

HTH LEARNING

AUDIT REPORT

FOR THE YEAR ENDED
JUNE 30, 2017

San Diego

Los Angeles

San Francisco
Bay Area

christywhite
A PROFESSIONAL
ACCOUNTANCY CORPORATION *associates*

HTH LEARNING
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JUNE 30, 2017

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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

To the Governance Board of
HTH Learning
San Diego, California

Report on the Financial Statements

We have audited the accompanying financial statements of HTH Learning which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses, 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. 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.

Christy White, CPA

Michael Ash, CPA

Heather Rubio

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State Board of Accountancy*

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of HTH Learning as of June 30, 2017, 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 of HTH Learning taken as a whole. The schedules of financial position and activities by project are presented for purposes of additional analysis and are not a required part of the basic 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.

A handwritten signature in cursive script that reads "Christy White Associates".

San Diego, California
November 27, 2017

HTH LEARNING
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2017

ASSETS

Current assets

| | |
|---|------------------|
| Cash and cash equivalents | \$ 1,738,923 |
| Investments | 1,839,218 |
| Interest receivable | 36,549 |
| Due from related entities | 852,905 |
| Contributions receivable, current portion | 59,020 |
| Total current assets | <u>4,526,615</u> |

Capital assets

| | |
|-------------------------------|---------------------|
| Property and equipment | 131,972,935 |
| Less accumulated depreciation | <u>(29,750,578)</u> |
| Capital assets, net | <u>102,222,357</u> |

Long-term assets

| | |
|---|------------------------------|
| Contributions receivable, long-term portion | 2,272,261 |
| Capital project debt service reserve | <u>1,592,743</u> |
| Total long-term assets | <u>3,865,004</u> |
| Total Assets | <u>\$ 110,613,976</u> |

LIABILITIES AND NET ASSETS

Current liabilities

| | |
|------------------------------------|------------------|
| Accounts payable | \$ 340,723 |
| Deferred revenue | 20,000 |
| Interest payable on long-term debt | 888,898 |
| Bonds payable, current portion | <u>1,654,660</u> |
| Total current liabilities | <u>2,904,281</u> |

Long-term liabilities

| | |
|--------------------------------------|--------------------|
| Bonds payable, less current portion | 44,132,229 |
| Less unamortized bond issuance costs | <u>(1,374,519)</u> |
| Total long-term liabilities | <u>42,757,710</u> |
| Total liabilities | <u>45,661,991</u> |

Net assets

| | |
|---|------------------------------|
| Unrestricted | 62,620,705 |
| Temporarily restricted | <u>2,331,280</u> |
| Total net assets | <u>64,951,985</u> |
| Total Liabilities and Net Assets | <u>\$ 110,613,976</u> |

The notes to the financial statements are an integral part of this statement.

HTH LEARNING
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

| | Unrestricted | Temporarily Restricted | Total |
|--|----------------------|---------------------------|----------------------|
| SUPPORT AND REVENUES | | | |
| Rent income | \$ 5,863,759 | \$ - | \$ 5,863,759 |
| Investment income, net | 95,671 | - | 95,671 |
| Contributions to long term maintenance | 25,599 | - | 25,599 |
| Other local revenues | 809,000 | - | 809,000 |
| Donor restrictions satisfied | 59,020 | (59,020) | - |
| Total Support and Revenues | 6,853,049 | (59,020) | 6,794,029 |
| EXPENSES | | | |
| Program services | | | |
| Education facilities | 2,441,369 | - | 2,441,369 |
| Support to affiliates | 538,426 | - | 538,426 |
| Management and general | 57,294 | - | 57,294 |
| Depreciation and amortization | 3,319,346 | - | 3,319,346 |
| Total Expenses | 6,356,435 | - | 6,356,435 |
| CHANGE IN NET ASSETS | 496,614 | (59,020) | 437,594 |
| Net Assets - Beginning | 62,124,091 | 2,390,300 | 64,514,391 |
| Net Assets - Ending | \$ 62,620,705 | \$ 2,331,280 | \$ 64,951,985 |

The notes to the financial statements are an integral part of this statement.

HTH LEARNING
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2017

| | Program Services | | | Management and General | Depreciation and Amortization | | Total |
|--------------------------------|-------------------------|--------------------------|---------------------|---------------------------|-------------------------------------|--|---------------------|
| | Education Facilities | Support to Affiliates | Total | | | | |
| EXPENSES | | | | | | | |
| Employee salaries and benefits | \$ 69,354 | \$ - | \$ 69,354 | \$ 30,808 | \$ - | | \$ 100,162 |
| Services and other operating | 156,322 | - | 156,322 | 26,486 | - | | 182,808 |
| Grants to schools | - | 536,013 | 536,013 | - | - | | 536,013 |
| Depreciation | - | - | - | - | 3,270,672 | | 3,270,672 |
| Interest paid to schools | - | 2,413 | 2,413 | - | - | | 2,413 |
| Interest on long term debt | 2,215,693 | - | 2,215,693 | - | 48,674 | | 2,264,367 |
| Total Expenses | \$ 2,441,369 | \$ 538,426 | \$ 2,979,795 | \$ 57,294 | \$ 3,319,346 | | \$ 6,356,435 |

The notes to the financial statements are an integral part of this statement.

HTH LEARNING
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|--|------------------|
| Change in net assets | \$ 437,594 |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities | |
| Depreciation on capital assets | 3,270,672 |
| Interest expense for amortization of bond issuance charges | 48,674 |
| (Increase) decrease in operating assets | |
| Interest receivable | (205) |
| Due from related entities | (761,299) |
| Contributions receivable | 59,020 |
| Increase (decrease) in operating liabilities | |
| Accounts payable | 112,825 |
| Deferred revenue | 20,000 |
| Interest payable on long-term debt | (18,230) |
| Net cash provided by (used in) operating activities | 3,169,051 |

CASH FLOWS FROM INVESTING ACTIVITIES

| | |
|--|------------------|
| Transfer of funds to investment accounts | (249,646) |
| Purchase of capital assets | (721,852) |
| Net cash provided by (used in) investing activities | (971,498) |

CASH FLOWS FROM FINANCING ACTIVITIES

| | |
|--|--------------------|
| Payments on intracompany loan payable | (582,647) |
| Adjustments to debt issuance costs | (112,472) |
| Principal payments on bonds payable | (1,589,561) |
| Net cash provided by (used in) financing activities | (2,284,680) |

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (87,127)

Cash and cash equivalents - Beginning 1,826,050

Cash and cash equivalents - Ending \$ 1,738,923

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

| | |
|------------------------|--------------|
| Cash paid for interest | \$ 2,233,923 |
|------------------------|--------------|

The notes to the financial statements are an integral part of this statement.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Incorporated on July 26, 2001 in the State of California, HTH Learning is a nonprofit public benefit corporation located in San Diego, California. HTH Learning is the controlling organization for High Tech High Graduate School of Education and High Tech High, which operates several charter schools.

HTH Learning is responsible for administering facilities leases to its affiliate schools, managing certain grants to replicate the High Tech High pedagogy, and planning growth of future schools, including site location, building design and construction management.

B. Basis of Accounting

HTH Learning's policy is to prepare its financial statements on the accrual basis of accounting; consequently, revenues are recognized when earned rather than when cash is received and certain expenses and purchases of assets are recognized when the obligation is incurred rather than when cash is disbursed.

C. Financial Statement Presentation

HTH Learning is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Unrestricted net assets include all resources available for use by the Board of Directors and management's discretion in carrying out the activities of HTH Learning in accordance with its Bylaws. Temporarily or permanently restricted net assets are only expendable for the purposes specified by the donor or through the passage of time. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets. Permanently restricted net assets are generally required to be held by HTH Learning in perpetuity while the earnings on those assets are available for use by HTH Learning to support its activities. Donors can place restrictions on the earnings from permanently restricted contributions at the time the contributions are made or pledged. Fund accounting is not used in HTH Learning's financial statement presentation.

D. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures, such as depreciation expense and the net book value of capital assets. Accordingly, actual results could differ from those estimates.

E. Functional Expenses

The costs of providing services have been summarized on a functional basis in the statement of activities and detailed in the statement of functional expenses. Certain costs and expenditures have been allocated between program and supporting services based on management's estimates.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Contributions

Contributions that are restricted by the donor are reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the revenue is recognized. All other donor restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the existence or nature of any donor restrictions.

Non-cash contributions of goods, materials, and facilities are recorded at fair value at the date of contribution. Contributed services are recorded at fair value at the date of contribution if they are used to create or enhance a non-financial asset or require specialized skills, are provided by someone possessing those skills, and would have to be purchased by HTH Learning if not donated.

G. Income Taxes

HTH Learning is a 509(a)(1) publicly supported nonprofit organization that is exempt from income taxes under Section 501(a) and 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation. HTH Learning is also exempt from state franchise or income tax under Section 23701(d) of the California Revenue and Taxation Code. HTH Learning is registered with the California Attorney General as a charity.

Income that is not related to exempt purposes, less applicable deductions, is subject to federal and state income taxes. HTH Learning did not have any net unrelated business income for the year ended June 30, 2017. It is management's belief that HTH Learning does not hold any uncertain tax positions that would materially impact the financial statements. HTH Learning's information and/or tax returns are subject to examination by the regulatory authorities for up to four years from the date of filing.

H. Cash and Cash Equivalents

HTH Learning considers all highly liquid deposits and investments with an original maturity of less than ninety days to be cash equivalents.

I. Investments

HTH Learning's method of accounting for investments is the fair value method. Fair value is determined by published quotes when they are readily available. Adjustments to fair values are included in the accompanying statement of financial position and statement of activities.

J. Receivables and Allowances

Accounts receivable are stated at the amount management expects to collect from outstanding balances. An allowance for doubtful accounts is established, as necessary, based on past experience and other factors which, in management's judgment, deserve current recognition in estimating bad debts. Such factors include the relationship of the allowance for doubtful accounts to accounts receivable and current economic conditions. Based on review of these factors, HTH Learning establishes or adjusts the allowance for specific revenue sources as a whole.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

K. Capital Assets

HTH Learning has adopted a policy to capitalize asset purchases over \$2,500. Lesser amounts are expensed. Donations of capital assets are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset.

L. Intangible Asset – Trademarked Property

HTH Learning holds claim to the educational and teaching concepts, methods, models, techniques, systems and materials of High Tech High (collectively known as the “HTH Model”). As the development of the HTH Model is inherent to the activities of HTH Learning’s affiliated entities (such as High Tech High) and the HTH Model has an indeterminate life, the costs associated with its development are expensed when incurred in conformance with generally accepted accounting principles.

M. Fair Value Measurements

The Fair Value Measurements Topic of the FASB *Accounting Standards Codification* establishes a fair value hierarchy that prioritizes inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

- | | |
|---------|--|
| Level 1 | Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets. |
| Level 2 | Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. |
| Level 3 | Inputs to the valuation methodology are unobservable and significant to the fair value measurement. |

A financial instrument’s level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

N. New Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for Profit Entities* whereby significant changes were proposed in seven areas: net asset classes, liquidity and availability of resources, classification and disclosure of underwater endowment funds, expense reporting, statement of cash flows, investment return, and release of restrictions on capital assets. The amendments in ASU No. 2016-14 are effective for annual financial statements issued for fiscal years beginning after December 15, 2017. The Organization has not yet determined the impact on the financial statements.

HTH LEARNING
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

N. New Accounting Pronouncements (continued)

In April 2015, FASB issued ASU 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs* which requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability. Additionally, the amortization of debt issuance costs is required to be reported as interest expense. The pronouncement was effective for annual financial statements issued for fiscal years beginning after December 15, 2015. The Organization has implemented this new accounting pronouncement for the year ended June 30, 2017.

NOTE 2 – CASH AND INVESTMENTS

Cash and Cash Equivalents

Cash and cash equivalents as of June 30, 2017, consist of cash in banks in the amount of \$1,738,923. As of June 30, 2017, \$1,432,374 of HTH Learning's bank balance was exposed to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, HTH Learning's deposits may not be returned to it. HTH Learning has adopted a cash management policy that addresses investment options as well as actions to be taken in the event that deposits exceed FDIC limits. The FDIC insures up to \$250,000 per depositor per insured bank.

Investments

HTH Learning holds an investment account with City National Bank for the purpose of reserving funds for long term maintenance. The funds are invested in marketable securities with a fair value of \$1,839,218 as of June 30, 2017. The investment is recognized at Level 1 as inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Capital Project Debt Service Reserve

The Organization maintains investment reserves for debt service payments as discussed further in Note 6. As of June 30, 2017, the capital project debt service reserve of \$1,592,743 consist a Guaranteed Investment Contract (GIC) held by HTH Learning in association with its 2008 tax exempt bonds. The investment is deemed Level 1 investments within the fair value hierarchy.

NOTE 3 – RECEIVABLES

Contributions Receivable

On January 9, 2007, HTH Learning entered into a long-term agreement with the City of Chula Vista for the use of public property located at the High Tech High Chula Vista school site. Phase 1 of this agreement grants HTH Learning with possessory interest in the land valued at \$2,950,989, so long as the land is used for educational purposes. The agreement expires on December 17, 2057, and is renewable for two additional 25-year terms.

HTH Learning recorded this transaction as a contribution of a long-lived asset with a time restriction. When the agreement was entered into, the asset was recognized as a contribution receivable, and revenue was accrued as restricted. At the end of the year in which the agreement was entered into, the restricted income increased temporarily restricted net assets. Over the 50-year life of the agreement, the restricted net assets are released from restriction on the straight-line basis at a rate of \$59,020 per year. As of June 30, 2017, the balance of the contribution receivable was \$2,331,281 including the current portion of \$59,020.

HTH LEARNING
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE 3 – RECEIVABLES (continued)

Interest Receivable

Interest receivable as of June 30, 2017, consists of \$36,549 in interest earned but not yet received.

NOTE 4 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2017, consists of the following:

| | Balance | | | Balance |
|-------------------------------|-----------------------|-----------------------|-------------|-----------------------|
| | July 1, 2016 | Additions | Deductions | June 30, 2017 |
| Property and equipment | | | | |
| Land | \$ 25,588,315 | \$ - | \$ - | \$ 25,588,315 |
| Buildings and improvements | 104,967,210 | 228,512 | - | 105,195,722 |
| Furniture and equipment | 679,968 | - | - | 679,968 |
| Construction in progress | 15,590 | 493,340 | - | 508,930 |
| Total property and equipment | 131,251,083 | 721,852 | - | 131,972,935 |
| Less accumulated depreciation | (26,479,906) | (3,270,672) | - | (29,750,578) |
| Capital Assets, net | \$ 104,771,177 | \$ (2,548,820) | \$ - | \$ 102,222,357 |

NOTE 5 – TEMPORARILY RESTRICTED NET ASSETS

As of June 30, 2017, HTH Learning's temporarily restricted net assets of \$2,331,280 consisted of the remainder of the possessory interest in the Chula Vista land recorded as a contribution receivable (see Note 3).

NOTE 6 – LONG-TERM DEBT

Long-term debt activity for the year ended June 30, 2017, consists of the following:

| Description | Year Issued | Original Issue | Balance July 1, 2016 | Additions | Deductions | Balance June 30, 2017 | Due Within One Year |
|--------------|-------------|----------------|----------------------|-------------|---------------------|-----------------------|---------------------|
| 2008A Bonds | 2008 | \$ 4,440,000 | \$ 4,365,000 | \$ - | \$ 40,000 | \$ 4,325,000 | \$ 45,000 |
| 2008B Bonds | 2008 | 18,520,000 | 18,200,000 | - | 175,000 | 18,025,000 | 185,000 |
| 2014 Bonds | 2014 | 11,000,000 | 10,186,703 | - | 598,366 | 9,588,337 | 619,340 |
| 2015 Bonds | 2015 | 11,650,000 | 11,355,747 | - | 605,949 | 10,749,798 | 628,371 |
| 2016 Bonds | 2016 | 3,269,000 | 3,269,000 | - | 170,246 | 3,098,754 | 176,949 |
| Total | | | \$ 47,376,450 | \$ - | \$ 1,589,561 | \$ 45,786,889 | \$ 1,654,660 |

HTH LEARNING
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE 6 – LONG-TERM DEBT (continued)

A summary of the principal amounts of long-term debt and the unamortized debt issuance costs associated with such debt is as follows:

| Description | Principal | Unamortized | |
|--------------|----------------------|---------------------|----------------------|
| | | Debt Issuance | Net |
| | | Costs | Balance |
| 2008A Bonds | \$ 4,325,000 | \$ 44,652 | \$ 4,280,348 |
| 2008B Bonds | 18,025,000 | 713,299 | 17,311,701 |
| 2014 Bonds | 9,588,337 | 113,650 | 9,474,687 |
| 2015 Bonds | 10,749,798 | 358,213 | 10,391,585 |
| 2016 Bonds | 3,098,754 | 144,705 | 2,954,049 |
| Total | \$ 45,786,889 | \$ 1,374,519 | \$ 44,412,370 |

Bonds Payable

California Municipal Revenue Tax Exempt Bonds Series 2008A

In April 2008, HTH Learning issued a series of bonds designated as the California Municipal Finance Authority Educational Facilities Revenue Bonds (HTH Learning), Series 2008A, in an aggregate principal amount of \$4,440,000. The bonds are tax exempt and bear interest at a rate of 6.17%. Payments on interest are made semiannually on January 1 and July 1 and consist of interest only through June 2013. Beginning July 1, 2014, principal payments will be due annually in addition to semiannual interest payments through June 2048. Future payments on this bond issue are as follows:

| Year Ended | | | |
|--------------|---------------------|---------------------|---------------------|
| | June 30 | Principal | Interest |
| | | | Total |
| 2018 | \$ 45,000 | \$ 260,272 | \$ 305,272 |
| 2019 | 45,000 | 257,628 | 302,628 |
| 2020 | 50,000 | 256,306 | 306,306 |
| 2021 | 50,000 | 253,369 | 303,369 |
| 2022 | 55,000 | 250,431 | 305,431 |
| 2023-2049 | 4,080,000 | 4,381,034 | 8,461,034 |
| Total | \$ 4,325,000 | \$ 5,659,040 | \$ 9,984,040 |

HTH LEARNING
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE 6 – LONG-TERM DEBT (continued)

Bonds Payable (continued)

California Municipal Revenue Tax Exempt Bonds Series 2008B

In April 2008, HTH Learning issued a series of bonds designated as the California Municipal Finance Authority Educational Facilities Revenue Bonds (HTH Learning), Series 2008B, in an aggregate principal amount of \$18,520,000. The bonds are tax exempt and bear interest at a rate of 6.27%. Interest is capitalized and paid from the loan proceeds through December 2008, after which interest payments are made semiannually on January 1 and July 1 and consist of interest only through June 2013. Beginning July 1, 2014, principal payments will be due annually in addition to semiannual interest payments through June 2048. Future payments on this bond issue are as follows:

| Year Ended | | | | |
|--------------|----------------------|----------------------|----------------------|--|
| June 30 | Principal | Interest | Total | |
| 2018 | \$ 185,000 | \$ 1,093,200 | \$ 1,278,200 | |
| 2019 | 195,000 | 1,082,750 | 1,277,750 | |
| 2020 | 205,000 | 1,077,387 | 1,282,387 | |
| 2021 | 215,000 | 1,065,087 | 1,280,087 | |
| 2022 | 230,000 | 1,052,187 | 1,282,187 | |
| 2023-2049 | 16,995,000 | 18,369,101 | 35,364,101 | |
| Total | \$ 18,025,000 | \$ 23,739,712 | \$ 41,764,712 | |

2014 CSFA Point Loma Facilities Bonds

On November 6, 2014, HTH Learning entered into a master loan agreement with the California School Finance Authority (CSFA), whereby the Series 2005 Note previously held by HTH Learning to finance the Point Loma facilities was cancelled and the 2014 CSFA Point Loma Facilities Bonds were issued with a new term date of October 1, 2029 for the borrowing of \$11,000,000 at an interest rate of 3.46%. The Point Loma facilities leased by High Tech High for use by the following charter schools: High Tech High, High Tech Middle, High Tech Middle Media Arts, High Tech High International, and High Tech Elementary Explorer, which provide payment of the 2014 CSFA Point Loma Facilities Revenue Bonds through intercept of State principal apportionment funding. Beginning in January 2015, principal payments are due quarterly in addition to quarterly interest payments through October 2029. Future payments on this bond issue are as follows:

| Year Ended | | | | |
|--------------|---------------------|---------------------|----------------------|--|
| June 30 | Principal | Interest | Total | |
| 2018 | \$ 619,340 | \$ 323,778 | \$ 943,118 | |
| 2019 | 641,049 | 302,069 | 943,118 | |
| 2020 | 663,518 | 279,600 | 943,118 | |
| 2021 | 686,776 | 256,342 | 943,118 | |
| 2022 | 710,848 | 232,270 | 943,118 | |
| 2023-2030 | 6,266,806 | 884,499 | 7,151,305 | |
| Total | \$ 9,588,337 | \$ 2,278,558 | \$ 11,866,895 | |

HTH LEARNING
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE 6 – LONG-TERM DEBT (continued)

Bonds Payable (continued)

2015 CSFA HTH Learning Project Series 2015

On October 27, 2015, \$11,650,000 of 2015 CSFA HTH Learning bonds were issued to fully refinance the Revolution Community Ventures 1, LLC and the line of credit previously held with City National Bank, which have been used to partially fund the construction of the new facility for High Tech Elementary. The residual value was financed by an intercompany loan for \$582,647 (refer to Note 7). The bonds bear an interest at a rate of 3.60%. Beginning in January 2016, principal payments are due quarterly in addition to quarterly interest payments through October 2030. Future payments on this bond issue are as follows:

| Year Ended | | | |
|--------------|----------------------|---------------------|----------------------|
| June 30 | Principal | Interest | Total |
| 2018 | \$ 628,371 | \$ 383,869 | \$ 1,012,240 |
| 2019 | 651,622 | 360,618 | 1,012,240 |
| 2020 | 674,838 | 337,402 | 1,012,240 |
| 2021 | 700,705 | 311,535 | 1,012,240 |
| 2022 | 726,633 | 285,607 | 1,012,240 |
| 2023-2030 | 7,367,629 | 1,236,413 | 8,604,042 |
| Total | \$ 10,749,798 | \$ 2,915,444 | \$ 13,665,242 |

2016 HTH Learning Project Series 2016

On March 1, 2016, HTH Learning entered into a loan agreement with the CSFA for the issuance of \$3,269,000 in school facility revenue bonds. The proceeds funded the purchase of the High Tech Middle North County project improvements from affiliate, High Tech High, to settle the outstanding liability associated with High Tech High's 2011 Qualified School Construction Bonds. The 2016 CSFA bonds bear an interest at a rate of 3.65%. Beginning in July 2016, principal payments are due quarterly in addition to quarterly interest payments through January 2031. Future payments on this bond issue are as follows:

| Year Ended | | | |
|--------------|---------------------|-------------------|---------------------|
| June 30 | Principal | Interest | Total |
| 2018 | \$ 176,949 | \$ 110,697 | \$ 287,646 |
| 2019 | 183,497 | 104,149 | 287,646 |
| 2020 | 190,027 | 97,619 | 287,646 |
| 2021 | 197,318 | 90,328 | 287,646 |
| 2022 | 204,619 | 83,027 | 287,646 |
| 2023-2030 | 2,146,344 | 370,561 | 2,516,905 |
| Total | \$ 3,098,754 | \$ 856,381 | \$ 3,955,135 |

NOTE 7 – RELATED PARTY TRANSACTIONS

HTH Learning is the sole statutory member of High Tech High and High Tech High Graduate School of Education. The entities are considered financially interrelated under generally accepted accounting principles because of the statutory relationship. Consolidated financial statements including the financial position and activities of HTH Learning and all controlled affiliates (the above entities and High Tech High Foundation, which is financially interrelated to HTH Learning through High Tech High) are available upon request.

Elements of common control between HTH Learning and the affiliate entities are as follows:

- HTH Learning appoints the members of High Tech High and approves the High Tech High Graduate School of Education (GSE) Boards of Trustees appointed by the GSE,
- HTH Learning and the High Tech High Graduate School of Education Board of Trustees maintain two Board members in common,
- HTH Learning's Board sets policy for the Charter Management Organization (an operating unit of High Tech High)
- HTH Learning leases numerous facilities to High Tech High as further disclosed in Note 8

In April 2008, HTH Learning entered into master agreements for the issuance of the Series 2008A and 2008B CSFA School Facilities Bonds. The facilities leased by High Tech High are used by the following High Tech High charter schools, High Tech High Chula Vista and High Tech High Media Arts, which have agreed to have the lease/debt service payments for the 2008A and 2008B CSFA School Facilities Bonds intercepted from principal apportionment.

On November 6, 2014, HTH Learning entered into a master loan agreement for the issuance of the 2014 CSFA Point Loma Facilities Bonds. As mentioned in Note 6, the Point Loma facilities leased by High Tech High are used by the following High Tech High charter schools: High Tech High, High Tech Middle, High Tech Middle Media Arts, High Tech High International, and High Tech Elementary Explorer, which have agreed to have the lease/debt service payments for the 2014 CSFA Point Loma Facilities Revenue Bonds intercepted from principal apportionment.

HTH Learning entered into two loan agreements on October 27, 2015 for the issuance of the 2015 CSFA School Facilities Bonds and on March 1, 2016 for the issuance of 2016 CSFA School Facilities Bonds. The facilities leased by High Tech High are used by High Tech High charter schools, which have agreed to have the lease/debt service payments for the 2015 and 2016 CSFA Facilities Revenue Bonds intercepted from principal apportionment. Additionally, an intercompany loan receivable was issued from High Tech High to HTH Learning for \$548,687 to cover the residual associated with the refinance involving the 2015 CSFA School Facilities Bond. The interagency loan was repaid during the fiscal year ended June 30, 2017 and no outstanding balance remained payable at June 30, 2017.

As of June 30, 2017, HTH Learning and its affiliates use a common operating account that is maintained and administered by High Tech High. HTH Learning has recorded a net receivable balance of \$852,905 from High Tech High in relation to this practice.

Refer to Note 8 for rental activity involving High Tech High and High Tech High Graduate School of Education for additional related party transactions during the fiscal year ended June 30, 2017.

HTH LEARNING
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE 8 – RENTAL ACTIVITY

HTH Learning leases numerous facilities to High Tech High. HTH Learning's management classifies these leases as operating leases under generally accepted accounting principles. The lease term expirations for the following affiliates and the annual lease payments of each for the year ended June 30, 2017 are as follows:

| | 2016-17 | Lease Term |
|-------------------------------|----------------------|-------------------|
| | Lease Payment | Expiration |
| High Tech High | \$ 730,598 | 2035 |
| High Tech Elementary Explorer | 135,069 | 2020 |
| High Tech Middle | 582,330 | 2035 |
| High Tech High Media Arts | 619,853 | 2035 |
| High Tech Middle Media Arts | 638,576 | 2035 |
| High Tech International | 525,333 | 2035 |
| High Tech High Chula Vista | 1,248,000 | 2048 |
| High Tech High North County | 680,000 | 2046 |
| High Tech Middle North County | 324,000 | 2035 |
| High Tech Elementary | 380,000 | 2046 |
| Total | \$ 5,863,759 | |

On September 1, 2015, High Tech High Graduate School of Education (the "GSE") entered into a use agreement with High Tech High for a term of approximately fifteen (15) academic years, commencing September 1, 2015 and terminating August 31, 2030. The use agreement, among other items, calls for no base rent or other consideration to be paid for the use of school premises. As part of this agreement with High Tech High, HTH Learning allows GSE to use office space in these facilities located at the San Diego campus throughout the week with access to conference rooms and classrooms in the afternoons, evenings and on weekends. As mentioned, facility usage was provided rent free and deemed to be insignificant in value.

In September 2017, HTH Learning's Board approved a use agreement between High Tech High and High Tech High Graduate School of Education that supersedes any prior approved use agreements. The agreement, commencing August 1, 2017 provides that the GSE compensate High Tech High for expenses related to its use of certain facilities including, but not limited to: custodial services, common area maintenance fees and property taxes for special assessments. Further details of the agreement are noted with the financial statements for both High Tech High and the GSE.

NOTE 9 – LINE OF CREDIT

HTH Learning holds an agreement with City National Bank for a revolving line of credit in the amount of \$2,000,000 with a termination date of October 5, 2019. HTH Learning had no outstanding principal balance under this line of credit as of June 30, 2017.

NOTE 10 – SUBSEQUENT EVENTS

HTH Learning has evaluated subsequent events for the period from June 30, 2017 through November 27, 2017, the date the financial statements were available to be issued. As mentioned in Note 8, HTH Learning approved a use agreement between High Tech High and High Tech High Graduate School of Education regarding the use of facilities owned by HTH Learning and leased to High Tech High. Management did not identify any other transactions that require disclosure or that would have an impact on the financial statements.

SUPPLEMENTARY INFORMATION SECTION

HTH LEARNING
SCHEDULE OF FINANCIAL POSITION BY PROJECT
JUNE 30, 2017

| | Point Loma | North County Project | Hale Project | Chula Vista & Media Arts Project | Building 271 Project | Middle North County 2016 | Long Term Maintenance Fund | Total | Eliminations | Total HTH Learning |
|---|----------------------|-------------------------|----------------------|--|-------------------------|-----------------------------|----------------------------------|-----------------------|---------------------|-----------------------|
| ASSETS | | | | | | | | | | |
| Current assets | | | | | | | | | | |
| Cash and cash equivalents | \$ 253,773 | \$ - | \$ - | \$ 1,073,223 | \$ 285,591 | \$ 126,336 | \$ - | \$ 1,738,923 | \$ - | \$ 1,738,923 |
| Investments | - | - | - | - | - | - | 1,839,218 | 1,839,218 | - | 1,839,218 |
| Interest receivable | - | - | - | 36,549 | - | - | - | 36,549 | - | 36,549 |
| Due from related entities | 319,872 | 59,547 | 555,241 | 352,262 | - | - | 264,644 | 1,551,566 | (698,661) | 852,905 |
| Contributions receivable, current portion | - | - | - | 59,020 | - | - | - | 59,020 | - | 59,020 |
| Total current assets | 573,645 | 59,547 | 555,241 | 1,521,054 | 285,591 | 126,336 | 2,103,862 | 5,225,276 | (698,661) | 4,526,615 |
| Capital assets | | | | | | | | | | |
| Property and equipment | 48,610,727 | 20,307,018 | 23,137,536 | 16,141,956 | 16,514,466 | 7,261,232 | - | 131,972,935 | - | 131,972,935 |
| Less accumulated depreciation | (18,218,738) | (4,056,368) | (979,309) | (4,759,091) | (553,928) | (1,183,144) | - | (29,750,578) | - | (29,750,578) |
| Capital assets, net | 30,391,989 | 16,250,650 | 22,158,227 | 11,382,865 | 15,960,538 | 6,078,088 | - | 102,222,357 | - | 102,222,357 |
| Long-term assets | | | | | | | | | | |
| Contributions receivable, long-term portion | - | - | - | 2,272,261 | - | - | - | 2,272,261 | - | 2,272,261 |
| Capital project debt service reserve | - | - | - | 1,592,743 | - | - | - | 1,592,743 | - | 1,592,743 |
| Total long-term assets | - | - | - | 3,865,004 | - | - | - | 3,865,004 | - | 3,865,004 |
| Total Assets | \$ 30,965,634 | \$ 16,310,197 | \$ 22,713,468 | \$ 16,768,923 | \$ 16,246,129 | \$ 6,204,424 | \$ 2,103,862 | \$ 111,312,637 | \$ (698,661) | \$ 110,613,976 |
| LIABILITIES AND NET ASSETS | | | | | | | | | | |
| Current liabilities | | | | | | | | | | |
| Accounts payable | \$ 538 | \$ - | \$ 340,185 | \$ - | \$ - | \$ - | \$ - | \$ 340,723 | \$ - | \$ 340,723 |
| Due to related entities | - | - | - | 18,789 | 582,811 | 97,061 | - | 698,661 | (698,661) | - |
| Deferred revenue | - | - | 20,000 | - | - | - | - | 20,000 | - | 20,000 |
| Interest payable on long-term debt | 82,939 | - | - | 679,941 | 97,823 | 28,195 | - | 888,898 | - | 888,898 |
| Bonds payable, current portion | 619,340 | - | - | 230,000 | 628,371 | 176,949 | - | 1,654,660 | - | 1,654,660 |
| Total current liabilities | 702,817 | - | 360,185 | 928,730 | 1,309,005 | 302,205 | - | 3,602,942 | (698,661) | 2,904,281 |
| Long-term liabilities | | | | | | | | | | |
| Bonds payable, less current portion | 8,968,998 | - | - | 22,120,000 | 10,121,427 | 2,921,804 | - | 44,132,229 | - | 44,132,229 |
| Less unamortized bond issuance costs | (113,650) | - | (44,652) | (713,299) | (358,213) | (144,705) | - | (1,374,519) | - | (1,374,519) |
| Total long-term liabilities | 8,855,348 | - | (44,652) | 21,406,701 | 9,763,214 | 2,777,099 | - | 42,757,710 | - | 42,757,710 |
| Total liabilities | 9,558,165 | - | 315,533 | 22,335,431 | 11,072,219 | 3,079,304 | - | 46,360,652 | (698,661) | 45,661,991 |
| Net assets | | | | | | | | | | |
| Unrestricted | 21,407,469 | 16,310,197 | 22,397,935 | (7,897,788) | 5,173,910 | 3,125,120 | 2,103,862 | 62,620,705 | - | 62,620,705 |
| Temporarily restricted | - | - | - | 2,331,280 | - | - | - | 2,331,280 | - | 2,331,280 |
| Total net assets | 21,407,469 | 16,310,197 | 22,397,935 | (5,566,508) | 5,173,910 | 3,125,120 | 2,103,862 | 64,951,985 | - | 64,951,985 |
| Total Liabilities and Net Assets | \$ 30,965,634 | \$ 16,310,197 | \$ 22,713,468 | \$ 16,768,923 | \$ 16,246,129 | \$ 6,204,424 | \$ 2,103,862 | \$ 111,312,637 | \$ (698,661) | \$ 110,613,976 |

HTH LEARNING
SCHEDULE OF ACTIVITIES BY PROJECT
FOR THE YEAR ENDED JUNE 30, 2017

| | Point Loma | North County Project | Hale Project | Chula Vista & Media Arts Project | Building 271 Project | Middle North County 2016 | Long Term Maintenance Fund | Total | Eliminations | Total HTH Learning |
|--|----------------------|-------------------------|----------------------|--|-------------------------|-----------------------------|----------------------------------|----------------------|------------------|-----------------------|
| UNRESTRICTED NET ASSETS | | | | | | | | | | |
| Unrestricted Support and Revenues | | | | | | | | | | |
| Rent income | \$ 2,611,906 | \$ - | \$ - | \$ 1,867,853 | \$ 1,060,000 | \$ 324,000 | \$ - | \$ 5,863,759 | \$ - | \$ 5,863,759 |
| Investment income, net | 414 | - | - | 74,552 | 660 | 392 | 19,653 | 95,671 | - | 95,671 |
| Contributions to long term maintenance | - | - | - | - | - | - | 525,599 | 525,599 | (500,000) | 25,599 |
| Asset transfers from affiliates | 688 | 6,968 | - | - | 200,000 | - | - | 207,656 | (207,656) | - |
| Other local revenues | 9,000 | - | 800,000 | - | - | - | - | 809,000 | - | 809,000 |
| Donor restrictions satisfied | - | - | - | 59,020 | - | - | - | 59,020 | - | 59,020 |
| Total Unrestricted Support and Revenues | 2,622,008 | 6,968 | 800,000 | 2,001,425 | 1,260,660 | 324,392 | 545,252 | 7,560,705 | (707,656) | 6,853,049 |
| OPERATING EXPENSES | | | | | | | | | | |
| Program services | | | | | | | | | | |
| Education facilities | 860,149 | - | 99,889 | 1,427,928 | 405,935 | 119,430 | 28,038 | 2,941,369 | (500,000) | 2,441,369 |
| Support to affiliates | 736,013 | - | - | - | 2,413 | - | 7,656 | 746,082 | (207,656) | 538,426 |
| Management and general | - | - | 56,814 | 480 | - | - | - | 57,294 | - | 57,294 |
| Depreciation and amortization | 1,618,164 | 511,053 | 302,892 | 543,937 | 90,745 | 252,555 | - | 3,319,346 | - | 3,319,346 |
| Total Operating Expenses | 3,214,326 | 511,053 | 459,595 | 1,972,345 | 499,093 | 371,985 | 35,694 | 7,064,091 | (707,656) | 6,356,435 |
| CHANGE IN UNRESTRICTED NET ASSETS | (592,318) | (504,085) | 340,405 | 29,080 | 761,567 | (47,593) | 509,558 | 496,614 | - | 496,614 |
| TEMPORARILY RESTRICTED | | | | | | | | | | |
| Donor restrictions satisfied | - | - | - | (59,020) | - | - | - | (59,020) | - | (59,020) |
| CHANGE IN TEMPORARILY RESTRICTED NET ASSETS | - | - | - | (59,020) | - | - | - | (59,020) | - | (59,020) |
| CHANGE IN NET ASSETS | (592,318) | (504,085) | 340,405 | (29,940) | 761,567 | (47,593) | 509,558 | 437,594 | - | 437,594 |
| Net Assets - Beginning | 21,999,787 | 16,814,282 | 22,057,530 | (5,536,568) | 4,412,343 | 3,172,713 | 1,594,304 | 64,514,391 | - | 64,514,391 |
| Net Assets - Ending | \$ 21,407,469 | \$ 16,310,197 | \$ 22,397,935 | \$ (5,566,508) | \$ 5,173,910 | \$ 3,125,120 | \$ 2,103,862 | \$ 64,951,985 | \$ - | \$ 64,951,985 |