

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**Consolidated Audited Financial Statements
for the Year Ended
June 30, 2016**

Operating:

California

**Rocketship Mateo Sheedy Elementary
Rocketship Si Se Puede Academy
Rocketship Los Suenos Academy
Rocketship Mosaic Elementary
Rocketship Discovery Prep
Rocketship Brilliant Minds
Rocketship Alma Academy
Rocketship Spark Academy
Rocketship Fuerza Community Prep
Rocketship Redwood City Prep
Rocketship Rising Stars
Rocketship Futuro Academy**

Tennessee

**Rocketship Nashville Northeast Elementary
Rocketship United Academy**

Wisconsin

Rocketship Southside Community Prep

DC

Rocketship Rise Academy

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

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**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Rocketship Education and its Affiliates (RSEA), a non-profit California public benefit corporation, which comprise the consolidated statement of financial position as of June 30, 2016, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Board of Directors
Rocketship Education and its Affiliates

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of RSEA as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Report on Summarized Comparative Information

We have previously audited RSEA's 2015 financial statements, and our report dated October 26, 2015, expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated November 1, 2016 on our consideration of RSEA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering RSEA's internal control over financial reporting and compliance.



VICENTI, LLOYD & STUTZMAN LLP
Glendora, California
November 1, 2016

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
June 30, 2016
with comparative totals for June 30, 2015**

| | Rocketship Education D.C | | | | Eliminations | 2016 Total | 2015 Total |
|---|-----------------------------|--------------------|---------------------|-----------------------|-----------------------|-----------------------|----------------------|
| | Rocketship | Public | Launchpad | | | | |
| | Education | Charter | Development | | | | |
| Education | Wisconsin Inc. | School, Inc. | Company | | | | |
| ASSETS | | | | | | | |
| CURRENT ASSETS: | | | | | | | |
| Cash and cash equivalents (notes 1,2) | \$ 13,561,320 | \$ 386,046 | \$ 810,445 | \$ 9,815,821 | \$ - | \$ 24,573,632 | \$ 16,072,631 |
| Restricted cash (note 1) | - | - | - | 7,624,930 | - | 7,624,930 | 5,136,357 |
| Investments | - | - | - | - | - | - | 249,350 |
| Accounts receivable (note 3) | 7,791,464 | 80,824 | - | 54,296 | (37,069) | 7,889,515 | 5,838,881 |
| Deferred rent asset | - | - | - | 65,636 | (65,636) | - | - |
| Grants receivable (note 4) | 257,160 | - | 246,000 | - | - | 503,160 | 588,050 |
| Prepaid expenses and deposits | 2,129,394 | 62,546 | 53,849 | 578,689 | (326,964) | 2,497,514 | 1,265,685 |
| Total current assets | <u>23,739,338</u> | <u>529,416</u> | <u>1,110,294</u> | <u>18,139,372</u> | <u>(429,669)</u> | <u>43,088,751</u> | <u>29,150,954</u> |
| LONG-TERM ASSETS: | | | | | | | |
| Grants receivable (note 4) | 40,434 | - | 195,040 | - | - | 235,474 | 163,714 |
| Intracompany receivable | 4,546,491 | - | 600,000 | - | (5,146,491) | - | - |
| Security deposits | 400,000 | - | - | - | (400,000) | - | - |
| Note receivable | - | - | - | 560,000 | - | 560,000 | 560,000 |
| Deferred rent asset | - | - | - | 3,080,643 | (3,080,643) | - | - |
| Property, plant and equipment, net (note 5) | 5,363,093 | - | - | 83,880,130 | - | 89,243,223 | 63,644,651 |
| Total long-term assets | <u>10,350,018</u> | <u>-</u> | <u>795,040</u> | <u>87,520,773</u> | <u>(8,627,134)</u> | <u>90,038,697</u> | <u>64,368,365</u> |
| Total assets | <u>\$ 34,089,356</u> | <u>\$ 529,416</u> | <u>\$ 1,905,334</u> | <u>\$ 105,660,145</u> | <u>\$ (9,056,803)</u> | <u>\$ 133,127,448</u> | <u>\$ 93,519,319</u> |
| LIABILITIES AND NET ASSETS | | | | | | | |
| CURRENT LIABILITIES: | | | | | | | |
| Accounts payable and accrued liabilities | \$ 5,497,500 | \$ 125,257 | \$ 49,417 | \$ 2,344,231 | \$ (37,069) | \$ 7,979,336 | \$ 4,971,627 |
| Accrued interest | - | - | - | 516,835 | - | 516,835 | 417,127 |
| Deferred rent liability | 65,636 | - | - | - | (65,636) | - | - |
| Deferred revenues | 1,341,972 | - | - | 326,964 | (326,964) | 1,341,972 | 370,372 |
| Current portion of loans payable (note 6) | 312,508 | - | - | 7,305,128 | - | 7,617,636 | 6,842,252 |
| Total current liabilities | <u>7,217,616</u> | <u>125,257</u> | <u>49,417</u> | <u>10,493,158</u> | <u>(429,669)</u> | <u>17,455,779</u> | <u>12,601,378</u> |
| LONG-TERM LIABILITIES: | | | | | | | |
| Security deposits | - | - | - | 400,000 | (400,000) | - | - |
| Accrued interest | 149,196 | - | - | - | - | 149,196 | 108,256 |
| Deferred rent liability | 3,329,536 | 112,241 | - | 989,815 | (3,080,643) | 1,350,949 | 1,185,092 |
| Intracompany payable | 600,000 | 2,161,472 | 2,385,019 | - | (5,146,491) | - | - |
| Loans payable (note 6) | 2,187,520 | - | - | 95,052,540 | - | 97,240,060 | 69,061,846 |
| Total long-term liabilities | <u>6,266,252</u> | <u>2,273,713</u> | <u>2,385,019</u> | <u>96,442,355</u> | <u>(8,627,134)</u> | <u>98,740,205</u> | <u>70,355,194</u> |
| NET ASSETS: | | | | | | | |
| Unrestricted | 20,311,191 | (1,869,554) | (724,142) | (1,275,368) | - | 16,442,127 | 10,074,280 |
| Temporarily restricted (note 7) | 294,297 | - | 195,040 | - | - | 489,337 | 488,467 |
| Total net assets | <u>20,605,488</u> | <u>(1,869,554)</u> | <u>(529,102)</u> | <u>(1,275,368)</u> | <u>-</u> | <u>16,931,464</u> | <u>10,562,747</u> |
| Total liabilities and net assets | <u>\$ 34,089,356</u> | <u>\$ 529,416</u> | <u>\$ 1,905,334</u> | <u>\$ 105,660,145</u> | <u>\$ (9,056,803)</u> | <u>\$ 133,127,448</u> | <u>\$ 93,519,319</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, 2016
with comparative totals for the Year Ended June 30, 2015**

| | Rocketship Education Wisconsin Inc. | Rocketship Education D.C Public Charter School, Inc. | Launchpad Development Company | Eliminations | 2016 Total | 2015 Total |
|--|--|---|--|-----------------------|---------------------|----------------------|
| UNRESTRICTED NET ASSETS: | | | | | | |
| Revenues | | | | | | |
| LCFF State Aid | \$ 36,874,280 | \$ - | \$ - | \$ - | \$ 36,874,280 | \$ 29,395,472 |
| Apportionment revenue | 8,105,215 | 3,199,284 | - | - | 11,304,499 | 7,039,060 |
| Property taxes | 9,388,704 | - | - | - | 9,388,704 | 7,536,074 |
| Other State revenue | 11,742,143 | 76,361 | - | - | 11,818,504 | 9,200,216 |
| Federal revenue | 8,843,327 | 873,360 | - | 133,549 | 9,850,236 | 8,136,903 |
| Other local revenue | 2,630,736 | 12,696 | 160 | 10,325,970 | (12,584,203) | 385,359 |
| Contributions | 6,226,687 | 3,500 | 1,780,900 | 130,540 | - | 8,141,627 |
| Amounts released from restriction | 299,290 | - | - | - | 299,290 | 851,995 |
| Total unrestricted revenues | <u>84,110,382</u> | <u>4,165,201</u> | <u>1,781,060</u> | <u>10,590,059</u> | <u>(12,584,203)</u> | <u>88,062,499</u> |
| Program Expenses | | | | | | |
| Educational programs | 61,813,865 | 4,034,032 | 1,583,763 | - | (11,561,999) | 55,869,661 |
| Supporting Services | | | | | | |
| Site supports and program development | 10,102,673 | - | 14,058 | 10,010,488 | (50,620) | 20,076,599 |
| Administration and general | 5,363,068 | 606,651 | 407,381 | 342,876 | (971,584) | 5,748,392 |
| Total supporting services | <u>15,465,741</u> | <u>606,651</u> | <u>421,439</u> | <u>10,353,364</u> | <u>(1,022,204)</u> | <u>25,824,991</u> |
| Total expenses | <u>77,279,606</u> | <u>4,640,683</u> | <u>2,005,202</u> | <u>10,353,364</u> | <u>(12,584,203)</u> | <u>81,694,652</u> |
| Increase (decrease) in unrestricted net assets | <u>6,830,776</u> | <u>(475,482)</u> | <u>(224,142)</u> | <u>236,695</u> | <u>-</u> | <u>6,367,847</u> |
| TEMPORARILY RESTRICTED NET ASSETS: | | | | | | |
| Amounts released from restriction | (299,290) | - | - | - | (299,290) | (851,995) |
| Contributions | 105,120 | - | 195,040 | - | - | 300,160 |
| Increase (decrease) in temporarily restricted net assets | <u>(194,170)</u> | <u>-</u> | <u>195,040</u> | <u>-</u> | <u>-</u> | <u>870</u> |
| Beginning net assets | 13,968,882 | (1,394,072) | (500,000) | (1,512,063) | - | 10,562,747 |
| Adjustment for restatement | - | - | - | - | - | (1,815,718) |
| Beginning net assets, restated | <u>13,968,882</u> | <u>(1,394,072)</u> | <u>(500,000)</u> | <u>(1,512,063)</u> | <u>-</u> | <u>10,562,747</u> |
| Ending net assets | <u>\$ 20,605,488</u> | <u>\$ (1,869,554)</u> | <u>\$ (529,102)</u> | <u>\$ (1,275,368)</u> | <u>\$ -</u> | <u>\$ 16,931,464</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, 2016
with comparative totals for the Year Ended June 30, 2015**

| | Rocketship Education | Rocketship Education Wisconsin Inc. | Rocketship Education D.C Public Charter School, Inc. | Launchpad Development Company | Eliminations | 2016 Total | 2015 Total |
|--|---------------------------------|--|---|--|---------------------|----------------------|----------------------|
| CASH FLOWS from OPERATING ACTIVITIES: | | | | | | | |
| Change in Net Assets | \$ 6,636,606 | \$ (475,482) | \$ (29,102) | \$ 236,695 | \$ - | \$ 6,368,717 | \$ (978,063) |
| Adjustments to reconcile change in net assets to net cash provided (used) by operating activities: | | | | | | | |
| Depreciation and amortization | 199,099 | - | - | 2,066,044 | - | 2,265,143 | 2,080,534 |
| Allowance for non-recoverable project costs | - | - | - | - | - | - | 6,365 |
| Debt forgiven through grant agreement | - | - | - | (105,540) | - | (105,540) | (550,000) |
| Donated investments | - | - | - | - | - | - | (249,350) |
| (Increase) or decrease in operating assets: | | | | | | | |
| Accounts receivable | 207,407 | (703) | - | (31,132) | - | 175,572 | 7,077,426 |
| Grants receivable | 204,170 | - | (191,040) | - | - | 13,130 | 541,952 |
| Prepaid expenses and other current assets | (1,344,573) | (45,028) | (53,849) | (115,343) | - | (1,558,793) | 470,333 |
| Deferred rent asset | - | - | - | (231,544) | 231,544 | - | - |
| Increase or (decrease) in operating liabilities: | | | | | | | |
| Accounts payable and accrued liabilities | 1,421,393 | (102,998) | 49,417 | 88,841 | - | 1,456,653 | 697,873 |
| Deferred revenues | 971,600 | - | - | 326,964 | - | 1,298,564 | (252,513) |
| Deferred rent liability | 26,176 | 33,755 | - | 337,470 | (231,544) | 165,857 | 515,839 |
| Net cash provided (used) by operating activities | <u>8,321,878</u> | <u>(590,456)</u> | <u>(224,574)</u> | <u>2,572,455</u> | <u>-</u> | <u>10,079,303</u> | <u>9,360,396</u> |
| CASH FLOWS from INVESTING ACTIVITIES: | | | | | | | |
| Proceeds from sale of stock | 249,350 | - | - | - | - | 249,350 | - |
| Proceeds from disposal of property, plant and equipment | 3,611 | - | - | - | - | 3,611 | - |
| Purchases of property, plant and equipment | (1,975,720) | - | - | (24,189,927) | - | (26,165,647) | (11,025,976) |
| Net cash used by investing activities | <u>(1,722,759)</u> | <u>-</u> | <u>-</u> | <u>(24,189,927)</u> | <u>-</u> | <u>(25,912,686)</u> | <u>(11,025,976)</u> |
| CASH FLOWS from FINANCING ACTIVITIES: | | | | | | | |
| Change in restricted cash | - | - | - | (2,488,573) | - | (2,488,573) | 13,522 |
| Intracompany loans | (3,587,120) | 307,310 | 1,035,019 | - | - | (2,244,791) | - |
| Proceeds from debt | 3,250,000 | - | - | 38,289,443 | - | 41,539,443 | 400,000 |
| Repayment of debt | (3,102,779) | - | - | (9,368,916) | - | (12,471,695) | (15,734,216) |
| Net cash provided (used) by financing activities | <u>(3,439,899)</u> | <u>307,310</u> | <u>1,035,019</u> | <u>26,431,954</u> | <u>-</u> | <u>24,334,384</u> | <u>(15,320,694)</u> |
| Net increase (decrease) in cash and cash equivalents | 3,159,220 | (283,146) | 810,445 | 4,814,482 | - | 8,501,001 | (16,986,274) |
| Cash and cash equivalents at the beginning of the year | 10,402,100 | 669,192 | - | 5,001,339 | - | 16,072,631 | 33,058,905 |
| Cash and cash equivalents at the end of the year | <u>\$ 13,561,320</u> | <u>\$ 386,046</u> | <u>\$ 810,445</u> | <u>\$ 9,815,821</u> | <u>\$ -</u> | <u>\$ 24,573,632</u> | <u>\$ 16,072,631</u> |
| CASH PAID FOR INTEREST (Net) | <u>\$ 38,459</u> | <u>\$ 49,098</u> | <u>\$ -</u> | <u>\$ 5,374,480</u> | <u>\$ (85,636)</u> | <u>\$ 5,376,401</u> | <u>\$ 4,975,669</u> |
| CAPITALIZED INTEREST | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 167,421</u> | <u>\$ (36,563)</u> | <u>\$ 130,858</u> | <u>\$ 130,319</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, 2016**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Activities – Rocketship Education and its Affiliates (RSEA) are organized to manage, operate, guide, direct, and promote a network of public elementary charter schools.

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

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

Rocketship Education (RSED)

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

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

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

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

Rocketship Education (RSED) (continued)

- *Rocketship Rising Stars (RRS)* – California charter school (opening in 16/17)
- *Rocketship Futuro Academy (RFA)* – California charter school (opening in 16/17)
- *Rocketship Nashville Northeast Elementary (RNNE)* – Tennessee charter school
- *Rocketship United Academy (RUA)* – Tennessee charter school

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

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

Rocketship Education D.C., Public Charter School, Inc. (RSDC) & Rocketship Rise Academy (RISE)

Rocketship Education D.C., Public Charter School, Inc. (RSDC) incorporated as a nonprofit public benefit corporation during 2014 for the purpose of operating charter schools in Washington, D.C. The District of Columbia Public Charter School Board (PCSB) approved RSDC to establish up to eight charter schools beginning in July 2016. Rocketship Education and RSDC entered into a Network Services Agreement to provide services for the DC region.

Launchpad Development Company

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

- *Launchpad (LP)* – investment and asset management and administrative services
- *Launchpad Development One LLC (LLC1)* – RMS facilities
- *Launchpad Development Two LLC (LLC2)* – RSSP facilities
- *Launchpad Development Three, LLC (LLC3)* – RLS facilities
- *Launchpad Development Four LLC (LLC4)* – ROMO facilities
- *Launchpad Development Five LLC (LLC5)* – RDP facilities
- *Launchpad Development Eight LLC (LLC8)* – RSA facilities
- *Launchpad Development Ten LLC (LLC10)* – Facilities development

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

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

Launchpad Development Company (continued)

- *Launchpad Development Eleven LLC (LLC11)* – RBM facilities
- *Launchpad Development Twelve LLC (LLC12)* – RFZ facilities
- *Launchpad Development Fourteen LLC (LLC14)* – Facilities development
- *Launchpad Development Fifteen LLC (LLC15)* – Facilities development
- *Launchpad Development Sixteen LLC (LLC16)* – RRS Facilities
- *Launchpad Development Seventeen LLC (LLC17)* – Facilities development
- *Launchpad Development Eighteen LLC (LLC18)* – Facilities development
- *Launchpad Development Nineteen LLC (LLC19)* – Facilities development
- *Launchpad Development Milwaukee One LLC (MLLC1)* – RSCP facilities
- *Launchpad Development Milwaukee Two LLC (MLLC2)* – Facilities development
- *Launchpad Development One Nashville LLC (NLLC1)* – Facilities development
- *Launchpad Development Two Nashville LLC (NLLC2)* – RUA Facilities
- *Launchpad Development One DC LLC (DLLC1)* – RISE Facilities
- *Launchpad Development Two DC LLC (DLLC2)* – Facilities development

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
AND ITS AFFILIATES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

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 and donor restrictions.

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

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

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

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

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

Income Taxes – RSEA is comprised of various non-profit entities exempt from the payment of income taxes under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d. Accordingly, no provision has been made for income taxes related to these entities. Management has determined that all income tax positions are more likely than not (>50%) of being sustained upon potential audit or examination; therefore, no disclosures of uncertain income tax positions are required.

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

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

RSEA files all appropriate tax returns in the U.S. federal jurisdiction, and the state of California.

RSEA files informational returns in the U.S. federal jurisdiction, and the states in which it operates, as applicable. The statute of limitations for federal and state purposes is generally three and four years, respectively.

Evaluation of Subsequent Events – RSEA has evaluated subsequent events through November 1, 2016, the date these financial statements were available to be issued. There were no subsequent events requiring recognition or disclosure.

Comparative Totals – The financial statements include certain prior year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with RSEA's financial statements for the year ended June 30, 2015, from which the summarized information was derived.

NOTE 2 - CONCENTRATION OF CREDIT RISK:

RSEA maintains bank accounts with several institutions. Accounts at each of these institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. RSEA occasionally has the need to maintain a cash balance in excess of the FDIC limit. RSEA has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on its cash and cash equivalents.

NOTE 3 - ACCOUNTS RECEIVABLE:

Accounts receivable primarily consist of funds due from various governmental units. Management believes all of these amounts are collectible; therefore no provisions for uncollectible accounts were recorded. As of June 30, 2016, 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, 2016 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.

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT:

Property and equipment consisted of the following:

| | <u>RSED</u> | <u>LDC</u> | <u>RSEA Total</u> |
|--------------------------------|---------------------|----------------------|----------------------|
| Land | \$ - | \$ 14,555,809 | \$ 14,555,809 |
| Furniture and equipment | 710,850 | 409,869 | 1,120,719 |
| Buildings | 4,563,367 | 62,691,336 | 67,254,703 |
| Other | 857,779 | 14,903,092 | 15,760,871 |
| Less: Accumulated depreciation | <u>(768,903)</u> | <u>(8,679,976)</u> | <u>(9,448,879)</u> |
| Total | <u>\$ 5,363,093</u> | <u>\$ 83,880,130</u> | <u>\$ 89,243,223</u> |

Depreciation and amortization expense was \$2,273,755 for the year ended June 30, 2016.

NOTE 6 - DEBT:

Convertible Debt

RSN – Charter School Growth Fund

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

In October 2010, RSN and CSGF amended and restated the original Subordinate Loan Agreement to reflect a total loan of \$3.4 million at an effective interest rate of 3.25 percent and \$400,000 forgiven and converted into a grant. As of June 30, 2014, RSN has borrowed the complete \$3.4 million. Of the amended amount, \$2.35 million plus associated interest will be forgiven and converted into a grant provided that RSN meet specified educational, financial and growth outcomes.

As of June 30, 2015, RSN had substantively met the school year benchmarks and converted all of the \$2.35 million of principal into a grant.

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

NOTE 6 - DEBT: (continued)

RSN – Charter School Growth Fund (continued)

The remaining non-convertible \$1.05 million of the loan plus accrued interest will be due on June 30, 2018 (\$300,000), June 30, 2019 (\$250,000) and June 30, 2020 (\$500,000).

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

During the 2014/15 school year, RFZ, RNNE, RRWC and RUA each entered into \$100,000 Subordinated Loan Agreements with effective interest rates of 1.0 percent. The loans are scheduled to be repaid in full on June 30, 2020 (RFZ and RNNE) and June 30, 2021 (RRWC and RUA).

During the 2015/16 school year, RSN and CSGF entered into three \$100,000 Subordinated Loan Agreements with effective interest rates of 1.0 percent. The loans were made to support RRS, RFA and a new school opening in 2017/18. The loans are scheduled to be repaid in full on June 30, 2021.

RSN - CSGF Revolving Facilities Loan

In September 2015, RSN entered into a \$2.7 million loan agreement with CSGF to provide interim financing for the RRS-LLC16 project. The loan had an interest rate of 3.75%. The loan was repaid in full in February 2016.

Loans Payable

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

As of June 30, 2016, five of Rocketship's California schools have revolving loans payable to the California School Finance Authority (CSFA) ranging from \$20,000 to \$250,000, totaling \$625,028 combined. The loans have effective interest rates ranging from 0.22% to 1.47%. Principal is payable over a four or five year period, with installments ranging from \$20,000 to \$62,500 deducted from apportionment revenue. Final maturity is 2020.

LLC3 - Self Help New Markets V LLC Loan

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

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

NOTE 6 - DEBT: (continued)

LLC3 - Self Help New Markets V LLC Loan (continued)

Payments are based upon an amortization schedule of 25 years, beginning in 2010 with a final payment of all unpaid principal and interest thereon due on April 19, 2017. As of June 30, 2016, \$5,765,128 remains outstanding. The loan is subject to reporting requirements and financial covenants customary for this type of credit transaction.

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

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

The Series 2011 Bonds are divided into \$9.6 million Series 2011A Bonds and \$515,000 Series 2011B Bonds (taxable), maturing December 2041 and December 2018, respectively. Both Series 2011A and Series 2011B are subject to mandatory redemptions prior to their stated maturity by a Sinking Accounts Payment Fund established in December 2018 and December 2013, respectively.

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

In March 2011, LLC5 borrowed debt capital for the RDP project from LIIF Sub-CDE VIII, LLC (the LIIF LLC), a Delaware limited liability company formed by the Low Income Investment Fund (LIIF), a CDFI under the leverage loan model of the New Markets Tax Credits program under Section 45D of the Internal Revenue Code of 1986. US Bank CDC purchased the tax credits from the LIIF LLC, the proceeds of which were used in part to fund a “qualified equity investment”.

LIIF and other participating institutions provided the leverage debt capital. The LIIF LLC made three (3) loans to LLC5, the Borrower, in the aggregate original principal amount of \$9,975,000 (the “*QLICI Loan*”), which *QLICI Loan* is expected to constitute a “qualified low-income community investment” (“*QLICP*”) being made to a “qualified active low-income community business” (“*QALICB*”) under the NMTC Program, and which includes subordinated debt provided by Launchpad of \$560,000. The debt is required to have a term of not less than seven (7) years and was made on an interest-only payment basis. As required by the Lender, RSN provided a partial Lease Guaranty to the Borrower in support of the financing. This loan is subject to reporting requirements and covenants customary to this type of credit transaction.

**ROCKETSHIP EDUCATION
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

NOTE 6 - DEBT: (continued)

LDC - LISC Recoverable Grant

In August 2011, Launchpad Development Company received a recoverable grant from Local Initiatives Support Corporation (LISC) in a draw-to amount of up to \$500,000 available between September 1, 2011 and September 1, 2013. The recoverable grant was provided to fund predevelopment costs for new facilities in San Jose. Launchpad drew on the grant in the amounts of \$105,540. This loan was forgiven during the year ended June 30, 2016 and turned into a grant.

LLC16 - RSN Promissory Note

In September 2015, RSN issued a Promissory Note to LLC16 in the amount of \$2.7 million. RSN funded the loan with proceeds from the CSGF Revolving Facilities Loan. The loan had an interest rate of 3.75%. The loan was repaid in full in February 2016.

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

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

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

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

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

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

**ROCKETSHIP EDUCATION
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

NOTE 6 - DEBT: (continued)

LDC – Obligated Group Bonds (Series 2015A and 2015B)

In August 2015, LDC completed bond financing in the amount of \$6.385 million (the Series 2015 Bonds), proceeds from which were used to refinance existing debt and fund project expenses for LLC1 construction projects. Interest is paid semi-annually at a coupon rate of 4.25%.

The Series 2015 Bonds are divided into \$6.135 million Series 2015A Bonds and \$250,000 Series 2015B Bonds (taxable), maturing between March 2028 (Series 2015A) and June 2016 (Series 2015B). The Series 2015B Bonds were repaid during the fiscal year. Series 2015A Bonds are subject to mandatory redemptions prior to their stated maturity by a Sinking Accounts Payment Fund established in June 2016.

LDC – Obligated Group Bonds (Series 2016A and 2016B)

In February 2016, LDC completed bond financing in the amount of \$28.605 million (the Series 2016 Bonds), proceeds from which were used to fund project expenses for LLC1, LLC10, and LLC16 construction projects. Interest is paid semi-annually at coupon rates between 4.50% and 5.00%.

The Series 2016 Bonds are divided into \$28.080 million Series 2016A Bonds and \$525,000 Series 2016B Bonds (taxable), maturing between June 2021 and 2046 (Series 2016A) and June 2018 (Series 2016B). Both Series 2016A and Series 2016B are subject to mandatory redemptions prior to their stated maturity by a Sinking Accounts Payment Fund established in June 2018, 2022, 2027, 2032 and 2037 (Series 2016A) and June 2017 (Series 2016B).

Future maturities of debt in summary:

| <u>June 30,</u> | <u>RSED</u> | <u>LDC</u> | <u>Total</u> |
|------------------------|----------------------------|------------------------------|------------------------------|
| 2017 | \$ 312,508 | \$ 7,305,128 | \$ 7,617,636 |
| 2018 | 487,516 | 8,832,669 | 9,320,185 |
| 2019 | 437,500 | 1,774,270 | 2,211,770 |
| 2020 | 762,504 | 1,872,822 | 2,635,326 |
| 2021 | 500,000 | 1,971,606 | 2,471,606 |
| Thereafter | - | 80,013,633 | 80,013,633 |
| Premium | - | 587,540 | 587,540 |
| Total | <u>\$ 2,500,028</u> | <u>\$ 102,357,668</u> | <u>\$ 104,857,696</u> |

**ROCKETSHIP EDUCATION
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

NOTE 7 - NET ASSET RESTRICTIONS:

Temporarily restricted net assets of \$489,337 relate to grants that are specifically restricted to future operations.

NOTE 8 - OPERATING LEASES:

RSN administrative offices - In October 2012, RSN entered into a 5 year lease for office facilities payable at \$10,612, plus common area maintenance, payable monthly. The lease includes a waiver of rent (\$10,611) contingent upon RSN's status as a nonprofit public benefit corporation. During the year ended June 30, 2016, temporarily restricted net assets released from restriction from in-kind rent was \$125,290 (net of prior year discount) and lease expense totaled \$160,302. At June 30, 2016, the fair value of future in-kind rent included in the lease through October 2017 has been recorded as \$163,714 grants receivable and temporarily restricted contribution revenue.

RSN leases administrative offices in San Jose, CA, Concord, CA, Milwaukee, WI, Nashville, TN and Washington, DC under various operating leases. Lease expense for all regional administrative offices totaled \$240,619 for the year ended June 30, 2016.

LLC1-RMS site land lease - 20 year land lease, \$11,466 payable monthly. The property was purchased by LLC1 in March 2016. Lease expense recognized for the year ended June 30, 2016 was \$95,932.

RSK facility lease - 29 year facility lease, \$62,896, plus additional rent items, payable monthly. The facility was purchased by LLC11 in February 2016. Due to an uneven payment schedule prior to February 2016, lease expense was accrued on a straight line basis over the life of the lease. Following the purchase, the prior year accrued balance of \$353,348 was written down, resulting in a decrease in current lease expense. For the year ended June 30, 2016, total lease expense of \$94,848 has been recorded, inclusive of current year lease payments totaling \$448,196 and the \$353,348 credit from the prior year.

LLC10-RSK site land lease - 20 year land lease, \$8,000 payable monthly (\$96,000 annually), subject to adjustment every three years. The lease was assumed with the purchase of the facility in February 2016. Lease expense recognized for the year ended June 30, 2016 was \$49,465.

LLC11-RBM site land lease - 30 year land lease, \$7,917 payable monthly, subject to adjustment in 2023. Lease expense recognized for the year ended June 30, 2016 was \$95,003.

**ROCKETSHIP EDUCATION
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

NOTE 8 - OPERATING LEASES: (continued)

LLC12-RFZ site land lease - 35 year land lease, \$24,000 payable monthly during the year ended June 30, 2016. Due to an uneven payment schedule, lease expense is accrued on a straight line basis over the life of the lease. For the year ended June 30, 2016, total lease expense of \$378,944 has been accrued and lease payments totaled \$260,000.

RFZ site land lease -34 year land lease for addition to RFZ site, payable between \$2,842 and \$2,885 monthly during the year ended June 30, 2016. Due to an uneven payment schedule, lease expense is accrued on a straight line basis over the life of the lease. For the year ended June 30, 2016, total lease expense of \$43,426 has been accrued and lease payments totaled \$34,189.

RRWC facility lease – one year lease for facilities with the authorizing district. Lease expense recognized for the year ended June 30, 2016 was \$38,759.

LLC15 site lease – 15 year land lease, \$25,000 payable monthly during the year ended June 30, 2016. Due to an uneven payment schedule, lease expense is accrued on a straight line basis over the life of the lease. For the year ended June 30, 2016, total lease expense of \$101,338 has been accrued and lease payments totaled \$100,000.

MLLC1-RSCP facility lease – 10 year facility lease, \$43,526, plus additional rent items, payable monthly during the year ended June 30, 2016. Due to an uneven payment schedule, lease expense is accrued on a straight line basis over the life of the lease. For the year ended June 30, 2016, total lease expense of \$661,260 has been accrued and lease payments totaled \$627,505.

RNNE facility lease – 29 year facility lease, \$51,365, plus additional rent items, payable monthly during the year ended June 30, 2016. Due to an uneven payment schedule, lease expense is accrued on a straight line basis over the life of the lease. For the year ended June 30, 2016, total lease expense of \$868,724 has been accrued and lease payments totaled \$696,228.

NLLC2- RUA facility lease – 29 year facility lease, \$55,511, plus additional rent items, payable monthly during the year ended June 30, 2016. Due to an uneven payment schedule, lease expense is accrued on a straight line basis over the life of the lease. For the year ended June 30, 2016 total lease expense of \$911,102 has been accrued and lease payments totaled \$725,668.

**ROCKETSHIP EDUCATION
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

NOTE 8 - OPERATING LEASES: (continued)

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

| <u>June 30,</u> | <u>RSN</u> | <u>RFZ</u> | <u>RNNE</u> |
|-----------------|-------------------|---------------------|----------------------|
| 2017 | \$ 126,051 | \$ 34,702 | \$ 616,382 |
| 2018 | 42,529 | 35,223 | 616,382 |
| 2019 | - | 35,751 | 616,382 |
| 2020 | - | 36,287 | 630,954 |
| 2021 | - | 36,832 | 645,151 |
| Thereafter | - | 1,223,884 | 18,515,293 |
| Total | <u>\$ 168,580</u> | <u>\$ 1,402,679</u> | <u>\$ 21,640,544</u> |

| <u>June 30,</u> | <u>LLC10</u> | <u>LLC11</u> | <u>LLC12</u> | <u>LLC15</u> | <u>MLLC1</u> | <u>NLLC2</u> | <u>RSEA Total</u> |
|-----------------|---------------------|---------------------|----------------------|---------------------|---------------------|----------------------|----------------------|
| 2017 | \$ 96,000 | \$ 95,004 | \$ 284,000 | \$ 300,000 | \$ 534,629 | \$ 666,126 | \$ 2,752,894 |
| 2018 | 96,000 | 95,004 | 302,400 | 378,000 | 546,658 | 666,126 | 2,778,322 |
| 2019 | 96,000 | 95,004 | 316,800 | 378,000 | 558,958 | 666,126 | 2,763,021 |
| 2020 | 96,000 | 95,004 | 316,800 | 378,000 | 571,534 | 666,126 | 2,790,705 |
| 2021 | 96,000 | 95,004 | 316,800 | 396,900 | 584,394 | 681,114 | 2,852,195 |
| Thereafter | 1,632,000 | 2,090,088 | 11,112,726 | 4,275,705 | 1,208,531 | 20,683,664 | 60,741,891 |
| Total | <u>\$ 2,112,000</u> | <u>\$ 2,565,108</u> | <u>\$ 12,649,526</u> | <u>\$ 6,106,605</u> | <u>\$ 4,004,704</u> | <u>\$ 24,029,282</u> | <u>\$ 74,679,028</u> |

NOTE 9 - EMPLOYEE RETIREMENT:

State Teachers' Retirement System (STRS)

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

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

**ROCKETSHIP EDUCATION
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

NOTE 9 - EMPLOYEE RETIREMENT: (continued)

RSEA contributes to the State Teachers' Retirement System (STRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. The plan provides retirement, disability and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. According to the most recently available Comprehensive Annual Financial Report and Actuarial Valuation Report for the year ended June 30, 2015, total STRS plan net assets are \$181 billion, the total actuarial present value of accumulated plan benefits is \$242 billion, contributions from all employers totaled \$2.55 billion, and the plan is 68.5% funded. RSEA did not contribute more than 5% of the total contributions to the plan. Copies of the STRS annual financial reports may be obtained from STRS, 7667 Folsom Boulevard, Sacramento, CA 95826 and www.calstrs.com.

Active plan members hired before December 31, 2012 are required to contribute 9.20% of their salary and those hired after are required to contribute 8.56% of their salary. RSEA is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. Under the 2014 funding plan, employer contributions on compensation creditable to the program will increase every year for the next seven years, up to 19.10% in 2020–21. The required employer contribution rate for fiscal year 2015-16 was 10.73% of annual payroll. The contribution requirements of the plan members are established and may be amended by State statute.

RSEA'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> |
| 2014 | \$855,364 | 100% |
| 2015 | \$1,014,836 | 100% |
| 2016 | \$1,420,048 | 100% |

Tennessee Consolidated Retirement System – Legacy Pension Plan

Teachers with membership in the Tennessee Consolidated Retirement System (TCRS) before July 1, 2014 of RSEA are provided with pensions through the Teacher Legacy Pension Plan, a cost sharing multiple-employer pension plan administered by the TCRS. The Teacher Legacy Pension Plan closed to new membership on June 30, 2014, but will continue providing benefits to existing members and retirees.

**ROCKETSHIP EDUCATION
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

NOTE 9 - EMPLOYEE RETIREMENT: (continued)

Contributions for teachers are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Teachers contribute 5 percent of salary. RSEA makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. By law, employer contributions for the Teacher Legacy Pension Plan are required to be paid. TCRS may intercept the state shared taxes of the sponsoring governmental entity of the schools if the required employer contributions are not remitted. Employer contributions by RSEA for the year ended June 30, 2016 to the Teacher Legacy Pension Plan was 9.04 percent of covered payroll. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability. RSEA did not contribute more than 5% of the total contributions to the plan. The TCRS issues a publically available financial report that can be obtained at www.treasury.tn.gov/tcrs.

Tennessee Consolidated Retirement System – Teacher Retirement Plan

Beginning July 1, 2014, the Teacher Retirement Plan became effective for teachers employed by schools after June 30, 2014. The Teacher Retirement Plan is a separate cost-sharing, multiple-employer defined benefit plan. The TCRS was created by state statute under Tennessee Code Annotated Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of all employer pension plans in the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS.

Contributions for teachers are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly or by automatic cost controls set out in law. Teachers contribute 5 percent of salary. RSEA makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. Per the statutory provisions governing the TCRS, the employer contribution rate cannot be less than 4 percent, except in years when the maximum funded level, as established by the TCRS Board of Trustees, is reached. By law, employer contributions for the Teacher Retirement Plan are required to be paid. TCRS may intercept the state shared taxes of the sponsoring governmental entity of the school if the required employer contributions are not remitted. Employer contributions by RSEA for the year ended June 30, 2016 to the Teacher Retirement Plan were 4.00 percent of covered payroll. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

**ROCKETSHIP EDUCATION
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

NOTE 9 - EMPLOYEE RETIREMENT: (continued)

RSEA did not contribute more than 5% of the total contributions to the plan. The TCRS issues a publically available financial report that can be obtained at www.treasury.tn.gov/tcrs.

Defined Contribution Plan

RSEA offers an Internal Revenue Code Section 403(b) retirement plan to each of its qualifying employees. RSEA matches the lessor of 3% of annual salary or \$2,500. During the year ended June 30, 2016 RSEA contributed \$319,660 to this plan.

NOTE 10 - RELATED PARTY TRANSACTIONS:

Facility Leases

In 2015, RMS amended and restated its existing lease with LLC1 into a 31-year facility lease through 2046. Due to an uneven payment schedule, lease expense is accrued on a straight line basis over the life of the lease. Total lease expense of \$923,328 has been accrued. For school year 2015/16, lease payments under this agreement totaled \$1,069,379.

In 2014, RSSP amended and restated its existing lease with LLC2 into a 29-year facility lease agreement through 2043. Due to an uneven payment schedule, lease expense is accrued on a straight line basis over the life of the lease. Total lease expense of \$1,032,223 has been accrued. For school year 2015/16, lease payments under this agreement totaled \$1,047,614.

In 2010, RLS entered into a 10-year lease with LLC3 through 2020. The lease agreement was amended July 2012. For the school year 2015/16, lease payments under this agreement totaled \$1,241,506.

In 2011, ROMO entered into a 30-year lease with LLC4 through 2042. The lease was amended in July 2012. Due to an uneven payment schedule, lease expense is accrued on a straight line basis over the life of the lease. Total lease expense of \$940,221 has been accrued. For school year 2015/16, lease payments under this agreement totaled \$947,862.

In 2011, RDP entered into a 20 year lease with LLC5 through 2031. The lease agreement was amended July 2012. For the school year 2015/16, lease payments under this agreement totaled \$979,386. Related to the lease, LDC has placed \$325,000 into a fully pledged reserve account for the benefit of the lender.

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

NOTE 10 - RELATED PARTY TRANSACTIONS: (continued)

In 2014, RBM entered into a 29-year facility lease agreement with LLC11 through 2043. Due to an uneven payment schedule, lease expense is accrued on a straight line basis over the life of the lease. Total lease expense of \$1,103,935 has been accrued. For school year 2015/16, lease payments under this agreement totaled \$1,135,173.

In 2012, RSA entered into a 15 year lease with LLC8 through 2027. The lease agreement was amended July 2012. Due to an uneven payment schedule, lease expense is accrued on a straight line basis over the life of the lease. Total lease expense of \$715,590 has been accrued. For school year 2015/16, lease payments under this agreement totaled \$729,031.

In 2016, RSK entered into a 30-year facility lease agreement with LLC10 through 2046. Due to an uneven payment schedule, lease expense is accrued on a straight line basis over the life of the lease.

Total lease expense of \$364,747 has been accrued. For school year 2015/16, lease payments under this agreement totaled \$491,461.

In 2014, RFZ entered into a 29-year facility lease agreement with LLC12 through 2043. Due to an uneven payment schedule, lease expense is accrued on a straight line basis over the life of the lease. Total lease expense of \$1,408,961 has been accrued. For school year 2015/16, lease payments under this agreement totaled \$1,323,594.

In 2016, RRS entered into a 15-year facility lease agreement with LLC16 through 2031. Rent payments are expected to begin in August 2016.

In 2013, RSCP entered into a 10-year facility lease agreement with MLLC1 through 2023. Due to an uneven payment schedule, lease expense is accrued on a straight line basis over the life of the lease. Total lease expense of \$661,260 has been accrued. For school year 2015/16, lease payments under this agreement totaled \$627,505.

In 2016, RUA entered into a 29-year facility lease agreement with NLLC2 through 2044. Due to an uneven payment schedule, lease expense is accrued on a straight line basis over the life of the lease. Total lease expense of \$911,102 has been accrued. For school year 2015/16, lease payments under this agreement totaled \$725,668.

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

NOTE 10 - RELATED PARTY TRANSACTIONS: (continued)

Future estimated payments under these leases as of June 30, 2016 are as follows:

| <u>June 30,</u> | <u>RMS</u> | <u>RSSP</u> | <u>RLS</u> | <u>ROMO</u> | <u>RDP</u> | <u>RBM</u> |
|-----------------|----------------------|----------------------|---------------------|----------------------|----------------------|----------------------|
| 2017 | \$ 1,013,094 | \$ 1,040,621 | \$ 1,103,484 | \$ 942,474 | \$ 936,134 | \$ 1,138,288 |
| 2018 | 1,016,140 | 1,033,731 | 1,103,484 | 945,693 | 936,134 | 1,130,841 |
| 2019 | 1,008,461 | 1,038,839 | 1,103,484 | 947,108 | 936,134 | 1,124,587 |
| 2020 | 1,004,894 | 1,037,829 | 1,103,484 | 945,542 | 936,134 | 1,129,129 |
| 2021 | 1,005,461 | 1,031,890 | | 946,062 | 936,134 | 1,128,415 |
| Thereafter | 21,010,515 | 22,970,954 | - | 19,568,384 | 9,361,336 | 25,083,329 |
| Total | <u>\$ 26,058,565</u> | <u>\$ 28,153,864</u> | <u>\$ 4,413,936</u> | <u>\$ 24,295,263</u> | <u>\$ 14,042,006</u> | <u>\$ 30,734,589</u> |

| <u>June 30,</u> | <u>RSA</u> | <u>RSK</u> | <u>RFZ</u> | <u>RRS</u> | <u>RSCP</u> | <u>RUA</u> | <u>Total</u> |
|-----------------|---------------------|----------------------|----------------------|----------------------|---------------------|----------------------|-----------------------|
| 2017 | \$ 730,624 | \$ 1,023,037 | \$ 1,347,867 | \$ 663,219 | \$ 534,624 | \$ 666,126 | \$ 11,139,592 |
| 2018 | 724,520 | 1,024,464 | 1,366,250 | 1,014,847 | 546,660 | 666,126 | 11,508,890 |
| 2019 | 724,657 | 1,020,584 | 1,375,718 | 1,013,385 | 558,960 | 666,126 | 11,518,043 |
| 2020 | 724,946 | 1,013,722 | 1,375,032 | 1,005,092 | 571,536 | 666,126 | 11,513,466 |
| 2021 | 724,609 | 1,014,162 | 1,380,217 | 1,004,162 | 584,400 | 681,114 | 10,436,626 |
| Thereafter | 4,596,372 | 21,196,733 | 32,513,451 | 20,946,732 | 1,208,532 | 20,683,664 | 199,140,002 |
| Total | <u>\$ 8,225,728</u> | <u>\$ 26,292,702</u> | <u>\$ 39,358,535</u> | <u>\$ 25,647,437</u> | <u>\$ 4,004,712</u> | <u>\$ 24,029,282</u> | <u>\$ 255,256,619</u> |

Rocketship Education Wisconsin Inc. Line of Credit from RSN

In 2014, Rocketship Education Wisconsin Inc. entered into a revolving line of credit agreement (RSW LOC) with RSN in the amount of \$650,000 to support the operation of RSCP. The agreement was amended June 30, 2015, and extended to \$1.5 million. Interest is charged at a LIBOR based rate, not to exceed 4.0 percent on outstanding balances under the facility. On June 30, 2014 an advance of \$650,000 was issued, followed by an advance of \$850,000 on June 30, 2015, totaling \$1.5 million. During school year 2015/16, RSCP paid RSN quarterly interest payments totaling \$49,073.

Rocketship Education fees charged to Rocketship Education D.C.

RSN charged RSDC \$1,673,858 for start-up services in support of the region through June 30, 2016.

Development Fees

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

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

NOTE 10 - RELATED PARTY TRANSACTIONS: (continued)

For the year ended June 30, 2016 the following development fees were collected:

| | <u>Development Fees</u> |
|-------|-----------------------------|
| LLC16 | \$ 350,000 |

Management Services

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

For the year ended June 30, 2016, management fees were as follows:

| | <u>Management Fees</u> | | <u>Management Fees</u> |
|------|----------------------------|-------|----------------------------|
| RMS | \$ 904,672 | RSK | 964,874 |
| RSSP | 923,143 | RFZ | 937,634 |
| RLS | 931,129 | RRWC | 326,769 |
| ROMO | 945,681 | RNNE | 717,055 |
| RDP | 734,540 | RUA | 555,984 |
| RBM | 916,427 | RSCP | <u>542,450</u> |
| RSA | 820,718 | Total | <u>\$ 10,221,076</u> |

Donated Services

RSN provided certain organizational support services, including accounting, finance, and human resources, as well as shared office space to Launchpad (Donated Services) during the year. For the year ended June 30, 2016, the amount of Donated Services recorded from RSN to Launchpad was \$25,000.

NOTE 11 - COMMITMENTS AND CONTINGENCIES:

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

SUPPLEMENTARY INFORMATION

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
For the Year Ended June 30, 2016**

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

California Charter Schools:

Rocketship Mateo Sheedy Elementary (RMS), chartered by the Santa Clara County Office of Education, Charter Number: 0850 – Established 2007, Expires 2020

Rocketship Si Se Puede Academy (RSSP), chartered by the Santa Clara County Office of Education, Charter Number: 1061 – Established 2009, Expires 2017

Rocketship Los Suenos Academy (RLS), chartered by the Santa Clara County Office of Education, Charter Number: 1127 – Established 2009, Expires 2020

Rocketship Mosaic Elementary School (ROMO), chartered by the Franklin-McKinley Elementary School District, Charter Number: 1192 – Established 2011, Expires 2021

Rocketship Discovery Prep (RDP), chartered by the Santa Clara County Office of Education, Charter Number: 1193 – Established 2010, Expires 2021

Rocketship Brilliant Minds (RBM), chartered by the Santa Clara County Office of Education, Charter Number: 1393 – Established 2012, Expires 2017

Rocketship Alma Academy (RSA), chartered by the Santa Clara County Office of Education, Charter Number: 1394 – Established 2012, Expires 2017

Rocketship Spark Academy (RSK), chartered by the Franklin-McKinley Elementary School District, Charter Number: 1526 – Established 2013, Expires 2018

Rocketship Fuerza Community Prep (RFZ), chartered by the Santa Clara County Office of Education, Charter Number: 1687 – Established 2014, Expires 2019

Rocketship Redwood City Prep (RRWC), chartered by the Redwood City Elementary School District, Charter Number: 1736 – Established 2015, Expires 2020

Rocketship Rising Stars (RRS), chartered by the Santa Clara County Office of Education, Charter Number: 1778– Begins 16/17

Rocketship Futuro Academy (RFA), chartered by the State Board of Education, Charter Number: 1805– Begins 16/17

Tennessee Charter Schools:

Rocketship Nashville Northeast Elementary (RNNE)

Rocketship United Academy (RUA)

Wisconsin Charter Schools (Operated by Rocketship Education Wisconsin, Inc.):

Rocketship Southside Community Prep (RSCP)

Washington D.C. Charter Schools (Operated by Rocketship Education D.C. Public Charter School, Inc.):

Rocketship Rise Academy (RISE) Begins 16/17

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE (Continued)
For the Year Ended June 30, 2016**

Board of Directors

| <u>Name</u> | <u>Office</u> | <u>2-Year Term Expires</u> |
|-----------------|---------------|----------------------------|
| Fred Ferrer | President | 2018 |
| Alan Crites | Treasurer | 2016 |
| Arra Yerganian | Secretary | 2016 |
| Alex Hernandez | Member | 2016 |
| Alex Terman | Member | 2018 |
| Deborah McGriff | Member | 2017 |
| Greg Stanger | Member | 2018 |
| Louis Jordan | Member | 2016 |
| Raymond Raven | Member | 2017 |
| Ralph Weber | Member | 2017 |
| Joey Slotter | Member | 2017 |
| David Kaval | Member | 2018 |

Administration

| | |
|----------------------|---|
| Preston Smith | Co-Founder, CEO and President |
| Andrew Stern | Chief Business Officer |
| Lynn Liao | Chief Programs Officer |
| Carolyn Davies Lynch | Vice President, Strategy & Scalability |
| Cheye Calvo | Chief Growth and Community Engagement Officer |
| Adam Nadeau | Vice President, Personalized Learning & Achievement |
| Jaclyn O'Brien | Vice President, Schools |
| Dynasti Hunt | Vice President, Human Resources |
| Christopher Murphy | Vice President, Marketing and Communications |

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**
CONSOLIDATING STATEMENT OF FINANCIAL POSITION - SCHOOLS
June 30, 2016

| | <u>California</u> | | | | | | | <u>Total Page 1</u> |
|--|----------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|----------------------|
| | <u>RSN</u> | <u>RMS</u> | <u>RSSP</u> | <u>RLS</u> | <u>ROMO</u> | <u>RDP</u> | <u>RBM</u> | |
| ASSETS | | | | | | | | |
| CURRENT ASSETS: | | | | | | | | |
| Cash and cash equivalents | \$ 4,763,865 | \$ 563,453 | \$ 2,266,286 | \$ 926,703 | \$ 1,612,798 | \$ 132,813 | \$ 928,167 | \$ 11,194,085 |
| Accounts receivable | 199,930 | 922,942 | 529,732 | 839,815 | 615,680 | 972,204 | 527,706 | 4,608,009 |
| Grants receivable | 257,160 | - | - | - | - | - | - | 257,160 |
| Prepaid expenses and deposits | 607,469 | 204,678 | 77,937 | 89,877 | 86,253 | 121,511 | 85,819 | 1,273,544 |
| Total current assets | <u>5,828,424</u> | <u>1,691,073</u> | <u>2,873,955</u> | <u>1,856,395</u> | <u>2,314,731</u> | <u>1,226,528</u> | <u>1,541,692</u> | <u>17,332,798</u> |
| LONG-TERM ASSETS: | | | | | | | | |
| Grants receivable | 40,434 | - | - | - | - | - | - | 40,434 |
| Intracompany receivable | 6,272,675 | - | - | - | - | - | - | 6,272,675 |
| Security deposits | - | - | - | 100,000 | 100,000 | 100,000 | - | 300,000 |
| Property, plant & equipment, net | 549,134 | 1,210,204 | 758,070 | 776,454 | 626,031 | 517,489 | 105,417 | 4,542,799 |
| Total long-term assets | <u>6,862,243</u> | <u>1,210,204</u> | <u>758,070</u> | <u>876,454</u> | <u>726,031</u> | <u>617,489</u> | <u>105,417</u> | <u>11,155,908</u> |
| Total assets | <u>\$ 12,690,667</u> | <u>\$ 2,901,277</u> | <u>\$ 3,632,025</u> | <u>\$ 2,732,849</u> | <u>\$ 3,040,762</u> | <u>\$ 1,844,017</u> | <u>\$ 1,647,109</u> | <u>\$ 28,488,706</u> |
| LIABILITIES AND NET ASSETS | | | | | | | | |
| CURRENT LIABILITIES: | | | | | | | | |
| Accounts payable and accrued liabilities | \$ 1,949,898 | \$ 273,895 | \$ 283,980 | \$ 346,335 | \$ 371,297 | \$ 244,588 | \$ 271,988 | \$ 3,741,981 |
| Deferred rent liability | - | - | 7,675 | - | 9,656 | - | 33,584 | 50,915 |
| Deferred revenue | 147,116 | 191,565 | 168,372 | 113,133 | 44,400 | 46,533 | 41,684 | 752,803 |
| Current portion of loans payable | - | - | - | - | - | - | 62,506 | 62,506 |
| Total current liabilities | <u>2,097,014</u> | <u>465,460</u> | <u>460,027</u> | <u>459,468</u> | <u>425,353</u> | <u>291,121</u> | <u>409,762</u> | <u>4,608,205</u> |
| LONG-TERM LIABILITIES: | | | | | | | | |
| Accrued interest | 142,352 | - | - | - | - | - | - | 142,352 |
| Deferred rent liability | - | - | 189,315 | - | 498,759 | - | 799,754 | 1,487,828 |
| Intracompany payable | 600,000 | - | - | - | - | 1,010,139 | - | 1,610,139 |
| Loans payable | 1,275,000 | - | - | - | - | - | - | 1,275,000 |
| Total long-term liabilities | <u>2,017,352</u> | <u>-</u> | <u>189,315</u> | <u>-</u> | <u>498,759</u> | <u>1,010,139</u> | <u>799,754</u> | <u>4,515,319</u> |
| NET ASSETS: | | | | | | | | |
| Unrestricted | 8,282,004 | 2,435,817 | 2,982,683 | 2,273,381 | 2,116,650 | 542,757 | 437,593 | 19,070,885 |
| Temporarily restricted | 294,297 | - | - | - | - | - | - | 294,297 |
| Total net assets | <u>8,576,301</u> | <u>2,435,817</u> | <u>2,982,683</u> | <u>2,273,381</u> | <u>2,116,650</u> | <u>542,757</u> | <u>437,593</u> | <u>19,365,182</u> |
| Total liabilities and net assets | <u>\$ 12,690,667</u> | <u>\$ 2,901,277</u> | <u>\$ 3,632,025</u> | <u>\$ 2,732,849</u> | <u>\$ 3,040,762</u> | <u>\$ 1,844,017</u> | <u>\$ 1,647,109</u> | <u>\$ 28,488,706</u> |

See the accompanying notes to supplementary information.

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**
CONSOLIDATING STATEMENT OF FINANCIAL POSITION - SCHOOLS (Continued)
June 30, 2016

| | <u>From Page 1</u> | <u>California</u> | | | | | | <u>Total Page 2</u> |
|-----------------------------------|----------------------|---------------------|---------------------|---------------------|-------------------|-------------------|-------------------|----------------------|
| | | <u>RSA</u> | <u>RSK</u> | <u>RFZ</u> | <u>RRWC</u> | <u>RRS</u> | <u>RFA</u> | |
| ASSETS | | | | | | | | |
| CURRENT ASSETS: | | | | | | | | |
| Cash and cash equivalents | \$ 11,194,085 | \$ 1,036,357 | \$ 210,291 | \$ 421,465 | \$ 203,777 | \$ 167,075 | \$ 177,293 | \$ 13,410,343 |
| Accounts receivable | 4,608,009 | 815,069 | 1,461,562 | 458,450 | 306,026 | 50,268 | 20,970 | 7,720,354 |
| Grants receivable | 257,160 | - | - | - | - | - | - | 257,160 |
| Prepaid expenses and deposits | 1,273,544 | 35,492 | 213,360 | 81,603 | 55,085 | 210,577 | 118,069 | 1,987,730 |
| Total current assets | <u>17,332,798</u> | <u>1,886,918</u> | <u>1,885,213</u> | <u>961,518</u> | <u>564,888</u> | <u>427,920</u> | <u>316,332</u> | <u>23,375,587</u> |
| LONG-TERM ASSETS: | | | | | | | | |
| Grants receivable | 40,434 | - | - | - | - | - | - | 40,434 |
| Intracompany receivable | 6,272,675 | - | - | - | - | - | - | 6,272,675 |
| Security deposits | 300,000 | 100,000 | - | - | - | - | - | 400,000 |
| Property, plant & equipment, net | 4,542,799 | 494,454 | 217,466 | 55,756 | 32,004 | - | - | 5,342,479 |
| Total long-term assets | <u>11,155,908</u> | <u>594,454</u> | <u>217,466</u> | <u>55,756</u> | <u>32,004</u> | <u>-</u> | <u>-</u> | <u>12,055,588</u> |
| Total assets | <u>\$ 28,488,706</u> | <u>\$ 2,481,372</u> | <u>\$ 2,102,679</u> | <u>\$ 1,017,274</u> | <u>\$ 596,892</u> | <u>\$ 427,920</u> | <u>\$ 316,332</u> | <u>\$ 35,431,175</u> |
| LIABILITIES AND NET ASSETS | | | | | | | | |
| CURRENT LIABILITIES: | | | | | | | | |
| Accounts payable | \$ 3,741,981 | \$ 289,092 | \$ 446,582 | \$ 272,185 | \$ 217,808 | \$ 70,013 | \$ 34,929 | \$ 5,072,590 |
| Deferred rent liability | 50,915 | 14,721 | - | - | - | - | - | 65,636 |
| Deferred revenue | 752,803 | 41,148 | 16,040 | 22,920 | - | 301,947 | 207,114 | 1,341,972 |
| Current portion of loans payable | 62,506 | 62,506 | 62,500 | 62,500 | 62,496 | - | - | 312,508 |
| Total current liabilities | <u>4,608,205</u> | <u>407,467</u> | <u>525,122</u> | <u>357,605</u> | <u>280,304</u> | <u>371,960</u> | <u>242,043</u> | <u>6,792,706</u> |
| LONG-TERM LIABILITIES: | | | | | | | | |
| Accrued interest | 142,352 | - | - | 1,844 | 1,056 | 522 | 522 | 146,296 |
| Deferred rent liability | 1,487,828 | 89,208 | - | 1,226,221 | - | - | - | 2,803,257 |
| Intracompany payable | 1,610,139 | - | - | - | 326,765 | - | - | 1,936,904 |
| Loans payable | 1,275,000 | - | 62,508 | 162,508 | 287,504 | 100,000 | 100,000 | 1,987,520 |
| Total long-term liabilities | <u>4,515,319</u> | <u>89,208</u> | <u>62,508</u> | <u>1,390,573</u> | <u>615,325</u> | <u>100,522</u> | <u>100,522</u> | <u>6,873,977</u> |
| NET ASSETS: | | | | | | | | |
| Unrestricted | 19,070,885 | 1,984,697 | 1,515,049 | (730,904) | (298,737) | (44,562) | (26,233) | 21,470,195 |
| Temporarily restricted | 294,297 | - | - | - | - | - | - | 294,297 |
| Total net assets | <u>19,365,182</u> | <u>1,984,697</u> | <u>1,515,049</u> | <u>(730,904)</u> | <u>(298,737)</u> | <u>(44,562)</u> | <u>(26,233)</u> | <u>21,764,492</u> |
| Total liabilities and net assets | <u>\$ 28,488,706</u> | <u>\$ 2,481,372</u> | <u>\$ 2,102,679</u> | <u>\$ 1,017,274</u> | <u>\$ 596,892</u> | <u>\$ 427,920</u> | <u>\$ 316,332</u> | <u>\$ 35,431,175</u> |

See the accompanying notes to supplementary information.

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**
CONSOLIDATING STATEMENT OF FINANCIAL POSITION - SCHOOLS (Continued)
June 30, 2016

| | From Page 2 | Tennessee | | Eliminations | RSED Total | Wisconsin | D.C. | Eliminations | Total |
|-----------------------------------|----------------------|-------------------|-------------------|-----------------------|----------------------|--------------------|---------------------|-----------------------|----------------------|
| | | RNNE | RUA | | | RSCP | RSDC | | |
| ASSETS | | | | | | | | | |
| CURRENT ASSETS: | | | | | | | | | |
| Cash and cash equivalents | \$ 13,410,343 | \$ 84,228 | \$ 66,749 | \$ - | \$ 13,561,320 | \$ 386,046 | \$ 810,445 | \$ - | \$ 14,757,811 |
| Accounts receivable | 7,720,354 | 37,056 | 34,054 | - | 7,791,464 | 80,824 | - | - | 7,872,288 |
| Grants receivable | 257,160 | - | - | - | 257,160 | - | 246,000 | - | 503,160 |
| Prepaid expenses and deposits | 1,987,730 | 90,694 | 50,970 | - | 2,129,394 | 62,546 | 53,849 | - | 2,245,789 |
| Total current assets | <u>23,375,587</u> | <u>211,978</u> | <u>151,773</u> | <u>-</u> | <u>23,739,338</u> | <u>529,416</u> | <u>1,110,294</u> | <u>-</u> | <u>25,379,048</u> |
| LONG-TERM ASSETS: | | | | | | | | | |
| Grants receivable | 40,434 | - | - | - | 40,434 | - | 195,040 | - | 235,474 |
| Intracompany receivable | 6,272,675 | - | - | (1,726,184) | 4,546,491 | - | 600,000 | (5,146,491) | - |
| Security deposits | 400,000 | - | - | - | 400,000 | - | - | - | 400,000 |
| Property, plant & equipment, net | 5,342,479 | 8,004 | 12,610 | - | 5,363,093 | - | - | - | 5,363,093 |
| Total long-term assets | <u>12,055,588</u> | <u>8,004</u> | <u>12,610</u> | <u>(1,726,184)</u> | <u>10,350,018</u> | <u>-</u> | <u>795,040</u> | <u>(5,146,491)</u> | <u>5,998,567</u> |
| Total assets | <u>\$ 35,431,175</u> | <u>\$ 219,982</u> | <u>\$ 164,383</u> | <u>\$ (1,726,184)</u> | <u>\$ 34,089,356</u> | <u>\$ 529,416</u> | <u>\$ 1,905,334</u> | <u>\$ (5,146,491)</u> | <u>\$ 31,377,615</u> |
| LIABILITIES AND NET ASSETS | | | | | | | | | |
| CURRENT LIABILITIES: | | | | | | | | | |
| Accounts payable | \$ 5,072,590 | \$ 241,965 | \$ 182,945 | \$ - | \$ 5,497,500 | \$ 125,257 | \$ 49,417 | \$ - | \$ 5,672,174 |
| Deferred rent liability | 65,636 | - | - | - | 65,636 | - | - | - | 65,636 |
| Deferred revenue | 1,341,972 | - | - | - | 1,341,972 | - | - | - | 1,341,972 |
| Current portion of loans payable | 312,508 | - | - | - | 312,508 | - | - | - | 312,508 |
| Total current liabilities | <u>6,792,706</u> | <u>241,965</u> | <u>182,945</u> | <u>-</u> | <u>7,217,616</u> | <u>125,257</u> | <u>49,417</u> | <u>-</u> | <u>7,392,290</u> |
| LONG-TERM LIABILITIES: | | | | | | | | | |
| Accrued interest | 146,296 | 1,844 | 1,056 | - | 149,196 | - | - | - | 149,196 |
| Deferred rent liability | 2,803,257 | 340,845 | 185,434 | - | 3,329,536 | 112,241 | - | - | 3,441,777 |
| Intracompany payable | 1,936,904 | 218,472 | 170,808 | (1,726,184) | 600,000 | 2,161,472 | 2,385,019 | (5,146,491) | - |
| Loans payable | 1,987,520 | 100,000 | 100,000 | - | 2,187,520 | - | - | - | 2,187,520 |
| Total long-term liabilities | <u>6,873,977</u> | <u>661,161</u> | <u>457,298</u> | <u>(1,726,184)</u> | <u>6,266,252</u> | <u>2,273,713</u> | <u>2,385,019</u> | <u>(5,146,491)</u> | <u>5,778,493</u> |
| NET ASSETS: | | | | | | | | | |
| Unrestricted | 21,470,195 | (683,144) | (475,860) | - | 20,311,191 | (1,869,554) | (724,142) | - | 17,717,495 |
| Temporarily restricted | 294,297 | - | - | - | 294,297 | - | 195,040 | - | 489,337 |
| Total net assets | <u>21,764,492</u> | <u>(683,144)</u> | <u>(475,860)</u> | <u>-</u> | <u>20,605,488</u> | <u>(1,869,554)</u> | <u>(529,102)</u> | <u>-</u> | <u>18,206,832</u> |
| Total liabilities and net assets | <u>\$ 35,431,175</u> | <u>\$ 219,982</u> | <u>\$ 164,383</u> | <u>\$ (1,726,184)</u> | <u>\$ 34,089,356</u> | <u>\$ 529,416</u> | <u>\$ 1,905,334</u> | <u>\$ (5,146,491)</u> | <u>\$ 31,377,615</u> |

See the accompanying notes to supplementary information.

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**CONSOLIDATING STATEMENT OF ACTIVITIES - SCHOOLS
For the Year Ended June 30, 2016**

| | California | | | | | | | Total Page 1 |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|-------------------|-------------------|----------------------|
| | RSN | RMS | RSSP | RLS | ROMO | RDP | RBM | |
| UNRESTRICTED NET ASSETS: | | | | | | | | |
| Revenues | | | | | | | | |
| LCFF State Aid | \$ - | \$ 1,424,069 | \$ 4,016,328 | \$ 5,025,587 | \$ 3,926,344 | \$ 3,778,915 | \$ 5,067,898 | \$ 23,239,141 |
| Apportionment revenue | - | - | - | - | - | - | - | - |
| Property taxes | - | 3,466,031 | 1,018,565 | 44,715 | 1,263,971 | 143,400 | 33,924 | 5,970,606 |
| Other State revenue | - | 1,339,474 | 1,243,711 | 1,263,014 | 1,445,257 | 1,353,217 | 1,386,030 | 8,030,703 |
| Federal revenue | 372,940 | 737,654 | 742,906 | 774,100 | 710,216 | 636,409 | 646,683 | 4,620,908 |
| Other local revenue | 12,016,983 | 19,714 | 28,701 | 25,594 | 39,205 | 13,663 | 21,323 | 12,165,183 |
| Contributions | 5,157,909 | 119,598 | 92,014 | 113,404 | 109,230 | 111,887 | 95,059 | 5,799,101 |
| Amounts released from restriction | 299,290 | - | - | - | - | - | - | 299,290 |
| Total unrestricted revenues | <u>17,847,122</u> | <u>7,106,540</u> | <u>7,142,225</u> | <u>7,246,414</u> | <u>7,494,223</u> | <u>6,037,491</u> | <u>7,250,917</u> | <u>60,124,932</u> |
| Program Expenses | | | | | | | | |
| Educational programs | - | 5,585,746 | 5,294,214 | 5,658,125 | 5,573,240 | 5,361,260 | 5,782,084 | 33,254,669 |
| Supporting Services | | | | | | | | |
| Site supports and program development | 10,102,673 | - | - | - | - | - | - | 10,102,673 |
| Administration and general | 5,294,256 | 910,732 | 929,393 | 937,379 | 951,931 | 740,790 | 923,286 | 10,687,767 |
| Total supporting services | <u>15,396,929</u> | <u>910,732</u> | <u>929,393</u> | <u>937,379</u> | <u>951,931</u> | <u>740,790</u> | <u>923,286</u> | <u>20,790,440</u> |
| Total expenses | <u>15,396,929</u> | <u>6,496,478</u> | <u>6,223,607</u> | <u>6,595,504</u> | <u>6,525,171</u> | <u>6,102,050</u> | <u>6,705,370</u> | <u>54,045,109</u> |
| Increase (decrease) in unrestricted net assets | <u>2,450,193</u> | <u>610,062</u> | <u>918,618</u> | <u>650,910</u> | <u>969,052</u> | <u>(64,559)</u> | <u>545,547</u> | <u>6,079,823</u> |
| TEMPORARILY RESTRICTED NET ASSETS: | | | | | | | | |
| Amounts released from restriction | (299,290) | - | - | - | - | - | - | (299,290) |
| Contributions | 105,120 | - | - | - | - | - | - | 105,120 |
| Increase (decrease) in temporarily restricted net assets | <u>(194,170)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(194,170)</u> |
| Beginning net assets | <u>6,320,278</u> | <u>1,825,755</u> | <u>2,064,065</u> | <u>1,622,471</u> | <u>1,147,598</u> | <u>607,316</u> | <u>(107,954)</u> | <u>13,479,529</u> |
| Ending net assets | <u>\$ 8,576,301</u> | <u>\$ 2,435,817</u> | <u>\$ 2,982,683</u> | <u>\$ 2,273,381</u> | <u>\$ 2,116,650</u> | <u>\$ 542,757</u> | <u>\$ 437,593</u> | <u>\$ 19,365,182</u> |

See the accompanying notes to supplementary information.

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**CONSOLIDATING STATEMENT OF ACTIVITIES - SCHOOLS (Continued)
For the Year Ended June 30, 2016**

| | <u>California</u> | | | | | | Total Page 2 | |
|--|----------------------|---------------------|---------------------|---------------------|---------------------|--------------------|---------------------|----------------------|
| | From Page 1 | RSA | RSK | RFZ | RRWC | RRS | | RFA |
| UNRESTRICTED NET ASSETS: | | | | | | | | |
| Revenues | | | | | | | | |
| LCFF State Aid | \$ 23,239,141 | \$ 4,276,377 | \$ 4,073,715 | \$ 4,242,768 | \$ 1,042,279 | \$ - | \$ - | \$ 36,874,280 |
| Apportionment revenue | - | - | - | - | - | - | - | - |
| Property taxes | 5,970,606 | 110,895 | 1,293,846 | 1,023,317 | 990,040 | - | - | 9,388,704 |
| Other State revenue | 8,030,703 | 1,154,760 | 1,226,520 | 1,103,413 | 226,747 | - | - | 11,742,143 |
| Federal revenue | 4,620,908 | 719,570 | 646,256 | 582,026 | 563,175 | 55,426 | 55,780 | 7,243,141 |
| Other local revenue | 12,165,183 | 22,304 | 51,709 | 32,448 | 6,628 | - | - | 12,278,272 |
| Contributions | 5,799,101 | 115,797 | 189,415 | 116,216 | 1,277 | - | - | 6,221,806 |
| Amounts released from restriction | 299,290 | - | - | - | - | - | - | 299,290 |
| Total unrestricted revenues | <u>60,124,932</u> | <u>6,399,703</u> | <u>7,481,461</u> | <u>7,100,188</u> | <u>2,830,146</u> | <u>55,426</u> | <u>55,780</u> | <u>84,047,636</u> |
| Program Expenses | | | | | | | | |
| Educational programs | 33,254,669 | 5,023,472 | 5,216,227 | 5,934,510 | 2,876,953 | 99,988 | 82,013 | 52,487,832 |
| Supporting Services | | | | | | | | |
| Site supports and program development | 10,102,673 | - | - | - | - | - | - | 10,102,673 |
| Administration and general | 10,687,767 | 826,999 | 970,024 | 942,684 | 328,269 | - | - | 13,755,743 |
| Total supporting services | <u>20,790,440</u> | <u>826,999</u> | <u>970,024</u> | <u>942,684</u> | <u>328,269</u> | <u>-</u> | <u>-</u> | <u>23,858,416</u> |
| Total expenses | <u>54,045,109</u> | <u>5,850,471</u> | <u>6,186,251</u> | <u>6,877,194</u> | <u>3,205,222</u> | <u>99,988</u> | <u>82,013</u> | <u>76,346,248</u> |
| Increase (decrease) in unrestricted net assets | <u>6,079,823</u> | <u>549,232</u> | <u>1,295,210</u> | <u>222,994</u> | <u>(375,076)</u> | <u>(44,562)</u> | <u>(26,233)</u> | <u>7,701,388</u> |
| TEMPORARILY RESTRICTED NET ASSETS: | | | | | | | | |
| Amounts released from restriction | (299,290) | - | - | - | - | - | - | (299,290) |
| Contributions | 105,120 | - | - | - | - | - | - | 105,120 |
| Increase (decrease) in temporarily restricted net assets | <u>(194,170)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(194,170)</u> |
| Beginning net assets | <u>13,479,529</u> | <u>1,435,465</u> | <u>219,839</u> | <u>(953,898)</u> | <u>76,339</u> | <u>-</u> | <u>-</u> | <u>14,257,274</u> |
| Ending net assets | <u>\$ 19,365,182</u> | <u>\$ 1,984,697</u> | <u>\$ 1,515,049</u> | <u>\$ (730,904)</u> | <u>\$ (298,737)</u> | <u>\$ (44,562)</u> | <u>\$ (26,233)</u> | <u>\$ 21,764,492</u> |

See the accompanying notes to supplementary information.

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**CONSOLIDATING STATEMENT OF ACTIVITIES - SCHOOLS (Continued)
For the Year Ended June 30, 2016**

| | From Page 2 | Tennessee | | Eliminations | RSED Total | Wisconsin | D.C. | Eliminations | Total |
|--|----------------------|---------------------|---------------------|--------------------|----------------------|-----------------------|---------------------|--------------------|----------------------|
| | | RNNE | RUA | | | RSCP | RSDC | | |
| UNRESTRICTED NET ASSETS: | | | | | | | | | |
| Revenues | | | | | | | | | |
| LCFF State Aid | \$ 36,874,280 | \$ - | \$ - | \$ - | \$ 36,874,280 | \$ - | \$ - | \$ - | \$ 36,874,280 |
| Apportionment revenue | - | 4,566,945 | 3,538,270 | - | 8,105,215 | 3,199,284 | - | - | 11,304,499 |
| Property taxes | 9,388,704 | - | - | - | 9,388,704 | - | - | - | 9,388,704 |
| Other State revenue | 11,742,143 | - | - | - | 11,742,143 | 76,361 | - | - | 11,818,504 |
| Federal revenue | 7,243,141 | 623,549 | 976,637 | - | 8,843,327 | 873,360 | - | - | 9,716,687 |
| Other local revenue | 12,278,272 | 13,611 | 17,477 | (9,678,624) | 2,630,736 | 12,696 | 160 | (2,265,381) | 378,211 |
| Contributions | 6,221,806 | 3,802 | 1,079 | - | 6,226,687 | 3,500 | 1,780,900 | - | 8,011,087 |
| Amounts released from restriction | 299,290 | - | - | - | 299,290 | - | - | - | 299,290 |
| Total unrestricted revenues | <u>84,047,636</u> | <u>5,207,907</u> | <u>4,533,463</u> | <u>(9,678,624)</u> | <u>84,110,382</u> | <u>4,165,201</u> | <u>1,781,060</u> | <u>(2,265,381)</u> | <u>87,791,262</u> |
| Program Expenses | | | | | | | | | |
| Educational programs | 52,487,832 | 4,826,953 | 4,499,080 | - | 61,813,865 | 4,034,032 | 1,583,763 | (1,279,739) | 66,151,921 |
| Supporting Services | | | | | | | | | |
| Site supports and program development | 10,102,673 | - | - | - | 10,102,673 | - | 14,058 | (14,058) | 10,102,673 |
| Administration and general | 13,755,743 | 727,165 | 558,784 | (9,678,624) | 5,363,068 | 606,651 | 407,381 | (971,584) | 5,405,516 |
| Total supporting services | <u>23,858,416</u> | <u>727,165</u> | <u>558,784</u> | <u>(9,678,624)</u> | <u>15,465,741</u> | <u>606,651</u> | <u>421,439</u> | <u>(985,642)</u> | <u>15,508,189</u> |
| Total expenses | <u>76,346,248</u> | <u>5,554,118</u> | <u>5,057,864</u> | <u>(9,678,624)</u> | <u>77,279,606</u> | <u>4,640,683</u> | <u>2,005,202</u> | <u>(2,265,381)</u> | <u>81,660,110</u> |
| Increase (decrease) in unrestricted net assets | <u>7,701,388</u> | <u>(346,211)</u> | <u>(524,401)</u> | <u>-</u> | <u>6,830,776</u> | <u>(475,482)</u> | <u>(224,142)</u> | <u>-</u> | <u>6,131,152</u> |
| TEMPORARILY RESTRICTED NET ASSETS: | | | | | | | | | |
| Amounts released from restriction | (299,290) | - | - | - | (299,290) | - | - | - | (299,290) |
| Contributions | 105,120 | - | - | - | 105,120 | - | 195,040 | - | 300,160 |
| Increase (decrease) in temporarily restricted net assets | <u>(194,170)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(194,170)</u> | <u>-</u> | <u>195,040</u> | <u>-</u> | <u>870</u> |
| Beginning net assets | <u>14,257,274</u> | <u>(336,933)</u> | <u>48,541</u> | <u>-</u> | <u>13,968,882</u> | <u>(1,394,072)</u> | <u>(500,000)</u> | <u>-</u> | <u>12,074,810</u> |
| Ending net assets | <u>\$ 21,764,492</u> | <u>\$ (683,144)</u> | <u>\$ (475,860)</u> | <u>\$ -</u> | <u>\$ 20,605,488</u> | <u>\$ (1,869,554)</u> | <u>\$ (529,102)</u> | <u>\$ -</u> | <u>\$ 18,206,832</u> |

See the accompanying notes to supplementary information.

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**CONSOLIDATING STATEMENT OF CASH FLOWS - ROCKETSHIP SCHOOLS
For the Year Ended June 30, 2016**

| | California | | | | | | | Total Page 1 |
|--|---------------------|-------------------|---------------------|-------------------|---------------------|-------------------|-------------------|----------------------|
| | RSN | RMS | RSSP | RLS | ROMO | RDP | RBM | |
| CASH FLOWS from OPERATING ACTIVITIES: | | | | | | | | |
| Change in Net Assets | \$ 2,256,023 | \$ 610,062 | \$ 918,618 | \$ 650,910 | \$ 969,052 | \$ (64,559) | \$ 545,547 | \$ 5,885,653 |
| Adjustments to reconcile change in net assets to net cash provided (used) by operating activities: | | | | | | | | |
| Depreciation | 43,949 | 32,388 | 21,196 | 19,731 | 18,948 | 17,735 | 5,962 | 159,909 |
| (Increase) or decrease in operating assets: | | | | | | | | |
| Accounts receivable | 2,069,569 | (330,100) | (116,301) | (294,005) | (235,876) | (561,428) | (36,391) | 495,468 |
| Grants receivable | 204,170 | - | - | - | - | - | - | 204,170 |
| Prepaid expenses and deposits | (477,633) | (173,243) | (31,470) | (61,691) | (35,669) | (82,401) | (23,465) | (885,572) |
| Increase or (decrease) in operating liabilities: | | | | | | | | |
| Accounts payable and accrued liabilities | 995,873 | (76,781) | 4,376 | 57,589 | 47,381 | (82,695) | 37,396 | 983,139 |
| Deferred revenue | 147,116 | 75,785 | 49,392 | 88,133 | 19,400 | 21,533 | 16,467 | 417,826 |
| Deferred rent liability | - | - | (15,391) | - | (10,745) | - | (31,238) | (57,374) |
| Net cash provided (used) by operating activities | <u>5,239,067</u> | <u>138,111</u> | <u>830,420</u> | <u>460,667</u> | <u>772,491</u> | <u>(751,815)</u> | <u>514,278</u> | <u>7,203,219</u> |
| CASH FLOWS from INVESTING ACTIVITIES: | | | | | | | | |
| Proceeds from sale of stock | 249,350 | - | - | - | - | - | - | 249,350 |
| Proceeds from disposal of property, plant and equipment | - | - | - | - | - | - | - | - |
| Purchase of property, plant and equipment | (419,077) | (467,956) | (140,578) | (280,118) | (204,695) | (135,346) | (1,592) | (1,649,362) |
| Net cash used by investing activities | <u>(169,727)</u> | <u>(467,956)</u> | <u>(140,578)</u> | <u>(280,118)</u> | <u>(204,695)</u> | <u>(135,346)</u> | <u>(1,592)</u> | <u>(1,400,012)</u> |
| CASH FLOWS from FINANCING ACTIVITIES: | | | | | | | | |
| Intracompany loans | (4,169,484) | - | - | - | - | 734,540 | (181,515) | (3,616,459) |
| Proceeds from debt | 2,800,000 | - | - | - | - | - | - | 2,800,000 |
| Repayment of debt | (2,720,295) | - | - | (20,000) | (50,000) | (62,500) | (62,496) | (2,915,291) |
| Net cash provided (used) by financing activities | <u>(4,089,779)</u> | <u>-</u> | <u>-</u> | <u>(20,000)</u> | <u>(50,000)</u> | <u>672,040</u> | <u>(244,011)</u> | <u>(3,731,750)</u> |
| Net increase (decrease) in cash and cash equivalents | 979,561 | (329,845) | 689,842 | 160,549 | 517,796 | (215,121) | 268,675 | 2,071,457 |
| Cash and cash equivalents at the beginning of the year | 3,784,304 | 893,298 | 1,576,444 | 766,154 | 1,095,002 | 347,934 | 659,492 | 9,122,628 |
| Cash and cash equivalents at the end of the year | <u>\$ 4,763,865</u> | <u>\$ 563,453</u> | <u>\$ 2,266,286</u> | <u>\$ 926,703</u> | <u>\$ 1,612,798</u> | <u>\$ 132,813</u> | <u>\$ 928,167</u> | <u>\$ 11,194,085</u> |
| CASH PAID FOR INTEREST | <u>\$ 36,562</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 85</u> | <u>\$ 150</u> | <u>\$ 171</u> | <u>\$ 360</u> | <u>\$ 37,328</u> |

See the accompanying notes to supplementary information.

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**CONSOLIDATING STATEMENT OF CASH FLOWS - ROCKETSHIP SCHOOLS (Continued)
For the Year Ended June 30, 2016**

| | California | | | | | | Total Page 2 | |
|--|----------------------|---------------------|-------------------|-------------------|-------------------|-------------------|-------------------|----------------------|
| | From Page 1 | RSA | RSK | RFZ | RRWC | RRS | | RFA |
| CASH FLOWS from OPERATING ACTIVITIES: | | | | | | | | |
| Change in Net Assets | \$ 5,885,653 | \$ 549,232 | \$ 1,295,210 | \$ 222,994 | \$ (375,076) | \$ (44,562) | \$ (26,233) | \$ 7,507,218 |
| Adjustments to reconcile change in net assets to net cash provided (used) by operating activities: | | | | | | | | |
| Depreciation | 159,909 | 16,086 | 6,253 | 3,891 | 7,184 | - | - | 193,323 |
| (Increase) or decrease in operating assets: | | | | | | | | |
| Accounts receivable | 495,468 | 58,629 | (546,484) | 519,802 | (304,526) | (50,268) | (20,970) | 151,651 |
| Grants receivable | 204,170 | - | - | - | - | - | - | 204,170 |
| Prepaid expenses and deposits | (885,572) | 5,258 | (172,929) | (60,927) | 32,975 | (210,577) | (118,069) | (1,409,841) |
| Increase or (decrease) in operating liabilities: | | | | | | | | |
| Accounts payable and accrued liabilities | 983,139 | (10,311) | 157,963 | 60,098 | 123,397 | 70,535 | 35,451 | 1,420,272 |
| Deferred revenue | 417,826 | 16,148 | 16,040 | 22,920 | (10,395) | 301,947 | 207,114 | 971,600 |
| Deferred rent liability | (57,374) | (13,440) | (353,348) | 92,406 | - | - | - | (331,756) |
| Net cash provided (used) by operating activities | <u>7,203,219</u> | <u>621,602</u> | <u>402,705</u> | <u>861,184</u> | <u>(526,441)</u> | <u>67,075</u> | <u>77,293</u> | <u>8,706,637</u> |
| CASH FLOWS from INVESTING ACTIVITIES: | | | | | | | | |
| Proceeds from sale of stock | 249,350 | - | - | - | - | - | - | 249,350 |
| Proceeds from disposal of property, plant and equipment | - | - | - | - | - | - | - | - |
| Purchase of property, plant and equipment | (1,649,362) | (138,203) | (98,283) | (34,921) | (39,188) | - | - | (1,959,957) |
| Net cash used by investing activities | <u>(1,400,012)</u> | <u>(138,203)</u> | <u>(98,283)</u> | <u>(34,921)</u> | <u>(39,188)</u> | <u>-</u> | <u>-</u> | <u>(1,710,607)</u> |
| CASH FLOWS from FINANCING ACTIVITIES: | | | | | | | | |
| Intracompany loans | (3,616,459) | (208,886) | (70,048) | (404,581) | 326,765 | - | - | (3,973,209) |
| Proceeds from debt | 2,800,000 | - | - | - | 250,000 | 100,000 | 100,000 | 3,250,000 |
| Repayment of debt | (2,915,291) | (62,496) | (62,496) | (62,496) | - | - | - | (3,102,779) |
| Net cash provided (used) by financing activities | <u>(3,731,750)</u> | <u>(271,382)</u> | <u>(132,544)</u> | <u>(467,077)</u> | <u>576,765</u> | <u>100,000</u> | <u>100,000</u> | <u>(3,825,988)</u> |
| Net increase (decrease) in cash and cash equivalents | 2,071,457 | 212,017 | 171,878 | 359,186 | 11,136 | 167,075 | 177,293 | 3,170,042 |
| Cash and cash equivalents at the beginning of the year | 9,122,628 | 824,340 | 38,413 | 62,279 | 192,641 | - | - | 10,240,301 |
| Cash and cash equivalents at the end of the year | <u>\$ 11,194,085</u> | <u>\$ 1,036,357</u> | <u>\$ 210,291</u> | <u>\$ 421,465</u> | <u>\$ 203,777</u> | <u>\$ 167,075</u> | <u>\$ 177,293</u> | <u>\$ 13,410,343</u> |
| CASH PAID FOR INTEREST | <u>\$ 37,328</u> | <u>\$ 360</u> | <u>\$ 402</u> | <u>\$ 369</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 38,459</u> |

See the accompanying notes to supplementary information.

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**CONSOLIDATING STATEMENT OF CASH FLOWS - ROCKETSHIP SCHOOLS (Continued)
For the Year Ended June 30, 2016**

| | <u>Tennessee</u> | | | | <u>Wisconsin</u> | | <u>D.C.</u> | | <u>Total</u> |
|--|----------------------|------------------|------------------|---------------------|----------------------|-------------------|-------------------|---------------------|----------------------|
| | <u>From Page 2</u> | <u>RNNE</u> | <u>RUA</u> | <u>Eliminations</u> | <u>RSED Total</u> | <u>RSCP</u> | <u>RSDC</u> | <u>Eliminations</u> | |
| CASH FLOWS from OPERATING ACTIVITIES: | | | | | | | | | |
| Change in Net Assets | \$ 7,507,218 | \$ (346,211) | \$ (524,401) | \$ - | \$ 6,636,606 | \$ (475,482) | \$ (29,102) | \$ - | \$ 6,132,022 |
| Adjustments to reconcile change in net assets to net cash provided (used) by operating activities: | | | | | | | | | |
| Depreciation | 193,323 | 2,623 | 3,153 | - | 199,099 | - | - | - | 199,099 |
| (Increase) or decrease in operating assets: | | | | | | | | | |
| Accounts receivable | 151,651 | 86,685 | (30,929) | - | 207,407 | (703) | - | - | 206,704 |
| Grants receivable | 204,170 | - | - | - | 204,170 | - | (191,040) | - | 13,130 |
| Prepaid expenses and deposits | (1,409,841) | (49,760) | 115,028 | - | (1,344,573) | (45,028) | (53,849) | - | (1,443,450) |
| Increase or (decrease) in operating liabilities: | | | | | | | | | |
| Accounts payable and accrued liabilities | 1,420,272 | 1,301 | (180) | - | 1,421,393 | (102,998) | 49,417 | - | 1,367,812 |
| Deferred revenue | 971,600 | - | - | - | 971,600 | - | - | - | 971,600 |
| Deferred rent liability | (331,756) | 172,498 | 185,434 | - | 26,176 | 33,755 | - | - | 59,931 |
| Net cash provided (used) by operating activities | <u>8,706,637</u> | <u>(132,864)</u> | <u>(251,895)</u> | <u>-</u> | <u>8,321,878</u> | <u>(590,456)</u> | <u>(224,574)</u> | <u>-</u> | <u>7,506,848</u> |
| CASH FLOWS from INVESTING ACTIVITIES: | | | | | | | | | |
| Proceeds from sale of stock | 249,350 | - | - | - | 249,350 | - | - | - | 249,350 |
| Proceeds from disposal of property, plant and equipment | - | 1,811 | 1,800 | - | 3,611 | - | - | - | 3,611 |
| Purchase of property, plant and equipment | (1,959,957) | - | (15,763) | - | (1,975,720) | - | - | - | (1,975,720) |
| Net cash used by investing activities | <u>(1,710,607)</u> | <u>1,811</u> | <u>(13,963)</u> | <u>-</u> | <u>(1,722,759)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(1,722,759)</u> |
| CASH FLOWS from FINANCING ACTIVITIES: | | | | | | | | | |
| Intracompany loans | (3,973,209) | 215,281 | 170,808 | - | (3,587,120) | 307,310 | 1,035,019 | - | (2,244,791) |
| Proceeds from debt | 3,250,000 | - | - | - | 3,250,000 | - | - | - | 3,250,000 |
| Repayment of debt | (3,102,779) | - | - | - | (3,102,779) | - | - | - | (3,102,779) |
| Net cash provided (used) by financing activities | <u>(3,825,988)</u> | <u>215,281</u> | <u>170,808</u> | <u>-</u> | <u>(3,439,899)</u> | <u>307,310</u> | <u>1,035,019</u> | <u>-</u> | <u>(2,097,570)</u> |
| Net increase (decrease) in cash and cash equivalents | 3,170,042 | 84,228 | (95,050) | - | 3,159,220 | (283,146) | 810,445 | - | 3,686,519 |
| Cash and cash equivalents at the beginning of the year | 10,240,301 | - | 161,799 | - | 10,402,100 | 669,192 | - | - | 11,071,292 |
| Cash and cash equivalents at the end of the year | <u>\$ 13,410,343</u> | <u>\$ 84,228</u> | <u>\$ 66,749</u> | <u>\$ -</u> | <u>\$ 13,561,320</u> | <u>\$ 386,046</u> | <u>\$ 810,445</u> | <u>\$ -</u> | <u>\$ 14,757,811</u> |
| CASH PAID FOR INTEREST | <u>\$ 38,459</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 38,459</u> | <u>\$ 49,098</u> | <u>\$ -</u> | <u>\$ (49,073)</u> | <u>\$ 38,484</u> |

See the accompanying notes to supplementary information.

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**
CONSOLIDATING STATEMENT OF FINANCIAL POSITION - OBLIGATED GROUP
June 30, 2016

| | <u>RMS</u> | <u>RSSP</u> | <u>RBM</u> | <u>RFZ</u> | <u>Obligated Group 2016</u> | <u>RSK</u> | <u>RRS</u> | <u>Total</u> |
|--|---------------------|---------------------|---------------------|---------------------|---------------------------------|---------------------|-------------------|----------------------|
| ASSETS | | | | | | | | |
| CURRENT ASSETS: | | | | | | | | |
| Cash and cash equivalents | \$ 563,453 | \$ 2,266,286 | \$ 928,167 | \$ 421,465 | \$ 4,179,371 | \$ 210,291 | \$ 167,075 | \$ 4,556,737 |
| Accounts receivable | 922,942 | 529,732 | 527,706 | 458,450 | 2,438,830 | 1,461,562 | 50,268 | 3,950,660 |
| Prepaid expenses and deposits | 204,678 | 77,937 | 85,819 | 81,603 | 450,037 | 213,360 | 210,577 | 873,974 |
| Total current assets | <u>1,691,073</u> | <u>2,873,955</u> | <u>1,541,692</u> | <u>961,518</u> | <u>7,068,238</u> | <u>1,885,213</u> | <u>427,920</u> | <u>9,381,371</u> |
| LONG-TERM ASSETS: | | | | | | | | |
| Property, plant & equipment, net | 1,210,204 | 758,070 | 105,417 | 55,756 | 2,129,447 | 217,466 | - | 2,346,913 |
| Total long-term assets | <u>1,210,204</u> | <u>758,070</u> | <u>105,417</u> | <u>55,756</u> | <u>2,129,447</u> | <u>217,466</u> | <u>-</u> | <u>2,346,913</u> |
| Total assets | <u>\$ 2,901,277</u> | <u>\$ 3,632,025</u> | <u>\$ 1,647,109</u> | <u>\$ 1,017,274</u> | <u>\$ 9,197,685</u> | <u>\$ 2,102,679</u> | <u>\$ 427,920</u> | <u>\$ 11,728,284</u> |
| LIABILITIES AND NET ASSETS | | | | | | | | |
| CURRENT LIABILITIES: | | | | | | | | |
| Accounts payable and accrued liabilities | \$ 273,895 | \$ 283,980 | \$ 271,988 | \$ 272,185 | \$ 1,102,048 | \$ 446,582 | \$ 70,013 | \$ 1,618,643 |
| Deferred rent liability | - | 7,675 | 33,584 | - | 41,259 | - | - | 41,259 |
| Deferred revenue | 191,565 | 168,372 | 41,684 | 22,920 | 424,541 | 16,040 | 301,947 | 742,528 |
| Current portion of loans payable | - | - | 62,506 | 62,500 | 125,006 | 62,500 | - | 187,506 |
| Total current liabilities | <u>465,460</u> | <u>460,027</u> | <u>409,762</u> | <u>357,605</u> | <u>1,692,854</u> | <u>525,122</u> | <u>371,960</u> | <u>2,589,936</u> |
| LONG-TERM LIABILITIES: | | | | | | | | |
| Accrued interest | - | - | - | 1,844 | 1,844 | - | 522 | 2,366 |
| Deferred rent liability | - | 189,315 | 799,754 | 1,226,221 | 2,215,290 | - | - | 2,215,290 |
| Loans payable | - | - | - | 162,508 | 162,508 | 62,508 | 100,000 | 325,016 |
| Total long-term liabilities | <u>-</u> | <u>189,315</u> | <u>799,754</u> | <u>1,390,573</u> | <u>2,379,642</u> | <u>62,508</u> | <u>100,522</u> | <u>2,542,672</u> |
| NET ASSETS: | | | | | | | | |
| Unrestricted | 2,435,817 | 2,982,683 | 437,593 | (730,904) | 5,125,189 | 1,515,049 | (44,562) | 6,595,676 |
| Total net assets | <u>2,435,817</u> | <u>2,982,683</u> | <u>437,593</u> | <u>(730,904)</u> | <u>5,125,189</u> | <u>1,515,049</u> | <u>(44,562)</u> | <u>6,595,676</u> |
| Total liabilities and net assets | <u>\$ 2,901,277</u> | <u>\$ 3,632,025</u> | <u>\$ 1,647,109</u> | <u>\$ 1,017,274</u> | <u>\$ 9,197,685</u> | <u>\$ 2,102,679</u> | <u>\$ 427,920</u> | <u>\$ 11,728,284</u> |

See the accompanying notes to supplementary information.

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**CONSOLIDATING STATEMENT OF ACTIVITIES - OBLIGATED GROUP
For the Year Ended June 30, 2016**

| | RMS | RSSP | RBM | RFZ | Obligated Group 2016 | RSK | RRS | Total |
|--|---------------------|---------------------|-------------------|---------------------|---------------------------------|---------------------|--------------------|---------------------|
| UNRESTRICTED NET ASSETS: | | | | | | | | |
| Revenues | | | | | | | | |
| LCFF State Aid | \$ 1,424,069 | \$ 4,016,328 | \$ 5,067,898 | \$ 4,242,768 | \$ 14,751,063 | \$ 4,073,715 | \$ - | \$ 18,824,778 |
| Property taxes | 3,466,031 | 1,018,565 | 33,924 | 1,023,317 | 5,541,837 | 1,293,846 | - | 6,835,683 |
| Other State revenue | 1,339,474 | 1,243,711 | 1,386,030 | 1,103,413 | 5,072,628 | 1,226,520 | - | 6,299,148 |
| Federal revenue | 737,654 | 742,906 | 646,683 | 582,026 | 2,709,269 | 646,256 | 55,426 | 3,410,951 |
| Other local revenue | 19,714 | 28,701 | 21,323 | 32,448 | 102,186 | 51,709 | - | 153,895 |
| Contributions | 119,598 | 92,014 | 95,059 | 116,216 | 422,887 | 189,415 | - | 612,302 |
| Total unrestricted revenues | <u>7,106,540</u> | <u>7,142,225</u> | <u>7,250,917</u> | <u>7,100,188</u> | <u>28,599,870</u> | <u>7,481,461</u> | <u>55,426</u> | <u>36,136,757</u> |
| Program Expenses | | | | | | | | |
| Educational programs | 5,585,746 | 5,294,214 | 5,782,084 | 5,934,510 | 22,596,554 | 5,216,227 | 99,988 | 27,912,769 |
| Supporting Services | | | | | | | | |
| Administration and general | 910,732 | 929,393 | 923,286 | 942,684 | 3,706,095 | 970,024 | - | 4,676,119 |
| Total supporting services | <u>910,732</u> | <u>929,393</u> | <u>923,286</u> | <u>942,684</u> | <u>3,706,095</u> | <u>970,024</u> | <u>-</u> | <u>4,676,119</u> |
| Total expenses | <u>6,496,478</u> | <u>6,223,607</u> | <u>6,705,370</u> | <u>6,877,194</u> | <u>26,302,649</u> | <u>6,186,251</u> | <u>99,988</u> | <u>32,588,888</u> |
| Increase (decrease) in unrestricted net assets | 610,062 | 918,618 | 545,547 | 222,994 | 2,297,221 | 1,295,210 | (44,562) | 3,547,869 |
| Beginning net assets | <u>1,825,755</u> | <u>2,064,065</u> | <u>(107,954)</u> | <u>(953,898)</u> | <u>2,827,968</u> | <u>219,839</u> | <u>-</u> | <u>3,047,807</u> |
| Ending net assets | <u>\$ 2,435,817</u> | <u>\$ 2,982,683</u> | <u>\$ 437,593</u> | <u>\$ (730,904)</u> | <u>\$ 5,125,189</u> | <u>\$ 1,515,049</u> | <u>\$ (44,562)</u> | <u>\$ 6,595,676</u> |

See the accompanying notes to supplementary information.

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**CONSOLIDATING STATEMENT OF CASH FLOWS - OBLIGATED GROUP
For the Year Ended June 30, 2016**

| | RMS | RSSP | RBM | RFZ | Obligated Group 2016 | RSK | RRS | Total |
|---|-------------------|---------------------|-------------------|-------------------|-------------------------|-------------------|-------------------|---------------------|
| CASH FLOWS from OPERATING ACTIVITIES: | | | | | | | | |
| Change in Net Assets | \$ 610,062 | \$ 918,618 | \$ 545,547 | \$ 222,994 | \$ 2,297,221 | \$ 1,295,210 | \$ (44,562) | \$ 3,547,869 |
| Adjustments to reconcile change in net assets to net cash provided (used) by operating activities: | | | | | | | | |
| Depreciation | 32,388 | 21,196 | 5,962 | 3,891 | 63,437 | 6,253 | - | 69,690 |
| (Increase) or decrease in operating assets: | | | | | | | | |
| Accounts receivable | (330,100) | (116,301) | (36,391) | 519,802 | 37,010 | (546,484) | (50,268) | (559,742) |
| Prepaid expenses and deposits | (173,243) | (31,470) | (23,465) | (60,927) | (289,105) | (172,929) | (210,577) | (672,611) |
| Increase or (decrease) in operating liabilities: | | | | | | | | |
| Accounts payable and accrued liabilities | (76,781) | 4,376 | 37,396 | 60,098 | 25,089 | 157,963 | 70,535 | 253,587 |
| Deferred revenue | 75,785 | 49,392 | 16,467 | 22,920 | 164,564 | 16,040 | 301,947 | 482,551 |
| Deferred rent liability | - | (15,391) | (31,238) | 92,406 | 45,777 | (353,348) | - | (307,571) |
| Net cash provided (used) by operating activities | <u>138,111</u> | <u>830,420</u> | <u>514,278</u> | <u>861,184</u> | <u>2,343,993</u> | <u>402,705</u> | <u>67,075</u> | <u>2,813,773</u> |
| CASH FLOWS from INVESTING ACTIVITIES: | | | | | | | | |
| Purchase of property plant and equipment | (467,956) | (140,578) | (1,592) | (34,921) | (645,047) | (98,283) | - | (743,330) |
| Net cash used by investing activities | <u>(467,956)</u> | <u>(140,578)</u> | <u>(1,592)</u> | <u>(34,921)</u> | <u>(645,047)</u> | <u>(98,283)</u> | <u>-</u> | <u>(743,330)</u> |
| CASH FLOWS from FINANCING ACTIVITIES: | | | | | | | | |
| Intracompany loans | - | - | (181,515) | (404,581) | (586,096) | (70,048) | - | (1,242,240) |
| Proceeds from debt | - | - | - | - | - | - | 100,000 | (556,144) |
| Repayment of debt | - | - | (62,496) | (62,496) | (124,992) | (62,496) | - | (187,488) |
| Net cash provided (used) by financing activities | <u>-</u> | <u>-</u> | <u>(244,011)</u> | <u>(467,077)</u> | <u>(711,088)</u> | <u>(132,544)</u> | <u>100,000</u> | <u>(743,632)</u> |
| Net increase (decrease) in cash and cash equivalents | (329,845) | 689,842 | 268,675 | 359,186 | 987,858 | 171,878 | 167,075 | 1,326,811 |
| Cash and cash equivalents at the beginning of the year | 893,298 | 1,576,444 | 659,492 | 62,279 | 3,191,513 | 38,413 | - | 3,229,926 |
| Cash and cash equivalents at the end of the year | <u>\$ 563,453</u> | <u>\$ 2,266,286</u> | <u>\$ 928,167</u> | <u>\$ 421,465</u> | <u>\$ 4,179,371</u> | <u>\$ 210,291</u> | <u>\$ 167,075</u> | <u>\$ 4,556,737</u> |
| CASH PAID FOR INTEREST | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 360</u> | <u>\$ 369</u> | <u>\$ 729</u> | <u>\$ 402</u> | <u>\$ -</u> | <u>\$ 1,131</u> |

See the accompanying notes to supplementary information.

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**SCHEDULE OF INSTRUCTIONAL MINUTES - CALIFORNIA
For the Year Ended June 30, 2016**

2015-16 Minutes

| | <u>Requirement</u> | <u>Actual</u> | <u>Days</u> | <u>Status</u> |
|----------------------|---------------------------|----------------------|--------------------|----------------------|
| Kindergarten: | | | | |
| RMS | 36,000 | 71,340 | 180 | In compliance |
| RSSP | 36,000 | 70,440 | 180 | In compliance |
| RLS | 36,000 | 73,140 | 180 | In compliance |
| ROMO | 36,000 | 70,440 | 180 | In compliance |
| RDP | 36,000 | 71,810 | 180 | In compliance |
| RBM | 36,000 | 64,370 | 180 | In compliance |
| RSA | 36,000 | 70,440 | 180 | In compliance |
| RSK | 36,000 | 76,270 | 180 | In compliance |
| RFZ | 36,000 | 62,650 | 180 | In compliance |
| RRWC | 36,000 | 54,000 | 180 | In compliance |
| Grade 1: | | | | |
| RMS | 50,400 | 67,740 | 180 | In compliance |
| RSSP | 50,400 | 66,585 | 180 | In compliance |
| RLS | 50,400 | 70,440 | 180 | In compliance |
| ROMO | 50,400 | 68,210 | 180 | In compliance |
| RDP | 50,400 | 70,010 | 180 | In compliance |
| RBM | 50,400 | 74,040 | 180 | In compliance |
| RSA | 50,400 | 67,740 | 180 | In compliance |
| RSK | 50,400 | 74,255 | 180 | In compliance |
| RFZ | 50,400 | 69,070 | 180 | In compliance |
| RRWC | 50,400 | 52,630 | 180 | In compliance |
| Grade 2: | | | | |
| RMS | 50,400 | 70,910 | 180 | In compliance |
| RSSP | 50,400 | 66,370 | 180 | In compliance |
| RLS | 50,400 | 71,340 | 180 | In compliance |
| ROMO | 50,400 | 68,640 | 180 | In compliance |
| RDP | 50,400 | 70,010 | 180 | In compliance |
| RBM | 50,400 | 70,440 | 180 | In compliance |
| RSA | 50,400 | 67,740 | 180 | In compliance |
| RSK | 50,400 | 74,255 | 180 | In compliance |
| RFZ | 50,400 | 70,870 | 180 | In compliance |
| RRWC | 50,400 | 53,060 | 180 | In compliance |

See the accompanying notes to supplementary information.

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**SCHEDULE OF INSTRUCTIONAL MINUTES - CALIFORNIA
For the Year Ended June 30, 2016**

| | <u>2015-16 Minutes</u> | | | |
|-----------------|------------------------|---------------|-------------|---------------|
| | <u>Requirement</u> | <u>Actual</u> | <u>Days</u> | <u>Status</u> |
| Grade 3: | | | | |
| RMS | 50,400 | 70,910 | 180 | In compliance |
| RSSP | 50,400 | 69,070 | 180 | In compliance |
| RLS | 50,400 | 73,140 | 180 | In compliance |
| ROMO | 50,400 | 68,640 | 180 | In compliance |
| RDP | 50,400 | 72,240 | 180 | In compliance |
| RBM | 50,400 | 70,440 | 180 | In compliance |
| RSA | 50,400 | 69,540 | 180 | In compliance |
| RSK | 50,400 | 75,840 | 180 | In compliance |
| RFZ | 50,400 | 72,240 | 180 | In compliance |
| RRWC | 50,400 | 53,060 | 180 | In compliance |
| Grade 4: | | | | |
| RMS | 54,000 | 71,340 | 180 | In compliance |
| RSSP | 54,000 | 69,070 | 180 | In compliance |
| RLS | 54,000 | 73,140 | 180 | In compliance |
| ROMO | 54,000 | 70,440 | 180 | In compliance |
| RDP | 54,000 | 72,240 | 180 | In compliance |
| RBM | 54,000 | 70,440 | 180 | In compliance |
| RSA | 54,000 | 69,540 | 180 | In compliance |
| RSK | 54,000 | 76,055 | 180 | In compliance |
| RFZ | 54,000 | 72,240 | 180 | In compliance |
| RRWC | 54,000 | 68,210 | 180 | In compliance |
| Grade 5: | | | | |
| RMS | 54,000 | 71,340 | 180 | In compliance |
| RSSP | 54,000 | 70,870 | 180 | In compliance |
| RLS | 54,000 | 73,140 | 180 | In compliance |
| ROMO | 54,000 | 70,440 | 180 | In compliance |
| RDP | 54,000 | 72,240 | 180 | In compliance |
| RBM | 54,000 | 70,440 | 180 | In compliance |
| RSA | 54,000 | 69,540 | 180 | In compliance |
| RSK | 54,000 | 76,055 | 180 | In compliance |
| RFZ | 54,000 | 72,240 | 180 | In compliance |
| RRWC | 54,000 | 68,210 | 180 | In compliance |

See the accompanying notes to supplementary information.

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**SCHEDULE OF AVERAGE DAILY ATTENDANCE - CALIFORNIA
For the Year Ended June 30, 2016**

| | Second | | | |
|-----------------------|----------------------------|------------------------|----------------------------|------------------------|
| | Period Report | | Annual Report | |
| | Classroom Based | Total | Classroom Based | Total |
| Grades TK/K-3: | | | | |
| RMS | 413.15 | 413.38 | 412.46 | 413.00 |
| RSSP | 404.95 | 405.99 | 402.08 | 403.09 |
| RLS | 403.43 | 403.88 | 402.67 | 403.12 |
| ROMO | 425.02 | 426.52 | 423.82 | 425.29 |
| RDP | 337.27 | 337.42 | 334.49 | 334.61 |
| RBM | 467.90 | 469.17 | 465.96 | 467.25 |
| RSA | 406.52 | 406.66 | 401.24 | 401.37 |
| RSK | 453.52 | 455.87 | 452.23 | 454.26 |
| RFZ | 479.78 | 479.91 | 477.79 | 478.28 |
| RRWC | 203.92 | 204.04 | 204.21 | 204.29 |
| Subtotal | <u>3,995.46</u> | <u>4,002.84</u> | <u>3,976.95</u> | <u>3,984.56</u> |
| Grades 4-6: | | | | |
| RMS | 180.05 | 180.31 | 178.69 | 179.10 |
| RSSP | 145.08 | 145.30 | 143.87 | 144.03 |
| RLS | 151.48 | 151.52 | 150.51 | 150.53 |
| ROMO | 145.74 | 146.12 | 144.68 | 145.11 |
| RDP | 138.78 | 138.96 | 136.17 | 136.30 |
| RBM | 85.05 | 85.26 | 85.27 | 85.44 |
| RSA | 124.89 | 124.97 | 124.24 | 124.29 |
| RSK | 129.71 | 130.58 | 128.37 | 129.12 |
| RFZ | 83.84 | 83.88 | 84.87 | 84.96 |
| RRWC | 28.02 | 28.02 | 27.96 | 27.96 |
| Subtotal | <u>1,212.64</u> | <u>1,214.92</u> | <u>1,204.63</u> | <u>1,206.84</u> |
| Grand Total | <u><u>5,208.10</u></u> | <u><u>5,217.76</u></u> | <u><u>5,181.58</u></u> | <u><u>5,191.40</u></u> |

See the accompanying notes to supplementary information.

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**RECONCILIATION OF ANNUAL FINANCIAL REPORT
WITHAUDITED FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

There were no adjustments and reclassifications for the year ended June 30, 2016.

See the accompanying notes to supplementary information.

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2016**

| Federal Grantor/Pass-Through Grantor/Program or Cluster Title | Federal CFDA # | PTID | RSN | RMS | RSSP | RLS | ROMO | RDP | RBM | RSA | Total Page |
|--|---------------------------|-------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|-------------------|
| U.S. Department of Education | | | | | | | | | | | |
| Charter School Program | 84.282M | N/A | \$ 87,522 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 87,522 |
| Pass Through Program From | | | | | | | | | | | |
| California Department of Education: | | | | | | | | | | | |
| Title I, Part A, Basic Grants | | | | | | | | | | | |
| Low-Income and Neglected | 84.010 | 14329 | - | 209,162 | 230,381 | 231,542 | 216,724 | 215,410 | 176,584 | 209,170 | 1,488,973 |
| Title II | 84.367 | 14341 | - | 3,304 | 3,270 | 3,321 | 3,172 | 2,891 | 2,594 | 3,378 | 21,930 |
| Title III | 84.365 | 14356 | - | 34,386 | 40,558 | 37,197 | 34,441 | 28,205 | 30,960 | 28,619 | 234,366 |
| Title V, Part B | 84.282 | 14941 | 285,418 | - | - | - | - | - | - | - | 285,418 |
| Special Education IDEA | 84.027 | 13379 | - | 77,434 | 74,051 | 76,056 | 72,923 | 65,531 | 62,899 | 76,807 | 505,701 |
| Pass Through Program From | | | | | | | | | | | |
| Metro Nashville Public Schools: | | | | | | | | | | | |
| Title I, Part A, Basic Grants | | | | | | | | | | | |
| Low-Income and Neglected | 84.010 | N/A | - | - | - | - | - | - | - | - | - |
| Special Education IDEA | 84.027 | N/A | - | - | - | - | - | - | - | - | - |
| Pass Through Program From | | | | | | | | | | | |
| Wisconsin Department of Public Instruction: | | | | | | | | | | | |
| Title I, Part A, Basic Grants | | | | | | | | | | | |
| Low-Income and Neglected | 84.010 | N/A | - | - | - | - | - | - | - | - | - |
| Title II | 84.367 | N/A | - | - | - | - | - | - | - | - | - |
| Title III | 84.365 | N/A | - | - | - | - | - | - | - | - | - |
| Special Education Cluster: | | | | | | | | | | | |
| Special Education IDEA | 84.027 | N/A | - | - | - | - | - | - | - | - | - |
| Special Education IDEA Preschool | 84.173 | N/A | - | - | - | - | - | - | - | - | - |
| Subtotal: Special Ed Cluster | | | - | - | - | - | - | - | - | - | - |
| Total U.S Department of Education | | | <u>372,940</u> | <u>324,286</u> | <u>348,260</u> | <u>348,116</u> | <u>327,260</u> | <u>312,037</u> | <u>273,037</u> | <u>317,974</u> | <u>2,623,910</u> |

N/A – Not available.

See the accompanying notes to supplementary information.

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
For the Year Ended June 30, 2016**

| Federal Grantor/Pass-Through Grantor/Program or Cluster Title | Federal CFDA # | PTID | Total Previous | | | | | | | RSCP | Federal Expenditures | |
|--|-------------------|-------|-------------------|----------------|----------------|----------------|---------------|---------------|----------------|----------------|-------------------------|------------------|
| | | | Page | RSK | RFZ | RRWC | RRS | RFA | RNNE | | | RUA |
| U.S. Department of Education Charter School Program | 84.282M | N/A | \$ 87,522 | \$ - | \$ - | \$ 317,801 | \$ 55,426 | \$ 55,780 | \$ - | \$ 544,072 | \$ - | \$ 1,060,601 |
| Pass Through Program From California Department of Education: | | | | | | | | | | | | |
| Title I, Part A, Basic Grants | | | | | | | | | | | | |
| Low-Income and Neglected | 84.010 | 14329 | 1,488,973 | 156,467 | 148,016 | 82,912 | - | - | - | - | - | 1,876,368 |
| Title II | 84.367 | 14341 | 21,930 | 2,692 | 2,455 | 1,248 | - | - | - | - | - | 28,325 |
| Title III | 84.365 | 14356 | 234,366 | 35,200 | 30,872 | 16,768 | - | - | - | - | - | 317,206 |
| Title V, Part B | 84.282 | 14941 | 285,418 | - | - | - | - | - | - | - | - | 285,418 |
| Special Education IDEA | 84.027 | 13379 | 505,701 | 71,169 | 62,398 | - | - | - | - | - | - | 639,268 |
| Pass Through Program From Metro Nashville Public Schools: | | | | | | | | | | | | |
| Title I, Part A, Basic Grants | | | | | | | | | | | | |
| Low-Income and Neglected | 84.010 | N/A | - | - | - | - | - | - | 213,419 | 168,291 | - | 381,710 |
| Special Education IDEA | 84.027 | N/A | - | - | - | - | - | - | 90,321 | 44,722 | - | 135,043 |
| Pass Through Program From Wisconsin Department of Public Instruction: | | | | | | | | | | | | |
| Title I, Part A, Basic Grants | | | | | | | | | | | | |
| Low-Income and Neglected | 84.010 | N/A | - | - | - | - | - | - | - | - | 375,141 | 375,141 |
| Title II | 84.367 | N/A | - | - | - | - | - | - | - | - | 11,750 | 11,750 |
| Title III | 84.365 | N/A | - | - | - | - | - | - | - | - | 28,559 | 28,559 |
| Special Education Cluster: | | | | | | | | | | | | |
| Special Education IDEA | 84.027 | N/A | - | - | - | - | - | - | - | - | 72,535 | 72,535 |
| Special Education IDEA Preschool | 84.173 | N/A | - | - | - | - | - | - | - | - | 11,061 | 11,061 |
| Subtotal: Special Ed Cluster | | | - | - | - | - | - | - | - | - | 83,596 | 83,596 |
| Total U.S Department of Education | | | <u>2,623,910</u> | <u>265,528</u> | <u>243,741</u> | <u>418,729</u> | <u>55,426</u> | <u>55,780</u> | <u>303,740</u> | <u>757,085</u> | <u>499,046</u> | <u>5,222,985</u> |

N/A – Not available.

See the accompanying notes to supplementary information.

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
For the Year Ended June 30, 2016**

| Federal Grantor/Pass-Through Grantor/Program or Cluster Title | Federal CFDA # | PTID | RSN | RMS | RSSP | RLS | ROMO | RDP | RBM | RSA | Total Page |
|--|---------------------------|-------------|------------|------------|-------------|------------|-------------|------------|------------|------------|-------------------|
| U.S. Department of Agriculture: | | | | | | | | | | | |
| Pass Through Program From | | | | | | | | | | | |
| California Department of Education: | | | | | | | | | | | |
| Child Nutrition Cluster | | | | | | | | | | | |
| National School Lunch Program | 10.555 | N/A | \$ - | \$ 238,195 | \$ 224,715 | \$ 248,695 | \$ 214,113 | \$ 177,602 | \$ 207,217 | \$ 236,305 | \$ 1,546,842 |
| School Breakfast Program | 10.553 | N/A | - | 169,094 | 163,853 | 171,211 | 162,765 | 140,692 | 160,351 | 159,213 | 1,127,179 |
| Subtotal: Child Nutrition Cluster | | | - | 407,289 | 388,568 | 419,906 | 376,878 | 318,294 | 367,568 | 395,518 | 2,674,021 |
| Metro Nashville Public Schools: | | | | | | | | | | | |
| Child Nutrition Cluster | | | | | | | | | | | |
| National School Lunch Program | 10.555 | N/A | - | - | - | - | - | - | - | - | - |
| School Breakfast Program | 10.553 | N/A | - | - | - | - | - | - | - | - | - |
| Subtotal: Child Nutrition Cluster | | | - | - | - | - | - | - | - | - | - |
| Wisconsin Department of Public Instruction: | | | | | | | | | | | |
| Child Nutrition Cluster | | | | | | | | | | | |
| National School Lunch Program | 10.555 | N/A | - | - | - | - | - | - | - | - | - |
| School Breakfast Program | 10.553 | N/A | - | - | - | - | - | - | - | - | - |
| Donated Commodities - Noncash | 10.555 | N/A | - | - | - | - | - | - | - | - | - |
| Subtotal: Child Nutrition Cluster | | | - | - | - | - | - | - | - | - | - |
| Total U.S Department of Agriculture | | | - | 407,289 | 388,568 | 419,906 | 376,878 | 318,294 | 367,568 | 395,518 | 2,674,021 |
| U.S. Department of Health and Human Services: | | | | | | | | | | | |
| Pass Through Program From | | | | | | | | | | | |
| California Department of Education: | | | | | | | | | | | |
| Medicaid | 93.778 | N/A | - | 6,079 | 6,078 | 6,078 | 6,078 | 6,078 | 6,078 | 6,078 | 42,547 |
| Pass Through Program From | | | | | | | | | | | |
| Wisconsin Department of Health Services: | | | | | | | | | | | |
| Medical Assistance Program | 93.778 | N/A | - | - | - | - | - | - | - | - | - |
| Total U.S Department of Health and Human Services | | | - | 6,079 | 6,078 | 6,078 | 6,078 | 6,078 | 6,078 | 6,078 | 42,547 |
| Total Federal Expenditures | | | \$ 372,940 | \$ 737,654 | \$ 742,906 | \$ 774,100 | \$ 710,216 | \$ 636,409 | \$ 646,683 | \$ 719,570 | \$ 5,340,478 |

N/A – Not available.

See the accompanying notes to supplementary information.

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
For the Year Ended June 30, 2016**

| Federal Grantor/Pass-Through Grantor/Program or Cluster Title | Federal CFDA # | PTID | Total | | | | | | | | Federal Expenditures | |
|--|-------------------|------|---------------------|-------------------|-------------------|-------------------|------------------|------------------|-------------------|-------------------|-------------------------|---------------------|
| | | | Previous Page | RSK | RFZ | RRWC | RRS | RFA | RNNE | RUA | | RSCP |
| U.S. Department of Agriculture: | | | | | | | | | | | | |
| Pass Through Program From | | | | | | | | | | | | |
| California Department of Education: | | | | | | | | | | | | |
| Child Nutrition Cluster | | | | | | | | | | | | |
| National School Lunch Program | 10.555 | N/A | \$ 1,546,842 | \$ 215,359 | \$ 205,724 | \$ 94,605 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 2,062,530 |
| School Breakfast Program | 10.553 | N/A | 1,127,179 | 159,291 | 126,483 | 46,657 | - | - | - | - | - | 1,459,610 |
| Subtotal: Child Nutrition Cluster | | | <u>2,674,021</u> | <u>374,650</u> | <u>332,207</u> | <u>141,262</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>3,522,140</u> |
| Metro Nashville Public Schools: | | | | | | | | | | | | |
| Child Nutrition Cluster | | | | | | | | | | | | |
| National School Lunch Program | 10.555 | N/A | - | - | - | - | - | - | 198,840 | 141,163 | - | 340,003 |
| School Breakfast Program | 10.553 | N/A | - | - | - | - | - | - | 120,969 | 78,389 | - | 199,358 |
| Subtotal: Child Nutrition Cluster | | | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>319,809</u> | <u>219,552</u> | <u>-</u> | <u>539,361</u> |
| Wisconsin Department of Public Instruction: | | | | | | | | | | | | |
| Child Nutrition Cluster | | | | | | | | | | | | |
| National School Lunch Program | 10.555 | N/A | - | - | - | - | - | - | - | - | 212,131 | 212,131 |
| School Breakfast Program | 10.553 | N/A | - | - | - | - | - | - | - | - | 120,964 | 120,964 |
| Donated Commodities - Noncash | 10.555 | N/A | - | - | - | - | - | - | - | - | 12,984 | 12,984 |
| Subtotal: Child Nutrition Cluster | | | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>346,079</u> | <u>346,079</u> |
| Total U.S Department of Agriculture | | | <u>2,674,021</u> | <u>374,650</u> | <u>332,207</u> | <u>141,262</u> | <u>-</u> | <u>-</u> | <u>319,809</u> | <u>219,552</u> | <u>346,079</u> | <u>4,407,580</u> |
| U.S. Department of Health and Human Services: | | | | | | | | | | | | |
| Pass Through Program From | | | | | | | | | | | | |
| California Department of Education: | | | | | | | | | | | | |
| Medicaid | 93.778 | N/A | 42,547 | 6,078 | 6,078 | 3,184 | - | - | - | - | - | 57,887 |
| Pass Through Program From | | | | | | | | | | | | |
| Wisconsin Department of Health Services: | | | | | | | | | | | | |
| Medical Assistance Program | 93.778 | N/A | - | - | - | - | - | - | - | - | 28,235 | 28,235 |
| Total U.S Department of Health and Human Services | | | <u>42,547</u> | <u>6,078</u> | <u>6,078</u> | <u>3,184</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>28,235</u> | <u>86,122</u> |
| Total Federal Expenditures | | | <u>\$ 5,340,478</u> | <u>\$ 646,256</u> | <u>\$ 582,026</u> | <u>\$ 563,175</u> | <u>\$ 55,426</u> | <u>\$ 55,780</u> | <u>\$ 623,549</u> | <u>\$ 976,637</u> | <u>\$ 873,360</u> | <u>\$ 9,716,687</u> |

N/A – Not available.

See the accompanying notes to supplementary information.

ROCKETSHIP EDUCATION AND ITS AFFILIATES

NOTES TO SUPPLEMENTARY INFORMATION For the Year Ended June 30, 2016

NOTE 1 - PURPOSE OF SCHEDULES:

A. Consolidating Statements

These statements provide detailed financial information of each charter school.

B. Consolidating Statements- Obligated Group

These statements provide detailed financial information of RMS, RSSP, RBM, RSK, RFZ, and RRS as related schools to the Obligated Group in the Series 2016A and 2016B bond issues.

C. Schedule of Instructional Minutes - California

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

D. Schedule of Average Daily Attendance (ADA) - California

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

E. Reconciliation of Annual Financial Report with Audited Financial Statements

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

F. Schedule of Expenditures of Federal Awards

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of RSEA under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of the Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of operations of RSEA, it is not intended to and does not present the financial position, changes in net assets, or cash flows of RSEA.

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**NOTES TO SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2016**

F. Schedule of Expenditures of Federal Awards (continued)

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

G. Indirect Cost Rate

RSEA did not use the 10-percent de minimus indirect cost rate allowed under the Uniform Guidance.

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Rocketship Education and its Affiliates (RSEA), which comprise the consolidated statement of financial position as of June 30, 2016, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 1, 2016.

Internal Control Over Financial Reporting

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

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

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


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

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*.

Purpose of this Report

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


VICENTI, LLOYD & STUTZMAN LLP
Glendora, California
November 1, 2016



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR FEDERAL PROGRAM; AND REPORT ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED
BY THE UNIFORM GUIDANCE**

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

Report on Compliance for Each Major Federal Program

We have audited the compliance of Rocketship Education and its Affiliates (RSEA) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016. RSEA's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and terms and conditions of federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of RSEA's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about RSEA's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of RSEA's compliance.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED
BY THE UNIFORM GUIDANCE**

Opinion on Each Major Federal Program

In our opinion, RSEA complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

Management of RSEA is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered RSEA's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of RSEA's internal control over compliance.

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

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

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED
BY THE UNIFORM GUIDANCE**

Purpose of this Report

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



VICENTI, LLOYD & STUTZMAN LLP
Glendora, California
November 1, 2016



INDEPENDENT AUDITOR’S REPORT ON STATE COMPLIANCE - CALIFORNIA

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

We have audited Rocketship Education and its Affiliates’ (RSEA) compliance with the types of compliance requirements described in the *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel for the year ended June 30, 2016. RSEA’s State compliance requirements are identified in the table below.

Management’s Responsibility

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

Auditor’s Responsibility

Our responsibility is to express an opinion on RSEA’s compliance based on our audit of the types of compliance requirements referred to below. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, 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 the RSEA’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion on state compliance. Our audit does not provide a legal determination of RSEA’s compliance.

Compliance Requirements Tested

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

| <u>Description</u> | <u>Procedures Performed</u> |
|---|-----------------------------|
| School Districts, County Offices of Education, and Charter Schools: | |
| Educator Effectiveness | Yes |
| California Clean Energy Jobs Act | Yes |
| After School Education and Safety Program | Yes |
| Proper Expenditure of Education Protection Account Funds | Yes |

INDEPENDENT AUDITOR’S REPORT ON STATE COMPLIANCE - CALIFORNIA

| <u>Description</u> | <u>Procedures Performed</u> |
|---|-----------------------------|
| Unduplicated Local Control Funding Formula Pupil Counts | Yes |
| Local Control and Accountability Plan | Yes |
| Independent Study-Course Based | Not applicable |
| Immunizations | Yes |
| Charter Schools: | |
| Attendance | Yes |
| Mode of Instruction | Yes |
| Nonclassroom-based instructional/independent study | No ¹ |
| Determination of funding for nonclassroom-based instruction | Not applicable |
| Annual instructional minutes – classroom based | Yes |
| Charter School Facility Grant Program | Yes |

¹ We did not perform testing for independent study because the independent study ADA was under the level which requires testing.

Opinion on State Compliance

In our opinion, RSEA complied with the laws and regulations of the state programs referred to above in all material respects for the year ended June 30, 2016.

Purpose of this Report

The purpose of this report on state compliance is solely to describe the results of testing based on the requirements of the *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel. Accordingly, this report is not suitable for any other purpose.


 VICENTI, LLOYD & STUTZMAN LLP
 Glendora, California
 November 1, 2016

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2016**

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

| | | | | |
|---|-------|------------|--------------|----------------------|
| Material weakness(es) identified? | _____ | <i>Yes</i> | <u> X </u> | <i>No</i> |
| Significant deficiency(ies) identified? | _____ | <i>Yes</i> | <u> X </u> | <i>None Reported</i> |

| | | | | |
|---|-------|------------|--------------|-----------|
| Noncompliance material to financial statements noted? | _____ | <i>Yes</i> | <u> X </u> | <i>No</i> |
|---|-------|------------|--------------|-----------|

Federal Awards

Internal control over major federal awards:

| | | | | |
|---|-------|------------|--------------|----------------------|
| Material weakness(es) identified? | _____ | <i>Yes</i> | <u> X </u> | <i>No</i> |
| Significant deficiency(ies) identified? | _____ | <i>Yes</i> | <u> X </u> | <i>None Reported</i> |

Type of auditor’s report issued on compliance for major federal programs: Unmodified

| | | | | |
|--|-------|------------|--------------|-----------|
| Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? | _____ | <i>Yes</i> | <u> X </u> | <i>No</i> |
|--|-------|------------|--------------|-----------|

Identification of Major Federal Programs:

| <u>CFDA Number(s)</u> | <u>Name of Federal Program or Cluster</u> |
|-----------------------|--|
| 84.282M | Charter School Program |
| 84.010 | Title I, Part A – Low Income and Neglected |
| 84.365 | Title III |

Dollar threshold used to distinguish between type A and type B programs: \$750,000

| | | | | |
|--|-------|------------|--------------|-----------|
| Auditee qualified as low-risk auditee? | _____ | <i>Yes</i> | <u> X </u> | <i>No</i> |
|--|-------|------------|--------------|-----------|

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2016**

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

| <u>Five Digit Code</u> | <u>Finding Types</u> |
|------------------------|-----------------------------------|
| 10000 | Attendance |
| 20000 | Inventory of Equipment |
| 30000 | Internal Control |
| 40000 | State Compliance |
| 42000 | Charter School Facilities Program |
| 50000 | Federal Compliance |
| 60000 | Miscellaneous |
| 61000 | Classroom Teacher Salaries |
| 62000 | Local Control Accountability Plan |
| 70000 | Instructional Materials |
| 71000 | Teacher Misassignments |
| 72000 | School Accountability Report Card |

There were no findings and questioned costs related to the basic financial statements, federal awards, or state awards for the year ended June 30, 2016.

**ROCKETSHIP EDUCATION
AND ITS AFFILIATES**

**STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2016**

There were no findings and questioned costs related to the basic financial statements, federal awards or state awards for the prior year.