

ROCKETSHIP EDUCATION
(A California Non-Profit Public Benefit Corporation)

**FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITOR'S REPORT**

JUNE 30, 2008

ROCKETSHIP EDUCATION
(A California Non-Profit Public Benefit Corporation)

JUNE 30, 2008

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Gilbert Associates, Inc.
CPAs and Advisors

INDEPENDENT AUDITOR'S REPORT

**Board of Directors
Rocketship Education
San Jose, California**

We have audited the accompanying statement of financial position of Rocketship Education (RSED), a California non-profit public benefit corporation, as of June 30, 2008 and for the period from inception (October 18, 2006) through June 30, 2008 and the related statements of activities and changes in net assets and statement of cash flows for the period then ended. These financial statements are the responsibility of RSED's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of RSED as of June 30, 2008 and the changes in its net assets and its cash flows for the period from inception (October 18, 2006) through June 30, 2008, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have issued our report dated December 15, 2008 on our consideration of RSED's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Gilbert Associates, Inc.,

GILBERT ASSOCIATES, INC.
Sacramento, California

December 15, 2008

ROCKETSHIP EDUCATION
(A California Non-Profit Public Benefit Corporation)
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2008

ASSETS

Cash and cash equivalents	\$ 1,320
Deposits	25,800
Receivables	132,089
Other assets	<u>28,130</u>
Total current assets	187,339

Property and equipment - net	<u>4,227,191</u>
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TOTAL ASSETS	<u>\$ 4,414,530</u>
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LIABILITIES & NET ASSETS

Accounts payable	\$ 131,797
Accrued liabilities	36,771
Loans payable - current	<u>100,207</u>
Total current liabilities	<u>268,775</u>

Loans payable	1,233,742
Accrued long-term liabilities	<u>2,515,663</u>

TOTAL LIABILITIES	<u>4,018,180</u>
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NET ASSETS, UNRESTRICTED

Unrestricted	393,886
Temporarily restricted	<u>2,464</u>
Total net assets	<u>396,350</u>

TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,414,530</u>
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ROCKETSHIP EDUCATION
(A California Non-Profit Public Benefit Corporation)

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
PERIOD FROM INCEPTION (OCTOBER 18, 2006) THROUGH JUNE 30, 2008

UNRESTRICTED NET ASSETS:

REVENUES:

Federal revenue	\$ 217,574
State revenue:	
State aid portion of block grant	264,920
Categorical block grant	63,249
Lottery revenue	17,710
All other	421,344
Local revenue:	
Cash in-lieu of property taxes	799,978
Interest income	454
Private grants	405,402
In-kind contribution	126,118
All other	<u>22,918</u>
Total revenues	<u>2,339,667</u>

EXPENSES:

Program expenses:	
Educational programs	1,800,994
Supporting services:	
Management and general	<u>144,787</u>
Total expenses	<u>1,945,781</u>

INCREASE IN UNRESTRICTED NET ASSETS	<u>393,886</u>
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TEMPORARILY RESTRICTED NET ASSETS:

Other state revenue	<u>2,464</u>
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INCREASE IN RESTRICTED NET ASSETS	<u>2,464</u>
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INCREASE IN NET ASSETS	396,350
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NET ASSETS, Beginning	<u> </u>
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NET ASSETS, Ending	<u><u>\$ 396,350</u></u>
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The accompanying notes are an integral part of these financial statements.

ROCKETSHIP EDUCATION
(A California Non-Profit Public Benefit Corporation)

STATEMENT OF CASH FLOWS
PERIOD FROM INCEPTION (OCTOBER 18, 2006) THROUGH JUNE 30, 2008

CASH FLOWS FROM OPERATING ACTIVITIES

Change in Net Assets	\$ 396,350
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	15,898
Increase in operating assets:	
Accounts receivable	(132,089)
Other assets	(28,130)
Deposits	(25,800)
Increase in operating liabilities:	
Accounts payable	131,797
Accrued liabilities	<u>36,771</u>
Net cash provided by operating activities	<u>394,797</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of property and equipment	<u>(4,243,089)</u>
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CASH FLOWS FROM FINANCING ACTIVITIES

Payments on line of credit	(752,042)
Borrowings on line of credit	752,042
Borrowings on loan payable	<u>3,849,612</u>
Net cash provided by financing activities	<u>3,849,612</u>

NET INCREASE IN CASH AND CASH EQUIVALENTS	1,320
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CASH AND CASH EQUIVALENTS, Beginning of the period	<u>0</u>
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CASH AND CASH EQUIVALENTS, End of period	<u><u>\$ 1,320</u></u>
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SUPPLEMENTAL DISCLOSURE:

Cash paid for interest	\$ 21,384
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ROCKETSHIP EDUCATION
(A California Non-Profit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

1. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

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

RSED operates its first school as a division of its corporate office. Its first school, Rocketship Mateo Sheedy Elementary (RMS), CDS Code 43104390113704, charter number 0850, is funded principally through State of California public education monies received through the California Department of Education and the Santa Clara County Office of Education (SCCOE), the Sponsoring District. RSED is governed by a Board of Directors consisting of seven members.

SCCOE approved the Charter for RMS for a 3-year term through June 2010. The charter may be revoked by SCCOE for material violations of the charter, failure to meet generally accepted standards of fiscal management, or violation of any provision of the law.

In addition to managing school operations, RSED plans to create a network of schools (the Network) that includes construction and ownership of its own school facilities. Each school facility is owned and managed by a single-member limited liability company (LLC). The managing member of each LLC is RSED which treats the LLC as a consolidated wholly-owned subsidiary. For tax and financial reporting purposes, the LLC is considered a disregarded entity and has its operations consolidated with RSED corporate.

RSED organized Rocketship Locust Property, LLC (RS1-LLC) to construct, hold, and manage the facility used in the school operations of RMS. RMS started serving K-3 grades in the 2007/08 school year at a temporary facility with 160 enrolled students. RMS expanded to serving K-4 grades in the 2008/09 school year in its new permanent facility with 320 enrolled students, and it will expand further to serving K-5 grades in the 2009/10 school year to reach its full enrollment capacity of 450 students.

Basis of presentation – The financial statements are presented in conformity with Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-For-Profit Organizations*. Under SFAS No. 117, RSED reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. RSED had no temporarily restricted or permanently restricted net assets at June 30, 2008.

ROCKETSHIP EDUCATION
(A California Non-Profit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

Revenue recognition – Contributions and grants are recognized when the donor/grantor makes an unconditional promise to give to Rocketship or when received, in accordance with SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. Support that is restricted by the donor is recorded as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted contributions and grants are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as “Net Assets Released from Restriction”. Government grants are recognized as revenue in accordance with the terms of the applicable grant agreement, which is generally upon the incurrence of expenditures related to the required services.

Cash and cash equivalents – For financial statement purposes, Rocketship considers investments with maturity at purchase of three months or less to be cash equivalents.

Donated materials, services and facilities – In-kind contributions are recorded at their estimated fair values at the date of donation. Donated services are recorded when they create or enhance non-financial assets or require a specialized skill that RSED would otherwise need to purchase. During the year ended June 30, 2008, in-kind contributions of management services valued at \$126,118 were received.

Land, Buildings, and equipment – Land, buildings 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 estimated useful lives of the asset. RSED capitalizes all expenditures for land, buildings and equipment equal to or in excess of \$5,000.

Income taxes – Rocketship is publicly supported and has received tax-exempt status under Internal Revenue Code Section 501(c)(3) and Section 23701(d) of the California Revenue and Taxation Code. There is no unrelated taxable income and, accordingly, there is no provision for income taxes in these financial statements.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Functional allocation of expenses – The cost of providing various programs and other activities has been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

2. CASH AND EQUIVALENTS

Rocketship maintains its cash in bank deposit accounts that at times may exceed federally insured limits. RSED has not experienced any losses in such accounts and management believes RSED is not exposed to any significant credit risk related to cash.

ROCKETSHIP EDUCATION
(A California Non-Profit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

3. ACCOUNTS RECEIVABLE

Accounts receivable primarily consist of funds due from various governmental agencies. Management believes all of these amounts are collectible; therefore, no provisions for uncollectible accounts were recorded.

4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30, 2008:

Construction in progress	\$ 4,183,149
Furniture and equipment	59,865
Accumulated depreciation	<u>(15,823)</u>
Net book value	<u>44,042</u>
Property and equipment, net	\$ <u>4,227,191</u>

As of June 30, 2008, RSED was in the process of building new facilities for RMS in San Jose, California. At that time, a total of approximately \$4.18 million in expenditures had been incurred for this project and RSED had a commitment to completion to of approximately \$1.9 million. The facilities were completed in August 2008. Related to the site development, on October 1, 2007 RSED entered into a 10 year land lease payable at \$10,400 monthly. Commitments on this lease are \$124,800 annually through June 30, 2017 and then \$31,200 for the year ending June 30, 2018. Lease expense recognized as of June 30, 2008 was \$93,600.

5. DEBT

CDFI Facilities Construction Loans

As of June 30, 2008, RSED has two facilities construction loans payable with a Community Development Financial Institution (CDFI) totaling \$367,075 on a primary loan and \$700,000 on a subsidiary loan with an effective interest rate of 5.0% percent and 5.25% percent, respectively. The loan agreement with the CDFI allows RSED to borrow up to \$5,000,000 on the primary loan and \$700,000 on the subsidiary loan. RSED is using the proceeds of these loans to construct permanent facilities for its San Jose campus for Rocketship Mateo Sheedy Elementary School. Both loans will use the completed facilities as collateral.

As of June 30, 2008, RSED incurred an additional \$2,511,426 in construction costs that were accrued as long term liabilities because all costs incurred on the facilities project are funded by the CDFI loans. The entire \$2.5 million accrued expenses at June 30th were funded by the loans in July 2008.

ROCKETSHIP EDUCATION
(A California Non-Profit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

California Department of Education Revolving Loan Program

As of June 30, 2008, RSED has an unsecured loan payable under the California Department of Education Revolving Loan Program totaling \$250,000 with an effective interest rate of 5.0 percent. The repayment terms require annual principal payments of \$83,333, and the loan matures on June 30, 2011.

Future minimum lease payments under this revolving loan as of June 30, 2008 were as follows:

<u>Year Ending June 30,</u>	
2009	\$ 83,333
2010	83,333
2011	<u>83,334</u>
Total	\$ <u>250,000</u>

Commercial Bank Line of Credit

RSED also has a line of credit with a commercial bank effective November 1, 2006 through November 30, 2009, which provides borrowings up to \$1,000,000. Interest on outstanding balances is the LIBOR plus 2.25 percent or prime minus 0.25%, whichever is less. For the year ended June 30, 2008 there were seven borrowings on this line of credit, and there is no balance outstanding as of June 30, 2008. The line of credit is secured by the personal property of the Co-Founder and CEO.

6. EMPLOYEE BENEFIT PLANS

California State Teachers' Retirement Systems (CalSTRS):

Plan Description

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

ROCKETSHIP EDUCATION
(A California Non-Profit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

Funding Policy

Active plan members are required to contribute 8% of their salary and RSED is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2007-2008 was 8.25% of annual payroll. The contribution requirements of the plan members are established by state statute. RSED's contributions to CalSTRS for the fiscal years ending June 30, 2008 was \$33,547 and equal 100% of the required contributions for each year.

7. AGREEMENT WITH SPONSORING DISTRICT

RSED has a Memorandum of Understanding (MOU) with SCCOE from July 1, 2007 through June 30, 2010 which outlines the supervisorial oversight provided by the SCCOE. As stated in the Education Code, up to 1% of all Charter School State revenues (excluding grants and private monies outside of the funding model), can be paid to the Sponsoring District for the actual expenses incurred in monitoring and overseeing RMS. The fees paid to SCCOE for oversight in accordance with this agreement were \$15,417 for the year ended June 30, 2008 and are included in accrued liabilities.

8. RELATED PARTY TRANSACTIONS

RSED's Co-Founder and CEO voluntarily did not receive any form of compensation in fiscal year 2007-08, but the equivalent value of his performance as the CEO was estimated at \$126,118. The value of his work was recorded as a component of revenues under in-kind contributions and recorded as supporting services on the schedule of functional expense. The net effect of these transactions to the changes in net assets was zero.

Personal property of the Co-Founder and CEO is used as collateral for the RSED bank line of credit in the amount of \$1,000,000. As of June 30, 2008, the balance on this line of credit was zero.

9. CONTINGENCIES

RSED has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate disallowances under terms of the grants, management believes all compliance requirements have been met.

SUPPLEMENTARY INFORMATION SECTION

ROCKETSHIP EDUCATION
(A California Non-Profit Public Benefit Corporation)

YEAR ENDED JUNE 30, 2008

ORGANIZATION

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

RSED supervises the activities and financial affairs of a single school site under a three year charter to ensure the requirements of the California Education Code are met.

GOVERNING BOARD

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Don Shalvey	Chairman	2009
Alex Terman	Treasurer	2009
Fred Ferrer	Secretary	2009
Jennifer Andaluz	Member	2009
Eric Resnick	Member	2009
Joanne Weiss	Member	2009

ADMINISTRATION

John Danner
Co-Founder and CEO

Preston Smith
Co-Founder and Principal

Patrick Tan
Controller

ROCKETSHIP EDUCATION
(A California Non-Profit Public Benefit Corporation)

SCHEDULE OF FUNCTIONAL EXPENSES
PERIOD ENDING JUNE 30, 2008

	RMS Program expenses	Supporting services	Total expenses
	<u> </u>	<u> </u>	<u> </u>
Certificated salaries	\$ 511,657		\$ 511,657
Classified salaries	73,443	\$ 9,583	83,026
Employee benefits	126,094	1,725	127,819
Books and supplies	171,802		171,802
Services and other operating expenses	843,737	133,479	977,216
Capital outlay	36,979		36,979
Depreciation	15,898		15,898
Interest	<u>21,384</u>	<u> </u>	<u>21,384</u>
 Total expenses	 <u>\$ 1,800,994</u>	 <u>\$ 144,787</u>	 <u>\$ 1,945,781</u>

ROCKETSHIP EDUCATION
(A California Non-Profit Public Benefit Corporation)

SCHEDULE OF AVERAGE DAILY ATTENDANCE
YEAR ENDED JUNE 30, 2008

ROCKETSHIP MATEO SHEEDY ELEMENTARY SCHOOL

	<u>Second Period Report</u>	<u>Annual Report</u>
Kindergarten	76.83	77.25
Grades 1 through 3	<u>77.55</u>	<u>77.76</u>
ADA Totals	<u>154.38</u>	<u>155.01</u>
Supplementary Hours		3,686

ROCKETSHIP EDUCATION
(A California Non-Profit Public Benefit Corporation)

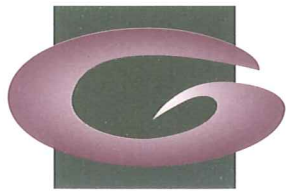
SCHEDULE OF INSTRUCTIONAL TIME
YEAR ENDED JUNE 30, 2008

ROCKETSHIP MATEO SHEEDY ELEMENTARY SCHOOL

Effective January 1, 2000, California Education Code Section 47612.5 requires classroom-based charter schools to offer a minimum number of minutes of instruction, as specified in Section 46201. This schedule documents the compliance of the Rocketship Mateo Sheedy Elementary School's campus with these requirements.

	2007-08 Minutes		Status
	Requirement	Actual	
Kindergarten	36,000	51,525	In Compliance
Grade 1	50,400	54,150	In Compliance
Grade 2	50,400	54,150	In Compliance
Grade 3	50,400	54,150	In Compliance

OTHER INDEPENDENT AUDITOR'S REPORTS



**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
San Jose, California**

We have audited the financial statements of Rocketship Education (RSED) as of and for the period from inception (October 18, 2006) through June 30, 2008, and have issued our report thereon dated December 15, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of RSED's financial statements, that is more than inconsequential, will not be prevented or detected by RSED's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by RSED's internal control. We consider the findings and recommendations 08-1 through 08-4 to be significant deficiencies in internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We believe that the significant deficiency 08-1 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether RSED'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 the consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

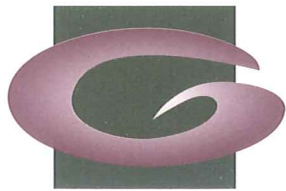
RSED's responses to the findings identified in our audit are described in the accompanying schedule of findings and recommendations. We did not audit RSED's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Directors, audit committee, management, others within RSED, and governmental awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Gilbert Associates, Inc.,

**GILBERT ASSOCIATES, INC.
Sacramento, California**

December 15, 2008



INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

**Board of Directors
Rocketship Education
San Jose, California**

We have audited the accompanying financial statements of Rocketship Education (RSED), as of and for the period from inception (October 18, 2006) through June 30, 2008, and have issued our report thereon dated December 15, 2008. Our audit was made 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 *Standards and Procedures for Audits of California K-12 Local Educational Agencies, 2007-08*, published by the Education Audit Appeals Panel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

RSED's management is responsible for the compliance with laws and regulations. In connection with the audit referred to above, we selected and tested transactions and records to determine RSED's compliance with the state laws and regulations applicable to the following items:

Description	Procedures In Audit Guide	Procedures Performed
Class Size Reduction Program (including charter schools):		
General Requirements	7	Yes
Option one classes	3	Yes
Option two classes	4	Not Applicable
Districts or Charter Schools with one School Serving K-3	4	Yes
After School Education and Safety Program:		
General Requirements	4	Not Applicable
After School	4	Not Applicable
Before School	5	Not Applicable
Contemporaneous Records of Attendance, for charter schools	1	Yes
Nonclassroom-Based Instruction/Independent Study, for charter schools	15	Not Applicable
Mode of Instruction, for charter schools	1	Yes
Determination of Funding for Nonclassroom-Based Instruction, for charter schools	3	Yes
Annual Instructional Minutes – Classroom Based, for charter Schools	3	Yes

**Board of Directors
Rocketship Education
Page 2**

Based on our audit, we found that, for the items tested, RSED complied with the state laws and regulations referred to above. Further, based on our examination, for items not tested, nothing came to our attention to indicate that RSED had not complied with the state laws and regulations.

This report is intended solely for the information of and use of the Board, management, and state awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Gilbert Associates, Inc.

**GILBERT ASSOCIATES, INC.
Sacramento, California**

December 15, 2008

FINDINGS AND RECOMMENDATIONS

ROCKETSHIP EDUCATION
(A California Non-Profit Public Benefit Corporation)

FINDINGS AND RECOMMENDATIONS
YEAR ENDED JUNE 30, 2008

INTERNAL CONTROL

08-1. BANK ACCOUNT RECONCILIATIONS– CDDC #30000

Finding:

The bank account reconciliation process of Rocketship Education (RSED) contained a reconciling item which was outstanding in the checking account, but had been deposited into the savings account. This discovery lead to identifying checks which were stale dated and a check for which a replacement was issued and cashed without placing a stop payment on the original.

Recommendations:

Reconciliations should occur in a timely manner monthly to ensure accurate financial reporting. We recommend that RSED perform timely reviews of all bank accounts, and make deposits only to the checking account.

Response:

RSED management agrees with the audit recommendation and has begun implementation of recommendation for 2008-2009.

08-2. EXPENSES – CDDC #30000

Finding:

Expenditure documentation was not retained in a consistent, systematic way.

Recommendations:

Expenditures should not be processed without a complete payment package that includes an invoice, evidence of receipt if there are goods or services, and a signed payment authorization which indicates proper account/payment coding.

Response:

RSED management agrees with the audit recommendation and has implemented for 2008-2009.

ROCKETSHIP EDUCATION
(A California Non-Profit Public Benefit Corporation)

FINDINGS AND RECOMMENDATIONS
YEAR ENDED JUNE 30, 2008

08-3. BOARD MEETINGS – CDDC #30000

Finding:

Board minutes for were not maintained in a detailed and organized fashion with the supporting information provided to members.

Recommendations:

Board minutes and supporting documentation should be retained for all meetings and at a minimum they should include the major topics of discussion, roll call, approval of prior meetings minutes and tentative schedule of the next meeting.

Response:

RSED management agrees with the audit recommendation and will follow through in meeting documentation for 2008-2009.

08-4. AUDIT COMMITTEE – CDDC #30000

Finding:

There is currently no audit committee formed as outlined in the charter agreement with the SCCOE.

Recommendations:

As Rocketship continues to expand their business they will soon meet the criteria to establish an audit committee as required by SB1262 for nonprofit organizations. GAI would recommend that Rocketship form an audit committee.

Response:

RSED management agrees with the audit recommendation. Management and Board members have had discussions regarding the formation of an audit committee. We will be forming an audit committee to facilitate the oversight requirements in the coming months.

ROCKETSHIP EDUCATION
(A California Non-Profit Public Benefit Corporation)

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
YEAR ENDED JUNE 30, 2008

PRIOR YEAR FINDINGS

This is the first year of operations for Rocketship and there were no prior year findings.