

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**Consolidated Audited Financial Statements
for the Year Ended
June 30, 2011**

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated statement of financial position of Rocketship Education and its Affiliates (RSEA), a California non-profit public benefit corporation, as of June 30, 2011, and the related consolidated statements of activities and cash flows for the year then ended. These financial statements are the responsibility of RSEA's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from RSEA's 2010 financial statements, and in our report dated December 1, 2010, we expressed an unqualified opinion on those financial statements.

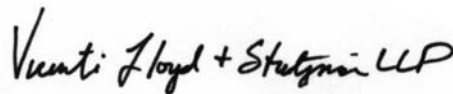
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements described above present fairly, in all material respects, the financial position of RSEA as of June 30, 2011, and the changes in its net assets and cash flows for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 29, 2011 on our consideration of RSEA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Board of Directors
Rocketship Education and its Affiliates

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards on page 36 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is not a required part of the financial statements. The accompanying supplementary schedules on pages 26-35 are presented for purposes of additional analysis and are also not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The supplementary section, including the schedule of expenditures of federal awards, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in black ink that reads "Vicenti, Lloyd & Stutzman LLP". The signature is written in a cursive, flowing style.

VICENTI, LLOYD & STUTZMAN LLP

November 29, 2011

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2011

with comparative totals for June 30, 2010

	<u>Rocketship Schools</u>	<u>Launchpad</u>	<u>Eliminations</u>	<u>2011 Total</u>	<u>2010 Total</u>
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents (notes 1,2)	\$ 5,667,753	\$ 3,701,362	\$ -	\$ 9,369,115	\$ 7,001,097
Restricted cash (note 1)		909,959		909,959	40,019
Accounts receivable (note 3)	4,294,077	579,825	(719,595)	4,154,307	1,732,866
Grant receivable (note 4)	1,083,000			1,083,000	-
Prepaid expenses and deposits	72,227	73,431		145,658	218,858
Total current assets	<u>11,117,057</u>	<u>5,264,577</u>	<u>(719,595)</u>	<u>15,662,039</u>	<u>8,992,840</u>
LONG-TERM ASSETS:					
Notes receivable (note 6)	3,513,614		(3,513,614)	-	-
Security deposits	825,000		(825,000)	-	-
Property, plant & equipment	79,837	33,729,992		33,809,829	18,079,748
Less: Accumulated depreciation	(67,704)	(1,271,457)		(1,339,161)	(731,992)
Total property, plant and equipment, net (note 5)	<u>12,133</u>	<u>32,458,535</u>	<u>-</u>	<u>32,470,668</u>	<u>17,347,756</u>
Total long-term assets	<u>4,350,747</u>	<u>32,458,535</u>	<u>(4,338,614)</u>	<u>32,470,668</u>	<u>17,347,756</u>
Total assets	<u>\$ 15,467,804</u>	<u>\$ 37,723,112</u>	<u>\$ (5,058,209)</u>	<u>\$ 48,132,707</u>	<u>\$ 26,340,596</u>
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES:					
Accounts payable	\$ 468,228	\$ 3,080,813	\$ (688,242)	\$ 2,860,799	\$ 1,575,945
Accrued liabilities	977,248			977,248	261,316
Deferred revenues	62,500			62,500	-
Accrued interest		120,367	(31,353)	89,014	91,909
Current portion of loans payable (note 6)	110,000	146,660		256,660	262,124
Total current liabilities	<u>1,617,976</u>	<u>3,347,840</u>	<u>(719,595)</u>	<u>4,246,221</u>	<u>2,191,294</u>
LONG-TERM LIABILITIES:					
Security deposits		825,000	(825,000)	-	-
Accrued interest	190,407			190,407	126,494
Convertible loans (note 6)	1,800,000			1,800,000	2,450,000
Loans payable (note 6)	4,010,000	32,187,553	(3,513,614)	32,683,939	19,353,844
Total long-term liabilities	<u>6,000,407</u>	<u>33,012,553</u>	<u>(4,338,614)</u>	<u>34,674,346</u>	<u>21,930,338</u>
NET ASSETS:					
Unrestricted	6,266,421	1,362,719		7,629,140	2,218,964
Temporarily restricted (note 7)	1,583,000			1,583,000	-
Total net assets	<u>7,849,421</u>	<u>1,362,719</u>	<u>-</u>	<u>9,212,140</u>	<u>2,218,964</u>
Total liabilities and net assets	<u>\$ 15,467,804</u>	<u>\$ 37,723,112</u>	<u>\$ (5,058,209)</u>	<u>\$ 48,132,707</u>	<u>\$ 26,340,596</u>

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

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2011
with comparative totals for the Year Ended June 30, 2010**

	<u>Rocketship Schools</u>	<u>Launchpad</u>	<u>Eliminations</u>	<u>2011 Total</u>	<u>2010 Total</u>
UNRESTRICTED NET ASSETS:					
Revenues					
Apportionment revenue	\$ 3,808,147	\$ -	\$ -	\$ 3,808,147	\$ 1,307,654
Categorical grant revenue	1,286,595			1,286,595	802,227
Property taxes	2,757,142			2,757,142	2,905,691
Other State revenue	2,158,917			2,158,917	1,307,189
Federal revenue	1,846,344			1,846,344	1,438,772
Other local revenue	96,257	2,808,799	(1,620,805)	1,284,251	123,109
Contributions	<u>5,510,925</u>	<u>367,401</u>	<u>(44,401)</u>	<u>5,833,925</u>	<u>1,047,856</u>
Total unrestricted revenues	<u>17,464,327</u>	<u>3,176,200</u>	<u>(1,665,206)</u>	<u>18,975,321</u>	<u>8,932,498</u>
Program Expenses					
Educational programs	<u>9,209,516</u>		<u>(1,589,453)</u>	<u>7,620,063</u>	<u>4,719,700</u>
Supporting Services					
Site supports	777,869	1,941,354		2,719,223	1,419,008
Program development and expansion	735,481			735,481	655,990
Administration and general	<u>1,996,948</u>	<u>569,183</u>	<u>(75,753)</u>	<u>2,490,378</u>	<u>932,421</u>
Total supporting services	<u>3,510,298</u>	<u>2,510,537</u>	<u>(75,753)</u>	<u>5,945,082</u>	<u>3,007,419</u>
Total expenses	<u>12,719,814</u>	<u>2,510,537</u>	<u>(1,665,206)</u>	<u>13,565,145</u>	<u>7,727,119</u>
Increase in unrestricted net assets	<u>4,744,513</u>	<u>665,663</u>	<u>-</u>	<u>5,410,176</u>	<u>1,205,379</u>
TEMPORARILY RESTRICTED NET ASSETS:					
Contributions	<u>1,583,000</u>	<u>-</u>	<u>-</u>	<u>1,583,000</u>	<u>-</u>
Increase in temporarily restricted net assets	<u>1,583,000</u>	<u>-</u>	<u>-</u>	<u>1,583,000</u>	<u>-</u>
Beginning net assets	<u>1,521,908</u>	<u>697,056</u>	<u>-</u>	<u>2,218,964</u>	<u>1,013,585</u>
Ending net assets	<u>\$ 7,849,421</u>	<u>\$ 1,362,719</u>	<u>\$ -</u>	<u>\$ 9,212,140</u>	<u>\$ 2,218,964</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, 2011
with comparative totals for the Year Ended June 30, 2010

	Rocketship Schools	Launchpad	Eliminations	2011 Total	2010 Total
CASH FLOWS from OPERATING ACTIVITIES:					
Change in Net Assets	\$ 6,327,513	\$ 665,663	\$ -	\$ 6,993,176	\$ 1,205,379
Adjustments to reconcile change in net assets to net cash provided by operating activities:					
Depreciation	3,995	603,175		607,170	430,901
Debt forgiven through grant agreement	(650,000)			(650,000)	(650,000)
(Increase) or decrease in operating assets:					
Accounts receivable	(2,568,711)	(572,324)		(3,141,035)	(1,043,434)
Grants receivable	(1,083,000)			(1,083,000)	-
Prepaid expenses and other current assets	(567,405)	65,605	575,000	73,200	(90,926)
Increase or (decrease) in operating liabilities:					
Accounts payable and accrued liabilities	1,034,024	305,004		1,339,028	339,095
Deferred revenues	62,500			62,500	-
Net cash provided by operating activities	<u>2,558,916</u>	<u>1,067,123</u>	<u>575,000</u>	<u>4,201,039</u>	<u>191,015</u>
CASH FLOWS from INVESTING ACTIVITIES:					
Issuance of note receivable	(3,513,614)		3,513,614	-	-
Net sales of investments				-	1,000,123
Purchases of property, plant and equipment		(14,287,712)		(14,287,712)	(6,685,221)
Net cash used by investing activities	<u>(3,513,614)</u>	<u>(14,287,712)</u>	<u>3,513,614</u>	<u>(14,287,712)</u>	<u>(5,685,098)</u>
CASH FLOWS from FINANCING ACTIVITIES:					
Change in restricted cash		(869,940)		(869,940)	(40,019)
Receipt of long-term security deposits		575,000	(575,000)	-	-
Repayment of debt	(138,333)	(98,095)		(236,428)	(366,667)
Proceeds from debt	3,500,000	13,574,673	(3,513,614)	13,561,059	8,286,077
Net cash provided by financing activities	<u>3,361,667</u>	<u>13,181,638</u>	<u>(4,088,614)</u>	<u>12,454,691</u>	<u>7,879,391</u>
Net increase (decrease) in cash and cash equivalents	2,406,969	(38,951)	-	2,368,018	2,385,308
Cash and cash equivalents at the beginning of the year	3,260,784	3,740,313	-	7,001,097	4,615,789
Cash and cash equivalents at the end of the year	<u>\$ 5,667,753</u>	<u>\$ 3,701,362</u>	<u>\$ -</u>	<u>\$ 9,369,115</u>	<u>\$ 7,001,097</u>
CASH PAID FOR INTEREST (Net of capitalized amount)	<u>\$ 9,698</u>	<u>\$ 1,135,774</u>	<u>\$ -</u>	<u>\$ 1,145,472</u>	<u>\$ 595,603</u>
CAPITALIZED INTEREST	<u>\$ -</u>	<u>\$ 152,186</u>	<u>\$ -</u>	<u>\$ 152,186</u>	<u>\$ 24,426</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, 2011**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

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

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

Rocketship Education (RSED)

Rocketship Education (RSED) is a California nonprofit public benefit corporation that was incorporated in May 2006 and is organized to manage, operate, guide, direct, and promote a network of outstanding inner-city college preparatory elementary charter schools. It operates Rocketship National (RSN) and Rocketship Mateo Sheedy (RMS) as divisions of its organization. RSED is governed by a Board of Directors consisting of ten members.

Rocketship National (RSN)

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

Rocketship Mateo Sheedy Elementary (RMS)

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

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2011**

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

Rocketship Si Se Puede Academy (RSSP)

RSED opened its second school, Rocketship Si Se Puede (RSSP), charter number 1061, on August 31, 2009. RSSP was incorporated as a nonprofit public benefit organization in April 2008 to support Rocketship's mission and is funded principally through State of California public education monies received through the California Department of Education and SCCOE, the Sponsoring Agency. SCCBE approved the Charter for RSSP for a 3-year term through the 2011/12 school year. The charter may be revoked by SCCOE for material violations of the charter, failure to meet generally accepted standards of fiscal management, or violation of any provision of the law. In October 2011, RSSP entered into the process of renewing its charter for a 5-year term with SCCOE.

Rocketship Los Suenos Academy (RLS)

RSED opened its third school, Rocketship Los Suenos (RLS), charter number 1127, on August 30, 2010. RLS was incorporated as a nonprofit public benefit organization in February 2009 to support Rocketship's mission and is funded principally through State of California public education monies received through the California Department of Education and SCCOE, the Sponsoring Agency. SCCBE approved the Charter for RLS for a 5-year term through the 2014/15 school year. The charter may be revoked by SCCOE for material violations of the charter, failure to meet generally accepted standards of fiscal management, or violation of any provision of the law.

Rocketship Four Elementary School (RS4)

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

Rocketship Five Elementary (RS5)

RSED incorporated its fifth school, Rocketship Five Elementary School (RS5), as a nonprofit public benefit organization in February 2010. SCCBE approved the Charter for RS5, charter number 1193 for a 5-year term through the 2016 school year, which subsequently began operations in the 2011/12 school year.

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2011**

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

Rocketship Six Elementary (RS6)

RSED incorporated its sixth school, Rocketship Six Elementary School (RS6), as a nonprofit public benefit organization in February 2010. Subsequent to the period of this audit, SCCBE approved a separate charter for RS6 on November 16, 2011, which will be followed by assignment of a new charter number by the State Board of Education.

Rocketship Seven Elementary (RS7)

RSED incorporated its seventh school, Rocketship Seven Elementary School (RS7), as a nonprofit public benefit organization in May 2011. Subsequent to the period of this audit, SCCBE approved a separate charter for RS7 on November 16, 2011, which will be followed by assignment of a new charter number by the State Board of Education.

Rocketship Eight Elementary (RS8)

RSED incorporated its eighth school, Rocketship Eight Elementary School (RS8), as a nonprofit public benefit organization in May 2011. Subsequent to the period of this audit, SCCBE approved a separate charter for RS8 on November 16, 2011, which will be followed by assignment of a new charter number by the State Board of Education.

Launchpad

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

Locust Property, LLC (Locust LLC)/Launchpad Development One LLC(LLC1)

RSED organized Rocketship Locust Property, LLC (Locust LLC) to construct, hold, and manage the facility used in the school operations of RMS. RMS started serving grades K-3 in the 2007/08 school year at a temporary facility with 160 enrolled students. RMS expanded to serving grades K-4 in the 2008/09 school year in its new permanent facility with 320 enrolled students, and it expanded further to serving grades K-5 beginning in the 2009/10 school year. Rocketship divested ownership and sole member status of Locust LLC to Launchpad in June 2010, at which point the name of the entity became Launchpad Development One LLC (LLC1).

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2011**

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

Dobern Property, LLC (Dobern LLC)/Launchpad Development Two LLC (LLC2)

RSED organized Rocketship Dobern Property, LLC (Dobern LLC) to construct, hold, and manage the facility used in the school operations of RSSP. RSSP started serving grades K-4 on August 31, 2009 with an initial enrollment of 422 students. RSSP will expand to serving grades K-5 in the 2010/11 school year to reach its full enrollment capacity of 500 students. Rocketship divested ownership and sole member status of Dobern LLC to Launchpad in June 2010, at which point the name of the entity became Launchpad Development Two LLC (LLC2).

Launchpad Development Three, LLC (LLC3)

Rocketship Three LLC was organized in 2009 to construct, hold, and manage the facility used in the school operations of RLS. RLS started serving grades K-4 on August 30, 2010 with an initial enrollment of 392 students. RLS will expand to serving grades K-5 in the 2011/12 school year to reach its full enrollment capacity of 550 students. Launchpad Development Three LLC (LLC3) was organized by Launchpad to take over the construction and management of the facility used by RLS. Rocketship divested ownership and sole member status of Rocketship Three LLC to Launchpad in June 2010 which consolidated all assets into LLC3.

Launchpad Development Four LLC (LLC4)

Launchpad Development Four LLC (LLC4) was organized in September 2009 to construct, hold, and manage the facility used in the school operations of Rocketship Four Elementary School, which subsequently opened in the 2011/12 school year. Rocketship divested ownership and sole member status of Rocketship Four LLC to Launchpad in June 2010 which consolidated all assets into LLC4.

Launchpad Development Five LLC (LLC5)

Launchpad Development Five LLC (LLC5) was organized in September 2009 to construct, hold, and manage the facility used in the school operations of Rocketship Five Elementary School, which subsequently opened in the 2011/12 school year. Rocketship divested ownership and sole member status of Rocketship Five LLC to Launchpad in June 2010 which consolidated all assets into LLC5.

**ROCKETSHIP EDUCATION
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2011**

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

Launchpad Development Six LLC (LLC6)

Launchpad Development Six LLC (LLC6) was organized in September 2009 to construct, hold, and manage the facility used in the school operations of Rocketship Six Elementary School, scheduled to open in the 2012/13 school year.

Launchpad Development Seven LLC (LLC7)

Launchpad Development Seven LLC (LLC7) was organized in September 2009 to construct, hold, and manage the facility used in the school operations of Rocketship Seven Elementary School, scheduled to open in the 2013/14 school year.

Launchpad Development Eight LLC (LLC8)

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

Launchpad Community Initiatives LLC (LCI)

Launchpad Communities Initiatives LLC (LCI) was organized in June 2011 to make qualified low income community investments or other activities which qualify under the New Markets Tax credit (NMTC) program of the U.S. Treasury Department's CDFI Fund. There was no financial activity in LCI for 2010-11 and it is, therefore, not included in these financial statements.

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

Net Asset Classes – RSEA is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Net assets of RSEA consist of the following:

- Unrestricted: All resources over which the governing board has discretionary control to use in carrying on the general operations of the organization.
- Temporarily restricted: These net assets are restricted by donors to be used for specific purposes.
- Permanently restricted: These net assets are permanently restricted by donors and cannot be used by RSEA. RSEA does not currently have any permanently restricted net assets.

**ROCKETSHIP EDUCATION
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2011**

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

Cash and Cash Equivalents – RSEA defines its cash and cash equivalents to include only cash on hand, demand deposits, and liquid investments with original maturities of three months or less.

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

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure. Accordingly, actual results could differ from those estimates.

Basis of Accounting – The financial statements have been prepared on the accrual method of accounting and accordingly reflect all significant receivables, payables and other liabilities.

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

Contributions – All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for specific use in future periods are reported as temporarily restricted. When the restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets for expenditure.

Property, Plant and Equipment – Property, plant and equipment are stated at cost if purchased or at estimated fair market value if donated. Depreciation of buildings and equipment is provided on a straight-line basis over the estimated useful lives of the assets ranging from three to thirty-five years. RSEA capitalizes all expenditures for land, buildings and equipment in excess of \$5,000.

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2011**

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

Income Taxes – RSEA, with the exception of LLC5, is comprised of various non-profit entities exempt from the payment of income taxes under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d. Accordingly, no provision has been made for income taxes related to these entities. LLC5 is organized as a for-profit Limited Liability Corporation and provisions for income taxes have been recorded accordingly. Management has determined that all income tax positions are more likely than not (>50%) of being sustained upon potential audit or examination; therefore, no disclosures of uncertain income tax positions are required. RSEA files all appropriate tax returns in the U.S. federal jurisdiction, and the state of California.

Evaluation of Subsequent Events – The organization has evaluated subsequent events through November 29, 2011, the date these financial statements were available to be issued. There were no subsequent events requiring recognition or disclosure, except for the additional revolving loans and leases entered into after June 30, 2011 as well as contingencies as discussed in Note 7, Notes 6,8 and 11, and Note 13, respectively.

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, 2010, from which the summarized information was derived. Certain reclassifications have been made to the 2010 financial information to conform to the 2011 presentation.

NOTE 2 - CONCENTRATION OF CREDIT RISK:

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

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2011**

NOTE 3 - ACCOUNTS RECEIVABLE:

Accounts receivable primarily consist of funds due from various governmental, non-profit corporations and private individuals. Management believes all of these amounts are collectible; therefore no provisions for uncollectible accounts were recorded. As of June 30, 2011, 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, 2011 grant amounts connected with met milestones have been recorded as grants receivable and have been classified as temporarily restricted contributions due to implied time restriction. Management believes all of these amounts are collectible; therefore no provisions for uncollectible accounts were recorded.

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT:

Property and equipment consisted of the following:

	<u>RSED Schools</u>	<u>Launchpad</u>	<u>RSEA Total</u>
Land	\$ -	\$ 6,588,664	\$ 6,588,664
Furniture and equipment	79,837	51,997	131,834
Loan Fee		51,861	51,861
Building		17,145,507	17,145,507
Construction in Progress		9,891,963	9,891,963
Less: Accumulated depreciation	(67,704)	(1,271,457)	(1,339,161)
Total	<u>\$ 12,133</u>	<u>\$32,458,535</u>	<u>\$ 32,470,668</u>

Depreciation expense was \$607,170 for the year ended June 30, 2011.

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 at an effective interest rate of 4.0 percent. Of this amount, \$2 million plus associated interest will be forgiven and converted into a grant provided that RSN meet specified educational, financial and growth outcomes.

**ROCKETSHIP EDUCATION
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2011**

NOTE 6 - DEBT: (continued)

RSN – Charter School Growth Fund (continued)

In the event that these annual benchmarks are not met, the loan is to be repaid in \$500,000 annual increments, starting October 1, 2014 through October 1, 2017 with all remaining principal and accrued, unpaid interest due on October 1, 2018.

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

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

As of June 30, 2011, RSN had substantively met the 2010/11 school year benchmarks and converted \$400,000 of principal into a grant, resulting in \$1,100,000 remaining note payable.

Over the 2011/12 and 2012/13 school years, \$800,000 of the remaining note payable is eligible to be forgiven and converted into a grant provided that RSN meet specified educational, financial and growth outcomes. The remaining \$300,000 of the loan plus accrued interest will be due on June 30, 2017.

RSN Convertible Loan – Walton Fund

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

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

As of June 30, 2011, RLS had substantively met the 2010/11 school year benchmarks and converted \$250,000 of principal into a grant, resulting in \$1.0 million remaining note payable.

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2011**

NOTE 6 - DEBT: (continued)

Loans Payable

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

As of June 30, 2011, Rocketship's Schools has three unsecured revolving loans payable to the California Department of Education totaling \$320,000 with effective interest rates ranging from .54% to 3.94%. The repayment terms require annual principal payments that are deducted from apportionment revenue. Subsequent to June 30, 2011, the California Department of Education awarded Rocketship's Schools an additional \$350,000 with an effective interest rate of 0.38%.

Locust LLC - CDFI Facilities Construction Loan

As of June 30, 2011, Locust LLC has two facilities construction loans payable with a Community Development Financial Institution (CDFI). Both of them were entered into during the 2007-2008 fiscal year and as of June 30, 2011 had principal balances of \$5,000,000 on the primary loan and \$641,405 on the subordinate loan with effective interest rates of 5.0 percent and 5.25 percent, respectively. The loan agreement with the CDFI allows RSED to borrow up to \$5,000,000 on the primary loan and \$700,000 on the subsidiary loan. Both loans are for seven years with the primary loan structured as interest-only over the term of the loan and the subsidiary loan structured as interest-only until 10/1/08 at which point it amortizes over a 20 year period. RSED used the proceeds of these loans to construct permanent facilities for its San Jose campus for Rocketship Mateo Sheedy Elementary School. Both loans use the completed facilities as collateral. As a result of the June 2010 divestiture by RSN to Launchpad, the liability for this debt rests with LLC1.

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

Dobern LLC - CDFI Facilities Construction Loan

As of June 30, 2011, Dobern, LLC has a facilities construction loan payable with a CDFI totaling \$6.8 million. This loan is structured as interest-only for seven years with an effective interest rate of 5.5 percent. A modification signed in May 2009 lowered the effective rate to 4.5 percent for the period from May 1, 2009 through November 30, 2009, after which time it returns to 5.5 percent.

Rocketship Dobern LLC used the proceeds of this loan to construct permanent facilities for the San Jose campus for Rocketship Si Se Puede Academy.

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2011**

NOTE 6 - DEBT: (continued)

Dobern LLC - CDFI Facilities Construction Loan (continued)

The loan uses the completed facilities as collateral. As a result of the June 2010 divestiture by RSN to Launchpad, the liability for this debt rests with LLC2.

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

LLC3 - Self Help New Markets V LLC Loan

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

Commencing on June 1, 2010 and thereafter on the first day of each month until and including September 1, 2010, LLC3 made payments of interest only. Commencing on October 1, 2010, and thereafter on the first day of each successive month, LLC3 has made and will make payments of principal and interest in monthly installments based upon an amortization schedule of 25 years, with a final payment of all unpaid principal and interest thereon due on April 19, 2017. As required by the Lender, RSED provided a Lease Guaranty to the Borrower in support of the financing with a projected expiration at the end of the 2012/13 school year. As required by the Lender, LLC3 provided a Pledge to the Lender for segregated Cash Collateral in the amount of \$1 million also with a projected expiration at the end of the 2012/13 school year. As of June 30, 2011, approximately \$6.40 million remains outstanding with SHNM.

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

RS4 Construction Loan – Charter School Growth Fund / RSN

In June 2011, RSN entered into a \$3.5 million Subordinated Loan Agreement with Charter School Growth Fund (CSGF) to finance the RS4 project (the RS4 Construction Loan). This loan had an effective interest rate of 4 percent and a maturity date of June 2014. Interest was to accrue from the effective date of the loan and quarterly interest payments were to begin in December 2011.

RSN also issued a Senior Secured Promissory Note (the Senior Note) in the original principal amount of \$3.5 million to Launchpad Development Four, LLC.

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2011**

NOTE 6 - DEBT: (continued)

RS4 Construction Loan – Charter School Growth Fund / RSN (continued)

In addition, RSN issued a Subordinated Unsecured Promissory Note to Launchpad Development Four LLC in the amount of \$3.0 million (the Junior Note). The Junior Note is subordinated to the RS4 Construction Loan and to the Senior Note.

In September 2011, Launchpad completed a bond financing in the amount of \$10.1 million (the Series 2011 Bonds), proceeds from which were used to refinance the outstanding principal and accrued interest balance under the Senior Note and Junior Note described above and to fund certain project expenses remaining for the RS4 construction project. Interest is paid semi-annually at a coupon rate of 8.5% to 9.0%.

Subsequently, RSN used the proceeds from the repayment of the Senior Note and Junior Note to repay the outstanding principal and accrued interest balance on the RS4 Construction Loan with CSGF in September 2011.

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

LLC 5 - Low Income Investment Fund Sub-CDE VIII LLC Loan

LLC 5 borrowed debt capital for the RS5 project from LIIF Sub-CDE VIII, LLC (the LIIF LLC), a Delaware limited liability company formed by the Low Income Investment Fund (LIIF), a CDFI under the leverage loan model of the New Markets Tax Credits program under Section 45D of the Internal Revenue Code of 1986. US Bank CDC purchased the tax credits from the LIIF LLC, the proceeds of which were used in part to fund a “qualified equity investment”. LIIF and other participating institutions provided the leverage debt capital. The LIIF LLC made three (3) loans to LLC5, the Borrower, in the aggregate original principal amount of \$9,975,000 (the “*QLICI Loan*”), which *QLICI Loan* is expected to constitute a “qualified low-income community investment” (“*QLICF*”) being made to a “qualified active low-income community business” (“*QALICB*”) under the NMTC Program, and which includes subordinated debt provided by Launchpad of \$560K. The debt is required to have a term of not less than seven (7) years and was made on an interest-only payment basis. As required by the Lender, RSN provided a partial Lease Guaranty to the Borrower in support of the financing. This loan is subject to reporting requirements and covenants customary to this type of credit transaction.

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2011**

NOTE 6 - DEBT: (continued)

Futures maturities of debt by instrument:

June 30,	CSGF	Convertible Walton	CDE Loans	Locust CDFI	Dobern CDFI	LLC3 SHNM	LLC4 Senior/Junior*	LLC5 LIIF	Total
2012	\$ -	\$ -	\$ 110,000	\$ 25,503	\$ -	\$ 121,157	\$ -	\$ -	\$ 256,660
2013			110,000	24,813		119,844			254,657
2014	3,500,000		60,000	26,106		127,870	3,513,614		7,227,590
2015			20,000	5,564,983		136,434			5,721,417
2016		1,000,000	20,000		6,800,000	145,571			7,965,571
Thereafter	1,100,000					5,753,318		9,975,000	16,828,318
Total	<u>\$4,600,000</u>	<u>\$1,000,000</u>	<u>\$ 320,000</u>	<u>\$5,641,405</u>	<u>\$6,800,000</u>	<u>\$ 6,404,194</u>	<u>\$ 3,513,614</u>	<u>\$ 9,975,000</u>	<u>\$ 38,254,213</u>

Futures maturities of debt by location:

June 30,	RSN	RMS	RSSP	RLS	RS4	RS5	RS6	RS7	RSED Schools Total (1)
2012	\$ -	\$ 50,000	\$ 40,000	\$ 20,000	\$ -	\$ -	\$ -	\$ -	\$ 110,000
2013		50,000	40,000	20,000					110,000
2014	3,500,000		40,000	20,000					3,560,000
2015				20,000					20,000
2016				20,000	250,000	250,000	250,000	250,000	1,020,000
Thereafter	1,100,000								1,100,000
Total	<u>\$4,600,000</u>	<u>\$ 100,000</u>	<u>\$ 120,000</u>	<u>\$ 100,000</u>	<u>\$ 250,000</u>	<u>\$ 250,000</u>	<u>\$ 250,000</u>	<u>\$ 250,000</u>	<u>\$ 5,920,000</u>

June 30,	Locust LLC	Dobern LLC	LLC3	LLC4*	LLC5	Launchpad Total	RSED Schools Total (1)	Eliminations*	RSEA Total
2012	\$ 25,503		\$ 121,157	\$ -	\$ -	\$ 146,660	\$ 110,000	\$ -	\$ 256,660
2013	24,813		119,844			144,657	110,000		254,657
2014	26,106		127,870	3,513,614		3,667,590	3,560,000	(3,513,614)	3,713,976
2015	5,564,983		136,434			5,701,417	20,000		5,721,417
2016		6,800,000	145,571			6,945,571	1,020,000		7,965,571
Thereafter			5,753,318		9,975,000	15,728,318	1,100,000		16,828,318
Total	<u>\$5,641,405</u>	<u>\$6,800,000</u>	<u>\$6,404,194</u>	<u>\$3,513,614</u>	<u>\$9,975,000</u>	<u>\$32,334,213</u>	<u>\$ 5,920,000</u>	<u>\$(3,513,614)</u>	<u>\$ 34,740,599</u>

NOTE 7 - NET ASSET RESTRICTIONS:

Temporarily restricted net assets of \$1,583,000 relate to grants that are specifically restricted to 2011/12 operations.

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2011**

NOTE 8 - LEASES:

Operating Leases

Related to the site development of RMS's facility, on October 1, 2007, Locust LLC entered into a 10 year land lease payable at \$10,400 monthly. This lease was modified on December 1, 2007 to increase the term of the lease to 20 years with gradually increasing financial commitments. Lease expense recognized for the year ended June 30, 2011 was \$124,800.

Each school rents equipment under various operating leases. As of June 30, 2011, RMS, RSSP and RLS each had equipment operating leases. Lease expense recognized for the year ended June 30, 2011 was \$42,299, \$35,116, and \$28,688 respectively. In September 2011, RS4 and RS5 entered into equipment operating leases with a 5-year term.

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

<u>June 30,</u>	<u>RMS</u>	<u>RSSP</u>	<u>RLS</u>	<u>RS4</u>
2012	\$ 26,388	\$ 22,166	\$ 11,712	\$ 9,280
2013	2,199	5,856	11,712	11,136
2014		5,856	11,712	11,136
2015		5,856	11,712	11,136
2016		488	1,952	11,136
Thereafter				1,856
Total	<u>\$ 28,587</u>	<u>\$ 40,222</u>	<u>\$ 48,800</u>	<u>\$ 55,680</u>

<u>June 30,</u>	<u>RS5</u>	<u>Locust LLC</u>	<u>Total</u>
2012	\$ 9,280	\$ 131,040	\$ 209,866
2013	11,136	131,040	173,079
2014	11,136	131,586	171,426
2015	11,136	137,592	177,432
2016	11,136	137,592	162,304
Thereafter	1,856	1,994,166	1,997,878
Total	<u>\$ 55,680</u>	<u>\$ 2,663,016</u>	<u>\$ 2,891,985</u>

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2011**

NOTE 9 - EMPLOYEE RETIREMENT:

Certificated Employees

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

RSED contributes to the State Teachers' Retirement System (STRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. The plan provides retirement, disability and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the STRS annual financial report may be obtained from STRS, 7667 Folsom Boulevard, Sacramento, CA 95826.

Active plan members are required to contribute 8.0% of their salary and RSED is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2010-11 was 8.25% of annual payroll. The contribution requirements of the plan members are established and may be amended by State statute.

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

<u>Year Ended</u> <u>June 30,</u>	<u>STRS</u>	
	<u>Required</u> <u>Contribution</u>	<u>Percent</u> <u>Contributed</u>
2009	\$ 66,485	100%
2010	\$159,103	100%
2011	\$217,858	100%

**ROCKETSHIP EDUCATION
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2011**

NOTE 10 - SPONSORING AGREEMENT:

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

Rocketship renewed its MOU with SCCOE from July 1, 2010 through June 30, 2013 which outlines the supervisory oversight provided by SCCOE. The fees to SCCOE for oversight in accordance with this agreement were \$42,291 for the year ended June 30, 2011, and are included in accrued expenses of \$78,519 on the consolidated statement of financial position.

NOTE 11 - RELATED PARTY TRANSACTIONS:

Facility Leases

In June 2010, RMS has entered into a 5-year facility lease with Locust LLC. The lease agreement was amended in September 2010 and again in November 2010 to reflect a modified schedule of lease payments. For school year 2010/11, lease payments equaled \$499,673.

In April 2009, RSSP entered into a 7-year facility lease agreement with Dobern LLC. The lease agreement was amended in September 2010 to reflect a modified schedule of lease payments. For school year 2010/11, lease payments under this agreement totaled \$527,685.

In April 2010, RLS entered into a 10-year lease with LLC3. For school year 2010/11, lease payments under this agreement totaled \$562,096. For school year 2010/11, LLC3 incurred facility development fees of \$244,075 to Launchpad.

In May 2011, RS4 school entered into a 15-year lease with LLC4. For school year 2010/11, LLC4 incurred facility development fees of \$264,616 to Launchpad. No payments were made for facility development fees to LLC4 as of June 30, 2011. The lease was amended in September 2011 to reflect a modified schedule of rent payments.

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2011**

NOTE 11 - RELATED PARTY TRANSACTIONS: (continued)

In March 2011, RS5 school entered into a 20 year lease with LLC5. For school year 2010/11, LLC5 incurred facility development fees to Launchpad totaling \$699,300, of which \$325,000 was placed into a fully pledged reserve account at LDC for the benefit of the lender. No payments were made for facility fees to Launchpad as of June 30, 2011.

Future estimated payments under these leases as of June 30, 2011 are as follows:

<u>June 30,</u>	<u>RMS</u>	<u>RSSP</u>	<u>RLS</u>	<u>RS4</u>	<u>RS5</u>	<u>Total</u>
2012	\$ 462,588	\$ 464,200	\$ 634,050	\$ 400,000	\$ 410,761	\$ 2,371,599
2013	468,300	479,200	634,050	767,135	557,994	2,906,679
2014	468,300	459,200	634,050	944,641	557,994	3,064,185
2015	468,852	479,200	634,050	944,865	557,994	3,084,961
2016		458,200	634,050	943,563	557,994	2,593,807
Thereafter		79,000	2,536,200	24,295,264	12,837,132	39,747,596
Total	<u>\$ 1,868,040</u>	<u>\$ 2,419,000</u>	<u>\$ 5,706,450</u>	<u>\$28,295,468</u>	<u>\$ 15,479,869</u>	<u>\$53,768,827</u>

Development Fees

In connection with the construction development projects at LLC3 – LLC7, Launchpad has contracted to receive development fees which are accrued based on project-specific milestones.

For the 2010/11 school year, development fees were as follows:

	<u>Development Fees</u>
LLC3	\$ 244,075
LLC4	264,616
LLC5	699,300
Total	<u>\$ 1,207,991</u>

**ROCKETSHIP EDUCATION
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2011**

NOTE 11 - RELATED PARTY TRANSACTIONS: (continued)

Launchpad – Working Capital Line of Credit from RSN

In October 2010, Launchpad entered into a revolving line of credit agreement (LP LOC) with RSN in the amount of \$682,000 to support working capital needs associated with the startup phase of each school development project. The applicable annual interest rate is 4 percent on outstanding balances under this facility. As of June 30, 2011, the outstanding balance under this agreement was \$659,386. In June 2011, the term of the credit facility was extended from June 2011 to June 2012. The LP LOC is subject to reporting requirements and covenants customary to this type of credit facility. In November 2011, Launchpad repaid the outstanding amount under the LP LOC to RSN.

Management Contracts

RMS, RSSP, RLS, RS4, RS5, RS6, RS7, and RS8 have all contracted to receive management and support services from RSN for which they pay management fees.

For the 2010/11 school year, management fees were as follows:

	<u>Management Fees</u>
RMS	\$ 577,202
RSSP	551,309
RLS	518,664
RS6	31,250
RS7	31,250
RS8	<u>31,250</u>
Total	<u>\$ 1,740,925</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 2010/11 school year. For the 2010/11 school year, the amount of Donated Services from RSN to Launchpad was \$44,401.

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2011**

NOTE 12 - LINES OF CREDIT:

Focus Bank – Revolving Lines of Credit

In September 2010, RSN entered into a series of revolving line of credit agreements (the Revolver) with Focus Business Bank for RSN/RMS, RSSP and RLS. The amount available under each Revolver is determined by an advance rate not to exceed 80 percent of total accounts receivable. The applicable interest rate is the Prime Rate + 0.50 percent with a minimum total interest rate of 4.25 percent.

Total availability under the Revolver for RSN/RMS, RSSP and RLS was \$500,000, \$400,000, and \$300,000 respectively. As of June 30, 2011, there were no outstanding balances under the Revolver at any school.

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

NOTE 13 - COMMITMENTS AND CONTINGENCIES:

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

RSN is currently the subject of a pending lawsuit from a former employee. Although RSN believes that the merits of the case are in its favor, the outcome of any such litigation cannot be determined with certainty. RSN has set aside a legal contingency reserve in the event a settlement occurs or a ruling is issued in favor of the defendant.

SUPPLEMENTARY INFORMATION

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**HISTORY AND ORGANIZATION
For the Year Ended June 30, 2011**

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

Rocketship Mateo Sheedy Elementary (RMS)	Charter Number: 0850 – Active
Rocketship Si Se Puede Academy (RSSP)	Charter Number: 1061 – Active
Rocketship Los Suenos Elementary School (RS3)	Charter Number: 1127 – Active
Rocketship Four Elementary School (RS4)	Charter Number: 1192 – Begins 2011/12
Rocketship Five Elementary (RS5)	Charter Number: 1193 – Begins 2011/12

Board of Directors

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
G. Marcus Cole	President	2012
Shawn Carolan	Treasurer	2011
Alex Hernandez	Secretary	2012
Alex Terman	Member	2012
Sehba Ali	Member	2011
Jonathan Chadwick	Member	2012
Fred Ferrer	Member	2012
Kim Smith	Member	2012
Tim Ranzetta	Member	2013
Deborah McGriff	Member	2013
Jeff Wetzler	Member	2013

Administration

John Danner	Co-Founder and CEO
Preston Smith	Co-Founder and Chief Achievement Officer
Richard Billings	Chief Financial Officer
Aylon Samouha	Chief Schools Officer

**ROCKETSHIP EDUCATION
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CONSOLIDATING STATEMENT OF FINANCIAL POSITION - ROCKETSHIP SCHOOLS

June 30, 2011

	<u>Rocketship National</u>	<u>Rocketship Mateo Sheedy Elementary</u>	<u>Rocketship Si Se Puede</u>	<u>Rocketship Los Suenos Academy</u>	<u>Rocketship Four Elementary</u>	<u>Rocketship Five Elementary</u>	<u>Rocketship Six Elementary</u>	<u>Rocketship Seven Elementary</u>	<u>Rocketship Eight Elementary</u>	<u>Eliminations</u>	<u>Total Rocketship Schools</u>
ASSETS											
CURRENT ASSETS:											
Cash and cash equivalents	\$ 4,051,385	\$ 692,994	\$ 12,457	\$ 83,568	\$ 30,124	\$ 90,975	\$ 268,750	\$ 343,750	\$ 93,750	\$ -	\$ 5,667,753
Accounts receivable	992,194	917,992	1,301,955	1,081,936							4,294,077
Grants receivable	1,083,000										1,083,000
Intercompany receivable	800,000									(800,000)	-
Prepaid expenses and deposits	71,727		500								72,227
Total current assets	<u>6,998,306</u>	<u>1,610,986</u>	<u>1,314,912</u>	<u>1,165,504</u>	<u>30,124</u>	<u>90,975</u>	<u>268,750</u>	<u>343,750</u>	<u>93,750</u>	<u>(800,000)</u>	<u>11,117,057</u>
LONG-TERM ASSETS:											
Note receivable	3,513,614										3,513,614
Security deposits				250,000	250,000	250,000	75,000				825,000
Property, plant & equipment		67,351	12,486								79,837
Less: Accumulated depreciation		(62,860)	(4,844)								(67,704)
Total property, plant and equipment, net	-	4,491	7,642	-	-	-	-	-	-	-	12,133
Total long-term assets	<u>3,513,614</u>	<u>4,491</u>	<u>7,642</u>	<u>250,000</u>	<u>250,000</u>	<u>250,000</u>	<u>75,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,350,747</u>
Total assets	<u>\$ 10,511,920</u>	<u>\$ 1,615,477</u>	<u>\$ 1,322,554</u>	<u>\$ 1,415,504</u>	<u>\$ 280,124</u>	<u>\$ 340,975</u>	<u>\$ 343,750</u>	<u>\$ 343,750</u>	<u>\$ 93,750</u>	<u>\$ (800,000)</u>	<u>\$ 15,467,804</u>
LIABILITIES AND NET ASSETS											
CURRENT LIABILITIES:											
Accounts payable	\$ 226,329	\$ 98,838	\$ 69,564	\$ 62,944	\$ 3,503	\$ 7,050	\$ -	\$ -	\$ -	\$ -	\$ 468,228
Accrued liabilities	409,932	186,183	193,261	161,412	4,368	22,092					977,248
Deferred revenue				62,500							62,500
Intercompany payable				700,000		100,000				(800,000)	-
Current portion of loans payable		50,000	40,000	20,000							110,000
Total current liabilities	<u>636,261</u>	<u>335,021</u>	<u>302,825</u>	<u>1,006,856</u>	<u>7,871</u>	<u>129,142</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(800,000)</u>	<u>1,617,976</u>
LONG-TERM LIABILITIES:											
Accrued interest	111,943				19,616	19,616	19,616	19,616			190,407
Convertible loans	800,000				250,000	250,000	250,000	250,000			1,800,000
Loans payable	3,800,000	50,000	80,000	80,000							4,010,000
Total long-term liabilities	<u>4,711,943</u>	<u>50,000</u>	<u>80,000</u>	<u>80,000</u>	<u>269,616</u>	<u>269,616</u>	<u>269,616</u>	<u>269,616</u>	<u>-</u>	<u>-</u>	<u>6,000,407</u>
NET ASSETS:											
Unrestricted	3,580,716	1,230,456	939,729	328,648	2,637	(57,783)	74,134	74,134	93,750		6,266,421
Temporarily restricted	1,583,000										1,583,000
Total net assets	<u>5,163,716</u>	<u>1,230,456</u>	<u>939,729</u>	<u>328,648</u>	<u>2,637</u>	<u>(57,783)</u>	<u>74,134</u>	<u>74,134</u>	<u>93,750</u>	<u>-</u>	<u>7,849,421</u>
Total liabilities and net assets	<u>\$ 10,511,920</u>	<u>\$ 1,615,477</u>	<u>\$ 1,322,554</u>	<u>\$ 1,415,504</u>	<u>\$ 280,124</u>	<u>\$ 340,975</u>	<u>\$ 343,750</u>	<u>\$ 343,750</u>	<u>\$ 93,750</u>	<u>\$ (800,000)</u>	<u>\$ 15,467,804</u>

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

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**CONSOLIDATING STATEMENT OF ACTIVITIES - ROCKETSHIP SCHOOLS
For the Year Ended June 30, 2011**

	<u>Rocketship National National</u>	<u>Rocketship Mateo Sheedy Elementary</u>	<u>Rocketship Si Se Puede</u>	<u>Rocketship Los Suenos Academy</u>	<u>Rocketship Four Elementary</u>	<u>Rocketship Five Elementary</u>	<u>Rocketship Six Elementary</u>	<u>Rocketship Seven Elementary</u>	<u>Rocketship Eight Elementary</u>	<u>Eliminations</u>	<u>Total Rocketship Schools</u>
UNRESTRICTED NET ASSETS:											
Revenues											
Apportionment revenue	\$ -	\$ 286,151	\$ 1,622,589	\$ 1,899,407	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,808,147
Categorical grant revenue		448,772	443,809	394,014							1,286,595
Property taxes		1,990,975	766,167								2,757,142
Other State revenue	597,221	682,877	563,558	315,261							2,158,917
Federal revenue	152,317	648,076	450,521	595,430							1,846,344
Other local revenue	1,774,125	12,801	20,180	30,076						(1,740,925)	96,257
Contributions	4,743,287	2,924	1,434	388,280	-	-	125,000	125,000	125,000		5,510,925
Total unrestricted revenues	7,266,950	4,072,576	3,868,258	3,622,468	-	-	125,000	125,000	125,000	(1,740,925)	17,464,327
Program Expenses											
Educational programs	664,969	2,793,263	2,825,885	2,657,753	83,997	144,417	19,616	19,616	-	-	9,209,516
Supporting Services											
Site supports	777,869										777,869
Program development and expansion	735,481										735,481
Administration and general	1,996,948	577,202	551,309	518,664	-	-	31,250	31,250	31,250	(1,740,925)	1,996,948
Total supporting services	3,510,298	577,202	551,309	518,664	-	-	31,250	31,250	31,250	(1,740,925)	3,510,298
Total expenses	4,175,267	3,370,465	3,377,194	3,176,417	83,997	144,417	50,866	50,866	31,250	(1,740,925)	12,719,814
Increase (decrease) in unrestricted net assets	3,091,683	702,111	491,064	446,051	(83,997)	(144,417)	74,134	74,134	93,750	-	4,744,513
TEMPORARILY RESTRICTED NET ASSETS:											
Contributions	1,583,000	-	-	-	-	-	-	-	-	-	1,583,000
Increase in temporarily restricted net assets	1,583,000	-	-	-	-	-	-	-	-	-	1,583,000
Beginning net assets	489,033	528,345	448,665	(117,403)	86,634	86,634	-	-	-	-	1,521,908
Ending net assets	<u>\$ 5,163,716</u>	<u>\$ 1,230,456</u>	<u>\$ 939,729</u>	<u>\$ 328,648</u>	<u>\$ 2,637</u>	<u>\$ (57,783)</u>	<u>\$ 74,134</u>	<u>\$ 74,134</u>	<u>\$ 93,750</u>	<u>\$ -</u>	<u>\$ 7,849,421</u>

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

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**CONSOLIDATING SCHEDULE OF EXPENDITURES BY STATE CATEGORIES - ROCKETSHIP SCHOOLS
For the Year Ended June 30, 2011**

	<u>Rocketship National</u>	<u>Rocketship Mateo Sheedy Elementary</u>	<u>Rocketship Si Se Puede</u>	<u>Rocketship Los Suenos Academy</u>	<u>Rocketship Four Elementary</u>	<u>Rocketship Five Elementary</u>	<u>Rocketship Six Elementary</u>	<u>Rocketship Seven Elementary</u>	<u>Rocketship Eight Elementary</u>	<u>TOTAL</u>
EXPENSES BY STATE CATEGORIES:										
1000 Certificated salaries	\$ 318,684	\$ 1,087,778	\$ 1,098,203	\$ 900,478	\$ 35,500	\$ 88,403	\$ -	\$ -	\$ -	\$ 3,529,046
2000 Classified salaries	1,518,907	213,394	225,358	199,104	17,074	18,765				2,192,602
3000 Benefits	300,283	245,976	274,121	217,481	12,983	13,649				1,064,493
4000 Books and supplies	262,013	380,639	379,795	497,207	1,061	2,856				1,523,571
5000 Other operating expenses	1,716,947	1,436,396	1,395,056	1,361,597	7,379	10,744	31,250	31,250	31,250	6,021,869
6000 Capital expenses and depreciation		1,498	2,497							3,995
7000 Transfers and interest expenses	58,433	4,784	2,164	550	10,000	10,000	19,616	19,616		125,163
Total expenses	<u>\$ 4,175,267</u>	<u>\$ 3,370,465</u>	<u>\$ 3,377,194</u>	<u>\$ 3,176,417</u>	<u>\$ 83,997</u>	<u>\$ 144,417</u>	<u>\$ 50,866</u>	<u>\$ 50,866</u>	<u>\$ 31,250</u>	<u>\$ 14,460,739</u>

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

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**CONSOLIDATING STATEMENT OF CASH FLOWS - ROCKETSHIP SCHOOLS
For the Year Ended June 30, 2011**

	Rocketship National	Rocketship Mateo Sheedy Elementary	Rocketship Si Se Puede	Rocketship Los Suenos Academy	Rocketship Four Elementary	Rocketship Five Elementary	Rocketship Six Elementary	Rocketship Seven Elementary	Rocketship Eight Elementary	Total Rocketship Schools
CASH FLOWS from OPERATING ACTIVITIES:										
Change in Net Assets	\$ 4,674,683	\$ 702,111	\$ 491,064	\$ 446,051	\$ (83,997)	\$ (144,417)	\$ 74,134	\$ 74,134	\$ 93,750	\$ 6,327,513
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:										
Depreciation		1,497	2,498							3,995
Debt forgiven through grant agreement	(400,000)			(250,000)						(650,000)
(Increase) or decrease in operating assets:										
Accounts receivable	(770,899)	(150,248)	(565,628)	(1,081,936)						(2,568,711)
Grants receivable	(1,083,000)									(1,083,000)
Prepaid expenses and deposits	(37,642)		5,674	38,874	(250,000)	(249,311)	(75,000)			(567,405)
Increase or (decrease) in operating liabilities:										
Accounts payable and accrued liabilities	463,194	177,119	133,700	164,455	17,871	38,453	19,616	19,616		1,034,024
Deferred revenue				62,500						62,500
Net cash provided (used) by operating activities	<u>2,846,336</u>	<u>730,479</u>	<u>67,308</u>	<u>(620,056)</u>	<u>(316,126)</u>	<u>(355,275)</u>	<u>18,750</u>	<u>93,750</u>	<u>93,750</u>	<u>2,558,916</u>
CASH FLOWS from INVESTING ACTIVITIES:										
Issuance of note receivable	(3,513,614)									(3,513,614)
Net cash used by investing activities	<u>(3,513,614)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,513,614)</u>
CASH FLOWS from FINANCING ACTIVITIES:										
Intercompany loans	(350,000)	(100,000)	(100,000)	450,000		100,000				-
Proceeds from debt	3,000,000						250,000	250,000		3,500,000
Repayment of debt		(58,333)	(80,000)							(138,333)
Net cash provided (used) by financing activities	<u>2,650,000</u>	<u>(158,333)</u>	<u>(180,000)</u>	<u>450,000</u>	<u>-</u>	<u>100,000</u>	<u>250,000</u>	<u>250,000</u>	<u>-</u>	<u>3,361,667</u>
Net increase (decrease) in cash and cash equivalents	1,982,722	572,146	(112,692)	(170,056)	(316,126)	(255,275)	268,750	343,750	93,750	2,406,969
Cash and cash equivalents at the beginning of the year	2,068,663	120,848	125,149	253,624	346,250	346,250	-	-	-	3,260,784
Cash and cash equivalents at the end of the year	<u>\$ 4,051,385</u>	<u>\$ 692,994</u>	<u>\$ 12,457</u>	<u>\$ 83,568</u>	<u>\$ 30,124</u>	<u>\$ 90,975</u>	<u>\$ 268,750</u>	<u>\$ 343,750</u>	<u>\$ 93,750</u>	<u>\$ 5,667,753</u>
CASH PAID FOR INTEREST (Net of capitalized amount)	<u>\$ -</u>	<u>\$ 5,637</u>	<u>\$ 4,061</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,698</u>

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

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

CONSOLIDATING STATEMENT OF FINANCIAL POSITION - LAUNCHPAD

June 30, 2011

	<u>Launchpad</u>	<u>Locust LLC</u>	<u>Dobern LLC</u>	<u>LLC3</u>	<u>LLC4</u>	<u>LLC5</u>	<u>LLC6</u>	<u>LLC7</u>	<u>LLC8</u>	<u>Eliminations</u>	<u>Total Launchpad</u>
ASSETS											
CURRENT ASSETS:											
Cash and cash equivalents	\$ 455,264	\$ 77,790	\$ 37,098	\$ 238,148	\$ 33,842	\$ 2,817,195	\$ 42,025	\$ -	\$ -	\$ -	\$ 3,701,362
Restricted cash	325,233		114,844	41,757		428,125					909,959
Accounts receivable	990,753		7,501	10,202						(428,631)	579,825
Prepaid expenses and deposits	1,197	20,800			12,147	6,312	32,975				73,431
Total current assets	<u>1,772,447</u>	<u>98,590</u>	<u>159,443</u>	<u>290,107</u>	<u>45,989</u>	<u>3,251,632</u>	<u>75,000</u>	<u>-</u>	<u>-</u>	<u>(428,631)</u>	<u>5,264,577</u>
LONG-TERM ASSETS:											
Intercompany receivable	937,401					250,000				(1,187,401)	-
Property, plant & equipment	21,877	6,032,753	6,950,128	7,089,578	5,926,893	7,661,046	27,818	13,009	6,890		33,729,992
Less: Accumulated depreciation		(845,876)	(273,296)	(152,285)							(1,271,457)
Total property, plant and equipment, net	<u>21,877</u>	<u>5,186,877</u>	<u>6,676,832</u>	<u>6,937,293</u>	<u>5,926,893</u>	<u>7,661,046</u>	<u>27,818</u>	<u>13,009</u>	<u>6,890</u>	<u>-</u>	<u>32,458,535</u>
Total long-term assets	<u>959,278</u>	<u>5,186,877</u>	<u>6,676,832</u>	<u>6,937,293</u>	<u>5,926,893</u>	<u>7,911,046</u>	<u>27,818</u>	<u>13,009</u>	<u>6,890</u>	<u>(1,187,401)</u>	<u>32,458,535</u>
Total assets	<u>\$ 2,731,725</u>	<u>\$ 5,285,467</u>	<u>\$ 6,836,275</u>	<u>\$ 7,227,400</u>	<u>\$ 5,972,882</u>	<u>\$ 11,162,678</u>	<u>\$ 102,818</u>	<u>\$ 13,009</u>	<u>\$ 6,890</u>	<u>\$ (1,616,032)</u>	<u>\$37,723,112</u>
LIABILITIES AND NET ASSETS											
CURRENT LIABILITIES:											
Accounts payable and accrued liabilities	\$ 746,028	\$ 21,734	\$ 2,274	128,863	\$ 1,578,875	983,953	27,818	13,009	6,890	\$ (428,631)	\$ 3,080,813
Accrued interest	18,151	23,639	31,166	34,209	13,202						120,367
Current portion of loans payable		25,503		121,157							146,660
Total current liabilities	<u>764,179</u>	<u>70,876</u>	<u>33,440</u>	<u>284,229</u>	<u>1,592,077</u>	<u>983,953</u>	<u>27,818</u>	<u>13,009</u>	<u>6,890</u>	<u>(428,631)</u>	<u>3,347,840</u>
LONG-TERM LIABILITIES:											
Intercompany payable	250,000			320,000	617,401					(1,187,401)	-
Security deposits				250,000	250,000	250,000	75,000				825,000
Loans payable		5,615,902	6,800,000	6,283,037	3,513,614	9,975,000					32,187,553
Total long-term liabilities	<u>250,000</u>	<u>5,615,902</u>	<u>6,800,000</u>	<u>6,853,037</u>	<u>4,381,015</u>	<u>10,225,000</u>	<u>75,000</u>	<u>-</u>	<u>-</u>	<u>(1,187,401)</u>	<u>33,012,553</u>
NET ASSETS:											
Unrestricted	<u>1,717,546</u>	<u>(401,311)</u>	<u>2,835</u>	<u>90,134</u>	<u>(210)</u>	<u>(46,275)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,362,719</u>
Total net assets	<u>1,717,546</u>	<u>(401,311)</u>	<u>2,835</u>	<u>90,134</u>	<u>(210)</u>	<u>(46,275)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,362,719</u>
Total liabilities and net assets	<u>\$ 2,731,725</u>	<u>\$ 5,285,467</u>	<u>\$ 6,836,275</u>	<u>\$ 7,227,400</u>	<u>\$ 5,972,882</u>	<u>\$ 11,162,678</u>	<u>\$ 102,818</u>	<u>\$ 13,009</u>	<u>\$ 6,890</u>	<u>\$ (1,616,032)</u>	<u>\$37,723,112</u>

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

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**CONSOLIDATING STATEMENT OF ACTIVITIES - LAUNCHPAD
For the Year Ended June 30, 2011**

	<u>Launchpad</u>	<u>Locust LLC</u>	<u>Dobern LLC</u>	<u>LLC3</u>	<u>LCC4</u>	<u>LCC5</u>	<u>Eliminations</u>	<u>Total Launchpad</u>
REVENUES:								
Other local revenue	\$ 1,397,214	\$ 499,673	\$ 527,717	\$ 572,195	\$ -	\$ -	\$ (188,000)	\$ 2,808,799
Contributions	<u>367,401</u>							<u>367,401</u>
Total unrestricted revenues	<u>1,764,615</u>	<u>499,673</u>	<u>527,717</u>	<u>572,195</u>	<u>-</u>	<u>-</u>	<u>(188,000)</u>	<u>3,176,200</u>
SUPPORTING SERVICES								
Site supports		750,793	556,530	587,546	210	46,275		1,941,354
Administration and general	<u>569,183</u>	<u>133,000</u>	<u>55,000</u>				<u>(188,000)</u>	<u>569,183</u>
Total supporting services	<u>569,183</u>	<u>883,793</u>	<u>611,530</u>	<u>587,546</u>	<u>210</u>	<u>46,275</u>	<u>(188,000)</u>	<u>2,510,537</u>
Total expenses	<u>569,183</u>	<u>883,793</u>	<u>611,530</u>	<u>587,546</u>	<u>210</u>	<u>46,275</u>	<u>(188,000)</u>	<u>2,510,537</u>
Increase (decrease) in unrestricted net assets	1,195,432	(384,120)	(83,813)	(15,351)	(210)	(46,275)	-	665,663
Beginning unrestricted net assets	<u>522,114</u>	<u>(17,191)</u>	<u>86,648</u>	<u>105,485</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>697,056</u>
Ending unrestricted net assets	<u>\$ 1,717,546</u>	<u>\$ (401,311)</u>	<u>\$ 2,835</u>	<u>\$ 90,134</u>	<u>\$ (210)</u>	<u>\$ (46,275)</u>	<u>\$ -</u>	<u>\$ 1,362,719</u>

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

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**CONSOLIDATING STATEMENT OF CASH FLOWS - LAUNCHPAD
For the Year Ended June 30, 2011**

	<u>Launchpad</u>	<u>Locust LLC</u>	<u>Dobern LLC</u>	<u>LLC3</u>	<u>LCC4</u>	<u>LCC5</u>	<u>LCC6</u>	<u>Eliminations</u>	<u>Total Launchpad</u>
CASH FLOWS from OPERATING ACTIVITIES:									
Change in Net Assets	\$ 1,195,432	\$ (384,120)	\$ (83,813)	\$ (15,351)	\$ (210)	\$ (46,275)	\$ -	\$ -	\$ 665,663
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:									
Depreciation		302,152	148,738	152,285					603,175
(Increase) or decrease in operating assets:									
Accounts receivable	(990,753)			(10,202)				428,631	(572,324)
Prepaid expenses and other current assets	(1,197)			24,636	31,353	43,788	(32,975)		65,605
Increase or (decrease) in operating liabilities:									
Accounts payable and accrued liabilities	719,628	21,966	(20,756)	(405)	13,202			(428,631)	305,004
Net cash provided (used) by operating activities	<u>923,110</u>	<u>(60,002)</u>	<u>44,169</u>	<u>150,963</u>	<u>44,345</u>	<u>(2,487)</u>	<u>(32,975)</u>	<u>-</u>	<u>1,067,123</u>
CASH FLOWS from INVESTING ACTIVITIES:									
Purchases of property, plant and equipment		(5,000)	(13,187)	(3,354,497)	(4,239,435)	(6,675,593)			(14,287,712)
Net cash used by investing activities	<u>-</u>	<u>(5,000)</u>	<u>(13,187)</u>	<u>(3,354,497)</u>	<u>(4,239,435)</u>	<u>(6,675,593)</u>	<u>-</u>	<u>-</u>	<u>(14,287,712)</u>
CASH FLOWS from FINANCING ACTIVITIES:									
Change in restricted cash	(325,233)		(74,825)	(41,757)		(428,125)			(869,940)
Intercompany loans	(152,401)				462,401	(310,000)			-
Receipt of long-term security deposits					250,000	250,000	75,000		575,000
Repayment of debt		(22,289)		(75,806)					(98,095)
Proceeds from debt		86,059			3,513,614	9,975,000			13,574,673
Net cash provided (used) by financing activities	<u>(477,634)</u>	<u>63,770</u>	<u>(74,825)</u>	<u>(117,563)</u>	<u>4,226,015</u>	<u>9,486,875</u>	<u>75,000</u>	<u>-</u>	<u>13,181,638</u>
Net increase (decrease) in cash and cash equivalents	445,476	(1,232)	(43,843)	(3,321,097)	30,925	2,808,795	42,025	-	(38,951)
Cash and cash equivalents at the beginning of the year	9,788	79,022	80,941	3,559,245	2,917	8,400	-	-	3,740,313
Cash and cash equivalents at the end of the year	<u>\$ 455,264</u>	<u>\$ 77,790</u>	<u>\$ 37,098</u>	<u>\$ 238,148</u>	<u>\$ 33,842</u>	<u>\$ 2,817,195</u>	<u>\$ 42,025</u>	<u>\$ -</u>	<u>\$ 3,701,362</u>
CASH PAID FOR INTEREST (Net of capitalized amount)									
	\$ -	\$ 285,192	\$ 380,560	\$ 424,229	\$ -	\$ 45,793	\$ -	\$ -	\$ 1,135,774
CAPITALIZED INTEREST									
	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 152,186	\$ -	\$ -	\$ 152,186

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

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**SCHEDULE OF INSTRUCTIONAL MINUTES
For the Year Ended June 30, 2011**

2010-11 Minutes				
	Requirement	Reduced	Actual	Status
Kindergarten:				
Mateo Sheedy	36,000	34,971	50,760	In compliance
Si Se Puede	36,000	34,971	50,760	In compliance
Los Suenos	36,000	34,971	50,760	In compliance
Grade 1:				
Mateo Sheedy	50,400	48,960	55,800	In compliance
Si Se Puede	50,400	48,960	55,800	In compliance
Los Suenos	50,400	48,960	55,800	In compliance
Grade 2:				
Mateo Sheedy	50,400	48,960	55,800	In compliance
Si Se Puede	50,400	48,960	55,800	In compliance
Los Suenos	50,400	48,960	55,800	In compliance
Grade 3:				
Mateo Sheedy	50,400	48,960	55,800	In compliance
Si Se Puede	50,400	48,960	55,800	In compliance
Los Suenos	50,400	48,960	55,800	In compliance
Grade 4:				
Mateo Sheedy	54,000	52,457	57,240	In compliance
Si Se Puede	54,000	52,457	57,240	In compliance
Los Suenos	54,000	52,457	57,240	In compliance
Grade 5:				
Mateo Sheedy	54,000	52,457	57,240	In compliance
Si Se Puede	54,000	52,457	57,240	In compliance
Los Suenos	54,000	52,457	57,240	In compliance
Grade 6:				
Mateo Sheedy	54,000	52,457	57,240	In compliance
Si Se Puede	54,000	52,457	57,240	In compliance
Los Suenos	54,000	52,457	57,240	In compliance

See the accompanying notes to supplementary information

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**SCHEDULE OF AVERAGE DAILY ATTENDANCE
For the Year Ended June 30, 2011**

	<u>Second Period Report</u>		<u>Annual Report</u>	
	<u>Classroom Based</u>	<u>Total</u>	<u>Classroom Based</u>	<u>Total</u>
Kindergarten:				
Mateo Sheedy	88.95	88.95	89.38	89.43
Si Se Puede	99.12	99.12	98.85	98.85
Los Suenos	<u>110.02</u>	<u>110.02</u>	<u>109.21</u>	<u>109.21</u>
Subtotal	<u>298.09</u>	<u>298.09</u>	<u>297.44</u>	<u>297.49</u>
Grades 1-3:				
Mateo Sheedy	248.29	248.29	247.29	247.29
Si Se Puede	287.83	287.83	287.20	287.20
Los Suenos	<u>264.10</u>	<u>264.10</u>	<u>265.14</u>	<u>265.14</u>
Subtotal	<u>800.22</u>	<u>800.22</u>	<u>799.63</u>	<u>799.63</u>
Grades 4-6:				
Mateo Sheedy	117.57	117.57	117.39	117.39
Los Suenos	<u>83.29</u>	<u>83.29</u>	<u>82.97</u>	<u>82.97</u>
Subtotal	<u>200.86</u>	<u>200.86</u>	<u>200.36</u>	<u>200.36</u>
Total ADA	<u>1,299.17</u>	<u>1,299.17</u>	<u>1,297.43</u>	<u>1,297.48</u>

See the accompanying notes to supplementary information

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**RECONCILIATION OF ANNUAL FINANCIAL
REPORT WITH AUDITED FINANCIAL STATEMENTS
For the Year Ended June 30, 2011**

	<u>Rocketship Mateo Sheedy Elementary</u>	<u>Rocketship Si Se Puede</u>	<u>Rocketship Los Suenos</u>	<u>TOTAL</u>
June 30, 2011 Annual Financial Report fund balances (net assets)	<u>\$ 1,219,239</u>	<u>\$ 951,401</u>	<u>\$ 336,863</u>	<u>\$ 2,507,503</u>
Increasing (decreasing) the fund balance (net assets):				
Cash	(14,124)	(23,219)	25,397	(11,946)
Accounts receivable	16,832		(28,855)	(12,023)
Accounts payable	<u>8,509</u>	<u>11,547</u>	<u>(4,757)</u>	<u>15,299</u>
Net adjustments and reclassifications	<u>11,217</u>	<u>(11,672)</u>	<u>(8,215)</u>	<u>(8,670)</u>
June 30, 2011 Audited Financial Statement fund balances (net assets)	<u><u>\$ 1,230,456</u></u>	<u><u>\$ 939,729</u></u>	<u><u>\$ 328,648</u></u>	<u><u>\$ 2,498,833</u></u>

See the accompanying notes to supplementary information

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2011**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass- Through Entity Identifying Number	Rocketship National	Rocketship Mateo Sheedy Elementary	Rocketship Si Se Puede	Rocketship Los Suenos Elementary	Federal Expenditures
<i>U.S. Department of Education</i>							
Pass Through Program From California Department of Education:							
American Recovery and Reinvestment Act:							
Title I Cluster:							
Title I, Part A, Basic Grants							
Low-Income and Neglected	84.010	14329	\$ -	\$ 152,858	\$ 125,414	\$ 143,529	\$ 421,801
ARRA - Title I, Part A	84.389	15005	-	16,289	51,069	-	67,358
Subtotal: Title I Cluster			-	169,147	176,483	143,529	489,159
Title II	84.367	14341	-	10,179	7,225	8,613	26,017
Title III	84.365	14356	-	24,851	-	-	24,851
Title V Part B	84.282	14941	-	-	-	225,000	225,000
ARRA: State Stabilization Fund	84.394	24997	-	19,699	-	-	19,699
Education Jobs Fund	84.410	25152	-	85,929	88,736	70,411	245,076
State Charter Schools Facilities	84.282D	N/A		149,800			149,800
Special Education Cluster:							
Special Education	84.027	13379	144,874	-	-	-	144,874
ARRA - Special Education	84.391	10123	7,443	-	-	-	7,443
Subtotal: Special Ed Cluster			152,317	-	-	-	152,317
Total U.S Department of Education			152,317	459,605	272,444	447,553	1,331,919
<i>U.S. Department of Agriculture:</i>							
Child Nutrition Programs	10.555	N/A	-	188,471	178,077	147,877	514,425
Total U.S Department of Agriculture			-	188,471	178,077	147,877	514,425
Total Federal Expenditures			\$ 152,317	\$ 648,076	\$ 450,521	\$ 595,430	\$ 1,846,344

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, 2011

NOTE 1 - PURPOSE OF SCHEDULES:

A. Schedule of Expenditures by State Categories

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

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.

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

Board of Directors
Rocketship Education and its Affiliates

We have audited the financial statements of Rocketship Education and its Affiliates (RSEA) as of and for the year ended June 30, 2011, and have issued our report thereon dated November 29, 2011. 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 RSEA's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of RSEA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of RSEA's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency or a combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis.

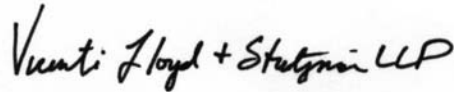
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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

Compliance and Other Matters

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

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



VICENTI, LLOYD & STUTZMAN LLP

November 29, 2011

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

Board of Directors
Rocketship Education and its Affiliates

Compliance

We have audited the compliance of Rocketship Education and its Affiliates (RSEA) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. RSEA's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of RSEA's management. Our responsibility is to express an opinion on RSEA's compliance based on our audit.

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

In our opinion, RSEA complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

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

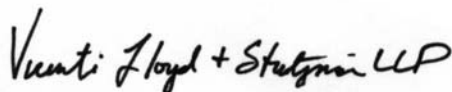
Internal Control over Compliance

The management of RSEA is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered RSEA's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the RSEA's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal controls over compliance such that there is a reasonable possibility, that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

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



VICENTI, LLOYD & STUTZMAN LLP

November 29, 2011

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Board of Directors
 Rocketship Education and its Affiliates

We have audited the compliance of Rocketship Education and its Affiliates (RSEA) with the types of compliance requirements described in the *2010-11 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, 2011. RSEA's State compliance requirements are identified in the table below. Compliance with the State laws and regulations as identified below is the responsibility of RSEA's management. Our responsibility is to express an opinion on RSEA's compliance based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *2010-11 Standards and Procedures for Audits of California K-12 Local Educational Agencies*, published by the Education Audit Appeals Panel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the specific areas listed below has occurred. An audit includes examining, on a test basis, evidence about RSEA's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of RSEA's compliance with those requirements.

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

<u>Description</u>	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Attendance accounting:		
Attendance reporting	8	Not applicable
Kindergarten continuance	3	Not applicable
Continuation education	10	Not applicable
Independent study	23	Not applicable

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

<u>Description</u>	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Instructional time:		
School Districts	6	Not applicable
County Offices of Education	3	Not applicable
Class size reduction program (including charter schools):		
General requirements	7	Not applicable
Option 1	3	Not applicable
Option 2	4	Not applicable
One school serving K-3	4	Not applicable
Instructional materials general requirements	8	Not applicable
Ratios of administrative employees to teachers	1	Not applicable
Classroom teacher salaries	1	Not applicable
Early retirement incentive	4	Not applicable
GANN limit calculation	1	Not applicable
School Accountability Report Card	3	Not applicable
Public hearing requirement—receipt of funds	1	Not applicable
After School Education and Safety Program:		
General requirements	4	Not applicable
After school	4	Not applicable
Before school	5	Not applicable
Charter Schools:		
Contemporaneous records of attendance	1	Yes
Mode of Instruction	1	Yes
Nonclassroom based instructional/independent study	15	Not applicable
Determination of funding for nonclassroom-based instruction	3	Not applicable
Annual instructional minutes – classroom based	3	Yes

In our opinion, we found that, for the items tested, RSEA complied with the laws and regulations of the state programs referred to above in all material respects. Further, based on our audit, for items not tested, nothing came to our attention to indicate that RSEA had not complied with the laws and regulations of state programs and requirements.

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

Vicenti Lloyd + Stutzman LLP

VICENTI, LLOYD & STUTZMAN LLP

November 29, 2011

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2011**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued November 29, 2011: *Unqualified*

Internal control over financial reporting:

Material weakness(es) identified? *No*

Significant deficiencies identified that are
not considered to be material weakness(es)? *No*

Noncompliance material to financial statements noted? *No*

Federal Awards

Internal control over major programs:

Material weakness(es) identified? *No*

Significant deficiencies identified that are
not considered to be material weakness(es)? *No*

Type of auditor's report issued on compliance for major programs: *Unqualified*

Any audit findings disclosed that are required to be reported
in accordance with section 510(a) of (Circular A-133)? *No*

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
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84.010A	Title I
84.389	ARRA – Title I
84.282	Title V

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? *No*

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2011**

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

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

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

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2011**

There were no findings noted for the year ended June 30, 2010.