

**ROCKETSHIP EDUCATION D.C., PUBLIC
CHARTER SCHOOL, INC.**

**AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

JUNE 30, 2018 AND JUNE 30, 2017

Rocketship Education D.C., Public Charter School, Inc.

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Independent Auditor's Report

Board of Directors

Rocketship Education D.C., Public Charter School, Inc.
Washington, D.C.

We have audited the accompanying financial statements of **Rocketship Education D.C., Public Charter School, Inc.** (a nonprofit School) which comprise the Statements of Financial Position as of June 30, 2018 and 2017, and the related Statements of Activities and Changes in Net Deficit, Functional Expenses and Cash Flows for the years 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 audits. We conducted our audits 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 from 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.

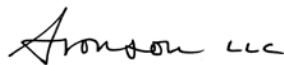
Independent Auditor's Report (continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Rocketship Education D.C., Public Charter School, Inc.** as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2018, on our consideration of **Rocketship Education D.C., Public Charter School, Inc.**'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of **Rocketship Education D.C., Public Charter School, Inc.**'s 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 **Rocketship Education D.C., Public Charter School, Inc.**'s internal control over financial reporting and compliance.



Rockville, Maryland
December 18, 2018

Rocketship Education D.C., Public Charter School, Inc.

Statements of Financial Position

<i>June 30,</i>	2018	2017
Assets		
Current assets		
Cash and cash equivalents	\$ 2,453,937	\$ 2,020,323
Grants receivable	670,751	254,708
Promises to give, current portion	200,000	200,000
Due from related party	643,470	-
Prepaid expenses	46,422	81,872
Total current assets	4,014,580	2,556,903
Long term assets		
Promises to give, net of current portion	-	96,325
Security deposits	1,500	-
Total long term assets	1,500	96,325
Total assets	\$ 4,016,080	\$ 2,653,228
Liabilities and Net Assets (Deficit)		
Current liabilities		
Accounts payable	\$ 394,395	\$ 214,683
Accounts payable - related party, current	620,151	178,596
Accrued expenses	37,482	50,943
Deferred revenue	-	29,942
Total current liabilities	1,052,028	474,164
Noncurrent liabilities		
Accounts payable - related party, net of current	2,625,991	2,875,991
Deferred rent	2,302,877	637,865
Total noncurrent liabilities	4,928,868	3,513,856
Total liabilities	5,980,896	3,988,020
Net assets (deficit)		
Unrestricted net (deficit)	(2,229,816)	(2,031,117)
Temporarily restricted net assets	265,000	696,325
Total net assets (deficit)	(1,964,816)	(1,334,792)
Total liabilities and net assets (deficit)	\$ 4,016,080	\$ 2,653,228

The accompanying Notes to Financial Statements are an integral part of these financial statements.

Rocketship Education D.C., Public Charter School, Inc.

Statement of Activities and Changes in Net Deficit

<i>Year Ended June 30, 2018</i>	Unrestricted	Temporarily Restricted	Total 2018
Revenues and support			
Charter school - per pupil funding	\$ 10,138,348	\$ -	\$ 10,138,348
D.C. facilities allowance	2,020,997	-	2,020,997
Other D.C. grants	189,389	-	189,389
Federal government grants	1,815,858	-	1,815,858
Foundation contributions	903,675	165,000	1,068,675
Individual contributions	66,570	-	66,570
Other revenue	8,118	-	8,118
Release from restrictions	596,325	(596,325)	-
Total revenues and support	15,739,280	(431,325)	15,307,955
Expenses			
Program	13,854,536	-	13,854,536
Fundraising expense	9,269	-	9,269
Management and general	2,074,174	-	2,074,174
Total expenses	15,937,979	-	15,937,979
Change in net assets (deficit)	(198,699)	(431,325)	(630,024)
Net assets (deficit), beginning of year	(2,031,117)	696,325	(1,334,792)
Net assets (deficit), end of year	\$ (2,229,816)	\$ 265,000	\$ (1,964,816)

The accompanying Notes to Financial Statements are an integral part of these financial statements.

Rocketship Education D.C., Public Charter School, Inc.

Statement of Activities and Changes in Net Deficit

<i>Year Ended June 30, 2017</i>	Unrestricted	Temporarily Restricted	Total 2017
Revenues and support			
Charter school - per pupil funding	\$ 6,568,579	\$ -	\$ 6,568,579
D.C. facilities allowance	1,377,684	-	1,377,684
Other D.C. grants	15,915	-	15,915
Federal government grants	433,339	-	433,339
Foundation contributions	1,125,000	501,285	1,626,285
Individual contributions	65,225	-	65,225
Other revenue	10,641	-	10,641
Total revenues and support	9,596,383	501,285	10,097,668
Expenses			
Program	9,349,742	-	9,349,742
Fundraising expense	7,786	-	7,786
Management and general	1,545,830	-	1,545,830
Total expenses	10,903,358	-	10,903,358
Change in net assets (deficit)	(1,306,975)	501,285	(805,690)
Net assets (deficit), beginning of year	(724,142)	195,040	(529,102)
Net assets (deficit), end of year	\$ (2,031,117)	\$ 696,325	\$ (1,334,792)

The accompanying Notes to Financial Statements are an integral part of these financial statements.

Rocketship Education D.C., Public Charter School, Inc.

Statement of Functional Expenses

<i>Year Ended June 30, 2018</i>	Program Services	Fundraising	Management and General	Total 2018
Personnel, salaries, and benefits:				
Salaries	\$ 3,634,611	\$ -	\$ -	\$ 3,634,611
Fringe benefits and payroll taxes	749,744	-	-	749,744
Total personnel, salaries, and benefits	4,384,355	-	-	4,384,355
Direct student costs:				
Contracted instruction fees	3,307,549	-	79,013	3,386,562
Student supplies	423,962	-	-	423,962
Library and media center	115,894	-	-	115,894
Student assessment	34,764	-	-	34,764
Other student expense	209,502	-	-	209,502
Food services	369,468	-	-	369,468
Total direct student cost	4,461,139	-	79,013	4,540,152
Occupancy expenses:				
Rent	3,772,195	-	-	3,772,195
Repairs and maintenance	88,023	-	-	88,023
Utilities	160,378	-	-	160,378
Contracted building services	521,809	-	-	521,809
Total occupancy expenses	4,542,405	-	-	4,542,405
Office expenses:				
Supplies, materials and equipment	211,839	-	-	211,839
Telecommunication	48,326	-	-	48,326
Technology (computer software and equipment)	66,407	-	-	66,407
Legal, accounting and payroll services	49,116	-	-	49,116
Printing and postage	13,933	-	-	13,933
Other office expense	77,016	-	-	77,016
Total office expenses	466,637	-	-	466,637
General expenses:				
Insurance	-	-	16,255	16,255
Transportation and lodging	-	-	32,779	32,779
Consulting	-	461	-	461
Administrative fee	-	-	205,980	205,980
Management fee	-	8,808	1,509,801	1,518,609
Operating expenses	-	-	230,346	230,346
Total general expenses	-	9,269	1,995,161	2,004,430
Total expenses	\$ 13,854,536	\$ 9,269	\$ 2,074,174	\$ 15,937,979

The accompanying Notes to Financial Statements are an integral part of these financial statements.

Rocketship Education D.C., Public Charter School, Inc.

Statement of Functional Expenses

<i>Year Ended June 30, 2017</i>	Program Services	Fundraising	Management and General	Total 2017
Personnel, salaries, and benefits:				
Salaries	\$ 2,203,586	\$ -	\$ -	\$ 2,203,586
Fringe benefits and payroll taxes	420,442	-	-	420,442
Total personnel, salaries, and benefits	2,624,028	-	-	2,624,028
Direct student costs:				
Contracted instruction fees	2,712,122	-	487,948	3,200,070
Student supplies	73,748	-	-	73,748
Library and media center	35,531	-	-	35,531
Student assessment	23,166	-	-	23,166
Other student expense	133,546	-	-	133,546
Food services	345,235	-	-	345,235
Total direct student cost	3,323,348	-	487,948	3,811,296
Occupancy expenses:				
Rent	2,791,625	-	-	2,791,625
Repairs and maintenance	39,830	-	-	39,830
Utilities	105,034	-	-	105,034
Contracted building services	254,496	-	-	254,496
Total occupancy expenses	3,190,985	-	-	3,190,985
Office expenses:				
Supplies, materials and equipment	116,044	-	-	116,044
Telecommunication	22,183	-	-	22,183
Technology (computer software and equipment)	33,546	-	-	33,546
Legal, accounting and payroll services	26,824	-	-	26,824
Printing and postage	3,384	-	-	3,384
Other office expense	9,400	-	-	9,400
Total office expenses	211,381	-	-	211,381
General expenses:				
Insurance	-	-	7,467	7,467
Transportation and lodging	-	-	17,730	17,730
Consulting	-	2,834	-	2,834
Administrative fee	-	-	85,428	85,428
Management fee	-	4,952	848,765	853,717
Operating expenses	-	-	98,492	98,492
Total general expenses	-	7,786	1,057,882	1,065,668
Total expenses	\$ 9,349,742	\$ 7,786	\$ 1,545,830	\$ 10,903,358

The accompanying Notes to Financial Statements are an integral part of these financial statements.

Rocketship Education D.C., Public Charter School, Inc.

Statements of Cash Flows

<i>Years Ended June 30,</i>	2018	2017
Cash flows from operating activities		
Change in net deficit	\$ (630,024)	\$ (805,690)
Adjustments to reconcile change in net deficit to net cash provided by operating activities		
Deferred rent	1,665,012	637,865
Change in present value discount on promises to give	(3,675)	995
(Increase) decrease in		
Grants receivable	(416,043)	(254,708)
Promises to give	100,000	743,720
Due from related party	(643,470)	-
Prepaid expenses	35,450	(28,023)
Security deposits	(1,500)	-
Increase (decrease) in		
Accounts payable	179,712	181,473
Accounts payable - related party	191,555	669,568
Accrued expenses	(13,461)	34,736
Deferred revenue	(29,942)	29,942
Net cash provided by operating activities	433,614	1,209,878
Net change in cash and cash equivalents	433,614	1,209,878
Cash and cash equivalents, beginning of period	2,020,323	810,445
Cash and cash equivalents, end of period	\$ 2,453,937	\$ 2,020,323

The accompanying Notes to Financial Statements are an integral part of these financial statements.

Rocketship Education D.C., Public Charter School, Inc.

Notes to Financial Statements

1. Organization and significant accounting policies

Organization: Rocketship Education D.C., Public Charter School, Inc. (the School) was incorporated in June 2015 as a not-for-profit corporation operated in the District of Columbia. The School officially opened its doors to students in August 2016 as a first-year academic public charter school. The mission is to eliminate the achievement gap in historically underserved communities.

There are two campuses: Rocketship RISE (RISE) and Rocketship Legacy Prep (RLP). The RISE campus was in full operations for the years ended June 30, 2018 and 2017 and the RLP campus was in full operations for the year ended June 30, 2018 and was starting up in 2017 with the expectation of full operations for the 2017 – 2018 school year.

Basis of accounting: The School prepares its financial records on the accrual basis of accounting. Under this basis, support and revenue are recognized when earned, and expenses are recognized as incurred.

Basis of presentation: The School classifies revenues as restricted or unrestricted based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the School and changes therein are classified and reported as follows:

Unrestricted net assets - net assets that are not subject to donor-imposed stipulations. Resources are available for general operations.

Temporarily restricted net assets - net assets subject to donor-imposed stipulations that will be met either by actions of the School and/or the passage of time. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities and Changes in Net Deficit as released from restrictions. As of June 30, 2018, net assets were temporarily restricted for time, and as of June 30, 2017, net assets are temporarily restricted for time and purpose with restrictions that the funds be utilized to help start the new RLP campus.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently. As of June 30, 2018 and 2017, the School had no permanently restricted net assets.

Cash and cash equivalents: The School considers all short term deposits with original maturities of ninety days or less in checking and savings accounts to be cash and cash equivalents. Balances may exceed federally insured limits. Management does not believe that this results in any significant credit risk.

Rocketship Education D.C., Public Charter School, Inc.

Notes to Financial Statements

Grants receivable: Grants receivable are recorded when the service is rendered or when expenses are incurred for federal and state programs. All accounts or portions thereof that are deemed to be uncollectible or that require an excessive collection cost are written off to the allowance for doubtful accounts. This balance is deemed fully collectible and therefore no allowance for doubtful accounts was deemed necessary as of June 30, 2018 and 2017.

Promises to give: Unconditional promises to give are recorded as contributions when received. Amounts expected to be collected within one year are recorded at net realizable value. Unconditional promises to give expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on promises to give are computed using a discount rate equal to the 5-year treasury yield curve rate plus an adjustment for risk. Amortization of the discount is included in contribution revenue. Management does not believe that an allowance for uncollectible promises to give is necessary.

Deferred rent: The School recognized the minimum non-contingent rent required under the operating lease as rent expense on a straight-line basis over the life of the lease, with differences between the amounts expensed and the required lease payments reflected as deferred rent on the accompanying Statements of Financial Position.

Revenue recognition:

Charter school – per pupil funding – A substantial portion of the School’s revenue is derived from the District of Columbia Public School System, and is based on a student allocation formula linked to enrollment. Amounts received in advance for future school terms are deferred and recognized over the period to which the funding relates.

D.C. facilities allowance – The School recognizes a facility allowance based on a student allocation formula linked to enrollment as determined by the D.C. government. Amounts received in advance are deferred and recognized over the period to which the funding relates.

Other D.C. grants – The School recognizes other D.C. apportionments based on a student allocation formula linked to enrollment as determined by the D.C. government. Amounts received in advance are deferred and recognized over the period to which the funding relates.

Rocketship Education D.C., Public Charter School, Inc.

Notes to Financial Statements

Federal government grants – The School recognizes grant revenue in amounts equal to total allowable expenditures made during the period for the purposes specified by the grant.

Foundation and individual contributions – The School recognizes all unconditional contributions received as income in the period received or pledged. Contributions are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions, when received.

Income taxes: The School is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code and is not classified as a private foundation.

Uncertainties in income taxes: The School evaluates uncertainty in income tax positions taken or expected to be taken on a tax return based on a more-likely-than-not recognition standard. If that threshold is met, the tax position is then measured at the largest amount that is greater than 50% likely of being realized upon ultimate settlement. As of June 30, 2018 and 2017, there are no accruals for uncertain tax positions. If applicable, the School records interest and penalties as a component of income tax expense. Tax years from 2016 through the current year remain open for examination by tax authorities.

Use of accounting 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 of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Functional allocation of expenses: The costs of providing the various programs and other activities have been summarized on a functional basis in the Statements of Activities and Changes in Net Deficit. Costs that can be identified with particular programs or support functions are charged directly to the program or function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Subsequent events: Management has evaluated subsequent events for disclosure in these financial statements through December 18, 2018, which is the date the financial statements were available to be issued.

Rocketship Education D.C., Public Charter School, Inc.

Notes to Financial Statements

- 2. Promises to give** As of June 30, 2018 and 2017, promises to give consisted of the following:

	2018	2017
Promises to give expected in:		
Less than one year	\$ 200,000	\$ 200,000
Two to five years	-	100,000
Total promises to give	200,000	300,000
Less: discount	-	(3,675)
Total promises to give, net	\$ 200,000	\$ 296,325

Unconditional promises to give due beyond one year are discounted to their present value using a discount rate of the 5-year treasury yield curve rate adjusted for risk of 1.91% and 1.89% for the years ended June 30, 2018 and 2017, respectively.

- 3. Retirement plan** The School participates in a 403(b) retirement plan. Eligible employees may contribute up to 100% of their salary. The School matches up to 3% of yearly pay. For the years ended June 30, 2018 and 2017, the School contributed \$23,430 and \$15,563, respectively, to the retirement plan.

- 4. Concentration** The School is supported primarily through local and federal government allocations and grants for the year ended June 30, 2018 and 2017. Approximately 82% and 81% of total revenue for the years ended June 30, 2018 and 2017, respectively, was provided through one government agency.

As of June 30, 2018, and 2017 approximately 100% and 54% of promises to give were from two foundations, respectively.

- 5. Charter school per pupil funding and facilities allowance** The School receives funding from the District of Columbia which is based on a student allocation formula linked to enrollment. The funding is received in the form of per pupil education allotments and facility allotments and was as follows:

Years ended June 30,	2018	2017
General education	\$ 7,645,727	\$ 5,132,622
Special education	1,307,323	630,280
Special education compliance	110,199	65,780
English language learners	55,290	18,977
At-risk students	1,019,809	720,920
Facilities allowance	2,020,997	1,377,684
Total D.C. allotments	\$ 12,159,345	\$ 7,946,263

Rocketship Education D.C., Public Charter School, Inc.

Notes to Financial Statements

Per pupil direct student costs during the years ended June 30, 2018 and 2017 were \$7,039 and \$8,642, respectively. Per pupil occupancy cost during the years ended June 30, 2018 and 2017 was \$7,176 and \$7,236, respectively.

6. Operating lease

The School has entered into lease agreements for school space for the term of July 1, 2016 until June 30, 2046. The leases are with a related party (See Note 7). Rent expense related to these leases during the years ended June 30, 2018 and 2017 was \$3,772,195 and \$2,735,797, respectively. The School's future minimum payments for the space as of June 30, 2018, are as follows:

Year Ending June 30,	
2019	\$ 3,965,885
2020	3,965,885
2021	3,965,885
2022	4,009,874
2023	4,100,096
Thereafter	120,941,120
Total	\$ 140,948,745

7. Related party transactions

The School is an independent legal entity but is consolidated into Rocketship Education (the parent organization). Rocketship Education is a non-profit network of public elementary charter schools serving primarily low-income students in neighborhoods where access to high-performing schools is limited. The School is also managed by Rocketship Education as noted in Note 8.

Rocketship Education receives contributions on behalf of the School. At June 30, 2018, there was \$643,470 due to the School for contributions collected. There were none due at June 30, 2017.

The School leases its facilities from a related party, Launchpad Development One DC, LLC which is a single member LLC with Launchpad Development Company as its sole member. Launchpad Development Company is a 509(a) supporting organization formed to support Rocketship Education. See Note 6.

Rocketship Education D.C., Public Charter School, Inc.

Notes to Financial Statements

8. Management fees

The School is managed by a related party (see Note 7), Rocketship Education, a not-for-profit charter management organization. On February 3, 2016, the School entered into a management agreement with Rocketship Education to assume responsibility for the School's educational process, management, and operations.

For the years ended June 30, 2018 and 2017, the management fee incurred and accrued by the School was \$1,518,609 and \$853,717, respectively, and is included in accounts payable - related party on the Statements of Financial Position. In addition, the School incurred fees for regional services of \$79,474 and \$490,782 for the years ended June 30, 2018 and 2017, respectively, which are payable to Rocketship Education and included in accounts payable – related party.

On October 31, 2015, the School entered into an instruction agreement with Apple Tree Institute for Education (Apple Tree), a District of Columbia organization. Per the terms of the agreement, Apple Tree will fully manage and operate the educational program for pre-school and pre-kindergarten ("Pre-K3" and "Pre-K4").

Apple Tree is solely responsible for all costs associated with operating the program, including, but not limited to compensation for teachers and administrators, curriculum related expenses, classroom furniture and supplies, and all liabilities associated with operating the program including expenses associated with special education.

As a management fee for the services rendered, Apple Tree shall receive an amount equal to the per-pupil funding the School receives for its enrolled Pre-K3 and Pre-K4 students excluding the facilities allotment and less any administrative fees. For the years ended June 30, 2018 and 2017, the Apple Tree management fee incurred by the School was \$2,925,880 and \$2,345,969, respectively.

9. Going concern evaluation

Management has evaluated conditions and events, in the aggregate, regarding the School's ability to meet their financial obligations as they become due within one year from the date of these financial statements. Management's evaluation considered only relevant conditions and events that are known and reasonably knowable at the date the financial statements were available to be issued.

Rocketship Education D.C., Public Charter School, Inc.

Notes to Financial Statements

Rocketship Education is committed to fiscal stewardship and transparency across all of its schools. At full enrollment the School is expected to operate solely on public and governmental funding, however, the School is still in a ramp up period to full enrollment and operating at a loss was anticipated. The School's first year enrollment was only 65% of full capacity. Many fixed costs were incurred at their full rate since inception (i.e. school facility costs, school leadership compensation). The School is expected to continue to increase its enrollment by 15% each year until full enrollment is reached in school year 2020/2021 for RISE and 2022/2023 for RLP. This will increase budgeted revenues to approximately \$21 million in 2019/2020. The School's expenses will also increase, however, not at the same rate as revenues due to many of the fixed expenses that were already incurred since the opening of the School. Rocketship Education ensures each of its schools receive the appropriate financial assistance during ramp up to full enrollment. This assistance can be provided through philanthropy, external financing, deferring related party payables and/or intra-company transfers.

Management is confident deficits will continue to decrease as enrollment increases, resulting in a financially solvent school at full enrollment. The School's Board and management expect that they will be able to meet their financial obligations as they become due.



Independent Auditor's Report on Supplementary Information

Board of Directors
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We have audited the financial statements of the **Rocketship Education D.C., Public Charter School, Inc.** as of and for the year ended June 30, 2018, and our report thereon dated December 18, 2018, which expressed an unmodified opinion on those financial statements, appears on pages 1 - 2. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Activities by Campus on page 17 is presented for purposes of additional analysis and is not a required part of the financial statements. 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.

Rockville, Maryland
December 18, 2018

Rocketship Education D.C., Public Charter School, Inc.

Schedule of Activities by Campus

Year Ended June 30, 2018

	PCSB	DC3	RISE	RLP	Total
Revenues and support					
Charter school - per pupil funding	\$ -	\$ -	\$ 10,138,348	\$ -	\$ 10,138,348
D.C. facilities allowance	-	-	2,020,997	-	2,020,997
Other D.C. grants	-	-	189,389	-	189,389
Federal government grants	-	-	809,050	1,006,808	1,815,858
Private foundation and individual contributions	991,525	-	143,220	500	1,135,245
Other revenue	-	-	8,118	-	8,118
Total revenues and support	991,525	-	13,309,122	1,007,308	15,307,955
Expenses					
Personnel, salaries, and benefits:					
Salaries	-	65,460	2,703,118	866,033	3,634,611
Fringe benefits and payroll taxes	-	44,475	502,673	202,596	749,744
Total personnel, salaries, and benefits	-	109,935	3,205,791	1,068,629	4,384,355
Direct student costs:					
Contracted instruction fees	-	5,692	3,072,503	308,367	3,386,562
Student supplies	-	-	133,209	290,753	423,962
Library and media center	-	-	27,294	88,600	115,894
Student assessment	-	-	22,573	12,191	34,764
Other student expense	-	-	152,253	57,249	209,502
Food services	-	-	312,273	57,195	369,468
Total direct student cost	-	5,692	3,720,105	814,355	4,540,152
Occupancy expenses:					
Rent	-	-	2,338,282	1,433,913	3,772,195
Repairs and maintenance	-	-	72,701	15,322	88,023
Utilities	-	-	113,904	46,474	160,378
Contracted building services	-	-	261,823	259,986	521,809
Total occupancy expenses	-	-	2,786,710	1,755,695	4,542,405
Office expenses:					
Supplies, materials and equipment	-	-	94,194	117,645	211,839
Telecommunication	-	-	21,443	26,883	48,326
Technology (computer software and equipment)	-	-	53,112	13,295	66,407
Legal, accounting and payroll services	48,202	-	890	24	49,116
Printing and postage	-	-	7,721	6,212	13,933
Other office expense	3,500	764	46,512	26,240	77,016
Total office expenses	51,702	764	223,872	190,299	466,637
General expenses:					
Insurance	-	-	12,554	3,701	16,255
Transportation and lodging	-	-	29,048	3,731	32,779
Consulting	-	-	461	-	461
Administrative fee	-	-	184,735	21,245	205,980
Management fee	-	-	1,256,387	262,222	1,518,609
Operating expenses	-	-	146,634	83,712	230,346
Total general expenses	-	-	1,629,819	374,611	2,004,430
Total expenses	51,702	116,391	11,566,297	4,203,589	15,937,979
Change in net assets (deficit)	\$ 939,823	\$ (116,391)	\$ 1,742,825	\$ (3,196,281)	\$ (630,024)

Refer to accompanying Independent Auditor's Report on Supplementary Information



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 D.C., Public Charter School, Inc.
Washington, D.C.

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We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of **Rocketship Education D.C., Public Charter School, Inc.** (a nonprofit School), which comprise the Statement of Financial Position as of June 30, 2018 and 2017, and the related Statements of Activities and Changes in Net Deficit, Functional Expenses and Cash Flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated December 18, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered **Rocketship Education D.C., Public Charter School, Inc.’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 **Rocketship Education D.C., Public Charter School, Inc.’s** internal control. Accordingly, we do not express an opinion on the effectiveness of **Rocketship Education D.C., Public Charter School, Inc.’s** internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we did identify certain deficiencies in internal control that we consider to be a material weakness and a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned cost as item 2018-001 to be a material weakness.

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* (Continued)

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2018-002 to be a significant deficiency.

Compliance and Other Matters

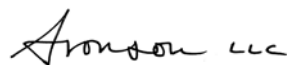
As part of obtaining reasonable assurance about whether **Rocketship Education D.C., Public Charter School, Inc.’s** financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance 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*.

Rocketship Education D.C., Public Charter School, Inc.’s Response to Findings

Rocketship Education D.C., Public Charter School, Inc.’s response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. **Rocketship Education D.C., Public Charter School, Inc.’s** response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School’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 School’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Rockville, Maryland
December 18, 2018



Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance

Board of Directors
Rocketship Education D.C., Public Charter School
Washington, D.C.

Report on Compliance for Each Major Federal Program

We have audited **Rocketship Education D.C., Public Charter School's** compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of **Rocketship Education D.C., Public Charter School's** major federal programs for the year ended June 30, 2018. **Rocketship Education D.C., Public Charter School'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 the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of **Rocketship Education D.C., Public Charter School'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; 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 **Rocketship Education D.C., Public Charter School'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 **Rocketship Education D.C., Public Charter School's** compliance.

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Independent Auditor’s Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance (Continued)

Opinion on Each Major Federal Program

In our opinion, **Rocketship Education D.C., Public Charter School** 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, 2018.

Report on Internal Control over Compliance

Management of **Rocketship Education D.C., Public Charter School** 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 **Rocketship Education D.C., Public Charter School’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 **Rocketship Education D.C., Public Charter School’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

Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance (Continued)

deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Aronson LLC

Rockville, Maryland
December 18, 2018

Rocketship Education D.C., Public Charter School, Inc.

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2018

Federal Grantor/Program Title	Federal CFDA Number	Amount Passed Through to Subrecipients	Federal Expenditures
<i>Pass-through from the D.C. Office of State Superintendent of Education</i>			
Department of Education			
Charter School Program	84.282M	\$ -	\$ 803,107
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	-	464,463
Title II	84.367A	-	97,908
Title IV	84.027A	-	10,000
IDEA Flow Through	84.072	-	124,754
IDEA 619 - Preschool	84.173	-	4,078
Subtotal Department of Education pass-through programs			1,504,310
 <i>Pass-through from the D.C. Office of State Superintendent of Education</i>			
Department of Agriculture			
National School Lunch Program	10.555	-	201,541
School Breakfast Program	10.553	-	110,007
Subtotal Department of Agriculture pass-through programs			311,548
Total expenditures of federal awards		\$ -	\$ 1,815,858

The accompanying Notes to Schedule of Expenditures of Federal Awards are an integral part of this schedule.

Rocketship Education D.C., Public Charter School, Inc.

Notes to Schedule of Expenditures of Federal Awards

-
- 1. Basis of presentation**

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of Rocketship Education D.C., Public Charter School, Inc. under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the 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). Because the Schedule presents only a selected portion of the operations of Rocketship Education D.C., Public Charter School, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of Rocketship Education D.C., Public Charter School, Inc.
 - 2. Summary of significant accounting policies**

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.
 - 3. Indirect cost rate**

Rocketship Education D.C., Public Charter School, Inc. has elected not to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Rocketship Education D.C., Public Charter School, Inc.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2018

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness identified? Yes no
- Significant deficiency(s) identified? Yes none reported

Noncompliance material to financial statements noted? Yes no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes no
- Significant deficiency(s) identified? Yes none reported

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

Any audit findings disclosed that are required to be reported in accordance 2 CFR 200.516(a)? Yes no

Identification of Major Programs:

CFDA
84.282M
84.010
10.555

Federal Grantor
Department of Education
Department of Education
Department of Agriculture

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

Auditee qualified as low-risk auditee? Yes no

Rocketship Education D.C., Public Charter School, Inc.

Schedule of Findings and Questioned Costs (continued)

Year Ended June 30, 2018

Section II - Financial Statement Findings

Finding 2018-001: Material Weakness – Adjustment for Deferred Rent

Criteria – Financial statements should be prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). Rent expense under an operating lease should be recognized on a straight-line basis over the lease term, even if payments are not made on a straight-line basis.

Condition – The School entered into a new lease agreement. During the year after the lease execution, the first amendment to the lease agreement with a new payments schedule was put in process. The amendment is still unsigned. The School did not change the straight-line basis calculation from the original agreement because the School was awaiting for the completion of the lease amendment.

Context – The School entered into a new lease with a related party lessor, however, the amendment was not signed as of the release of these financial statements. Because the chances of not renewing are remote, it is proper GAAP to record the transaction. Deferred rent represents the non-cash difference between the annual cash payments under the lease and the straight-line recognition of rent expense.

Effect – An adjustment was required for financial presentation purposes.

Cause – The School calculated a deferred rent liability but did not include the rent amendment in the calculation.

Repeat finding – This is not a repeat finding.

Statistical sampling – Sampling was not necessary in this instance.

Auditor's recommendation – Research should be conducted and accounting principles requiring the straight-line recognition of rent expense should be considered when entering into a new lease agreement.

Management's response and corrective action plan (unaudited) – When entering into a new lease agreement, the organization will ensure that the financial statements are prepared in accordance with GAAP.

Finding 2018-002: Significant Deficiency – Closing Process

Criteria – Financial statements should be prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). A condition of receiving federal funding is that there be adequate internal controls in place over financial reporting.

Rocketship Education D.C., Public Charter School, Inc.

Schedule of Findings and Questioned Costs (continued)

Year Ended June 30, 2018

Condition – The School made significant journal entries to the trial balance several months after closing to properly report balances at year end.

Context – The School experienced turn over in their accounting department and interim staffing was brought in to assist. The changeover caused delays in the effective closing of the records.

Effect – Several client prepared adjustments were required to accurately report balances at June 30, 2018.

Cause – The School had inadequate staffing for a portion of the year.

Repeat finding – This is not a repeat finding.

Statistical sampling – Sampling was not necessary in this instance.

Auditor’s recommendation – Adequate staffing of the accounting department should be considered for conducting an effective year-end close.

Management’s response and corrective action plan (unaudited) –

The organization has hired a new controller with extensive accounting and multi-industry experience. Over the last six months, the organization has also retained experienced accounting and audit resource who has evaluated and introduced internal control processes. The organization has been reviewing its month-end close process where all accounts are reconciled and reviewed. In addition, the organization plans to implement a year-end close process to ensure that financial statements are prepared in accordance with GAAP.

Section III – Federal Award Findings and Questioned Costs

None

Section IV – Prior Year Financial Statement Findings

N/A

Section V – Prior Year Federal Award Findings and Questioned Costs

N/A