</u>	<u>\$ 305,261</u>	<u>\$ 75,000</u>	<u>\$ 75,000</u>	<u>\$ 75,000</u>	<u>\$ (2,081,989)</u>	<u>\$ 19,017,099</u>
LIABILITIES AND NET ASSETS								
CURRENT LIABILITIES:								
Accounts payable	\$ 598,899	\$ 58,124	\$ -	\$ -	\$ -	\$ -	\$ (105,000)	\$ 552,023
Accrued liabilities	2,660,939	3,443	50,000				(1,351,989)	1,362,393
Accrued interest	12,521							12,521
Intracompany payable	400,000			75,000	75,000	75,000	(625,000)	-
Lines of credit	1,000,000							1,000,000
Current portion of loans payable	1,210,000							1,210,000
Total current liabilities	<u>5,882,359</u>	<u>61,567</u>	<u>50,000</u>	<u>75,000</u>	<u>75,000</u>	<u>75,000</u>	<u>(2,081,989)</u>	<u>4,136,937</u>
LONG-TERM LIABILITIES:								
Accrued interest	173,554	30,000						203,554
Deferred rent liability	601,008							601,008
Convertible loans	1,550,000	250,000						1,800,000
Loans payable	600,000							600,000
Total long-term liabilities	<u>2,924,562</u>	<u>280,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,204,562</u>
NET ASSETS:								
Unrestricted	9,795,951	54,555	255,261	-	-	-		10,105,767
Temporarily restricted	1,569,833							1,569,833
Total net assets	<u>11,365,784</u>	<u>54,555</u>	<u>255,261</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,675,600</u>
Total liabilities and net assets	<u>\$ 20,172,705</u>	<u>\$ 396,122</u>	<u>\$ 305,261</u>	<u>\$ 75,000</u>	<u>\$ 75,000</u>	<u>\$ 75,000</u>	<u>\$ (2,081,989)</u>	<u>\$ 19,017,099</u>

See the accompanying notes to supplementary information.

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**CONSOLIDATING STATEMENT OF ACTIVITIES - ROCKETSHIP SCHOOLS
For the Year Ended June 30, 2012**

	<u>Rocketship National National</u>	<u>Rocketship Mateo Sheedy Elementary</u>	<u>Rocketship Si Se Puede</u>	<u>Rocketship Los Suenos Academy</u>	<u>Rocketship Mosaic Elementary</u>	<u>Rocketship Discovery Prep</u>	<u>Rocketship Six Elementary</u>	<u>Total Page 1</u>
UNRESTRICTED NET ASSETS:								
Revenues								
Apportionment revenue	\$ -	\$ 257,972	\$ 1,810,560	\$ 2,455,564	\$ 1,262,885	\$ 1,963,415	\$ -	\$ 7,750,396
Categorical grant revenue		473,251	505,592	445,400	412,170	398,108		2,234,521
Property taxes		2,276,654	1,037,193	2,081	791,474	71,267		4,178,669
Other State revenue	1,087,816	523,846	560,288	591,119	426,791	422,236		3,612,096
Federal revenue	523,836	600,399	396,667	557,424	277,650	271,521	82,195	2,709,692
Other local revenue	3,731,825	11,089	24,871	27,479	41,534	36,856	4,025	3,877,679
Contributions	2,757,341	5,266	25,077	9,147	705,333	412,926		3,915,090
Amounts released from restriction	1,583,000							1,583,000
Total unrestricted revenues	<u>9,683,818</u>	<u>4,148,477</u>	<u>4,360,248</u>	<u>4,088,214</u>	<u>3,917,837</u>	<u>3,576,329</u>	<u>86,220</u>	<u>29,861,143</u>
Program Expenses								
Educational programs	<u>1,108,816</u>	<u>3,042,993</u>	<u>3,131,315</u>	<u>3,088,611</u>	<u>2,973,065</u>	<u>2,823,031</u>	<u>61,184</u>	<u>16,229,015</u>
Supporting Services								
Site supports	1,950,305							1,950,305
Program development and expansion	1,247,345							1,247,345
Administration and general	<u>3,212,389</u>	<u>878,978</u>	<u>913,101</u>	<u>662,854</u>	<u>510,746</u>	<u>506,496</u>	<u>52,500</u>	<u>6,737,064</u>
Total supporting services	<u>6,410,039</u>	<u>878,978</u>	<u>913,101</u>	<u>662,854</u>	<u>510,746</u>	<u>506,496</u>	<u>52,500</u>	<u>9,934,714</u>
Total expenses	<u>7,518,855</u>	<u>3,921,971</u>	<u>4,044,416</u>	<u>3,751,465</u>	<u>3,483,811</u>	<u>3,329,527</u>	<u>113,684</u>	<u>26,163,729</u>
Increase (decrease) in unrestricted net assets	2,164,963	226,506	315,832	336,749	434,026	246,802	(27,464)	3,697,414
TEMPORARILY RESTRICTED NET ASSETS:								
Amounts released from restriction	(1,583,000)							(1,583,000)
Contributions	<u>1,559,833</u>				<u>10,000</u>			<u>1,569,833</u>
Increase (decrease) in temporarily restricted net assets	<u>(23,167)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,000</u>	<u>-</u>	<u>-</u>	<u>(13,167)</u>
Beginning net assets	<u>5,163,716</u>	<u>1,230,456</u>	<u>939,729</u>	<u>328,648</u>	<u>2,637</u>	<u>(57,783)</u>	<u>74,134</u>	<u>7,681,537</u>
Ending net assets	<u>\$ 7,305,512</u>	<u>\$ 1,456,962</u>	<u>\$ 1,255,561</u>	<u>\$ 665,397</u>	<u>\$ 446,663</u>	<u>\$ 189,019</u>	<u>\$ 46,670</u>	<u>\$ 11,365,784</u>

See the accompanying notes to supplementary information.

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**CONSOLIDATING STATEMENT OF ACTIVITIES - ROCKETSHIP SCHOOLS (Continued)
For the Year Ended June 30, 2012**

	<u>Total From Page 1</u>	<u>Rocketship Seven Elementary</u>	<u>Rocketship Eight Elementary</u>	<u>Rocketship Nine Elementary</u>	<u>Rocketship Ten Elementary</u>	<u>Rocketship One Milwaukee</u>	<u>Eliminations</u>	<u>Total Rocketship Schools</u>
UNRESTRICTED NET ASSETS:								
Revenues								
Apportionment revenue	\$ 7,750,396	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,750,396
Categorical grant revenue	2,234,521							2,234,521
Property taxes	4,178,669							4,178,669
Other State revenue	3,612,096							3,612,096
Federal revenue	2,709,692	81,476						2,791,168
Other local revenue	3,877,679						(3,664,674)	213,005
Contributions	3,915,090		250,000				(310,000)	3,855,090
Amounts released from restriction	1,583,000							1,583,000
Total unrestricted revenues	<u>29,861,143</u>	<u>81,476</u>	<u>250,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,974,674)</u>	<u>26,217,945</u>
Program Expenses								
Educational programs	<u>16,229,015</u>	<u>48,555</u>	<u>989</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,278,559</u>
Supporting Services								
Site supports	1,950,305							1,950,305
Program development and expansion	1,247,345							1,247,345
Administration and general	<u>6,737,064</u>	<u>52,500</u>	<u>87,500</u>				<u>(3,974,674)</u>	<u>2,902,390</u>
Total supporting services	<u>9,934,714</u>	<u>52,500</u>	<u>87,500</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,974,674)</u>	<u>6,100,040</u>
Total expenses	<u>26,163,729</u>	<u>101,055</u>	<u>88,489</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,974,674)</u>	<u>22,378,599</u>
Increase (decrease) in unrestricted net assets	3,697,414	(19,579)	161,511	-	-	-	-	3,839,346
TEMPORARILY RESTRICTED NET ASSETS:								
Amounts released from restriction	(1,583,000)							(1,583,000)
Contributions	<u>1,569,833</u>							<u>1,569,833</u>
Increase (decrease) in temporarily restricted net assets	<u>(13,167)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(13,167)</u>
Beginning net assets	<u>7,681,537</u>	<u>74,134</u>	<u>93,750</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,849,421</u>
Ending net assets	<u>\$ 11,365,784</u>	<u>\$ 54,555</u>	<u>\$ 255,261</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,675,600</u>

See the accompanying notes to supplementary information.

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**CONSOLIDATING SCHEDULE OF EXPENDITURES BY STATE CATEGORIES - ROCKETSHIP SCHOOLS
For the Year Ended June 30, 2012**

	<u>Rocketship National</u>	<u>Rocketship Mateo Sheedy Elementary</u>	<u>Rocketship Si Se Puede</u>	<u>Rocketship Los Suenos Academy</u>	<u>Rocketship Mosaic Elementary</u>	<u>Rocketship Discovery Prep</u>	<u>Rocketship Six Elementary</u>	<u>Total Page 1</u>
EXPENSES BY STATE CATEGORIES:								
1000 Certificated salaries	\$ 761,932	\$ 1,263,048	\$ 1,250,464	\$ 1,154,864	\$ 964,758	\$ 962,351	\$ -	\$ 6,357,417
2000 Classified salaries	3,093,178	245,417	254,562	248,028	254,033	239,602	29,062	4,363,882
3000 Benefits	662,449	295,142	300,779	274,381	244,668	255,217	5,181	2,037,817
4000 Books and supplies	236,764	430,707	449,217	442,809	464,152	458,183	8,594	2,490,426
5000 Other operating expenses	2,373,579	1,682,458	1,784,841	1,630,151	1,555,212	1,414,025	60,463	10,500,729
6000 Capital expenses and depreciation		1,519	2,540	160	105	43		4,367
7000 Transfers and interest expenses	390,953	3,680	2,013	1,072	883	106	10,384	409,091
Total expenses	<u>\$ 7,518,855</u>	<u>\$ 3,921,971</u>	<u>\$ 4,044,416</u>	<u>\$ 3,751,465</u>	<u>\$ 3,483,811</u>	<u>\$ 3,329,527</u>	<u>\$ 113,684</u>	<u>\$26,163,729</u>

See the accompanying notes to supplementary information.

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**CONSOLIDATING SCHEDULE OF EXPENDITURES BY STATE CATEGORIES - ROCKETSHIP SCHOOLS (Continued)
For the Year Ended June 30, 2012**

	<u>Total From Page 1</u>	<u>Rocketship Seven Elementary</u>	<u>Rocketship Eight Elementary</u>	<u>Rocketship Nine Elementary</u>	<u>Rocketship Ten Elementary</u>	<u>Rocketship One Milwaukee</u>	<u>TOTAL</u>
EXPENSES BY STATE CATEGORIES:							
1000 Certificated salaries	\$ 6,357,417	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,357,417
2000 Classified salaries	4,363,882	24,135					4,388,017
3000 Benefits	2,037,817	4,643					2,042,460
4000 Books and supplies	2,490,426	5,101	139				2,495,666
5000 Other operating expenses	10,500,729	56,792	88,350				10,645,871
6000 Capital expenses and depreciation	4,367						4,367
7000 Transfers and interest expenses	409,091	10,384					419,475
Total expenses	<u>\$ 26,163,729</u>	<u>\$ 101,055</u>	<u>\$ 88,489</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 26,353,273</u>

See the accompanying notes to supplementary information.

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**CONSOLIDATING STATEMENT OF CASH FLOWS - ROCKETSHIP SCHOOLS
For the Year Ended June 30, 2012**

	<u>Rocketship National</u>	<u>Rocketship Mateo Sheedy Elementary</u>	<u>Rocketship Si Se Puede</u>	<u>Rocketship Los Suenos Academy</u>	<u>Rocketship Mosaic Elementary</u>	<u>Rocketship Discovery Prep</u>	<u>Rocketship Six Elementary</u>	<u>Total Page 1</u>
CASH FLOWS from OPERATING ACTIVITIES:								
Change in Net Assets	\$ 2,141,796	\$ 226,506	\$ 315,832	\$ 336,749	\$ 444,026	\$ 246,802	\$ (27,464)	\$ 3,684,247
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:								
Depreciation		1,497	2,497	138	57			4,189
Debt forgiven through grant agreement					(269,616)	(269,616)		(539,232)
Donation of in-kind property				(6,687)				(6,687)
(Increase) or decrease in operating assets:								
Accounts receivable	(3,470,896)	139,674	(277,177)	(472,851)	(1,161,687)	(1,447,647)	(63,523)	(6,754,107)
Grants receivable	167,035							167,035
Prepaid expenses and deposits	(70,466)	(9,305)	(21,164)	(10,982)	(30,667)	(25,484)	(191,336)	(359,404)
Increase or (decrease) in operating liabilities:								
Accounts payable and accrued liabilities	17,196	(21,728)	114,224	512,352	461,745	704,776	80,313	1,868,878
Deferred revenue				(62,500)				(62,500)
Deferred rent liability					377,348	223,660		601,008
Net cash provided (used) by operating activities	<u>(1,215,335)</u>	<u>336,644</u>	<u>134,212</u>	<u>296,219</u>	<u>(178,794)</u>	<u>(567,509)</u>	<u>(202,010)</u>	<u>(1,396,573)</u>
CASH FLOWS from INVESTING ACTIVITIES:								
Payment on note receivable	3,513,614							3,513,614
Purchase of property plant and equipment				(22,347)	(5,086)			(27,433)
Net cash provided (used) by investing activities	<u>3,513,614</u>	<u>-</u>	<u>-</u>	<u>(22,347)</u>	<u>(5,086)</u>	<u>-</u>	<u>-</u>	<u>3,486,181</u>
CASH FLOWS from FINANCING ACTIVITIES:								
Intracompany loans	175,000			(700,000)		300,000		(225,000)
Change in line of credit				400,000	300,000	300,000		1,000,000
Proceeds from debt	1,500,000			150,000	200,000			1,850,000
Repayment of debt	(3,500,000)	(50,000)	(40,000)	(70,000)				(3,660,000)
Net cash provided (used) by financing activities	<u>(1,825,000)</u>	<u>(50,000)</u>	<u>(40,000)</u>	<u>(220,000)</u>	<u>500,000</u>	<u>600,000</u>	<u>-</u>	<u>(1,035,000)</u>
Net increase (decrease) in cash and cash equivalents	473,279	286,644	94,212	53,872	316,120	32,491	(202,010)	1,054,608
Cash and cash equivalents at the beginning of the year	4,051,385	692,994	12,457	83,568	30,124	90,975	268,750	5,230,253
Cash and cash equivalents at the end of the year	<u>\$ 4,524,664</u>	<u>\$ 979,638</u>	<u>\$ 106,669</u>	<u>\$ 137,440</u>	<u>\$ 346,244</u>	<u>\$ 123,466</u>	<u>\$ 66,740</u>	<u>\$ 6,284,861</u>
CASH PAID FOR INTEREST (Net of capitalized amount)	<u>\$ 34,342</u>	<u>\$ 3,069</u>	<u>\$ 1,594</u>	<u>\$ 570</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 39,575</u>

See the accompanying notes to supplementary information.

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**CONSOLIDATING STATEMENT OF CASH FLOWS - ROCKETSHIP SCHOOLS (Continued)
For the Year Ended June 30, 2012**

	<u>Total From Page 1</u>	<u>Rocketship Seven Elementary</u>	<u>Rocketship Eight Elementary</u>	<u>Rocketship Nine Elementary</u>	<u>Rocketship Ten Elementary</u>	<u>Rocketship One Milwaukee</u>	<u>Total Rocketship Schools</u>
CASH FLOWS from OPERATING ACTIVITIES:							
Change in Net Assets	\$ 3,684,247	\$ (19,579)	\$ 161,511	\$ -	\$ -	\$ -	\$ 3,826,179
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:							
Depreciation	4,189						4,189
Debt forgiven through grant agreement	(539,232)						(539,232)
Donation of in-kind property	(6,687)						(6,687)
(Increase) or decrease in operating assets:							
Accounts receivable	(6,754,107)	(62,633)					(6,816,740)
Grants receivable	167,035						167,035
Prepaid expenses and deposits	(359,404)	(255,000)	(250,000)	(75,000)	(75,000)	(75,000)	(1,089,404)
Increase or (decrease) in operating liabilities:							
Accounts payable and accrued liabilities	1,868,878	71,951	50,000				1,990,829
Deferred revenue	(62,500)						(62,500)
Deferred rent liability	601,008						601,008
Net cash provided (used) by operating activities	<u>(1,396,573)</u>	<u>(265,261)</u>	<u>(38,489)</u>	<u>(75,000)</u>	<u>(75,000)</u>	<u>(75,000)</u>	<u>(1,925,323)</u>
CASH FLOWS from INVESTING ACTIVITIES:							
Payment on note receivable	3,513,614						3,513,614
Purchase of property plant and equipment	(27,433)						(27,433)
Net cash provided (used) by investing activities	<u>3,486,181</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,486,181</u>
CASH FLOWS from FINANCING ACTIVITIES:							
Intracompany loans	(225,000)			75,000	75,000	75,000	-
Change in line of credit	1,000,000						1,000,000
Proceeds from debt	1,850,000						1,850,000
Repayment of debt	(3,660,000)						(3,660,000)
Net cash provided (used) by financing activities	<u>(1,035,000)</u>	<u>-</u>	<u>-</u>	<u>75,000</u>	<u>75,000</u>	<u>75,000</u>	<u>(810,000)</u>
Net increase (decrease) in cash and cash equivalents	1,054,608	(265,261)	(38,489)	-	-	-	750,858
Cash and cash equivalents at the beginning of the year	<u>5,230,253</u>	<u>343,750</u>	<u>93,750</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,667,753</u>
Cash and cash equivalents at the end of the year	<u>\$ 6,284,861</u>	<u>\$ 78,489</u>	<u>\$ 55,261</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,418,611</u>
CASH PAID FOR INTEREST (Net of capitalized amount)	<u>\$ 39,575</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 39,575</u>

See the accompanying notes to supplementary information.

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**SCHEDULE OF LONG-TERM DEBT - ROCKETSHIP SCHOOLS
For the Year Ended June 30, 2012**

Futures maturities of debt by instrument:

<u>June 30,</u>	<u>Convertible CSGF</u>	<u>CSGF</u>	<u>Convertible Walton</u>	<u>CDE Loans</u>	<u>Total</u>
2013	\$ -	\$ 1,000,000	\$ -	\$ 210,000	\$ 1,210,000
2014				160,000	160,000
2015				70,000	70,000
2016			500,000	70,000	570,000
2017	300,000				300,000
Thereafter	1,300,000				1,300,000
Total	<u>\$ 1,600,000</u>	<u>\$ 1,000,000</u>	<u>\$ 500,000</u>	<u>\$ 510,000</u>	<u>\$ 3,610,000</u>

Futures maturities of debt by location:

<u>June 30,</u>	<u>RSN</u>	<u>RMS</u>	<u>RSSP</u>	<u>RLS</u>	<u>RME</u>	<u>RS6</u>	<u>RS7</u>	<u>RSED Schools Total</u>
2013	\$ 1,000,000	\$ 50,000	\$ 40,000	\$ 70,000	\$ 50,000	\$ -	\$ -	\$ 1,210,000
2014			40,000	70,000	50,000			160,000
2015				20,000	50,000			70,000
2016				20,000	50,000	250,000	250,000	570,000
2017	300,000							300,000
Thereafter	1,300,000							1,300,000
Total	<u>\$ 2,600,000</u>	<u>\$ 50,000</u>	<u>\$ 80,000</u>	<u>\$ 180,000</u>	<u>\$ 200,000</u>	<u>\$ 250,000</u>	<u>\$ 250,000</u>	<u>\$ 3,610,000</u>

See the accompanying notes to supplementary information.

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

CONSOLIDATING STATEMENT OF FINANCIAL POSITION - LAUNCHPAD

June 30, 2012

	<u>Launchpad</u>	<u>MLLC1</u>	<u>LCI</u>	<u>LLC1</u>	<u>LLC2</u>	<u>LLC3</u>	<u>LLC4</u>	<u>LLC5</u>	<u>LLC6</u>	<u>Total Page 1</u>
ASSETS										
CURRENT ASSETS:										
Cash and cash equivalents	\$ 31,526	\$ 24,710	\$ -	\$ 76,708	\$ 44,356	\$ 154,257	\$ 940,100	\$ 85,870	\$ -	\$ 1,357,527
Restricted cash	325,924				199,264	104,950	942,390	355,121		1,927,649
Accounts receivable	661,826				34,273	25,917	10,088			732,104
Prepaid expenses and deposits	<u>3,518</u>	<u>35,000</u>		<u>32,877</u>	<u>8,144</u>	<u>991</u>	<u>1,090</u>	<u>1,090</u>		<u>82,710</u>
Total current assets	<u>1,022,794</u>	<u>59,710</u>	<u>-</u>	<u>109,585</u>	<u>286,037</u>	<u>286,115</u>	<u>1,893,668</u>	<u>442,081</u>	<u>-</u>	<u>4,099,990</u>
LONG-TERM ASSETS:										
Intracompany receivable	814,176							260,000		1,074,176
Deferred rent asset							377,348	223,660		601,008
Property, plant & equipment	49,627	64,768		6,032,753	6,995,437	7,099,433	8,240,852	9,428,547	1,089,864	39,001,281
Less: Accumulated depreciation	<u>(3,854)</u>			<u>(1,148,237)</u>	<u>(424,331)</u>	<u>(343,681)</u>	<u>(208,629)</u>	<u>(191,484)</u>		<u>(2,320,216)</u>
Total property, plant and equipment, net	<u>45,773</u>	<u>64,768</u>	<u>-</u>	<u>4,884,516</u>	<u>6,571,106</u>	<u>6,755,752</u>	<u>8,032,223</u>	<u>9,237,063</u>	<u>1,089,864</u>	<u>36,681,065</u>
Total long-term assets	<u>859,949</u>	<u>64,768</u>	<u>-</u>	<u>4,884,516</u>	<u>6,571,106</u>	<u>6,755,752</u>	<u>8,409,571</u>	<u>9,720,723</u>	<u>1,089,864</u>	<u>38,356,249</u>
Total assets	<u>\$ 1,882,743</u>	<u>\$ 124,478</u>	<u>\$ -</u>	<u>\$ 4,994,101</u>	<u>\$ 6,857,143</u>	<u>\$ 7,041,867</u>	<u>\$ 10,303,239</u>	<u>\$ 10,162,804</u>	<u>\$ 1,089,864</u>	<u>\$ 42,456,239</u>
LIABILITIES AND NET ASSETS										
CURRENT LIABILITIES:										
Accounts payable and accrued liabilities	\$ 306,205	15,587	3,500	\$ 500	\$ 27,273	\$ 26,417	\$ 10,915	\$ 13,172	\$ 17,192	\$ 420,761
Accrued interest	4,052			23,537	31,167	33,616	71,755	50,171		214,298
Deferred revenue				1,157	8,144	991	1,088	1,090		12,470
Current portion of loans payable				<u>24,752</u>		<u>119,687</u>			<u>618,387</u>	<u>762,826</u>
Total current liabilities	<u>310,257</u>	<u>15,587</u>	<u>3,500</u>	<u>49,946</u>	<u>66,584</u>	<u>180,711</u>	<u>83,758</u>	<u>64,433</u>	<u>635,579</u>	<u>1,410,355</u>
LONG-TERM LIABILITIES:										
Intracompany payable		34,241	4,800		50,000	320,000			334,101	743,142
Security deposits		75,000				250,000	250,000	250,000	250,000	1,075,000
Loans payable				<u>5,593,163</u>	<u>6,800,000</u>	<u>6,173,406</u>	<u>10,103,706</u>	<u>9,975,000</u>	<u>105,540</u>	<u>38,750,815</u>
Total long-term liabilities	<u>-</u>	<u>109,241</u>	<u>4,800</u>	<u>5,593,163</u>	<u>6,850,000</u>	<u>6,743,406</u>	<u>10,353,706</u>	<u>10,225,000</u>	<u>689,641</u>	<u>40,568,957</u>
NET ASSETS:										
Unrestricted	<u>1,572,486</u>	<u>(350)</u>	<u>(8,300)</u>	<u>(649,008)</u>	<u>(59,441)</u>	<u>117,750</u>	<u>(134,225)</u>	<u>(126,629)</u>	<u>(235,356)</u>	<u>476,927</u>
Total net assets	<u>1,572,486</u>	<u>(350)</u>	<u>(8,300)</u>	<u>(649,008)</u>	<u>(59,441)</u>	<u>117,750</u>	<u>(134,225)</u>	<u>(126,629)</u>	<u>(235,356)</u>	<u>476,927</u>
Total liabilities and net assets	<u>\$ 1,882,743</u>	<u>\$ 124,478</u>	<u>\$ -</u>	<u>\$ 4,994,101</u>	<u>\$ 6,857,143</u>	<u>\$ 7,041,867</u>	<u>\$ 10,303,239</u>	<u>\$ 10,162,804</u>	<u>\$ 1,089,864</u>	<u>\$ 42,456,239</u>

See the accompanying notes to supplementary information.

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

CONSOLIDATING STATEMENT OF FINANCIAL POSITION - LAUNCHPAD (Continued)

June 30, 2012

	<u>Total From Page 1</u>	<u>LLC7</u>	<u>LLC8</u>	<u>LLC9</u>	<u>LLC10</u>	<u>LLC11</u>	<u>LLC12</u>	<u>Eliminations</u>	<u>Total Launchpad</u>
ASSETS									
CURRENT ASSETS:									
Cash and cash equivalents	\$ 1,357,527	\$ 6,164	\$ 1,258,435	\$ 64,900	\$ 67,245	\$ -	\$ -	\$ -	\$ 2,754,271
Restricted cash	1,927,649								\$ 1,927,649
Accounts receivable	732,104							(101,826)	630,278
Prepaid expenses and deposits	82,710	40,000	35,174						157,884
Total current assets	<u>4,099,990</u>	<u>46,164</u>	<u>1,293,609</u>	<u>64,900</u>	<u>67,245</u>	<u>-</u>	<u>-</u>	<u>(101,826)</u>	<u>5,470,082</u>
LONG-TERM ASSETS:									
Intracompany receivable	1,074,176							(1,074,176)	-
Deferred rent asset	601,008								601,008
Property, plant & equipment	39,001,281		5,781,592	30,837	71,263				44,884,973
Less: Accumulated depreciation	(2,320,216)		(10,000)						(2,330,216)
Total property, plant and equipment, net	<u>36,681,065</u>	<u>-</u>	<u>5,771,592</u>	<u>30,837</u>	<u>71,263</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>42,554,757</u>
Total long-term assets	<u>38,356,249</u>	<u>-</u>	<u>5,771,592</u>	<u>30,837</u>	<u>71,263</u>	<u>-</u>	<u>-</u>	<u>(1,074,176)</u>	<u>43,155,765</u>
Total assets	<u>\$ 42,456,239</u>	<u>\$ 46,164</u>	<u>\$ 7,065,201</u>	<u>\$ 95,737</u>	<u>\$ 138,508</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,176,002)</u>	<u>\$ 48,625,847</u>
LIABILITIES AND NET ASSETS									
CURRENT LIABILITIES:									
Accounts payable and accrued liabilities	\$ 420,761	\$ 500	\$ 2,556,201	21,556	64,328	\$ -	\$ -	\$ (101,826)	\$ 2,961,520
Accrued interest	214,298		19,012						233,310
Deferred revenue	12,470								12,470
Current portion of loans payable	762,826		2,073,886						2,836,712
Total current liabilities	<u>1,410,355</u>	<u>500</u>	<u>4,649,099</u>	<u>21,556</u>	<u>64,328</u>	<u>-</u>	<u>-</u>	<u>(101,826)</u>	<u>6,044,012</u>
LONG-TERM LIABILITIES:									
Intracompany payable	743,142		329,394			820	820	(1,074,176)	-
Security deposits	1,075,000	250,000	250,000	75,000	75,000				1,725,000
Loans payable	38,750,815		1,848,521						40,599,336
Total long-term liabilities	<u>40,568,957</u>	<u>250,000</u>	<u>2,427,915</u>	<u>75,000</u>	<u>75,000</u>	<u>820</u>	<u>820</u>	<u>(1,074,176)</u>	<u>42,324,336</u>
NET ASSETS:									
Unrestricted	476,927	(204,336)	(11,813)	(819)	(820)	(820)	(820)	-	257,499
Total net assets	<u>476,927</u>	<u>(204,336)</u>	<u>(11,813)</u>	<u>(819)</u>	<u>(820)</u>	<u>(820)</u>	<u>(820)</u>	<u>-</u>	<u>257,499</u>
Total liabilities and net assets	<u>\$ 42,456,239</u>	<u>\$ 46,164</u>	<u>\$ 7,065,201</u>	<u>\$ 95,737</u>	<u>\$ 138,508</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,176,002)</u>	<u>\$ 48,625,847</u>

See the accompanying notes to supplementary information.

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**CONSOLIDATING STATEMENT OF ACTIVITIES - LAUNCHPAD
For the Year Ended June 30, 2012**

	<u>Launchpad</u>	<u>MLLC1</u>	<u>LCI</u>	<u>LLC1</u>	<u>LLC2</u>	<u>LLC3</u>	<u>LCC4</u>	<u>LCC5</u>	<u>LLC6</u>	<u>Total Page 1</u>
REVENUES:										
Other local revenue	\$ 337,937	\$ -	\$ -	\$ 483,754	\$ 511,089	\$ 677,736	\$ 804,243	\$ 683,932	\$ -	\$ 3,498,691
Contributions	187,546									187,546
Total unrestricted revenues	525,483	-	-	483,754	511,089	677,736	804,243	683,932	-	3,686,237
SUPPORTING SERVICES										
Site supports		350	8,300	731,451	573,365	650,120	938,258	764,286	235,356	3,901,486
Administration and general	670,543									670,543
Total supporting services	670,543	350	8,300	731,451	573,365	650,120	938,258	764,286	235,356	4,572,029
Total expenses	670,543	350	8,300	731,451	573,365	650,120	938,258	764,286	235,356	4,572,029
Increase (decrease) in unrestricted net assets	(145,060)	(350)	(8,300)	(247,697)	(62,276)	27,616	(134,015)	(80,354)	(235,356)	(885,792)
Beginning unrestricted net assets	1,717,546	-	-	(401,311)	2,835	90,134	(210)	(46,275)	-	1,362,719
Ending unrestricted net assets	\$ 1,572,486	\$ (350)	\$ (8,300)	\$ (649,008)	\$ (59,441)	\$ 117,750	\$ (134,225)	\$ (126,629)	\$ (235,356)	\$ 476,927

See the accompanying notes to supplementary information.

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**CONSOLIDATING STATEMENT OF ACTIVITIES - LAUNCHPAD (Continued)
For the Year Ended June 30, 2012**

	Total From Page 1	LLC7	LLC8	LLC9	LLC10	LLC11	LLC12	Eliminations	Total Launchpad
REVENUES:									
Other local revenue	\$ 3,498,691	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (337,626)	\$ 3,161,065
Contributions	187,546								187,546
Total unrestricted revenues	<u>3,686,237</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(337,626)</u>	<u>3,348,611</u>
SUPPORTING SERVICES									
Site supports	3,901,486	204,336	11,813	819	820	820	820	(337,626)	3,783,288
Administration and general	670,543								670,543
Total supporting services	<u>4,572,029</u>	<u>204,336</u>	<u>11,813</u>	<u>819</u>	<u>820</u>	<u>820</u>	<u>820</u>	<u>(337,626)</u>	<u>4,453,831</u>
Total expenses	<u>4,572,029</u>	<u>204,336</u>	<u>11,813</u>	<u>819</u>	<u>820</u>	<u>820</u>	<u>820</u>	<u>(337,626)</u>	<u>4,453,831</u>
Increase (decrease) in unrestricted net assets	(885,792)	(204,336)	(11,813)	(819)	(820)	(820)	(820)	-	(1,105,220)
Beginning unrestricted net assets	<u>1,362,719</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,362,719</u>
Ending unrestricted net assets	<u>\$ 476,927</u>	<u>\$ (204,336)</u>	<u>\$ (11,813)</u>	<u>\$ (819)</u>	<u>\$ (820)</u>	<u>\$ (820)</u>	<u>\$ (820)</u>	<u>\$ -</u>	<u>\$ 257,499</u>

See the accompanying notes to supplementary information.

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**CONSOLIDATING STATEMENT OF CASH FLOWS - LAUNCHPAD
For the Year Ended June 30, 2012**

	<u>Launchpad</u>	<u>MLLC1</u>	<u>LCI</u>	<u>LLC1</u>	<u>LLC2</u>	<u>LLC3</u>	<u>LLC4</u>	<u>LLC5</u>	<u>LLC6</u>	<u>Total Page 1</u>
CASH FLOWS from OPERATING ACTIVITIES:										
Change in Net Assets	\$ (145,060)	\$ (350)	\$ (8,300)	\$ (247,697)	\$ (62,276)	\$ 27,616	\$ (134,015)	\$ (80,354)	\$ (235,356)	\$ (885,792)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:										
Depreciation and amortization	3,854			302,361	151,036	191,396	210,823	191,484		1,050,954
(Increase) or decrease in operating assets:										
Accounts receivable	328,927				(26,772)	(15,715)	(10,088)			276,352
Prepaid expenses and other current assets	(2,321)	(35,000)		(12,077)	(8,144)	(991)	11,057	5,222	32,975	(9,279)
Deferred rent asset							(377,348)	(223,660)		(601,008)
Increase or (decrease) in operating liabilities:										
Accounts payable and accrued liabilities	(453,922)	15,587	3,500	(21,336)	24,999	(103,039)	69,468	63,342		(401,401)
Deferred revenue				1,157	8,144	991	1,088	1,090		12,470
Net cash provided (used) by operating activities	<u>(268,522)</u>	<u>(19,763)</u>	<u>(4,800)</u>	<u>22,408</u>	<u>86,987</u>	<u>100,258</u>	<u>(229,015)</u>	<u>(42,876)</u>	<u>(202,381)</u>	<u>(557,704)</u>
CASH FLOWS from INVESTING ACTIVITIES:										
Purchases of property, plant and equipment	<u>(27,750)</u>	<u>(64,768)</u>			<u>(45,309)</u>	<u>(9,855)</u>	<u>(3,892,834)</u>	<u>(2,751,453)</u>	<u>(1,072,672)</u>	<u>(7,864,641)</u>
Net cash used by investing activities	<u>(27,750)</u>	<u>(64,768)</u>	<u>-</u>	<u>-</u>	<u>(45,309)</u>	<u>(9,855)</u>	<u>(3,892,834)</u>	<u>(2,751,453)</u>	<u>(1,072,672)</u>	<u>(7,864,641)</u>
CASH FLOWS from FINANCING ACTIVITIES:										
Change in restricted cash	(691)				(84,420)	(63,193)	(942,390)	73,004		(1,017,690)
Intracompany loans	(126,775)	34,241	4,800		50,000		(617,401)	(10,000)	334,101	(331,034)
Receipt of long-term security deposits		75,000							175,000	250,000
Proceeds from debt							11,801,312		723,927	12,525,239
Repayment of debt				(23,490)		(111,101)	(5,213,414)			(5,348,005)
Net cash provided (used) by financing activities	<u>(127,466)</u>	<u>109,241</u>	<u>4,800</u>	<u>(23,490)</u>	<u>(34,420)</u>	<u>(174,294)</u>	<u>5,028,107</u>	<u>63,004</u>	<u>1,233,028</u>	<u>6,078,510</u>
Net increase (decrease) in cash and cash equivalents	(423,738)	24,710	-	(1,082)	7,258	(83,891)	906,258	(2,731,325)	(42,025)	(2,343,835)
Cash and cash equivalents at the beginning of the year	455,264	-	-	77,790	37,098	238,148	33,842	2,817,195	42,025	3,701,362
Cash and cash equivalents at the end of the year	<u>\$ 31,526</u>	<u>\$ 24,710</u>	<u>\$ -</u>	<u>\$ 76,708</u>	<u>\$ 44,356</u>	<u>\$ 154,257</u>	<u>\$ 940,100</u>	<u>\$ 85,870</u>	<u>\$ -</u>	<u>\$ 1,357,527</u>
CASH PAID FOR INTEREST (Net of capitalized amount)	<u>\$ 27,478</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 287,280</u>	<u>\$ 380,232</u>	<u>\$ 414,078</u>	<u>\$ 649,780</u>	<u>\$ 480,492</u>	<u>\$ 20,365</u>	<u>\$ 2,259,705</u>
CAPITALIZED INTEREST	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 30,928</u>	<u>\$ 71,390</u>	<u>\$ -</u>	<u>\$ 102,318</u>

See the accompanying notes to supplementary information.

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**CONSOLIDATING STATEMENT OF CASH FLOWS - LAUNCHPAD (Continued)
For the Year Ended June 30, 2012**

	Total From Page 1	LLC7	LLC8	LLC9	LLC10	LLC11	LLC12	Eliminations	Total Launchpad
CASH FLOWS from OPERATING ACTIVITIES:									
Change in Net Assets	\$ (885,792)	\$ (204,336)	\$ (11,813)	\$ (819)	\$ (820)	\$ (820)	\$ (820)	\$ -	\$ (1,105,220)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:									
Depreciation and amortization	1,050,954		10,000						1,060,954
(Increase) or decrease in operating assets:									
Accounts receivable	276,352								276,352
Prepaid expenses and other current assets	(9,279)	(40,000)	(35,174)						(84,453)
Deferred rent asset	(601,008)								(601,008)
Increase or (decrease) in operating liabilities:									
Accounts payable and accrued liabilities	(401,401)	500	19,012						(381,889)
Deferred revenue	12,470								12,470
Net cash provided (used) by operating activities	<u>(557,704)</u>	<u>(243,836)</u>	<u>(17,975)</u>	<u>(819)</u>	<u>(820)</u>	<u>(820)</u>	<u>(820)</u>	<u>-</u>	<u>(822,794)</u>
CASH FLOWS from INVESTING ACTIVITIES:									
Purchases of property, plant and equipment	<u>(7,864,641)</u>		<u>(3,225,391)</u>	<u>(9,281)</u>	<u>(6,935)</u>				<u>(11,106,248)</u>
Net cash used by investing activities	<u>(7,864,641)</u>	<u>-</u>	<u>(3,225,391)</u>	<u>(9,281)</u>	<u>(6,935)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(11,106,248)</u>
CASH FLOWS from FINANCING ACTIVITIES:									
Change in restricted cash	(1,017,690)								(1,017,690)
Intracompany loans	(331,034)		329,394			820	820		-
Receipt of long-term security deposits	250,000	250,000	250,000	75,000	75,000				900,000
Repayment of debt	12,525,239		3,922,407						16,447,646
Proceeds from debt	(5,348,005)								(5,348,005)
Net cash provided (used) by financing activities	<u>6,078,510</u>	<u>250,000</u>	<u>4,501,801</u>	<u>75,000</u>	<u>75,000</u>	<u>820</u>	<u>820</u>	<u>-</u>	<u>10,981,951</u>
Net increase (decrease) in cash and cash equivalents	(2,343,835)	6,164	1,258,435	64,900	67,245	-	-	-	(947,091)
Cash and cash equivalents at the beginning of the year	3,701,362	-	-	-	-	-	-	-	3,701,362
Cash and cash equivalents at the end of the year	<u>\$ 1,357,527</u>	<u>\$ 6,164</u>	<u>\$ 1,258,435</u>	<u>\$ 64,900</u>	<u>\$ 67,245</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,754,271</u>
CASH PAID FOR INTEREST									
(Net of capitalized amount)	<u>\$ 2,259,705</u>	<u>\$ -</u>	<u>\$ 1,300</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,261,005</u>
CAPITALIZED INTEREST	<u>\$ 102,318</u>	<u>\$ -</u>	<u>\$ 17,998</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 120,316</u>

See the accompanying notes to supplementary information.

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**SCHEDULE OF LONG-TERM DEBT - LAUNCHPAD
For the Year Ended June 30, 2012**

Futures maturities of debt by instrument:

<u>June 30,</u>	<u>LLC1 CDFI</u>	<u>LLC2 CDFI</u>	<u>LLC3 SHNM</u>	<u>LLC4 Bonds</u>	<u>LLC5 LIIF</u>	<u>LISC Recoverable</u>	<u>LLC6 LISC</u>	<u>LLC8 Construction</u>	<u>LLC8 B of A</u>	<u>Total</u>
2013	\$ 24,752	\$ -	\$ 119,687	\$ -	\$ -	\$ 102,606	\$ 618,387	\$ 1,971,280	\$ -	\$ 2,836,712
2014	26,084		127,702	85,000		105,540		-	1,848,521	2,192,847
2015	5,567,079		136,252	90,000						5,793,331
2016		6,800,000	144,324	100,000						7,044,324
2017			5,765,128	105,000						5,870,128
Thereafter				9,735,000	9,975,000					19,710,000
Discount				(11,294)						(11,294)
Total	<u>\$ 5,617,915</u>	<u>\$ 6,800,000</u>	<u>\$ 6,293,093</u>	<u>\$ 10,103,706</u>	<u>\$ 9,975,000</u>	<u>\$ 208,146</u>	<u>\$ 618,387</u>	<u>\$ 1,971,280</u>	<u>\$ 1,848,521</u>	<u>\$ 43,436,048</u>

Futures maturities of debt by location:

<u>June 30,</u>	<u>LLC1</u>	<u>LLC2</u>	<u>LLC3</u>	<u>LLC4</u>	<u>LLC5</u>	<u>LLC6</u>	<u>LLC8</u>	<u>Total</u>
2013	\$ 24,752	\$ -	\$ 119,687	\$ -	\$ -	\$ 618,387	\$ 2,073,886	\$ 2,836,712
2014	26,084		127,702	85,000		105,540	1,848,521	2,192,847
2015	5,567,079		136,252	90,000				5,793,331
2016		6,800,000	144,324	100,000				7,044,324
2017			5,765,128	105,000				5,870,128
Thereafter				9,735,000	9,975,000			19,710,000
Discount				(11,294)				(11,294)
Total	<u>\$ 5,617,915</u>	<u>\$ 6,800,000</u>	<u>\$ 6,293,093</u>	<u>\$ 10,103,706</u>	<u>\$ 9,975,000</u>	<u>\$ 723,927</u>	<u>\$ 3,922,407</u>	<u>\$ 43,436,048</u>

See the accompanying notes to supplementary information.

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**SCHEDULE OF INSTRUCTIONAL MINUTES
For the Year Ended June 30, 2012**

2011-12 Minutes				
	Requirement	Reduced	Actual	Status
Kindergarten:				
Mateo Sheedy	36,000	33,531	48,120	In compliance
Si Se Puede	36,000	33,531	48,120	In compliance
Los Suenos	36,000	33,531	48,120	In compliance
Mosaic	36,000	33,531	48,120	In compliance
Discovery	36,000	33,531	48,120	In compliance
Grade 1:				
Mateo Sheedy	50,400	46,944	52,640	In compliance
Si Se Puede	50,400	46,944	52,640	In compliance
Los Suenos	50,400	46,944	52,640	In compliance
Mosaic	50,400	46,944	52,640	In compliance
Discovery	50,400	46,944	52,640	In compliance
Grade 2:				
Mateo Sheedy	50,400	46,944	52,640	In compliance
Si Se Puede	50,400	46,944	52,640	In compliance
Los Suenos	50,400	46,944	52,640	In compliance
Mosaic	50,400	46,944	52,640	In compliance
Discovery	50,400	46,944	52,640	In compliance
Grade 3:				
Mateo Sheedy	50,400	46,944	52,640	In compliance
Si Se Puede	50,400	46,944	52,640	In compliance
Los Suenos	50,400	46,944	52,640	In compliance
Mosaic	50,400	46,944	52,640	In compliance
Discovery	50,400	46,944	52,640	In compliance
Grade 4:				
Mateo Sheedy	54,000	50,297	54,400	In compliance
Si Se Puede	54,000	50,297	54,400	In compliance
Los Suenos	54,000	50,297	54,400	In compliance
Mosaic	54,000	50,297	54,400	In compliance
Discovery	54,000	50,297	54,400	In compliance
Grade 5:				
Mateo Sheedy	54,000	50,297	54,400	In compliance
Si Se Puede	54,000	50,297	54,400	In compliance
Los Suenos	54,000	50,297	54,400	In compliance
Mosaic	54,000	50,297	54,400	In compliance
Discovery	54,000	50,297	54,400	In compliance
Grade 6:				
Mateo Sheedy	54,000	50,297	54,400	In compliance
Si Se Puede	54,000	50,297	54,400	In compliance
Los Suenos	54,000	50,297	54,400	In compliance
Mosaic	54,000	50,297	54,400	In compliance
Discovery	54,000	50,297	54,400	In compliance

See the accompanying notes to supplementary information.

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**SCHEDULE OF AVERAGE DAILY ATTENDANCE
For the Year Ended June 30, 2012**

	<u>Second Period Report</u>		<u>Annual Report</u>	
	<u>Classroom Based</u>	<u>Total</u>	<u>Classroom Based</u>	<u>Total</u>
Kindergarten:				
Mateo Sheedy	100.25	100.59	100.08	100.37
Si Se Puede	104.45	104.70	104.55	104.80
Los Suenos	104.62	104.91	105.17	105.46
Mosaic	146.95	147.11	146.34	146.87
Discovery	<u>139.41</u>	<u>139.80</u>	<u>140.95</u>	<u>141.38</u>
Subtotal	<u>595.68</u>	<u>597.11</u>	<u>597.09</u>	<u>598.88</u>
Grades 1-3:				
Mateo Sheedy	273.72	274.60	273.42	274.14
Si Se Puede	308.09	308.84	308.61	309.35
Los Suenos	296.99	297.64	296.60	297.27
Mosaic	257.45	257.61	259.09	259.45
Discovery	<u>231.30</u>	<u>232.03</u>	<u>231.44</u>	<u>232.27</u>
Subtotal	<u>1,367.55</u>	<u>1,370.72</u>	<u>1,369.16</u>	<u>1,372.48</u>
Grades 4-6:				
Mateo Sheedy	122.40	122.63	121.81	121.98
Si Se Puede	126.85	127.07	127.24	127.45
Los Suenos	80.33	80.40	79.68	79.82
Mosaic	-	-	-	-
Discovery	<u>28.32</u>	<u>28.58</u>	<u>28.38</u>	<u>28.78</u>
Subtotal	<u>357.90</u>	<u>358.68</u>	<u>357.11</u>	<u>358.03</u>
Total ADA	<u>2,321.13</u>	<u>2,326.51</u>	<u>2,323.36</u>	<u>2,329.39</u>

See the accompanying notes to supplementary information.

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**RECONCILIATION OF ANNUAL FINANCIAL REPORT
WITH AUDITED FINANCIAL STATEMENTS
For the Year Ended June 30, 2012**

There were no adjustments between the Annual Financial Report to the Audited Financial Statements.

See the accompanying notes to supplementary information.

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2012

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Rocketship National	Rocketship Mateo Sheedy Elementary	Rocketship Si Se Puede	Rocketship Los Suenos Elementary	Rocketship Mosaic Elementary	Rocketship Discovery Prep	RS6	RS7	Federal Expenditures
<i>U.S. Department of Education</i>											
Pass Through Program From											
California Department of Education:											
American Recovery and Reinvestment Act:											
Title I Cluster:											
Title I, Part A, Basic Grants											
Low-Income and Neglected	84.010	14329	\$ -	\$ 154,772	\$ 126,988	\$ 144,028	\$ 126,270	\$ 122,136	\$ -	\$ -	\$ 674,194
Title II	84.367	14341		4,497	4,774	5,761	3,527	3,492			22,051
Title III	84.365	14356		39,569	40,125						79,694
Title V Part B	84.282	14941				200,000					200,000
CSP	84.282M	N/A	356,193						82,195	81,476	519,864
Education Jobs Fund	84.410	25152		1,275	1,316	1,045					3,636
State Charter Schools Facilities	84.282D	N/A		179,760							179,760
Special Education Cluster:											
Special Education IDEA	84.027	13379	160,173	10,461	10,812	8,602					190,048
Special Education Federal Mental Health Level II	84.391	10123	7,470								7,470
Subtotal: Special Ed Cluster			<u>167,643</u>	<u>10,461</u>	<u>10,812</u>	<u>8,602</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>197,518</u>
<i>Total U.S Department of Education</i>			<u>523,836</u>	<u>390,334</u>	<u>184,015</u>	<u>359,436</u>	<u>129,797</u>	<u>125,628</u>	<u>82,195</u>	<u>81,476</u>	<u>1,876,717</u>
<i>U.S. Department of Agriculture:</i>											
Child Nutrition Programs	10.555	N/A		210,065	212,652	197,988	147,853	145,893			914,451
<i>Total U.S Department of Agriculture</i>			<u>-</u>	<u>210,065</u>	<u>212,652</u>	<u>197,988</u>	<u>147,853</u>	<u>145,893</u>	<u>-</u>	<u>-</u>	<u>914,451</u>
Total Federal Expenditures			<u>\$ 523,836</u>	<u>\$ 600,399</u>	<u>\$ 396,667</u>	<u>\$ 557,424</u>	<u>\$ 277,650</u>	<u>\$ 271,521</u>	<u>\$ 82,195</u>	<u>\$ 81,476</u>	<u>\$ 2,791,168</u>

N/A – Not available.

See the accompanying notes to supplementary information.

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**NOTES TO SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2012**

NOTE 1 - PURPOSE OF SCHEDULES:

A. Consolidating Statements

These statements provide detailed financial information of each affiliate.

B. Schedule of Long-Term Debt

These statements provide detailed long-term schedules both by debt instrument and by affiliate.

C. Schedule of Expenditures by State Categories

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

D. Schedule of Instructional Minutes

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

E. Schedule of Average Daily Attendance (ADA)

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

F. Reconciliation of Annual Financial Report with Audited Financial Statements

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

G. Schedule of Expenditures of Federal Awards

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



**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
Rocketship Education and its Affiliates

We have audited the financial statements of Rocketship Education and its Affiliates (RSEA) as of and for the year ended June 30, 2012, and have issued our report thereon dated November 16, 2012. 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.

Internal Control Over Financial Reporting

Management of RSEA is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit we considered RSEA's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of RSEA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of RSEA's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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

This report is intended solely for the information of the Board, management, the Santa Clara County Office of Education, the California Department of Education, the State Controller's Office, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



VICENTI, LLOYD & STUTZMAN LLP

November 16, 2012



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
WITH REQUIREMENTS THAT COULD HAVE A DIRECT
AND MATERIAL EFFECT ON EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Directors
Rocketship Education and its Affiliates

Compliance

We have audited the compliance of Rocketship Education and its Affiliates (RSEA) 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, 2012. RSEA's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of RSEA's management. Our responsibility is to express an opinion on RSEA's compliance based on our audit.

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 RSEA'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. Our audit does not provide a legal determination of RSEA's compliance with those requirements.

In our opinion, RSEA complied, in all material respects, with the 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, 2012.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
WITH REQUIREMENTS THAT COULD HAVE A DIRECT
AND MATERIAL EFFECT ON EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

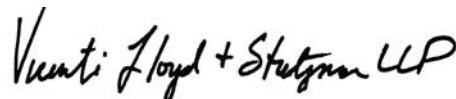
Internal Control over Compliance

Management of RSEA is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered RSEA's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the 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 RSEA'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 controls 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.

Our consideration of the 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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information of the Board, management, the Santa Clara County Office of Education, the California Department of Education, the State Controller's Office, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



VICENTI, LLOYD & STUTZMAN LLP

November 16, 2012

INDEPENDENT AUDITOR’S REPORT ON STATE COMPLIANCE

Board of Directors
 Rocketship Education and its Affiliates

We have audited the compliance of Rocketship Education and its Affiliates (RSEA) with the types of compliance requirements described in the *2011-12 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, 2012. RSEA’s State compliance requirements are identified in the table below. Compliance with the State laws and regulations as identified below is the responsibility of RSEA’s management. Our responsibility is to express an opinion on RSEA’s compliance based on our audit.

We conducted our audit 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 *2011-12 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 RSEA’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. Our audit does not provide a legal determination of RSEA’s compliance with those requirements.

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

<u>Description</u>	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Attendance accounting:		
Attendance reporting	6	Not applicable
Teacher certification and misassignments	3	Not applicable
Kindergarten continuance	3	Not applicable
Continuation education	10	Not applicable
Independent study	23	Not applicable

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

<u>Description</u>	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Instructional time:		
School Districts	6	Not applicable
County Offices of Education	3	Not applicable
Class size reduction program (including charter schools):		
General requirements	7	Not applicable
Option 1	3	Not applicable
Option 2	4	Not applicable
One school serving K-3	4	Not applicable
Instructional materials general requirements	8	Not applicable
Ratios of administrative employees to teachers	1	Not applicable
Classroom teacher salaries	1	Not applicable
Early retirement incentive	4	Not applicable
GANN limit calculation	1	Not applicable
School Accountability Report Card	3	Not applicable
Public hearing requirement – receipt of funds	1	Not applicable
Juvenile Court Schools	8	Not applicable
Exclusion of Pupils – Pertussis Immunization	2	Not applicable
After School Education and Safety Program:		
General requirements	4	Not applicable
After school	5	Not applicable
Before school	6	Not applicable
Charter Schools:		
Contemporaneous records of attendance	3	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

In our opinion, we found that, for the items tested, RSEA complied with the laws and regulations of the state programs referred to above in all material respects.

This report is intended solely for the information of the Board, management, the Santa Clara County Office of Education, the California Department of Education, the State Controller's Office, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Vicenti, Lloyd + Stutzman LLP

VICENTI, LLOYD & STUTZMAN LLP

November 16, 2012

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2012**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued November 16, 2012:	<i>Unqualified</i>
Internal control over financial reporting:	
Material weakness(es) identified?	<i>No</i>
Significant deficiencies identified that are not considered to be material weakness(es)?	<i>No</i>
Noncompliance material to financial statements noted?	<i>No</i>

Federal Awards

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

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.027	Special Ed: IDEA
84.391	Special Ed Federal Mental Health Level II
84.282M	CSP-Grants for Replication and Expansion of High Quality Charter Schools

Dollar threshold used to distinguish between type A and type B programs:	\$300,000
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Auditee qualified as low-risk auditee?	<i>Yes</i>
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**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2012**

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 noted for the year ended June 30, 2012.

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2012**

There were no findings noted for the year ended June 30, 2011.