

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

Operating:

California

Rocketship Mateo Sheedy Elementary

Rocketship Si Se Puede Academy

Rocketship Los Suenos Academy

Rocketship Mosaic Elementary

Rocketship Discovery Prep

Rocketship Brilliant Minds

Rocketship Alma Academy

Rocketship Spark Academy

Wisconsin

Rocketship Southside Community Prep

**Consolidated Audited Financial Statements
for the Year Ended
June 30, 2014**

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Rocketship Education and its Affiliates
Redwood City, CA

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Rocketship Education and its Affiliates (RSEA), a non-profit California public benefit corporation, which comprise the statement of financial position as of June 30, 2014, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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Board of Directors
Rocketship Education and its Affiliates

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of RSEA as of June 30, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary schedules on pages 26-38 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards on page 39 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*. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Report on Summarized Comparative Information

We have previously audited RSEA's 2013 financial statements, and our report dated November 13, 2013, expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated November 12, 2014 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering RSEA's internal control over financial reporting and compliance.



VICENTI, LLOYD & STUTZMAN LLP
Glendora, CA
November 12, 2014

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2014

with comparative totals for June 30, 2013

	Rocketship Education	Launchpad Development Company	Eliminations	2014 Total	2013 Total
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents (notes 1,2)	\$ 15,665,929	\$ 17,392,976	\$ -	\$ 33,058,905	\$ 14,317,955
Restricted cash (note 1)	-	5,149,879	-	5,149,879	5,014,729
Accounts receivable (note 3)	12,845,326	368,766	(3,700,774)	9,513,318	9,880,618
Grants receivable (note 4)	873,694	-	-	873,694	593,008
Prepaid expenses and deposits	1,418,660	317,355	-	1,736,015	1,583,894
Total current assets	<u>30,803,609</u>	<u>23,228,976</u>	<u>(3,700,774)</u>	<u>50,331,811</u>	<u>31,390,204</u>
LONG-TERM ASSETS:					
Grants receivable (note 4)	420,022	-	-	420,022	703,443
Security deposits	850,000	-	(850,000)	-	-
Prepaid expenses and deposits	-	-	-	-	64,034
Note receivable	-	560,000	-	560,000	560,000
Deferred rent asset	-	1,733,439	(1,733,439)	-	-
Property, plant and equipment, net (note 5)	2,296,993	56,689,778	-	58,986,771	45,821,468
Total long-term assets	<u>3,567,015</u>	<u>58,983,217</u>	<u>(2,583,439)</u>	<u>59,966,793</u>	<u>47,148,945</u>
Total assets	<u>\$ 34,370,624</u>	<u>\$ 82,212,193</u>	<u>\$ (6,284,213)</u>	<u>\$ 110,298,604</u>	<u>\$ 78,539,149</u>
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES:					
Accounts payable and accrued liabilities	\$ 3,866,724	\$ 3,168,139	\$ (256,008)	\$ 6,778,855	\$ 3,343,879
Accrued interest	29,604	422,716	(3,929)	448,391	318,293
Deferred revenues	622,884	-	-	622,884	1,635,767
Current portion of loans payable (note 6)	11,977,795	9,421,859	(3,402,988)	17,996,666	7,453,675
Total current liabilities	<u>16,497,007</u>	<u>13,012,714</u>	<u>(3,662,925)</u>	<u>25,846,796</u>	<u>12,751,614</u>
LONG-TERM LIABILITIES:					
Security deposits	-	850,000	(850,000)	-	-
Accrued interest	77,459	-	-	77,459	116,862
Deferred rent liability	1,895,363	507,330	(1,771,288)	631,405	164,972
Convertible loans (note 6)	550,000	-	-	550,000	550,000
Loans payable (note 6)	1,932,500	67,903,916	-	69,836,416	49,074,491
Total long-term liabilities	<u>4,455,322</u>	<u>69,261,246</u>	<u>(2,621,288)</u>	<u>71,095,280</u>	<u>49,906,325</u>
NET ASSETS:					
Unrestricted	12,151,199	(61,767)	-	12,089,432	13,486,489
Temporarily restricted (note 7)	1,267,096	-	-	1,267,096	2,394,721
Total net assets	<u>13,418,295</u>	<u>(61,767)</u>	<u>-</u>	<u>13,356,528</u>	<u>15,881,210</u>
Total liabilities and net assets	<u>\$ 34,370,624</u>	<u>\$ 82,212,193</u>	<u>\$ (6,284,213)</u>	<u>\$ 110,298,604</u>	<u>\$ 78,539,149</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, 2014
with comparative totals for the Year Ended June 30, 2013**

	Rocketship Education	Launchpad Development Company	Eliminations	2014 Total	2013 Total
UNRESTRICTED NET ASSETS:					
Revenues					
LCFF State Aid	\$ 23,505,887	\$ -	\$ -	\$ 23,505,887	\$ 16,670,573
Apportionment revenue	2,005,025	-	-	2,005,025	-
Property taxes	6,328,495	-	-	6,328,495	5,422,165
Other State revenue	8,107,055	-	-	8,107,055	6,279,357
Federal revenue	6,257,194	-	-	6,257,194	3,794,964
Other local revenue	499,326	7,438,137	(7,607,257)	330,206	246,867
Contributions	7,140,065	25,000	(25,000)	7,140,065	6,261,881
Amounts released from restriction	<u>2,780,203</u>	<u>-</u>	<u>-</u>	<u>2,780,203</u>	<u>1,422,347</u>
Total unrestricted revenues	<u>56,623,250</u>	<u>7,463,137</u>	<u>(7,632,257)</u>	<u>56,454,130</u>	<u>40,098,154</u>
Program Expenses					
Educational programs	<u>44,311,207</u>	<u>-</u>	<u>(7,325,748)</u>	<u>36,985,459</u>	<u>22,280,859</u>
Supporting Services					
Site supports and program development	9,269,009	7,902,053	(265,066)	16,905,996	10,775,327
Administration and general	<u>3,877,785</u>	<u>123,390</u>	<u>(41,443)</u>	<u>3,959,732</u>	<u>3,918,745</u>
Total supporting services	<u>13,146,794</u>	<u>8,025,443</u>	<u>(306,509)</u>	<u>20,865,728</u>	<u>14,694,072</u>
Total expenses	<u>57,458,001</u>	<u>8,025,443</u>	<u>(7,632,257)</u>	<u>57,851,187</u>	<u>36,974,931</u>
Increase (decrease) in unrestricted net assets	<u>(834,751)</u>	<u>(562,306)</u>	<u>-</u>	<u>(1,397,057)</u>	<u>3,123,223</u>
TEMPORARILY RESTRICTED NET ASSETS:					
Amounts released from restriction	(2,780,203)	-	-	(2,780,203)	(1,422,347)
Contributions	<u>1,652,578</u>	<u>-</u>	<u>-</u>	<u>1,652,578</u>	<u>2,247,235</u>
Increase (decrease) in temporarily restricted net assets	<u>(1,127,625)</u>	<u>-</u>	<u>-</u>	<u>(1,127,625)</u>	<u>824,888</u>
Beginning net assets	<u>15,380,671</u>	<u>500,539</u>	<u>-</u>	<u>15,881,210</u>	<u>11,933,099</u>
Ending net assets	<u>\$ 13,418,295</u>	<u>\$ (61,767)</u>	<u>\$ -</u>	<u>\$ 13,356,528</u>	<u>\$ 15,881,210</u>

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, 2014
with comparative totals for the Year Ended June 30, 2013**

	Rocketship Education	Launchpad Development Company	Eliminations	2014 Total	2013 Total
CASH FLOWS from OPERATING ACTIVITIES:					
Change in Net Assets	\$ (1,962,376)	\$ (562,306)	\$ -	\$ (2,524,682)	\$ 3,948,111
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:					
Depreciation and amortization	168,755	1,285,063	-	1,453,818	1,473,483
Allowance for non-recoverable project costs	-	670,656	-	670,656	321,492
Debt forgiven through grant agreement	(566,782)	-	-	(566,782)	(1,376,033)
(Increase) or decrease in operating assets:					
Accounts receivable	(1,895,442)	66,395	3,296,938	1,467,891	(2,196,302)
Grants receivable	2,735	-	-	2,735	(380,486)
Prepaid expenses and other current assets	227,737	184,176	(500,000)	(88,087)	(1,240,883)
Deferred rent asset	-	(1,122,531)	1,122,531	-	-
Increase or (decrease) in operating liabilities:					
Accounts payable and accrued liabilities	(721,569)	230,639	106,050	(384,880)	1,096,710
Deferred revenues	(1,012,883)	-	-	(1,012,883)	1,635,767
Deferred rent liability	1,272,632	342,358	(1,122,531)	492,459	164,972
Net cash provided (used) by operating activities	<u>(4,487,193)</u>	<u>1,094,450</u>	<u>2,902,988</u>	<u>(489,755)</u>	<u>3,446,831</u>
CASH FLOWS from INVESTING ACTIVITIES:					
Proceeds from sale of property, plant and equipment	-	770,000	-	770,000	1,650,071
Purchases of property, plant and equipment	<u>(1,403,751)</u>	<u>(11,802,555)</u>	<u>-</u>	<u>(13,206,306)</u>	<u>(9,115,145)</u>
Net cash used by investing activities	<u>(1,403,751)</u>	<u>(11,032,555)</u>	<u>-</u>	<u>(12,436,306)</u>	<u>(7,465,074)</u>
CASH FLOWS from FINANCING ACTIVITIES:					
Change in restricted cash	2,290,231	(2,425,381)	-	(135,150)	(3,087,080)
Receipt (return) of long-term security deposits	-	(500,000)	500,000	-	-
Change in lines of credit	-	-	-	-	(1,000,000)
Proceeds from debt	13,095,295	38,224,317	(3,402,988)	47,916,624	19,025,730
Repayment of debt	<u>(6,385,378)</u>	<u>(9,729,085)</u>	<u>-</u>	<u>(16,114,463)</u>	<u>(5,775,334)</u>
Net cash provided (used) by financing activities	<u>9,000,148</u>	<u>25,569,851</u>	<u>(2,902,988)</u>	<u>31,667,011</u>	<u>9,163,316</u>
Net increase in cash and cash equivalents	3,109,204	15,631,746	-	18,740,950	5,145,073
Cash and cash equivalents at the beginning of the year	<u>12,556,725</u>	<u>1,761,230</u>	<u>-</u>	<u>14,317,955</u>	<u>9,172,882</u>
Cash and cash equivalents at the end of the year	<u>\$ 15,665,929</u>	<u>\$ 17,392,976</u>	<u>\$ -</u>	<u>\$ 33,058,905</u>	<u>\$ 14,317,955</u>
CASH PAID FOR INTEREST (Net)	<u>\$ 99,651</u>	<u>\$ 3,615,989</u>	<u>\$ -</u>	<u>\$ 3,715,640</u>	<u>\$ 3,066,545</u>
CAPITALIZED INTEREST	<u>\$ -</u>	<u>\$ 162,839</u>	<u>\$ -</u>	<u>\$ 162,839</u>	<u>\$ 18,764</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, 2014**

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 public elementary charter schools.

The charter schools are funded principally through public education monies. The charters may be revoked by their sponsor for material violations of the charter, failure to meet generally accepted standards of fiscal management, or violation of any provision of the law.

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 Development Company (LDC) and its wholly-owned LLCs. All significant intercompany accounts and transactions within LDC have been eliminated in the consolidating financial statements. Finally, all significant intercompany accounts and transactions between RSED and Launchpad have been eliminated in consolidation.

Rocketship Education (RSED)

Rocketship Education (RSED) is a California nonprofit public benefit corporation that was incorporated in 2006 and is organized to manage, operate, guide, direct, and promote a network of public elementary charter schools. Divisions of RSED include:

- *Rocketship Network Support (RSN)* – Centralized resources providing management, back office support and organizational strategy.
- *Rocketship Mateo Sheedy Elementary (RMS)* – California charter school
- *Rocketship Si Se Puede Academy (RSSP)* – California charter school
- *Rocketship Los Suenos Academy (RLS)* – California charter school
- *Rocketship Mosaic Elementary School (ROMO)* – California charter school
- *Rocketship Discovery Prep (RDP)* – California charter school
- *Rocketship Brilliant Minds (RBM)* – California charter school
- *Rocketship Alma Academy (RSA)* – California charter school
- *Rocketship Spark Academy (RSK)* – California charter school
- *Rocketship Fuerza Community Prep (RFZ)* – California charter school (opening 14/15)
- *Rocketship Nashville Northeast Elementary (RNNE)* – Tennessee charter school (opening 14/15)

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

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

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

***Rocketship Education Wisconsin Inc.
& Rocketship Southside Community Prep (RSCP)***

RSED incorporated Rocketship Education Wisconsin Inc., as a nonprofit public benefit corporation in October 2012 to hold the charter for its first elementary school in Wisconsin, Rocketship Southside Community Prep (RSCP). The City of Milwaukee Common Council approved a separate charter for RSCP in November 2011.

Launchpad Development Company

Launchpad Development Company (LDC) was incorporated as a 509(a)(3) nonprofit public benefit corporation in November 2009. LDC is a supporting organization of RSED. LDC provides facilities and development services provided that such services are consistent with RSED's exempt purpose. Divisions of LDC include:

- ***Launchpad (LP)*** – investment and asset management and administrative services
- ***Launchpad Development One LLC (LLC1)*** – RMS facilities
- ***Launchpad Development Two LLC (LLC2)*** – RSSP facilities
- ***Launchpad Development Three, LLC (LLC3)*** – RLS facilities
- ***Launchpad Development Four LLC (LLC4)*** – ROMO facilities
- ***Launchpad Development Five LLC (LLC5)*** – RDP facilities
- ***Launchpad Development Six LLC (LLC6)*** – Facilities development
- ***Launchpad Development Eight LLC (LLC8)*** – RSA facilities
- ***Launchpad Development Nine LLC (LLC9)*** – Facilities development
- ***Launchpad Development Ten LLC (LLC10)*** – Facilities development
- ***Launchpad Development Eleven LLC (LLC11)*** – RBM facilities
- ***Launchpad Development Twelve LLC (LLC12)*** – RFZ facilities
- ***Launchpad Development Thirteen LLC (LLC13)*** – Facilities development
- ***Launchpad Development Fourteen LLC (LLC14)*** – Facilities development
- ***Launchpad Development Fifteen LLC (LLC15)*** – Facilities development
- ***Launchpad Development Milwaukee One LLC (MLLC1)*** – RSCP facilities

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.

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

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

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

Net Asset Classes (continued)

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.

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 and donor restrictions.

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.

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

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

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

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.

Income Taxes – RSEA 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. 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 states in which it operates, as applicable. The statute of limitations for federal and state purposes is generally three and four years, respectively.

Evaluation of Subsequent Events – RSEA has evaluated subsequent events through November 12, 2014, the date these financial statements were available to be issued. There were no subsequent events requiring recognition or disclosure.

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, 2013, from which the summarized information was derived. Certain reclassifications have been made to the 2013 financial information to conform to the 2014 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. RSEA has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on its cash and cash equivalents.

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

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

NOTE 3 - ACCOUNTS RECEIVABLE:

Accounts receivable primarily consist of funds due from various governmental units. Management believes all of these amounts are collectible; therefore no provisions for uncollectible accounts were recorded. As of June 30, 2014, 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, 2014 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</u>	<u>LDC</u>	<u>RSEA Total</u>
Land	\$ -	\$ 8,244,960	\$ 8,244,960
Furniture and equipment	114,134	409,869	524,003
Building	2,176,345	34,988,730	37,165,075
Other	366,611	18,009,770	18,376,381
Less: Accumulated depreciation	<u>(360,097)</u>	<u>(4,963,551)</u>	<u>(5,323,648)</u>
Total	<u>\$ 2,296,993</u>	<u>\$ 56,689,778</u>	<u>\$ 58,986,771</u>

Depreciation and amortization expense was \$1,453,818 for the year ended June 30, 2014.

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

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

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 and \$400,000 forgiven and converted into a grant. As of June 30, 2014, RSN has borrowed the complete \$3.4 million. 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, 2014, RSN had substantively met the school year benchmarks and converted \$2.3 million of principal into a grant. No amounts were converted based on June 30, 2014 results pending notification of debt forgiveness from CSGF.

Over the 2014/15 school year, \$50,000 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 non-convertible \$1.05 million of the loan plus accrued interest will be due on June 30, 2017 (\$300,000), June 30, 2019 (\$250,000) and June 30, 2020 (\$500,000).

In December 2012, RSN and CSGF entered into a \$125,000 School Startup Subordinated Loan Agreement at an effective interest rate of 1.0 percent. The loan is scheduled to be repaid in full on June 30, 2019.

In January 2014, RSN and CSGF entered into a \$500,000 Subordinated Loan Agreement at an effective interest rate of 1.0 percent. The loan and associated interest will be forgiven and converted into a grant provided that RSN meet specified outcomes.

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

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

NOTE 6 - DEBT: (continued)

Loans Payable

RSN – CSGF Revolving Facilities Loan

In June 2014, RSN entered into a \$7 million loan agreement with CSGF to provide interim financing for the RFZ-LLC12 project. The loan has an interest rate of 3.75%. The loan was repaid in full in July 2014.

Rocketship's Schools - California School Finance Authority Revolving Loan Program

As of June 30, 2014, seven of Rocketship's California schools have revolving loans payable to the California School Finance Authority (CSFA) ranging from \$40,000 to \$250,000, totaling \$1,139,996 combined. The loans have effective interest rates ranging from 0.22% to 1.47%. Prior to school year 13/14, the loans were administered by the California Department of Education. Principal is payable in four or five years, with installments ranging from \$20,000 to \$62,500 deducted from apportionment revenue. Final maturity is 2018.

Rocketship's Schools - CSFA Revenue Anticipation Notes

RAN, Series 2012 - Rocketship's California schools, excluding RMS, entered into a loan agreement with CSFA to issue revenue anticipation notes in the lessor of \$6,037,881 or 90% of deferred apportionment payments from the State of California. Notes totaling \$1,300,000 and \$4,737,878 were issued in October 2012 and June 2013, respectively. Interest is charged at a LIBOR based rate plus 450 basis points with a floor of 4.75%. The notes are repayable in installments in July 2013 and August 2013 along with accrued interest. Funds pledged for repayment are intercepted upon release and held in a designated trust account (classified as restricted cash on the Statement of Financial Position.) The notes and accrued interest are classified as current liabilities at June 30, 2013. Following payment, the notes terminated in September 2013.

RAN, Series 2014 - Rocketship's California schools, excluding RMS, entered into a loan agreement with CSFA to issue revenue anticipation notes in the lessor of \$4,575,000 or 90% of deferred apportionment payments from the State of California. Notes totaling \$643,000, \$1,528,000 and \$2,404,000 were issued in April 2014, May 2014 and June 2014, respectively. Interest is charged at a LIBOR based rate plus 450 basis points with a floor of 4.75%. The notes are repayable in installments in July and August 2014 along with accrued interest. Funds pledged for repayment are intercepted upon release and held in a designated trust account. The notes and accrued interest are classified as current liabilities at June 30, 2014. Following payment, the notes terminated in October 2014.

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

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

NOTE 6 - DEBT: (continued)

LLC1 - CDFI Facilities Construction Loan

LLC1 has two facilities construction loans payable with a Community Development Financial Institution (CDFI) entered into during the 2007-2008 fiscal year. As of June 30, 2014, \$5,539,592 remains outstanding with the CDFI, principal balances of \$5,000,000 on the primary loan and \$539,592 on the subordinate loan with effective interest rates of 5.0 percent and 5.25 percent, respectively. 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. Proceeds of these loans were used to construct permanent facilities for its San Jose campus for Rocketship Mateo Sheedy Elementary School. Both loans use the completed facilities as collateral and are 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.

LLC2 - CDFI Facilities Construction Loan

At June 30, 2013, LLC2 had a facilities construction loan payable with a CDFI totaling \$6.8 million. The loan was repaid in full with proceeds from the Series 2014 Bonds.

LLC3 - Self Help New Markets V LLC Loan

In 2010, LLC3 entered into a facilities loan agreement with Self Help New Markets V LLC (SHNM) totaling \$6.48 million with an effective interest rate of 6.41 percent

Payments are based upon an amortization schedule of 25 years, beginning in 2010 with a final payment of all unpaid principal and interest thereon due on April 19, 2017. As of June 30, 2014, \$6,045,704 remains outstanding. The loan is subject to reporting requirements and financial covenants customary for this type of credit transaction.

LLC4 - ROMO Bonds Payable (Series 2011A and 2011B Bonds)

In September 2011, Launchpad completed bond financing in the amount of \$10.1 million (the Series 2011 Bonds), proceeds from which were used to refinance existing debt and to fund certain project expenses remaining for the ROMO construction project. Interest is paid semi-annually at a coupon rate of 8.5% to 8.75%.

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

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

NOTE 6 - DEBT: (continued)

LLC4 - ROMO Bonds Payable (Series 2011A and 2011B Bonds) (continued)

The Series 2011 Bonds are divided into \$9.6 million Series 2011A Bonds and \$515,000 Series 2011B Bonds (taxable), maturing December 2041 and December 2018, respectively. 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

In March 2011, LLC5 borrowed debt capital for the RDP 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 \$560,000. 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 - LISC Recoverable Grant

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 for LLC6.

As of June 30, 2014, the balance drawn by LLC6 is classified as a current liability to be repaid upon completion of divesture from the project.

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

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

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 RBM. The loan was repaid in full with proceeds from the sale of the property.

LLC8 – RSA Bonds Payable (Series 2012A and 2012B Bonds)

In September 2012, Launchpad completed bond financing in the amount of \$9.46 million (the Series 2012 Bonds), proceeds from which were used to refinance existing debt and to fund certain project expenses remaining for the RSA construction project. Interest is paid semi-annually at a coupon rate of 6.25% to 8.5%.

The Series 2012 Bonds are divided into \$9.105 million Series 2012A Bonds and \$355,000 million Series 2012B Bonds (taxable), maturing June 2043 and June 2016, respectively. Both Series 2012A and Series 2012B are subject to mandatory redemptions prior to their stated maturity by a Sinking Accounts Payment Fund established in June 2017 and June 2014, respectively.

LLC12 – RSN Promissory Note

In June 2014, RSN issued a Promissory Note to LLC12 in the amount of \$7,000,000. RSN funded the loan with proceeds from the CSGF Revolving Facilities Loan. The loan has an interest rate of 3.75%. The loan was repaid in full in July 2014.

LDC – Obligated Group Bonds (Series 2014A and 2014B)

In February 2014, LDC completed bond financing in the amount of \$32.855 million (the Series 2014 Bonds), proceeds from which were used to refinance existing debt for LLC2 and fund project expenses for the RBM and RFZ construction projects. Interest is paid semi-annually at a coupon rate of 6.00% to 7.25%.

The Series 2014 Bonds are divided into \$31.935 million Series 2014A Bonds and \$920,000 million Series 2014B Bonds (taxable), maturing between June 2023 and 2043 (Series 2014A) and June 2018 (Series 2014B). Both Series 2014A and Series 2014B are subject to mandatory redemptions prior to their stated maturity by a Sinking Accounts Payment Fund established in June 2018, 2024 and 2035 (Series 2014A) and June 2016 (Series 2014B).

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

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

NOTE 6 - DEBT: (continued)

Futures maturities of debt in summary:

<u>June 30,</u>	<u>RSED</u>	<u>LDC</u>	<u>Eliminations</u>	<u>Total</u>
2015	\$ 11,977,795	\$ 9,421,859	\$ (3,402,988)	\$ 17,996,666
2016	382,500	794,325	-	1,176,825
2017	550,000	6,465,128	-	7,015,128
2018	175,000	7,952,669	-	8,127,669
2019	375,000	744,271	-	1,119,271
Thereafter	1,000,000	51,953,060	-	52,953,060
Discount	-	(5,537)	-	(5,537)
Total	<u>\$ 14,460,295</u>	<u>\$ 77,325,775</u>	<u>\$ (3,402,988)</u>	<u>\$ 88,383,082</u>

NOTE 7 - NET ASSET RESTRICTIONS:

Temporarily restricted net assets of \$1,267,096 relate to grants that are specifically restricted to future operations.

NOTE 8 - OPERATING LEASES:

RSN administrative offices - In October 2012, RSN entered into a 5 year lease for office facilities payable at \$10,612 monthly. The lease includes a waiver of rent (\$10,611) contingent upon RSN's status as a nonprofit public benefit corporation. During the year ended June 30, 2014, temporarily restricted net assets released from restriction from in-kind rent was \$125,562 (net of prior year discount) and lease expense totaled \$127,332. At June 30, 2014, the fair value of future in-kind rent included in the lease through October 2017 has been recorded as \$409,748 grants receivable and temporarily restricted contribution revenue.

RSN leases administrative offices in San Jose, CA, Milwaukee, WI and Nashville, TN under various operating leases. Lease expense for all regional administrative offices totaled \$105,608 for the year ended June 30, 2014.

LLC1-RMS site land lease - 20 year land lease, \$10,920 payable monthly. Lease expense recognized for the year ended June 30, 2014 was \$131,040.

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

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

NOTE 8 - OPERATING LEASES: (continued)

LLC11-RBM site land lease – 30 year land lease, \$7,917 payable monthly (\$95,000 annually), subject to adjustment in 2023. Lease expense recognized for the year ended June 30, 2014 was \$95,000.

RSK facility lease - 29 year facility lease, \$62,896 payable monthly beginning September 2013. Due to an uneven payment schedule, lease expense is accrued on a straight line basis over the life of the lease. For the year ended June 30, 2014, total lease expense of \$789,573 has been accrued and lease payments totaled \$628,960.

LLC12-RFZ site land lease - 35 year land lease, between \$7,000 and \$9,000 monthly during the year ended June 30, 2014. Due to an uneven payment schedule, lease expense is accrued on a straight line basis over the life of the lease. For the year ended June 30, 2014, total lease expense of \$378,944 has been accrued and lease payments totaled \$89,000.

RFZ site land lease -34 year land lease for addition to RFZ site beginning May 2014 payable at \$2,800 monthly. Due to an uneven payment schedule, lease expense is accrued on a straight line basis over the life of the lease. For the year ended June 30, 2014, total lease expense of \$5,790 has been accrued and lease payments totaled \$4,480.

MLLC1-RSCP facility lease – 10 year facility lease payable at \$40,000 monthly. Due to an uneven payment schedule, lease expense is accrued on a straight line basis over the life of the lease. For the year ended June 30, 2014, total lease expense of \$529,190 has been accrued and lease payments totaled \$456,775.

RNNE facility lease – 29 year facility lease, \$51,845 payable monthly beginning September 2014.

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

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

NOTE 8 - OPERATING LEASES: (continued)

The following is a schedule of future minimum lease payments required under the operating lease:

<u>June 30,</u>	<u>RSN</u>	<u>RSK</u>	<u>RFZ</u>	<u>RNNE</u>
2015	\$ 118,802	\$ 754,752	\$ 33,684	\$ 605,415
2016	122,370	754,752	34,189	622,139
2017	126,051	754,752	34,702	622,139
2018	42,529	754,752	35,223	622,139
2019	-	771,736	35,751	622,139
Thereafter	-	<u>22,899,499</u>	<u>1,297,003</u>	<u>19,953,983</u>
Total	<u>\$ 409,752</u>	<u>\$ 26,690,243</u>	<u>\$ 1,470,552</u>	<u>\$ 23,047,954</u>

<u>June 30,</u>	<u>LLC1</u>	<u>LLC11</u>	<u>LLC12</u>	<u>MLLC1</u>	<u>Total</u>
2015	\$ 137,592	\$ 95,000	\$ 240,000	\$ 550,000	\$ 2,535,245
2016	137,592	95,000	260,000	522,314	2,548,356
2017	138,738	95,000	284,000	534,629	2,590,011
2018	144,468	95,000	302,400	546,658	2,543,169
2019	144,468	95,000	316,800	558,958	2,544,852
Thereafter	<u>1,387,782</u>	<u>2,280,000</u>	<u>11,746,326</u>	<u>2,364,459</u>	<u>61,929,052</u>
Total	<u>\$ 2,090,640</u>	<u>\$ 2,755,000</u>	<u>\$ 13,149,526</u>	<u>\$ 5,077,018</u>	<u>\$ 74,690,685</u>

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

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

NOTE 9 - EMPLOYEE RETIREMENT:

Certificated Employees

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

The risks of participating in these multiemployer defined benefit pension plan are different from single-employer plans because: (a) assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers, (b) the required member, employer, and state contribution rates are set by the California Legislature and detailed in Teachers' Retirement Law, and (c) if the School chooses to stop participating in the multiemployer plan, it may be required to pay a withdrawal liability to the plan. RSEA has no plans to withdraw from these multiemployer plans.

RSEA contributes to the State Teachers' Retirement System (STRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. Plan information for STRS is not publicly available. The plan provides retirement, disability and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. According to the most recently available Comprehensive Annual Financial Report and Actuarial Valuation Report for the year ended June 30, 2013, total plan net assets are \$66.3 billion, the total actuarial present value of accumulated plan benefits is \$277 billion, contributions from all employers totaled \$2.3 billion, and the plan is 66.9% funded. RSEA did not contribute more than 5% of the total contributions to the plan. Copies of the STRS annual financial reports may be obtained from STRS, 7667 Folsom Boulevard, Sacramento, CA 95826 and www.calstrs.com.

Active plan members are required to contribute 8.0% of their salary and RSEA 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 2013-14 was 8.25% of annual payroll. The contribution requirements of the plan members are established and may be amended by State statute.

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

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

NOTE 9 - EMPLOYEE RETIREMENT: (continued)

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

<u>Year Ended June 30,</u>	STRS	
	<u>Required Contribution</u>	<u>Percent Contributed</u>
2012	\$414,135	100%
2013	\$647,408	100%
2014	\$855,364	100%

NOTE 10 - RELATED PARTY TRANSACTIONS:

Facility Leases

In 2013, RMS amended and restated its existing lease with LLC1 into a 8-year facility lease through 2021. For the school year 2013/14, lease payments under this agreement totaled \$977,598.

In 2014, RSSP amended and restated its existing lease with LLC2 into a 29-year facility lease agreement through 2043. Due to an uneven payment schedule, lease expense is accrued on a straight line basis over the life of the lease. Total lease expense of \$962,614 has been accrued. For school year 2013/14, lease payments under this agreement totaled \$878,082.

In 2010, RLS entered into a 10-year lease with LLC3 through 2020. The lease agreement was amended July 2012. For the school year 2013/14, lease payments under this agreement totaled \$1,037,516.

In 2011, ROMO entered into a 30-year lease with LLC4 through 2042. The lease was amended in July 2012. Due to an uneven payment schedule, lease expense is accrued on a straight line basis over the life of the lease. Total lease expense of \$1,005,091 has been accrued. For school year 2013/14, lease payments under this agreement totaled \$1,016,914.

In 2011, RDP entered into a 20 year lease with LLC5 through 2031. The lease agreement was amended July 2012. For the school year 2013/14, lease payments under this agreement totaled \$1,004,982. Related to the lease, LDC has placed \$325,000 into a fully pledged reserve account for the benefit of the lender.

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

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

NOTE 10 - RELATED PARTY TRANSACTIONS: (continued)

In 2014, RBM entered into a 29-year facility lease agreement with LLC11 through 2043. Due to an uneven payment schedule, lease expense is accrued on a straight line basis over the life of the lease. Total lease expense of \$459,973 has been accrued. For school year 2013/14, lease payments under this agreement totaled \$50,202.

In 2012, RSA entered into a 15 year lease with LLC8 through 2027. The lease agreement was amended July 2012. Due to an uneven payment schedule, lease expense is accrued on a straight line basis over the life of the lease. Total lease expense of \$715,590 has been accrued. For school year 2013/14, lease payments under this agreement totaled \$652,119.

In 2014, RFZ entered into a 29-year facility lease agreement with LLC12 through 2043. Due to an uneven payment schedule, lease expense is accrued on a straight line basis over the life of the lease. Total lease expense of \$587,067 has been accrued. For school year 2013/14, lease payments under this agreement totaled \$56,877.

In 2013, RSCP entered into a 10-year facility lease agreement with MLLC1 through 2023. Due to an uneven payment schedule, lease expense is accrued on a straight line basis over the life of the lease. Total lease expense of \$571,446 has been accrued. For school year 2013/14, lease payments under this agreement totaled \$499,031.

Future estimated payments under these leases as of June 30, 2014 are as follows:

<u>June 30,</u>	<u>RMS</u>	<u>RSSP</u>	<u>RLS</u>	<u>ROMO</u>	<u>RDP</u>
2015	\$ 869,143	\$ 891,336	\$ 913,223	\$ 944,865	\$ 881,870
2016	869,143	1,048,059	913,223	943,563	881,870
2017	869,143	1,040,621	913,223	942,474	881,870
2018	869,143	1,033,731	913,223	945,693	881,870
2019	869,143	1,038,839	913,223	947,108	881,870
Thereafter	<u>1,738,286</u>	<u>25,040,672</u>	<u>913,223</u>	<u>21,459,988</u>	<u>10,582,439</u>
Total	<u>\$ 6,084,001</u>	<u>\$ 30,093,258</u>	<u>\$ 5,479,338</u>	<u>\$ 26,183,691</u>	<u>\$ 14,991,789</u>

<u>June 30,</u>	<u>RSA</u>	<u>RBM</u>	<u>RFZ</u>	<u>RSCP</u>	<u>Total</u>
2015	\$ 741,826	\$ 567,158	\$ 731,066	\$ 550,000	\$ 7,090,487
2016	729,529	1,134,699	1,323,594	522,314	8,365,994
2017	730,624	1,138,288	1,347,867	534,629	8,398,739
2018	724,520	1,130,841	1,366,250	546,658	8,411,929
2019	724,657	1,124,587	1,375,718	558,958	8,434,103
Thereafter	<u>6,045,927</u>	<u>27,340,873</u>	<u>35,268,700</u>	<u>2,364,459</u>	<u>130,754,567</u>
Total	<u>\$ 9,697,083</u>	<u>\$ 32,436,446</u>	<u>\$ 41,413,195</u>	<u>\$ 5,077,018</u>	<u>\$ 171,455,819</u>

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

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

NOTE 10 - RELATED PARTY TRANSACTIONS: (continued)

Launchpad – Working Capital Line of Credit from RSN

In 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, 2014 and 2013, there is no outstanding balance under this agreement. During 2013/14, RSN charged LP at total of \$16,443 in interest on the LP LOC.

Rocketship Education Wisconsin Inc. Line of Credit from RSN

In 2014, Rocketship Education Wisconsin Inc. entered into a revolving line of credit agreement (RSW LOC) with RSN in the amount of \$650,000 to support the operation of RSCP. Interest is charged at a LIBOR based rate, not to exceed 4.0 percent on outstanding balances under the facility. On June 30, 2014 an advance of \$650,000 was issued.

Rocketship Education Wisconsin Inc. Grant from RSN

During 2013/14, RSN provided Rocketship Education Wisconsin Inc. with a grant of \$1.1 million to support the operation of RSCP.

Development Fees

In connection with construction development projects, Launchpad has contracted to receive development fees which are accrued based on project-specific milestones.

For the year ended June 30, 2014 the following development fees were collected:

	<u>Development Fees</u>
LLC11	<u>\$ 305,000</u>
Total	<u><u>\$ 305,000</u></u>

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

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

NOTE 10 - RELATED PARTY TRANSACTIONS: (continued)

Management Services

RMS, RSSP, RLS, ROMO, RDP, RBM, RSA, RSK and RSCP all receive management and support services from RSN for which they pay management fees.

For the year ended June 30, 2014, management fees were as follows:

	<u>Management Fees</u>
RMS	\$ 733,198
RSSP	742,630
RLS	730,762
ROMO	719,197
RDP	726,221
RBM	470,544
RSA	655,157
RSK	626,969
RSCP	<u>336,853</u>
Total	<u>\$ 5,741,531</u>

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 year. For the year ended June 30, 2014, the amount of Donated Services from RSN to Launchpad was \$25,000.

NOTE 11 - 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.

SUPPLEMENTARY INFORMATION

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

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

Rocketship Education (RSED) is a California non-profit public benefit corporation that was incorporated in 2006 and is organized to manage, operate, guide, direct, and promote a network of public elementary charter schools.

California Charter Schools:

Rocketship Mateo Sheedy Elementary (RMS)	Charter Number: 0850 – Expires 2015
Rocketship Si Se Puede Academy (RSSP)	Charter Number: 1061 – Expires 2017
Rocketship Los Suenos Academy (RLS)	Charter Number: 1127 – Expires 2015
Rocketship Mosaic Elementary School (ROMO)	Charter Number: 1192 – Expires 2016
Rocketship Discovery Prep (RDP)	Charter Number: 1193 – Expires 2016
Rocketship Brilliant Minds (RBM)	Charter Number: 1393 – Expires 2017
Rocketship Alma Academy (RSA)	Charter Number: 1394 – Expires 2017
Rocketship Spark Academy (RSK)	Charter Number: 1526 – Expires 2018
Rocketship Fuerza Community Prep (RFZ)	Charter Number: 1687 – Begins 2014/15

Wisconsin Charter Schools:

Rocketship Southside Community Prep (RSCP)

Tennessee Charter Schools:

Rocketship Nashville Northeast Elementary (RNNE) Begins 2014/15

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

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

Board of Directors

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Marcus Cole	President	2014
Alan Crites	Treasurer	2014
Alex Hernandez	Secretary	2014
Alex Terman	Member	2014
Fred Ferrer	Member	2014
Kim Smith	Member	2014
Jennifer Niles	Member	2014
Louis Jordan	Member	2014
Timothy Sheehy	Member	2014
Deborah McGriff	Member	2015
Eric Scroggins	Member	2015
Greg Stanger	Member	2016

Administration

Preston Smith	Co-Founder,CEO and President
Andrew Stern	Chief Business Officer
Lynn Liao	Chief Programs Officer
Katy Venskus	Vice President, Growth, Development and Policy
Carolyn Davies Lynch	Vice President, Strategy & Scalability

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**CONSOLIDATING STATEMENT OF FINANCIAL POSITION - ROCKETSHIP SCHOOLS
June 30, 2014**

	California					Total Page 1
	RSN	RMS	RSSP	RLS	ROMO	
ASSETS						
CURRENT ASSETS:						
Cash and cash equivalents	\$ 9,739,373	\$ 1,459,652	\$ 1,397,236	\$ 814,746	\$ 716,361	\$ 14,127,368
Accounts receivable	4,425,830	626,179	986,566	1,060,127	928,025	8,026,727
Grants receivable	873,694	-	-	-	-	873,694
Prepaid expenses and deposits	601,420	52,580	48,838	45,087	50,114	798,039
Total current assets	<u>15,640,317</u>	<u>2,138,411</u>	<u>2,432,640</u>	<u>1,919,960</u>	<u>1,694,500</u>	<u>23,825,828</u>
LONG-TERM ASSETS:						
Grants receivable	420,022	-	-	-	-	420,022
Intracompany receivable	755,712	-	-	-	-	755,712
Security deposits	-	-	-	250,000	250,000	500,000
Property, plant & equipment, net	211,774	522,904	301,343	318,576	279,721	1,634,318
Total long-term assets	<u>1,387,508</u>	<u>522,904</u>	<u>301,343</u>	<u>568,576</u>	<u>529,721</u>	<u>3,310,052</u>
Total assets	<u>\$ 17,027,825</u>	<u>\$ 2,661,315</u>	<u>\$ 2,733,983</u>	<u>\$ 2,488,536</u>	<u>\$ 2,224,221</u>	<u>\$ 27,135,880</u>
LIABILITIES AND NET ASSETS						
CURRENT LIABILITIES:						
Accounts payable and accrued liabilities	\$ 1,347,978	\$ 397,751	\$ 220,919	\$ 275,257	\$ 268,488	\$ 2,510,393
Accrued interest	9,479	-	2,198	3,256	2,110	17,043
Deferred revenue	-	84,183	139,451	87,901	88,805	400,340
Current portion of loans payable	7,020,295	-	520,000	750,000	550,000	8,840,295
Total current liabilities	<u>8,377,752</u>	<u>481,934</u>	<u>882,568</u>	<u>1,116,414</u>	<u>909,403</u>	<u>11,768,071</u>
LONG-TERM LIABILITIES:						
Accrued interest	77,459	-	-	-	-	77,459
Deferred rent liability	-	-	84,533	-	519,160	603,693
Intracompany payable	-	-	-	-	-	-
Convertible loans	550,000	-	-	-	-	550,000
Loans payable	1,175,000	-	-	20,000	50,000	1,245,000
Total long-term liabilities	<u>1,802,459</u>	<u>-</u>	<u>84,533</u>	<u>20,000</u>	<u>569,160</u>	<u>2,476,152</u>
NET ASSETS:						
Unrestricted	5,803,899	2,113,254	1,766,882	1,270,995	745,658	11,700,688
Temporarily restricted	1,043,715	66,127	-	81,127	-	1,190,969
Total net assets	<u>6,847,614</u>	<u>2,179,381</u>	<u>1,766,882</u>	<u>1,352,122</u>	<u>745,658</u>	<u>12,891,657</u>
Total liabilities and net assets	<u>\$ 17,027,825</u>	<u>\$ 2,661,315</u>	<u>\$ 2,733,983</u>	<u>\$ 2,488,536</u>	<u>\$ 2,224,221</u>	<u>\$ 27,135,880</u>

See the accompanying notes to supplementary information.

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

CONSOLIDATING STATEMENT OF FINANCIAL POSITION - ROCKETSHIP SCHOOLS (Continued)
June 30, 2014

	California					Total Page 2
	From Page 1	RDP	RBM	RSA	RSK	
ASSETS						
CURRENT ASSETS:						
Cash and cash equivalents	\$ 14,127,368	\$ 168,337	\$ 452,200	\$ 699,699	\$ 99,652	\$ 15,547,256
Accounts receivable	8,026,727	1,164,010	1,138,044	1,127,546	1,288,102	12,744,429
Grants receivable	873,694	-	-	-	-	873,694
Prepaid expenses and deposits	798,039	46,586	60,374	90,413	77,163	1,072,575
Total current assets	<u>23,825,828</u>	<u>1,378,933</u>	<u>1,650,618</u>	<u>1,917,658</u>	<u>1,464,917</u>	<u>30,237,954</u>
LONG-TERM ASSETS:						
Grants receivable	420,022	-	-	-	-	420,022
Intracompany receivable	755,712	-	-	-	-	755,712
Security deposits	500,000	250,000	-	100,000	-	850,000
Property, plant & equipment, net	1,634,318	246,044	116,542	234,141	50,862	2,281,907
Total long-term assets	<u>3,310,052</u>	<u>496,044</u>	<u>116,542</u>	<u>334,141</u>	<u>50,862</u>	<u>4,307,641</u>
Total assets	<u>\$ 27,135,880</u>	<u>\$ 1,874,977</u>	<u>\$ 1,767,160</u>	<u>\$ 2,251,799</u>	<u>\$ 1,515,779</u>	<u>\$ 34,545,595</u>
LIABILITIES AND NET ASSETS						
CURRENT LIABILITIES:						
Accounts payable	\$ 2,510,393	\$ 295,890	\$ 167,541	\$ 331,424	\$ 219,154	\$ 3,524,402
Accrued interest	17,043	3,352	3,505	2,975	2,729	29,604
Deferred revenue	400,340	89,107	59,201	74,236	-	622,884
Current portion of loans payable	8,840,295	782,500	902,500	702,500	687,500	11,915,295
Total current liabilities	<u>11,768,071</u>	<u>1,170,849</u>	<u>1,132,747</u>	<u>1,111,135</u>	<u>909,383</u>	<u>16,092,185</u>
LONG-TERM LIABILITIES:						
Accrued interest	77,459	-	-	-	-	77,459
Deferred rent liability	603,693	-	409,771	117,370	160,613	1,291,447
Intracompany payable	-	-	-	-	-	-
Convertible loans	550,000	-	-	-	-	550,000
Loans payable	1,245,000	62,500	125,000	125,000	187,500	1,745,000
Total long-term liabilities	<u>2,476,152</u>	<u>62,500</u>	<u>534,771</u>	<u>242,370</u>	<u>348,113</u>	<u>3,663,906</u>
NET ASSETS:						
Unrestricted	11,700,688	565,501	99,642	898,294	258,283	13,522,408
Temporarily restricted	1,190,969	76,127	-	-	-	1,267,096
Total net assets	<u>12,891,657</u>	<u>641,628</u>	<u>99,642</u>	<u>898,294</u>	<u>258,283</u>	<u>14,789,504</u>
Total liabilities and net assets	<u>\$ 27,135,880</u>	<u>\$ 1,874,977</u>	<u>\$ 1,767,160</u>	<u>\$ 2,251,799</u>	<u>\$ 1,515,779</u>	<u>\$ 34,545,595</u>

See the accompanying notes to supplementary information.

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

CONSOLIDATING STATEMENT OF FINANCIAL POSITION - ROCKETSHIP SCHOOLS (Continued)

June 30, 2014

	<u>From Page 2</u>	<u>California RFZ</u>	<u>Wisconsin RSCP</u>	<u>Tennessee RNNE</u>	<u>Eliminations</u>	<u>Total</u>
ASSETS						
CURRENT ASSETS:						
Cash and cash equivalents	\$ 15,547,256	\$ 118,673	\$ -	\$ -	\$ -	\$ 15,665,929
Accounts receivable	12,744,429	-	242,186	-	(141,289)	12,845,326
Grants receivable	873,694	-	-	-	-	873,694
Prepaid expenses and deposits	1,072,575	122,100	64,189	159,796	-	1,418,660
Total current assets	<u>30,237,954</u>	<u>240,773</u>	<u>306,375</u>	<u>159,796</u>	<u>(141,289)</u>	<u>30,803,609</u>
LONG-TERM ASSETS:						
Grants receivable	420,022	-	-	-	-	420,022
Intracompany receivable	755,712	-	-	-	(755,712)	-
Security deposits	850,000	-	-	-	-	850,000
Property, plant & equipment, net	2,281,907	13,836	-	1,250	-	2,296,993
Total long-term assets	<u>4,307,641</u>	<u>13,836</u>	<u>-</u>	<u>1,250</u>	<u>(755,712)</u>	<u>3,567,015</u>
Total assets	<u>\$ 34,545,595</u>	<u>\$ 254,609</u>	<u>\$ 306,375</u>	<u>\$ 161,046</u>	<u>\$ (897,001)</u>	<u>\$ 34,370,624</u>
LIABILITIES AND NET ASSETS						
CURRENT LIABILITIES:						
Accounts payable	\$ 3,524,402	\$ 86,063	\$ 312,225	\$ 85,323	\$ (141,289)	\$ 3,866,724
Accrued interest	29,604	-	-	-	-	29,604
Deferred revenue	622,884	-	-	-	-	622,884
Current portion of loans payable	11,915,295	62,500	-	-	-	11,977,795
Total current liabilities	<u>16,092,185</u>	<u>148,563</u>	<u>312,225</u>	<u>85,323</u>	<u>(141,289)</u>	<u>16,497,007</u>
LONG-TERM LIABILITIES:						
Accrued interest	77,459	-	-	-	-	77,459
Deferred rent liability	1,291,447	531,501	72,415	-	-	1,895,363
Intracompany payable	-	-	650,000	105,712	(755,712)	-
Convertible loans	550,000	-	-	-	-	550,000
Loans payable	1,745,000	187,500	-	-	-	1,932,500
Total long-term liabilities	<u>3,663,906</u>	<u>719,001</u>	<u>722,415</u>	<u>105,712</u>	<u>(755,712)</u>	<u>4,455,322</u>
NET ASSETS:						
Unrestricted	13,522,408	(612,955)	(728,265)	(29,989)	-	12,151,199
Temporarily restricted	1,267,096	-	-	-	-	1,267,096
Total net assets	<u>14,789,504</u>	<u>(612,955)</u>	<u>(728,265)</u>	<u>(29,989)</u>	<u>-</u>	<u>13,418,295</u>
Total liabilities and net assets	<u>\$ 34,545,595</u>	<u>\$ 254,609</u>	<u>\$ 306,375</u>	<u>\$ 161,046</u>	<u>\$ (897,001)</u>	<u>\$ 34,370,624</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, 2014**

	California					Total Page 1
	RSN	RMS	RSSP	RLS	ROMO	
UNRESTRICTED NET ASSETS:						
Revenues						
LCFF State Aid	\$ -	\$ 981,410	\$ 3,073,345	\$ 3,952,111	\$ 2,815,803	\$ 10,822,669
Apportionment revenue	-	-	-	-	-	-
Property taxes	-	3,014,423	950,831	41,163	1,117,188	5,123,605
Other State revenue	2,443,119	849,776	819,504	782,252	778,550	5,673,201
Federal revenue	457,577	579,729	687,160	681,921	610,010	3,016,397
Other local revenue	5,873,286	30,649	31,578	34,432	35,529	6,005,474
Contributions	5,885,595	335,159	95,139	91,117	164,673	6,571,683
Amounts released from restriction	1,873,584	86,388	311,964	100,851	195,843	2,568,630
Total unrestricted revenues	<u>16,533,161</u>	<u>5,877,534</u>	<u>5,969,521</u>	<u>5,683,847</u>	<u>5,717,596</u>	<u>39,781,659</u>
Program Expenses						
Educational programs	<u>2,886,614</u>	<u>4,846,130</u>	<u>4,633,532</u>	<u>4,786,098</u>	<u>4,716,535</u>	<u>21,868,909</u>
Supporting Services						
Site supports and program development	10,369,009	-	-	-	-	10,369,009
Administration and general	<u>3,877,785</u>	<u>733,198</u>	<u>742,630</u>	<u>730,762</u>	<u>719,197</u>	<u>6,803,572</u>
Total supporting services	<u>14,246,794</u>	<u>733,198</u>	<u>742,630</u>	<u>730,762</u>	<u>719,197</u>	<u>17,172,581</u>
Total expenses	<u>17,133,408</u>	<u>5,579,328</u>	<u>5,376,162</u>	<u>5,516,860</u>	<u>5,435,732</u>	<u>39,041,490</u>
Increase (decrease) in unrestricted net assets	(600,247)	298,206	593,359	166,987	281,864	740,169
TEMPORARILY RESTRICTED NET ASSETS:						
Amounts released from restriction	(1,873,584)	(86,388)	(311,964)	(100,851)	(195,843)	(2,568,630)
Contributions	<u>522,578</u>	<u>152,515</u>	<u>311,964</u>	<u>181,978</u>	<u>195,843</u>	<u>1,364,878</u>
Increase (decrease) in temporarily restricted net assets	<u>(1,351,006)</u>	<u>66,127</u>	<u>-</u>	<u>81,127</u>	<u>-</u>	<u>(1,203,752)</u>
Beginning net assets	<u>8,798,867</u>	<u>1,815,048</u>	<u>1,173,523</u>	<u>1,104,008</u>	<u>463,794</u>	<u>13,355,240</u>
Ending net assets	<u>\$ 6,847,614</u>	<u>\$ 2,179,381</u>	<u>\$ 1,766,882</u>	<u>\$ 1,352,122</u>	<u>\$ 745,658</u>	<u>\$ 12,891,657</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, 2014**

	From Page 1	California				Total Page 2
		RDP	RBM	RSA	RSK	
UNRESTRICTED NET ASSETS:						
Revenues						
LCFF State Aid	\$ 10,822,669	\$ 3,894,946	\$ 2,749,059	\$ 3,429,775	\$ 2,609,438	\$ 23,505,887
Apportionment revenue	-	-	-	-	-	-
Property taxes	5,123,605	66,116	22,245	156,399	960,130	6,328,495
Other State revenue	5,673,201	796,437	339,870	686,454	611,093	8,107,055
Federal revenue	3,016,397	620,751	394,096	429,263	942,538	5,403,045
Other local revenue	6,005,474	21,640	96,789	33,351	55,429	6,212,683
Contributions	6,571,683	154,527	817	223,812	189,226	7,140,065
Amounts released from restriction	2,568,630	100,652	-	110,921	-	2,780,203
Total unrestricted revenues	<u>39,781,659</u>	<u>5,655,069</u>	<u>3,602,876</u>	<u>5,069,975</u>	<u>5,367,854</u>	<u>59,477,433</u>
Program Expenses						
Educational programs	<u>21,868,909</u>	<u>4,964,384</u>	<u>3,411,314</u>	<u>4,275,411</u>	<u>4,818,592</u>	<u>39,338,610</u>
Supporting Services						
Site supports and program development	10,369,009	-	-	-	-	10,369,009
Administration and general	<u>6,803,572</u>	<u>726,221</u>	<u>470,544</u>	<u>655,157</u>	<u>626,969</u>	<u>9,282,463</u>
Total supporting services	<u>17,172,581</u>	<u>726,221</u>	<u>470,544</u>	<u>655,157</u>	<u>626,969</u>	<u>19,651,472</u>
Total expenses	<u>39,041,490</u>	<u>5,690,605</u>	<u>3,881,858</u>	<u>4,930,568</u>	<u>5,445,561</u>	<u>58,990,082</u>
Increase (decrease) in unrestricted net assets	740,169	(35,536)	(278,982)	139,407	(77,707)	487,351
TEMPORARILY RESTRICTED NET ASSETS:						
Amounts released from restriction	(2,568,630)	(100,652)	-	(110,921)	-	(2,780,203)
Contributions	<u>1,364,878</u>	<u>176,779</u>	-	<u>110,921</u>	-	<u>1,652,578</u>
Increase (decrease) in temporarily restricted net assets	<u>(1,203,752)</u>	<u>76,127</u>	-	-	-	<u>(1,127,625)</u>
Beginning net assets	<u>13,355,240</u>	<u>601,037</u>	<u>378,624</u>	<u>758,887</u>	<u>335,990</u>	<u>15,429,778</u>
Ending net assets	<u>\$ 12,891,657</u>	<u>\$ 641,628</u>	<u>\$ 99,642</u>	<u>\$ 898,294</u>	<u>\$ 258,283</u>	<u>\$ 14,789,504</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, 2014**

	<u>From Page 2</u>	<u>California RFZ</u>	<u>Wisconsin RSCP</u>	<u>Tennessee RNNE</u>	<u>Eliminations</u>	<u>Total</u>
UNRESTRICTED NET ASSETS:						
Revenues						
LCFF State Aid	\$ 23,505,887	\$ -	\$ -	\$ -	\$ -	\$ 23,505,887
Apportionment revenue	-	-	2,005,025	-	-	2,005,025
Property taxes	6,328,495	-	-	-	-	6,328,495
Other State revenue	8,107,055	-	-	-	-	8,107,055
Federal revenue	5,403,045	22,742	831,407	-	-	6,257,194
Other local revenue	6,212,683	1	27,504	669	(5,741,531)	499,326
Contributions	7,140,065	-	1,100,000	-	(1,100,000)	7,140,065
Amounts released from restriction	2,780,203	-	-	-	-	2,780,203
Total unrestricted revenues	<u>59,477,433</u>	<u>22,743</u>	<u>3,963,936</u>	<u>669</u>	<u>(6,841,531)</u>	<u>56,623,250</u>
Program Expenses						
Educational programs	39,338,610	635,698	4,306,241	30,658	-	44,311,207
Supporting Services						
Site supports and program development	10,369,009	-	-	-	(1,100,000)	9,269,009
Administration and general	9,282,463	-	336,853	-	(5,741,531)	3,877,785
Total supporting services	<u>19,651,472</u>	<u>-</u>	<u>336,853</u>	<u>-</u>	<u>(6,841,531)</u>	<u>13,146,794</u>
Total expenses	<u>58,990,082</u>	<u>635,698</u>	<u>4,643,094</u>	<u>30,658</u>	<u>(6,841,531)</u>	<u>57,458,001</u>
Increase (decrease) in unrestricted net assets	487,351	(612,955)	(679,158)	(29,989)	-	(834,751)
TEMPORARILY RESTRICTED NET ASSETS:						
Amounts released from restriction	(2,780,203)	-	-	-	-	(2,780,203)
Contributions	1,652,578	-	-	-	-	1,652,578
Increase (decrease) in temporarily restricted net assets	<u>(1,127,625)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,127,625)</u>
Beginning net assets	15,429,778	-	(49,107)	-	-	15,380,671
Ending net assets	<u>\$ 14,789,504</u>	<u>\$ (612,955)</u>	<u>\$ (728,265)</u>	<u>\$ (29,989)</u>	<u>\$ -</u>	<u>\$ 13,418,295</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, 2014**

	RSN	California			ROMO	Total Page 1
		RMS	RSSP	RLS		
CASH FLOWS from OPERATING ACTIVITIES:						
Change in Net Assets	\$ (1,951,253)	\$ 364,333	\$ 593,359	\$ 248,114	\$ 281,864	\$ (463,583)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:						
Depreciation	54,289	13,345	19,105	19,181	14,865	120,785
Debt forgiven through grant agreement	(566,782)	-	-	-	-	(566,782)
(Increase) or decrease in operating assets:						
Accounts receivable	(2,229,540)	202,795	522,724	598,901	255,793	(649,327)
Grants receivable	2,735	-	-	-	-	2,735
Prepaid expenses and deposits	419,997	19,250	(11,499)	(9,277)	1,677	420,148
Increase or (decrease) in operating liabilities:						
Accounts payable and accrued liabilities	526,140	(130,809)	(377,813)	(381,271)	(233,358)	(597,111)
Deferred revenue	(1,625,000)	84,183	139,451	77,134	88,805	(1,235,427)
Deferred rent liability	-	-	84,533	-	(23,870)	60,663
Net cash provided (used) by operating activities	<u>(5,369,414)</u>	<u>553,097</u>	<u>969,860</u>	<u>552,782</u>	<u>385,776</u>	<u>(2,907,899)</u>
CASH FLOWS from INVESTING ACTIVITIES:						
Purchase of property plant and equipment	(69,066)	(416,885)	(70,257)	(183,163)	(186,285)	(925,656)
Net cash used by investing activities	<u>(69,066)</u>	<u>(416,885)</u>	<u>(70,257)</u>	<u>(183,163)</u>	<u>(186,285)</u>	<u>(925,656)</u>
CASH FLOWS from FINANCING ACTIVITIES:						
Change in restricted cash	1,384,073	-	169,748	167,132	225,377	1,946,330
Intracompany loans	(755,712)	-	-	-	-	(755,712)
Proceeds from debt	8,020,295	-	520,000	730,000	500,000	9,770,295
Repayment of debt	-	-	(1,060,896)	(1,443,070)	(1,035,278)	(3,539,244)
Net cash provided (used) by financing activities	<u>8,648,656</u>	<u>-</u>	<u>(371,148)</u>	<u>(545,938)</u>	<u>(309,901)</u>	<u>7,421,669</u>
Net increase (decrease) in cash and cash equivalents	3,210,176	136,212	528,455	(176,319)	(110,410)	3,588,114
Cash and cash equivalents at the beginning of the year	<u>6,529,197</u>	<u>1,323,440</u>	<u>868,781</u>	<u>991,065</u>	<u>826,771</u>	<u>10,539,254</u>
Cash and cash equivalents at the end of the year	<u>\$ 9,739,373</u>	<u>\$ 1,459,652</u>	<u>\$ 1,397,236</u>	<u>\$ 814,746</u>	<u>\$ 716,361</u>	<u>\$ 14,127,368</u>
CASH PAID FOR INTEREST (Net of capitalized amount)	<u>\$ 11,138</u>	<u>\$ -</u>	<u>\$ 17,345</u>	<u>\$ 21,469</u>	<u>\$ 15,466</u>	<u>\$ 65,418</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, 2014**

	California					Total Page 2
	From Page 1	RDP	RBM	RSA	RSK	
CASH FLOWS from OPERATING ACTIVITIES:						
Change in Net Assets	\$ (463,583)	\$ 40,591	\$ (278,982)	\$ 139,407	\$ (77,707)	\$ (640,274)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:						
Depreciation	120,785	19,356	10,596	10,089	7,880	168,706
Debt forgiven through grant agreement	(566,782)	-	-	-	-	(566,782)
(Increase) or decrease in operating assets:						
Accounts receivable	(649,327)	660,386	(634,887)	234,681	(1,271,665)	(1,660,812)
Grants receivable	2,735	-	-	-	-	2,735
Prepaid expenses and deposits	420,148	4,869	(6,342)	(53,166)	1,770	367,279
Increase or (decrease) in operating liabilities:						
Accounts payable and accrued liabilities	(597,111)	(514,612)	(36,010)	(62,123)	161,817	(1,048,039)
Deferred revenue	(1,235,427)	89,107	59,201	74,236	-	(1,012,883)
Deferred rent liability	60,663	-	409,771	37,669	160,613	668,716
Net cash provided (used) by operating activities	<u>(2,907,899)</u>	<u>299,697</u>	<u>(476,653)</u>	<u>380,793</u>	<u>(1,017,292)</u>	<u>(3,721,354)</u>
CASH FLOWS from INVESTING ACTIVITIES:						
Purchase of property plant and equipment	<u>(925,656)</u>	<u>(179,329)</u>	<u>(32,986)</u>	<u>(206,236)</u>	<u>(44,409)</u>	<u>(1,388,616)</u>
Net cash provided (used) by investing activities	<u>(925,656)</u>	<u>(179,329)</u>	<u>(32,986)</u>	<u>(206,236)</u>	<u>(44,409)</u>	<u>(1,388,616)</u>
CASH FLOWS from FINANCING ACTIVITIES:						
Change in restricted cash	1,946,330	72,742	26,195	244,964	-	2,290,231
Intracompany loans	(755,712)	-	-	-	-	(755,712)
Proceeds from debt	9,770,295	720,000	840,000	640,000	875,000	12,845,295
Repayment of debt	<u>(3,539,244)</u>	<u>(1,516,898)</u>	<u>(358,514)</u>	<u>(970,722)</u>	<u>-</u>	<u>(6,385,378)</u>
Net cash provided (used) by financing activities	<u>7,421,669</u>	<u>(724,156)</u>	<u>507,681</u>	<u>(85,758)</u>	<u>875,000</u>	<u>7,994,436</u>
Net increase (decrease) in cash and cash equivalents	3,588,114	(603,788)	(1,958)	88,799	(186,701)	2,884,466
Cash and cash equivalents at the beginning of the year	<u>10,539,254</u>	<u>772,125</u>	<u>454,158</u>	<u>610,900</u>	<u>286,353</u>	<u>12,662,790</u>
Cash and cash equivalents at the end of the year	<u>\$ 14,127,368</u>	<u>\$ 168,337</u>	<u>\$ 452,200</u>	<u>\$ 699,699</u>	<u>\$ 99,652</u>	<u>\$ 15,547,256</u>
CASH PAID FOR INTEREST (Net of capitalized amount)	<u>\$ 65,418</u>	<u>\$ 23,847</u>	<u>\$ 2,812</u>	<u>\$ 7,574</u>	<u>\$ -</u>	<u>\$ 99,651</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, 2014**

	<u>From Page 2</u>	<u>California RFZ</u>	<u>Wisconsin RSCP</u>	<u>Tennessee RNNE</u>	<u>Total</u>
CASH FLOWS from OPERATING ACTIVITIES:					
Change in Net Assets	\$ (640,274)	\$ (612,955)	\$ (679,158)	\$ (29,989)	\$ (1,962,376)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:					
Depreciation	168,706	49	-	-	168,755
Debt forgiven through grant agreement	(566,782)	-	-	-	(566,782)
(Increase) or decrease in operating assets:					
Accounts receivable	(1,660,812)	-	(234,630)	-	(1,895,442)
Grants receivable	2,735	-	-	-	2,735
Prepaid expenses and deposits	367,279	(122,100)	142,354	(159,796)	227,737
Increase or (decrease) in operating liabilities:					
Accounts payable and accrued liabilities	(1,048,039)	86,063	155,084	85,323	(721,569)
Deferred revenue	(1,012,883)	-	-	-	(1,012,883)
Deferred rent liability	668,716	531,501	72,415	-	1,272,632
Net cash provided (used) by operating activities	<u>(3,721,354)</u>	<u>(117,442)</u>	<u>(543,935)</u>	<u>(104,462)</u>	<u>(4,487,193)</u>
CASH FLOWS from INVESTING ACTIVITIES:					
Purchase of property plant and equipment	<u>(1,388,616)</u>	<u>(13,885)</u>	<u>-</u>	<u>(1,250)</u>	<u>(1,403,751)</u>
Net cash provided (used) by investing activities	<u>(1,388,616)</u>	<u>(13,885)</u>	<u>-</u>	<u>(1,250)</u>	<u>(1,403,751)</u>
CASH FLOWS from FINANCING ACTIVITIES:					
Change in restricted cash	2,290,231	-	-	-	2,290,231
Intracompany loans	(755,712)	-	650,000	105,712	-
Proceeds from debt	12,845,295	250,000	-	-	13,095,295
Repayment of debt	<u>(6,385,378)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(6,385,378)</u>
Net cash provided (used) by financing activities	<u>7,994,436</u>	<u>250,000</u>	<u>650,000</u>	<u>105,712</u>	<u>9,000,148</u>
Net increase (decrease) in cash and cash equivalents	2,884,466	118,673	106,065	-	3,109,204
Cash and cash equivalents at the beginning of the year	12,662,790	-	(106,065)	-	12,556,725
Cash and cash equivalents at the end of the year	<u>\$ 15,547,256</u>	<u>\$ 118,673</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,665,929</u>
CASH PAID FOR INTEREST (Net of capitalized amount)	<u>\$ 99,651</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 99,651</u>

See the accompanying notes to supplementary information.

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**SCHEDULE OF INSTRUCTIONAL MINUTES - CALIFORNIA
For the Year Ended June 30, 2014**

2013-14 Minutes					
	Requirement	Reduced	Actual	Days	Status
Kindergarten:					
RMS	36,000	34,971	69,180	180	In compliance
RSSP	36,000	34,971	70,800	180	In compliance
RLS	36,000	34,971	72,780	180	In compliance
ROMO	36,000	34,971	72,780	180	In compliance
RDP	36,000	34,971	67,860	180	In compliance
RBM	36,000	34,971	69,420	180	In compliance
RSA	36,000	34,971	72,780	180	In compliance
RSK	36,000	34,971	75,540	180	In compliance
Grade 1:					
RMS	50,400	48,960	68,040	180	In compliance
RSSP	50,400	48,960	67,200	180	In compliance
RLS	50,400	48,960	69,660	180	In compliance
ROMO	50,400	48,960	71,640	180	In compliance
RDP	50,400	48,960	68,040	180	In compliance
RBM	50,400	48,960	69,840	180	In compliance
RSA	50,400	48,960	71,640	180	In compliance
RSK	50,400	48,960	73,920	180	In compliance
Grade 2:					
RMS	50,400	48,960	68,040	180	In compliance
RSSP	50,400	48,960	67,200	180	In compliance
RLS	50,400	48,960	69,660	180	In compliance
ROMO	50,400	48,960	71,640	180	In compliance
RDP	50,400	48,960	68,040	180	In compliance
RBM	50,400	48,960	69,840	180	In compliance
RSA	50,400	48,960	73,440	180	In compliance
RSK	50,400	48,960	75,240	180	In compliance
Grade 3:					
RMS	50,400	48,960	69,840	180	In compliance
RSSP	50,400	48,960	69,000	180	In compliance
RLS	50,400	48,960	69,660	180	In compliance
ROMO	50,400	48,960	72,120	180	In compliance
RDP	50,400	48,960	68,520	180	In compliance
RBM	50,400	48,960	72,540	180	In compliance
RSA	50,400	48,960	73,440	180	In compliance
RSK	50,400	48,960	75,240	180	In compliance

See the accompanying notes to supplementary information.

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**SCHEDULE OF INSTRUCTIONAL MINUTES
For the Year Ended June 30, 2014**

2013-14 Minutes

	Requirement	Reduced	Actual	Days	Status
Grade 4:					
RMS	54,000	52,457	69,840	180	In compliance
RSSP	54,000	52,457	70,800	180	In compliance
RLS	54,000	52,457	67,500	180	In compliance
ROMO	54,000	52,457	73,440	180	In compliance
RDP	54,000	52,457	69,840	180	In compliance
RSA	54,000	52,457	73,440	180	In compliance
RSK	54,000	52,457	72,960	180	In compliance
Grade 5:					
RMS	54,000	52,457	69,840	180	In compliance
RSSP	54,000	52,457	70,800	180	In compliance
RLS	54,000	52,457	67,500	180	In compliance
ROMO	54,000	52,457	73,440	180	In compliance
RDP	54,000	52,457	69,840	180	In compliance
RSK	54,000	52,457	72,960	180	In compliance

See the accompanying notes to supplementary information.

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

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

	Second Period Report		Annual Report	
	Classroom		Classroom	
	Based	Total	Based	Total
Kindergarten:				
RMS	109.60	109.60	108.55	108.55
RSSP	78.95	78.95	81.48	81.48
RLS	111.42	111.42	111.30	111.30
ROMO	58.12	58.12	58.20	58.20
RDP	85.96	85.96	85.78	85.78
RBM	172.42	172.42	170.97	170.97
RSA	119.83	119.83	118.06	118.06
RSK	176.27	176.27	176.45	176.45
Subtotal	912.57	912.57	910.79	910.79
Grades 1-3:				
RMS	321.41	322.07	319.70	321.70
RSSP	355.68	356.37	351.12	352.11
RLS	334.85	335.34	332.61	333.05
ROMO	361.25	361.86	361.33	361.78
RDP	352.93	354.19	350.79	351.84
RBM	236.59	237.02	234.65	235.08
RSA	367.65	368.14	364.40	365.06
RSK	285.92	286.20	286.19	286.23
Subtotal	2,616.28	2,621.19	2,600.79	2,606.85
Grades 4-6:				
RMS	162.81	163.23	162.47	162.93
RSSP	171.74	171.97	171.06	171.27
RLS	152.24	152.47	151.55	151.74
ROMO	178.02	178.37	177.14	177.40
RDP	177.87	178.19	176.89	177.15
RSA	58.97	59.09	58.42	58.52
RSK	59.97	59.97	59.95	59.95
Subtotal	961.62	963.29	957.48	958.96
Grand Total	4,490.47	4,497.05	4,469.06	4,476.60

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, 2014**

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, 2014**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA #	PTID	RSN	RMS	RSSP	RLS	ROMO	RDP	RBM	RSA	RSK	RFZ	RSCP (Milwaukee)	Federal Expenditures
<i>U.S. Department of Education</i>														
Pass Through Program From														
California Department of Education:														
Title I, Part A, Basic Grants														
Low-Income and Neglected	84.010	14329	\$ -	\$ 160,306	\$ 185,102	\$ 209,352	\$ 193,130	\$ 193,910	\$ 120,804	\$ 186,745	\$ 134,465	\$ -	\$ -	\$ 1,383,814
Title II	84.367	14341	-	3,629	3,848	3,609	3,443	3,460	2,039	2,545	2,431	-	-	25,004
Title III	84.365	14356	-	33,222	34,755	41,556	41,604	41,092	28,622	34,346	-	-	-	255,197
Charter School Program	84.282M	N/A	-	-	-	-	-	-	-	-	542,911	22,742	-	565,653
State Charter Schools Facilities	84.282D	N/A	-	-	41,666	-	-	-	-	-	-	-	-	41,666
Special Education Cluster:														
Special Education IDEA	84.027	13379	<u>457,577</u>	-	-	-	-	-	-	-	-	-	-	<u>457,577</u>
Subtotal: Special Ed Cluster			<u>457,577</u>	-	-	-	-	-	-	-	-	-	-	<u>457,577</u>
Pass Through Program From														
Wisconsin Department of Public Instruction:														
Title I, Part A, Basic Grants														
Low-Income and Neglected	84.010	N/A	-	-	-	-	-	-	-	-	-	-	159,745	159,745
Title II	84.367	N/A	-	-	-	-	-	-	-	-	-	-	1,401	1,401
Title V, Part B	84.282	14941	-	-	-	-	-	-	-	-	-	-	404,401	404,401
Special Education Cluster:														
Special Education IDEA	84.027	N/A	-	-	-	-	-	-	-	-	-	-	69,609	69,609
Special Education IDEA Preschool	84.173	N/A	-	-	-	-	-	-	-	-	-	-	9,909	9,909
Subtotal: Special Ed Cluster			-	-	-	-	-	-	-	-	-	-	79,518	79,518
<i>Total U.S. Department of Education</i>			<u>457,577</u>	<u>197,157</u>	<u>265,371</u>	<u>254,517</u>	<u>238,177</u>	<u>238,462</u>	<u>151,465</u>	<u>223,636</u>	<u>679,807</u>	<u>22,742</u>	<u>645,065</u>	<u>3,373,976</u>
<i>U.S. Department of Agriculture:</i>														
Pass Through Program From														
California Department of Education:														
Child Nutrition Cluster														
National School Lunch Program	10.555	N/A	-	212,842	237,552	247,093	199,891	211,251	151,735	176,671	159,991	-	-	1,597,026
School Breakfast Program	10.553	N/A	-	169,730	184,237	180,311	171,942	171,038	90,896	28,956	102,740	-	-	1,099,850
Subtotal: Child Nutrition Cluster			-	<u>382,572</u>	<u>421,789</u>	<u>427,404</u>	<u>371,833</u>	<u>382,289</u>	<u>242,631</u>	<u>205,627</u>	<u>262,731</u>	-	-	<u>2,696,876</u>
Wisconsin Department of Public Instruction:														
Child Nutrition Cluster														
National School Lunch Program	10.555	N/A	-	-	-	-	-	-	-	-	-	-	119,778	119,778
School Breakfast Program	10.553	N/A	-	-	-	-	-	-	-	-	-	-	66,564	66,564
Subtotal: Child Nutrition Cluster			-	-	-	-	-	-	-	-	-	-	186,342	186,342
<i>Total U.S. Department of Agriculture</i>			-	<u>382,572</u>	<u>421,789</u>	<u>427,404</u>	<u>371,833</u>	<u>382,289</u>	<u>242,631</u>	<u>205,627</u>	<u>262,731</u>	-	186,342	<u>2,883,218</u>
Total Federal Expenditures			<u>\$ 457,577</u>	<u>\$ 579,729</u>	<u>\$ 687,160</u>	<u>\$ 681,921</u>	<u>\$ 610,010</u>	<u>\$ 620,751</u>	<u>\$ 394,096</u>	<u>\$ 429,263</u>	<u>\$ 942,538</u>	<u>\$ 22,742</u>	<u>\$ 831,407</u>	<u>\$ 6,257,194</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, 2014**

NOTE 1 - PURPOSE OF SCHEDULES:

A. Consolidating Statements

These statements provide detailed financial information of each charter school.

B. 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.

C. 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.

D. 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.

E. 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.

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

Board of Directors
Rocketship Education and its Affiliates
Redwood City, CA

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Rocketship Education and its Affiliates (RSEA), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, and cash flows for the year then ended, the related notes to the financial statements, and have issued our report thereon dated November 12, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of financial statements, we considered RSEA’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of RSEA’s internal control. Accordingly, we do not express an opinion on the effectiveness of RSEA’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of RSEA’s financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

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 that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standard* and which are described in the accompanying schedule of findings and questioned costs as items 2014-001 and 2014-004.

RSEA's Response to Finding

RSEA's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. RSEA's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



VICENTI, LLOYD & STUTZMAN LLP
Glendora, CA
November 12, 2014

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

Board of Directors
Rocketship Education and its Affiliates
Redwood City, CA

Report on Compliance for Each Major Federal Program

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, 2014. RSEA’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor Responsibility

Our responsibility is to express an opinion on compliance for each of RSEA’s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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 on compliance for each major federal program. However, our audit does not provide a legal determination of RSEA’s compliance.

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

Opinion on Each Major Federal Program

In our opinion, RSEA complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 which are described in the accompanying schedule of findings and questioned costs as items 2014-002, 2014-003 and 2014-004. Our opinion on each major federal program is not modified with respect to this matter.

RSEA's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. RSEA's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Report on Internal Control Over Compliance

Management of RSEA is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered RSEA's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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 control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



VICENTI, LLOYD & STUTZMAN LLP
Glendora, CA
November 12, 2014

INDEPENDENT AUDITOR’S REPORT ON STATE COMPLIANCE

Board of Directors
 Rocketship Education and its Affiliates

We have audited Rocketship Education and its Affiliates’ (RSEA) compliance with the types of compliance requirements described in the *2013-14 Standards and Procedures for Audits of California K-12 Local Educational Agencies*, published by the Education Audit Appeals Panel for the year ended June 30, 2014. RSEA’s State compliance requirements are identified in the table below.

Management’s Responsibility

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

Auditor’s Responsibility

Our responsibility is to express an opinion on RSEA’s compliance based on our audit of the types of compliance requirements referred to below. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *2013-14 Standards and Procedures for Audits of California K-12 Local Education 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 on State compliance. Our audit does not provide a legal determination of RSEA’s compliance with those requirements.

Compliance Requirements Tested

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
Independent study	23	Not applicable
Continuation education	10	Not applicable

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INDEPENDENT AUDITOR’S REPORT ON STATE COMPLIANCE

<u>Description</u>	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Instructional time for School Districts	10	Not applicable
Instructional materials general requirements	8	Not applicable
Ratios of administrative employees to teachers	1	Not applicable
Classroom teacher salaries	1	Not applicable
Early retirement incentive	4	Not applicable
GANN limit calculation	1	Not applicable
School Accountability Report Card	3	Not applicable
Juvenile Court Schools	8	Not applicable
Local Control Funding Formula Certification	1	Yes
California Clean Energy Jobs Act	3	No ⁽¹⁾
After School Education and Safety Program:		
General requirements	4	Yes
After school	5	Yes
Before school	6	Not applicable
Education Protection Account Funds	1	Yes
Common Core Implementation Funds	3	Yes
Unduplicated Local Control Funding Formula Pupil Counts	3	Yes
Charter Schools:		
Contemporaneous records of attendance	8	Yes
Mode of Instruction	1	Yes
Nonclassroom-based instructional/independent study	15	No ⁽²⁾
Determination of funding for nonclassroom-based instruction	3	Not applicable
Annual instructional minutes – classroom based	4	Yes
Charter School Facility Grant Program	1	Yes

¹We did not perform testing for California Clean Energy Jobs Act because none of the funding received was spent during the fiscal year.

²We did not perform testing for independent study because the independent study ADA was under the level which requires testing.

Opinion on State Compliance

In our opinion, RSEA complied with the laws and regulations of the state programs referred to above in all material respects for the year ended June 30, 2014.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the *2013-14 Standards and Procedures for Audits of California K-12 Local Education Agencies*, published by the Education Appeals Panel, and which are described in the accompanying schedule of findings and questioned costs as item 2014-001. Our opinion on each state program is not modified with respect to these matters.

RSEA’s response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. RSEA’s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Purpose of the Report

The purpose of this report on state compliance is solely to describe the results of testing based on the requirements of the *2013-14 Standards and Procedures for Audits of California K-12 Local Education Agencies*, published by the Education Audit Appeals Panel. Accordingly, this report is not suitable for any other purpose.



VICENTI, LLOYD & STUTZMAN LLP

Glendora, CA

November 12, 2014

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

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

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued November 12, 2014:	<i>Unmodified</i>
Internal control over financial reporting:	
Material weakness(es) identified?	<i>No</i>
Significant deficiencies identified that are not considered to be material weakness(es)?	<i>No</i>
Noncompliance material to financial statements noted?	<i>Yes</i>

Federal Awards

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

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.282	Title V, Part B
10.555	Child Nutrition Programs

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

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

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

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

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

FINANCIAL STATEMENT FINDINGS

See 2014-04 below.

STATE COMPLIANCE FINDINGS

2014-001 Unduplicated Local Control Funding Formula Pupil Counts 10000

Site: Rocketship Discovery Prep (RDP) - California

Criteria: The CalPADS 1.17 and 1.18 reports should accurately report the number of students eligible for free and reduced price meals and those identified as “English Learners” and there should be supporting documentation for such classifications.

Condition: During testing, it was noted that 8 students of a sample of 15 did not have sufficient support to substantiate being eligible for a “free” or “reduced” status under the free and reduced meal program. For 6 students, no free or reduced meal applications were provided or equivalent documentation that contained household income or family size information. In addition, 2 students’ parents provided a signed form which requests a denial for free or reduced meals for the student. Thus, eligibility could not be substantiated for the students’ reported “free or reduced” status.

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

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

Effect: The 1.17 and 1.18 reports contained errors.

Cause: Due to staffing issues at RDP 8 student's applications identified above could not be located. For the other 2 students identified above, they did not meet the criteria specified in the Income Guidelines for Child Nutrition Programs for "free" or "reduced" status under the program. The discrepancies were not discovered during the initial classification process, and the inaccurate information was thus submitted for CalPADS reporting purposes.

Questioned Costs: Undeterminable.

Recommendation: We recommend RDP implement additional review procedures to ensure that errors are prevented on future CalPADS reporting and to make sure support is obtained for all classifications reported on CalPADS.

Management Response: We have discussed this issue extensively with our school operations team and are immediately auditing all current year NSLP applications. Any current year errors will be revised by parents promptly. We are revising our NSLP collection and review process documentation and training to plan to ensure all Rocketship employees involved understand the requirements and are trained in accepting and reviewing these forms. In addition, we are instituting an internal audit process to address all operational components of restricted grant funding. For further inquiries regarding this finding please contact Margaret Diesel at 877-806-0920.

FEDERAL AWARDS FINDINGS

2014-002 Child Nutrition: Eligibility 50000

Site: Rocketship Discovery Prep (RDP) - California

Federal Program: Child Nutrition Cluster

CFDA Number: 10.555

Federal Agency: U.S. Department of Agriculture

Name of Pass-Through Agency: California Department of Education

Criteria: Federal award guidelines state that free and reduced lunch applications must be complete, accurate, up-to-date and verified by an employee prior to approval.

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

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

Condition: RDP was unable to provide sufficient application for 8 students in a sample of 15 applications that were funded in full, or part, by a federal program. In addition, 2 students' parents provided a signed form which requests a denial for free or reduced meals for the student. Thus, eligibility could not be substantiated for the students' reported "free or reduced" status. See finding 2014-001.

Effect: RDP is not in compliance with the federal requirement of eligibility in relation to federal programs.

Cause: Due to staffing issues at RDP the 8 student's applications identified above could not be located. For the other 2 students identified above, they did not meet the criteria specified in the Income Guidelines for Child Nutrition Programs for "free" or "reduced" status under the program.

Total Program Expenditures: \$382,289

Questioned Costs: Undeterminable.

Recommendation: We recommend that RDP implement a process to verify applications for free and reduced lunches are complete, accurate and performed, at a minimum, on a yearly basis that coincides with RDP's fiscal year and granting period.

Management Response: We have discussed this issue extensively with our school operations team and are immediately auditing all current year NSLP applications. Any current year errors will be revised by parents promptly. We are revising our NSLP collection and review process documentation and training to plan to ensure all Rocketship employees involved understand the requirements and are trained in accepting and reviewing these forms. In addition, we are instituting an internal audit process to address all operational components of restricted grant funding. For further inquiries regarding this finding please contact Margaret Diesel at 877-806-0920.

2014-003 Child Nutrition: Eligibility 50000

Site: Rocketship Southside Community Prep (RSCP) - Wisconsin

Federal Program: Child Nutrition Cluster

CFDA Number: 10.555

Federal Agency: U.S. Department of Agriculture

Name of Pass-Through Agency: Wisconsin Department of Public Instruction

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

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

Criteria: Federal award guidelines state that free and reduced lunch applications must be complete, accurate, up-to-date and verified by an employee prior to approval.

Condition: RSCP was unable to provide sufficient application for 3 students in a sample of 20 applications that were funded in full, or part, by a federal program. Two applications were filled out listing a school other than RSCP and one application not only had the wrong school but was also outside the granting period.

Effect: RSCP is not in compliance with the federal requirement of eligibility in relation to federal programs.

Cause: RSCP staff did not verify that applications were accurate and current prior to approval.

Total Program Expenditures: \$186,342

Questioned Costs: Undeterminable.

Recommendation: We recommend that RSCP implement a process to verify applications for free and reduced lunches are complete, accurate and performed, at a minimum, on a yearly basis that coincides with RSCP's fiscal year and granting period.

Management Response: We have discussed this issue extensively with our school operations team and are immediately auditing all current year NSLP applications. Any current year errors will be revised by parents before any lunch claims are made. In addition, we are revising our NSLP collection and review process documentation and training to plan to ensure all Rocketship employees involved understand the requirements and are trained in accepting and reviewing these forms. For further inquiries regarding this finding please contact Margaret Diesel at 877-806-0920.

2014-004 Title V, Part B: Unallowable Costs 50000

Site: Rocketship Southside Community Prep (RSCP) - Wisconsin

Federal Program: Title V, Part B

CFDA Number: 10.282

Federal Agency: U.S. Department of Education

Name of Pass-Through Agency: Wisconsin Department of Public Instruction

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

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

Criteria: Federal award guidelines state that costs charged must be allowed for the program.

Condition: RSCP charged an employee to the federal and state grant that did not have a valid administrator's license and was therefore unqualified in that position.

Effect: RSCP is not in compliance with requirements of allowable costs in relation to these programs.

Cause: RSCP staff did not follow-up with the Wisconsin Department of Public Instruction for outstanding items communicated with the staff member.

Total Program Expenditures: \$404,401

Questioned Costs: \$10,541 charged to Title V and \$128,539 charged to state aid.

Recommendation: We recommend that RSCP verify that all staff has the appropriate license.

Management Response: While there was some initial follow-up on transferring the administrator's license, a delay in getting transcripts caused the process to halt. We have restarted efforts to get this license transferred and expect to resolve it quickly as it requires only the submission of existing documentation to complete the application process. This administrator has completed all the educational and experience requirements for transfer of this license. We will also be doing a thorough review of all staff members to ensure that all staff have appropriate licenses. For further inquiries regarding this finding please contact Margaret Diesel at 877-806-0920.

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

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

There were no findings noted for the year ended June 30, 2013.