MEMORANDUM

DATE: Friday, September 12, 2014

TO: Richard Ellis, State Treasurer
David Damschen, Deputy State Treasurer

FROM: Brian F. Baker
Zions Bank Public Finance

RE: Venture Academy Charter School

The purpose of this report is to document Venture Academy Charter School's ("Venture," "VCS," or the "School") adherence to the eligibility standards created for participation in the Utah Charter School Credit Enhancement Program (the "Program"). The analysis contained herein is based on Venture's full application to the State Charter School Finance Authority (the "Authority"), subsequent conversations with the School's finance team, as well as additional information and documents submitted in response to follow up requests by the Authority.

The School has provided all information requested subsequent to the submission of the initial application. All questions have been answered to my satisfaction. This report will examine each category of the Program's "Standards for Participation," including Basic Eligibility, Enrollment/Student Demand, Academic Performance, Management, Financial Performance, and Bond Documents. In each of these categories, the School met the basic eligibility requirements for participation in the Program, as detailed below. This report should be examined in direct conjunction with the Letter of Certification for Venture Academy from the State Charter School Board ("SCSB Letter"), which provides detailed analysis and historical information on Enrollment/Student Demand, and Academic Performance.

Venture Academy—Introduction

Venture Academy is a K-12 charter school located in Marriott-Slaterville. The School opened with only grades K-8 but has expanded to now include all grades K-12. VCS's enrollment cap has been increased three times, from a beginning count of 450 up to 850 for the 2014-2015 year. With strong retention and a large waiting list, Venture should not have a problem increasing to and maintaining this expanded enrollment into the future.

Venture's focus and mission has remained constant from its original charter application. The School's mission statement reads:

The mission of Venture Academy is to Inspire the rising generation to reach the heights of their potential, Ignite their curiosity to venture into challenging new learning experiences, and through service, Empower them to be leaders who are committed to family and community. Then they can Achieve their dreams and shape their world

The School plans to issue approximately $7.3 million in revenue bonds to refinance its existing 2009 bonds.

Basic Eligibility

1. Venture's 2014 bonds will be issued through the Authority.

2. The SCSB Letter indicates that VCS is in good standing with the State Charter School Board.

3. The School has obtained an investment grade rating of "BBB-" from Standard & Poor's ("S&P"). Key credit concerns from the private rating report are listed below, followed by Zions' response to these concerns :
    a. High lease-adjusted pro-forma MADS debt burden of 24% based on fiscal 2013 expenditures— Debt burden improves as a result of the refunding (from 19.4% to 18.3% for FY 2014). And debt burden will improve significantly as enrollment grows as it did for 2013-2014 school year (up 21%) and appears to have for 2014-2015 (up 14%, unadutied).
    b. Only adequate proforma lease-adjusted MADS coverage of 1.1x based on 2013 operations—because the School is growing, historical metrics will naturally look poor relative to present and future expectations. Coverage increased for 2014 to 1.22 times.
    c. Possibility of charter revocation—this is a non-issue.

    S&P also cites the following as positive credit factors that offset the above-listed weaknesses:
    a. Strong demand indicated by growing enrollment and wait list at twice the size of enrollment.
    b. Good and improving liquidity with 103 days cash on hand as of June 30, 2014.
    c. Strong EBITDA margins consistently exceeding 20%.
    d. Strong financial management, budgeting, and benchmarking.

4. Venture Academy is in its 6th full year of operations. Financial operating history, as demonstrated by past audited financials, cash position, and increasing unrestricted fund balance, is satisfactory

5. The School has a defined and specific mission. Venture's mission is to:

Inspire the rising generation to reach the heights of their potential, Ignite their curiosity to venture into challenging new learning experiences, and through service, Empower them to be leaders who are committed to family and community.
Then they can Achieve their dreams and shape their world

6. VCS issued bonds in 2009 to construct its K-8 building. The 2014 bonds will refinance these bonds. In addition, the School has a $6.4 million note payable with USDA that was entered into in 2013 to construct the high school building. This USDA note is not being refinanced by the 2014 bonds. Basic features of the USDA note include an interest rate of 3.125%, building of a fully funded cash reserve over a 10-year period, and a final maturity of February 1, 2044. The School is not in default under its existing bonds.

Enrollment/Student Demand

7. The School has 823 students enrolled this year.

8. Enrollment at Venture has increased each year since operations began in 2009. For the past three years the school has operated at 93% (for 2014) and 96% (for 2012 and 2013) of its enrollment cap. There has never been a decline in student enrollment. As grades 10, 11, and 12 have been added between 2013 and 2015, total enrollment has increased from 488 (2012) to 823 (2015)[1]. Table 1 from the SCSB Letter includes detailed enrollment history back to 2009.

9. Venture Academy exceeds the re-enrollment standard established by the SCSB in each of the past three years. The most recent total re-enrollment rate of 89.5%, coupled with the school's strong historical track record, indicate admitted students are generally staying at Venture. Table 2 from the SCSB Letter details historical enrollment and re-enrollment.

10. The School exceeds the ADM rate requirement. Over the last three years, VCS's Average Daily Membership rate has been 98.2%, 98.7%, and 98.0%.

11. The School has provided wait list statistics by grade, and has provided the detailed waiting list that includes descriptive and personal information on potential students to the Deputy State Treasurer. The waiting list from the application includes 1530 potential students trying for admission in the 2014-2015 academic year. The waiting list is strong and includes a satisfactory amount of students for every grade level offered, although numbers are smaller for the high school grades.

[1] 2015 student enrollment figures unaudited, provided by the School.

Within five miles of Venture, there are two other high school options: Fremont High School, with 1850 students, and DaVinci Academy Charter School, with 1091 students. Demand for upper grade education can be seen by the growth in enrollment from 2012-2013 to 2013-2014 school years of the students in grades 8-10 that progressed into grades 9-11. In particular, the 47 eighth graders became 96 ninth graders the following year, and the other two grade levels increased student count incrementally.

In addition, overall re-enrollment statistics are strong, at 89.5% for the 2014 school year. Prior years have been over 90%. We have not yet seen re-enrollment statistics by grade level.

Academic Performance

12. The SCSB Letter indicates that the School meets required academic standards. Table 3 from the SCSB Letter provides a breakdown of Venture Academy's performance relative to other schools. The School has been approximately on par with the charter medians.

Management

13. The School has adopted reasonable management policies and practices that guide financial, debt, and risk management. The Board has adopted an acceptable Succession Plan as well as a Financial and Risk Management Plan, including post-issuance compliance.

14. Venture Academy has a six-member board. The terms for Founding Members on the Board do not expire. The three other Board members serve staggered terms that can be renewed at the approval of the Board. The board members have a diverse set of backgrounds, which include accounting, finance, education, marketing, and charter school expertise.

15. The School has contracted with Red Apple Financial as its management company. In addition, Venture has had the same Executive Director since inception.

16. Venture Academy's historical budgeted revenues and expenditures generally demonstrate "reasonable proficiency" in forecasting. The SCSB letter includes a breakdown of adherence to budgeted revenues and expenses once capital items like property acquisition and a loan for the construction of the new high school are backed out. This explanation is reasonable and logical and raises no concern.

Financial Performance

The School meets all of the current requirements for the Financial Performance section of the application, although it should be pointed out that financial metrics look weak historically due to the high growth in enrollment the School has seen in the last three years.

17. Projections used by the School in financial forecasting appear reasonable. Venture seems positioned to continue and improve its healthy financial standing of the past. VCS revenues are forecasted to grow at a similar rate to expenses. The School appears to be in a healthy financial position. Future growth from 2015 student population of 823 up to enrollment cap of 850 appears manageable, and more importantly, not critical to servicing debt and maintaining healthy debt ratios.

18. Debt Coverage Ratio

Requirement	Measure	Sufficient?
At least 105%	111%	Yes

Debt coverage ratio is calculated by dividing total revenues available for debt service by the maximum annual debt service payment anticipated for the new bonds. Revenues available for debt service is calculated by taking 2014 net income from operations of $141,081 and adding back depreciation expense of $172,952 and interest expense of $656,163. This leaves net revenues available for debt service of $970,196. When this number is divided by maximum annual debt service of $855,000, the coverage is 113%.

Coverage prior to 2013 would fall below 100%, but this is due to comparisons of revenues for a smaller school (488 students in 2012) with future debt service designed to support a school with 850 students.

	2014	2013	2012
Net Income Available for Debt Service	$970,196	$880,591	$602,983
Maximum Annual Debt Service	855,000	855,000	855,000
Debt Coverage Ratio	113%	103%	71%

19. Debt Burden Ratio

Requirement	Measure	Sufficient?
Less than 25%	15%	Yes

The debt burden ratio requirement is based on the level of the School's fund balance, which we calculate at 35% (cash of $1,518,451 divided by total operating expenses net of depreciation of $4,347,363). Debt burden ratio is calculated as maximum annual debt service ($855,000) divided by unrestricted operating revenues ($4,661,396), taken from 2014 financial statements.

	2014	2013	2012
Maximum Annual Debt Service	$855,000	$855,000	$855,000
Unrestricted Operating Revenues	4,661,396	3,851,234	2,923,733
Debt Burden Ratio	18.3%	22.2%	29.2%

Due to growth, in 2012 the School would have had insufficient operating revenues to meet this requirement.

20. Operating Margin

Requirement	Measure	Sufficient?
At least 7%	20.8%	Yes

Venture Academy's operating margin requirement of 7% or greater is based on the calculation for days cash on hand (calculated as cash divided by operating expenses multiplied by 365) of 127 days. Operating margin of 20.8% is calculated by dividing net income available for debt service of $970,196 (see calculation under Debt Coverage Ratio) by total revenues of $4,661,396.

	2014	2013	2012
Net Income Available for Debt Service	$970,196	$880,591	$602,983
Revenues	4,661,396	3,851,234	2,923,733
Operating Margin	20.8%	22.8%	20.6%

21. Current Ratio

Requirement	Measure	Sufficient?
At least 150%	250%	Yes

The current ratio is defined as current unrestricted assets ($1,518,451 for 2014) divided by current liabilities ($632,385). The School has exceeded a 150% current ratio each of the last three years. For 2013, Venture was in the process of constructing its new high school and had a remaining obligation to pay the contractor $1,903,531. This was reported in Note 4 of the 2013 audit, and was paid using USDA loan proceeds. I did not include that amount in the 2013 current ratio calculation.

Venture Academy	2014	2013	2012
Current Assets	$1,518,451	931,212	628,437
Current Liabilities	632,385	357,868	320,405
Current Ratio	250%	275%	196%

Bond Documents

20-23. VCS's legal bond documents have been reviewed by Chapman and Cutler in their capacity as bond counsel to the Authority, and all requirements have been incorporated. In addition, Ballard Spahr, as bond counsel to Venture Academy, has confirmed that each of the required legal provisions is present in the bond documents.