

PROVIDENCE HALL
CHARTER SCHOOL

February 15, 2015

Richard K. Ellis
Utah State Treasurer
Utah State Finance Authority
350 North State Street, Suite 180
Salt Lake City, UT 84114

Dear Treasurer Ellis,

Pursuant to the covenants outlined in Section 8.15 of the Providence Hall Loan Agreement, we are notifying you and our Trustee (US Bank) of a noncompliance item. Providence Hall recently expanded its operations from a K-9 school with two campuses to a K-12 with three campuses. During the course of our year-end work and through our fiscal audit, it was discovered that we did not meet our obligation for MADS for fiscal year 2014. It is required by the Issuer that the school meet MADS at 1.15 and the calculation was .94 for FY 2014. Providence Hall has historically enjoyed good financial performance and continues to maintain a strong cash position with 84 days cash on hand as of the same date.

The reason for noncompliance with the MADS calculation in FY2014 is due to debt service expenses for three campuses being included in the MADS year (2038) where FY2014's operations included net income for only two campuses. Additionally, expenses recorded in FY 2014 included approximately \$145,000 in expenses for our FY 2015 expansion. The effect was an overall thinner margin for FY 2014. The Debt Service Coverage Ratio for FY2014 is 1.20. On December 18, 2014, Standard & Poor's Rating Services affirmed the rating of BBB- for Providence Hall while changing its outlook to negative from stable. We have included a copy of S & P's report for your review.

While we have realized tremendous enrollment growth in FY 2015, we anticipate a thin margin for the same year as we progress toward enrollment capacity in our upper grades. Demand remains strong for Providence Hall in the community and we anticipate closing the enrollment gap further in FY 2016 by at least 100 students, if not completely.

We have included with this letter an overview of our school operations and a Pro Forma Income Statement through FY2018 that may be helpful. The Governing Board of Providence Hall maintains its commitment to operate within budget and has aligned expenses with revenues for FY2015 and thereafter. In the current fiscal year, we have removed non-essential expenditures from the budget, have refrained from hiring several new employees and have eliminated a few positions as well.

We continue to plan effectively for a stable financial future and are firmly on track to return to historical norms in FY2016. To ensure strong financial performance in FY2016, we plan to budget for 2,083 students rather than 2,150 and will again plan only for essential expenditures.

Please contact us if you have further questions.

Regards,

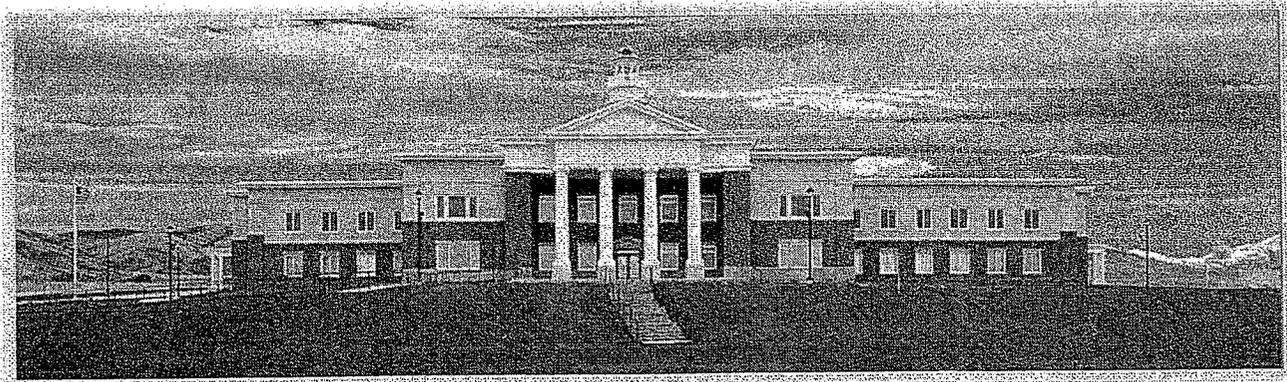

Sonya Peterson
Board Chair


James Endrizzi
Board Treasurer

A Utah public charter school devoted to excellence in education

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HIGH SCHOOL: 4557 W. MOUNT OGDEN PEAK DRIVE, HERRIMAN, UTAH 84096

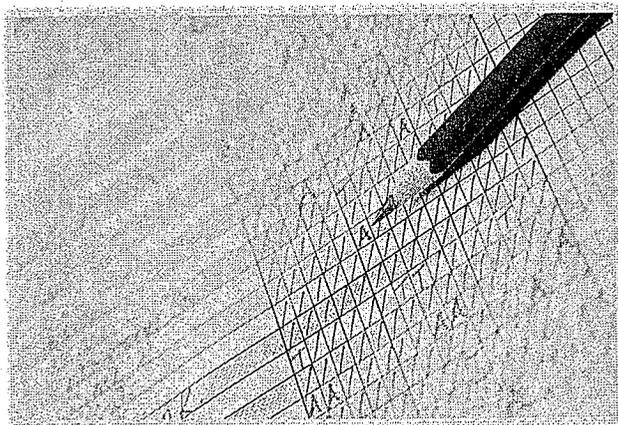
www.providencehall.com * Ph: (801) 432-7866 * Fax: (801) 446-3952



Over the past year, Providence Hall has experienced significant growth that demonstrates the hard work and dedication of all in the school community. Growth included the completion and opening of the Providence Hall High School, with an overall enrollment increase of 440 students from FY 2014 to FY 2015. It is our expectation that student growth and achievement will continue to be an area in which our school excels. We are the only authorized K-12 International Baccalaureate World Charter School in Utah (one of twelve in the nation), with Primary Years Programme (PYP), Middle Years Programme (MYP) and Diploma Programme (DP) programmes. In addition, we received AdvancED Accreditation. Exciting events have taken place this year both academically and within our student programs and clubs. These things make us proud to be Patriots.

Academics

Providence Hall students have performed well in the Utah computer adaptive assessment system (SAGE) test and have excelled above average in the areas of math and language arts. Our 10th graders are eagerly working diligently on their MYP personal projects. The personal project is seen as a culmination of student learning and a focus of the areas of interaction. Students are required to choose an academic or non-academic topic or subject for their project, which they are expected to complete over the course of the school year. Students are required to keep a personal journal while working on the process and schedule regular meetings with an MYP teacher who will serve as their advisor throughout the year. In addition, a final reflection must be written upon the completion of the project, which explains how it ties in with at least one of the Global contexts. The personal project is a significant piece of work that is a product of students' own initiative and creativity.



This year we had thirty students compete in the Science Fair with some amazing projects. One of our 6th grade students had the honor of winning the Science Fair with her project on germs and was selected for an interview with our local news station.

The High School had the privilege of sending six of our seniors to participate in the Sterling Scholar Program. This program publically recognizes students' excellence in the areas of scholarship, leadership and citizenship in the State of Utah. They participated in the fields of social science, mathematics, English, business marketing, arts, speech, theatre as well as computer technology.

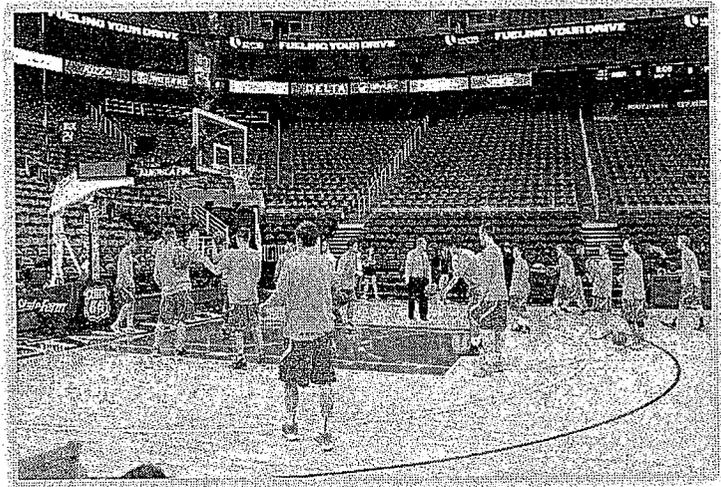
We administered the Plan and Explore test at the Junior High. The Explore Program is for 8th and 9th grade students. It prepares students for high school coursework and post-high school choices. The Plan Program is for 10th grade students and serves as a midpoint check of academic progress in high school and improves students' preparation for work after high school.

Our students participate in the NHS (National Honors Society) program to recognize outstanding high school students. Students participated in the Math Olympiad, testing a student's creativity and ability to form a rigorous mathematical proof. We are proud to note that one of our students was recently awarded the Riverton City Choice Award for Excellence in Education.

Providence Hall's Performing arts students performed on a state level. Most recently, our Advanced Band was invited to play at the grand opening of our newest local Wal-Mart where we received recognition in the community as an exceptional Charter School in the region. Additionally, students have opportunities to take part in an extra-curricular activity known as Model UN. In the program, students role play as delegates to the United Nations and simulate UN Committees.

Sports Program

We are in region 14 as a 2A school with the Utah High School Athletics Association (UHSAA). Providence Hall competes against other schools in the area including Rowland Hall, Waterford, Layton Christian Academy, Merit Academy, Rockwell and American Preparatory Academy. The sports we currently offer for boys and girls are golf, tennis, basketball, soccer, cross country and girls volleyball



We recently held our Junior High Night at the High School. The event provided an opportunity for the Providence Hall Jr. High basketball teams to play at the high school to excite them about their future at Providence Hall.

Our boys' basketball team was invited to play on the Utah Jazz floor at the Energy Solutions Arena. They attended a Jazz game later on the same evening.

Staff

Another significant strength is our faculty and staff who work tirelessly to support our students. We have 91% Highly Qualified (HQ) staff with the remainder working toward achieving their HQ status with the Utah State Office of Education. Each faculty member receives regular professional development in implementing our model. We have an effective Multi-Tiered System of Supports (MTSS Program). MTSS empowers all students to learn through systematic school-wide support. We also have Teacher Assistants in the elementary school classrooms.

Providence Hall has a professional learning community (PLC). This group of educators works collaboratively to share expertise to improve teaching skills and the academic performance of students. The faculty receives frequent in-classroom evaluations from our administration. Each staff member in our school is hired to provide a caring and supportive environment for our students.

Enrollment

Funding for our school is a function of enrollment and student retention. Providence Hall has an enrollment cap of 2150 and has grown dramatically in FY2015. A waiting list is maintained to fill enrollment openings that become available. Our enrollment and waitlist as of January 2015 is:

Actual Enrollment		Waitlist	
Elementary—	849	Elementary—	1,389
Junior High—	692	Junior High—	207
High School—	429	High School—	39
Total—	1,970	Total—	1,635

We are anticipating full enrollment in FY2016 (at capacity) as we are seeing marked increases in inquiries at the school Registrar's Office. Due to this demand, our wait list is increasing in all grades, as are new-student enrollment inquiries for the 2015-2016 school year. However, to ensure strong financial performance, we are budgeting (and staffing) for 2,083 students in the 2015-2016 school year (100 greater than 2014-2015) rather than at capacity (2,150).

Providence Hall
Pro Forma Income Statement
For the Years Ended June 30, 2015-2018

	2015	2016	2017	2018
Revenues*				
Local Revenue	506,000	539,090	559,926	572,660
State Revenue	11,869,348	12,645,888	13,134,827	13,433,594
Federal Revenue	487,944	519,863	539,961	552,243
Total Revenues	12,863,292	13,704,841	14,234,714	14,558,497
Operating Expenses**				
Salaries	6,127,533	6,492,446	6,703,833	6,804,390
Benefits	1,847,420	1,947,719	2,006,719	2,036,820
Purchased Services	1,451,300	1,473,070	1,495,166	1,517,593
Supplies	1,148,500	1,165,728	1,183,213	1,200,962
Other Objects	1,679,909	1,705,108	1,730,684	1,756,645
Total Operating Expenses	12,254,662	12,784,070	13,119,615	13,316,409
Net Income[^]	608,630	920,771	1,115,099	1,242,088

*Assumes 2,083 enrolled students in FY16, 2,133 in FY17 and 2,150 (capacity) in FY18 and a 1.5% increase in all revenue streams each year.

**Operating Expenses include a 1.5% increase in all expenses, plus known deviations such as additional staffing needs, supplies, etc.

[^]Full accrual, not including depreciation expense.

Estimated MADS Calculation	2015	2016	2017	2018
EBIDA	2,179,669	2,491,810	2,686,138	2,813,127
Max. Annual Debt Service (2038)	2,067,611	2,067,611	2,067,611	2,067,611
 Estimated MADS Calc. by Year	 1.05	 1.21	 1.30	 1.36

The information contained herein is an estimate only and is not an official financial projection.



**STANDARD & POOR'S
RATINGS SERVICES**
McGraw Hill Financial

One California Street, 31st Floor
San Francisco, CA 94111-5432
tel 415 371-5000
reference no.: 40425804

December 18, 2014

Providence Hall
4558 W. Mt. Ogden Peak Dr.
Herriman, UT 84096
Attention: Ms. Beverly Ledward, Business Manager

Re: *Utah Charter School Finance Authority (Providence Hall), Utah, Charter School Revenue Bonds*

Dear Ms. Ledward:

Standard & Poor's Ratings Services ("Ratings Services") hereby affirms its rating of "BBB-" for the underlying rating (SPUR) on the above-listed obligations and changed the outlook to negative from stable. A copy of the rationale supporting the rating and outlook is enclosed.

This letter constitutes Ratings Services' permission for you to disseminate the above rating to interested parties in accordance with applicable laws and regulations. However, permission for such dissemination (other than to professional advisors bound by appropriate confidentiality arrangements) will become effective only after we have released the rating on standardandpoors.com. Any dissemination on any Website by you or your agents shall include the full analysis for the rating, including any updates, where applicable.

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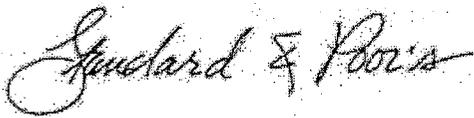
Please send hard copies to:

Standard & Poor's Ratings Services
Public Finance Department
55 Water Street
New York, NY 10041-0003

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Ratings Services is pleased to have the opportunity to provide its rating opinion. For more information please visit our website at www.standardandpoors.com. If you have any questions, please contact us. Thank you for choosing Ratings Services.

Sincerely yours,

A handwritten signature in cursive script that reads "Standard & Poor's". The signature is written in dark ink and is centered on the page.

Standard & Poor's Ratings Services

lk
enclosure

cc: Mr. Bruce Sorensen, Managing Director
Piper Jaffray & Co.



**STANDARD & POOR'S
RATINGS SERVICES**

McGRAW HILL FINANCIAL

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Utah Charter School Finance Authority Providence Hall; Charter Schools

Primary Credit Analyst:

Karl Propst, Dallas (1) 214-871-1427; karl.propst@standardandpoors.com

Secondary Contact:

Kenneth T Gacka, San Francisco (1) 415-371-5036; kenneth.gacka@standardandpoors.com

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Utah Charter School Finance Authority

Providence Hall; Charter Schools

Credit Profile

Utah Charter Sch Fin Auth, Utah

Providence Hall, Utah

2013A

Underlying Rating for Credit Program

BBB-/Negative

Outlook Revised

Long Term Rating

AA/Stable

Current

Rationale

Standard & Poor's Ratings Services revised the outlook to negative from stable and affirmed its 'BBB-' underlying rating for the credit program for Utah Charter School Finance Authority's \$24.7 million tax-exempt series 2013A and taxable series 2013B charter school revenue bonds, issued on behalf of Providence Hall Charter School. The negative outlook reflects Providence Hall's weaker-than-forecast operating performance in fiscal 2014 and weak relative coverage at maximum annual debt service (MADS).

The bonds are additionally supported by a moral obligation pledge provided by the state of Utah. The long-term credit program rating on the bonds, which is based on the moral obligation pledge, is AA/Stable. That rating is separate and has not been updated with this analysis. For more information on the moral obligation pledge, please refer to our report on Providence Hall Charter School published Sept. 24, 2013, on RatingsDirect.

The affirmed 'BBB-' underlying rating reflects our opinion of Providence Hall's enterprise and financial profile highlighted by robust demand and adequate financial metrics. We expect that the school will continue to meet its enrollment targets and will manage its operations to support cash flow sufficient to service its debt and comply with its financial covenants over the life of the bonds.

More specifically, the rating reflects our favorable view of Providence Hall's:

- Completion and start-up of its new high school campus this fall, which was funded with the series 2013 bonds;
- Strong demand, as demonstrated by an increase in enrollment to 1,983 K-12th grade students as of fall 2014 from 700 K-6th grade students in fall 2010, with a waiting list of more than 3,300 students spanning grades K-7;
- Status as one of few charters in the state that offers the international baccalaureate (IB) program, and the only charter that offers the program from K-12th grade;
- Adequate student assessment and engagement scores that continue to position the school ahead of the district and in line with the state averages; and
- Unrestricted reserves equal to 84 days' cash on hand, which is adequate but modestly below the median for the rating level.

The rating reflects our opinion of the following credit risks:

- Providence Hall's very high leverage, as reflected in a 2014 debt burden (lease-adjusted MADS/expenses), debt to capitalization of 97.5%, and about \$17,300 of debt on a per-student basis;
- Deficit operations in fiscal 2014 reflecting weaker-than-budgeted fiscal 2014 operating performance from bond issuance costs, as well as higher-than-expected interest and depreciation expenses, and one-time expenses associated with the opening of the high school;
- MADS coverage, which was very light for the rating level, due to the weaker-than-forecast operations;
- The subordinate position of the series 2013 bonds to the revenues and property of the school's junior high school; and
- Although not anticipated, and as is the situation with all charter schools, the potential that Providence Hall's charter could be revoked before the bonds' final maturity due to noncompliance with the terms of the charter.

Management used the proceeds of the series 2013 bonds to fund the construction of Providence Hall's new high school facility, which sits across the road from its middle school, and to refund debt incurred by the school in 2009 to fund the acquisition of the elementary school facility. As of June 30, 2014, Providence Hall had \$34.2 million of bonds and notes outstanding. Series 2013 bonds are secured by a senior lien on the elementary and high school properties and the revenues derived from those properties. In addition, bondholders will have a subordinate position on the junior high school and the revenues derived from that property. The documents also indicate that a default on the series 2013 bonds would constitute a default on the 2012 USDA debt, and vice versa.

Outlook

The negative outlook reflects Providence Hall's weaker operating performance in fiscal 2014 relative to its forecast and weak relative coverage at MADS. Although we anticipate that the school will meet its demand targets as projected, we would consider lowering the rating if Providence Hall's financial metrics continue to deteriorate, and in particular if debt service coverage at MADS does not equal or exceed 1.3x at fiscal year end (2015), particularly given weaker-than-budgeted performance at fiscal year end 2014. We consider a higher rating remote within the two-year outlook period, but we could consider raising the rating over time if the school meets its targeted enrollment growth to the existing charter cap, maintains MADS coverage in excess of 1.5x, and grow days' cash to a level in line with 'BBB' medians.

Enterprise Profile

The school

Providence Hall was incorporated in 2007 and opened for operations in the fall of 2008 (fiscal 2009), enrolling students in grades K through 6. The school grew to include a junior high with grades 7 through 9 in fiscal 2012 and opened its high school in fall 2014 (during the 2013-2014 school year, grades 10 and 11 were accommodated in the junior high school across the road). Providence Hall uses the Utah State Core Curriculum and employs a teaching method developed by the International Baccalaureate Organization. The IB program is a differentiating factor, in our opinion, and with the high school expansion, Providence Hall is the only K-12 IB designated school in Utah.

Providence Hall is located about 30 miles from Salt Lake City in Herriman, an area that has grown rapidly during the past decade. There is ample competition in the service area, with several other public and charter schools located with

a 20-mile radius; however, Providence Hall is one of only two schools that offer the IB program. The other school that has an IB program is Channing Hall's K-8 school, which is located nine miles away in Draper.

Providence Hall's schools operate under one charter agreement with the Utah State Charter School Board. The charter is an evergreen contract, so it is not subject to expiration, as is the case in most other states, but the charter can still be revoked by the authorizer due to noncompliance with the charter.

Management represents that it is in good standing with the terms of its charter. When the charter was initially granted in October 2007, Providence Hall was authorized to operate grades K-6 (with a 700 student cap). Since then, the charter was amended in June 2012 to allow the school to offer grades K-12 (with a 2,150 student cap).

Demand and enrollment

In our opinion, Providence Hall has a good demand profile, as demonstrated by solid enrollment since its inception and a sizable waiting list. When the school opened its doors in the fall of 2008, it enrolled up to its 700-student capacity. It maintained this level of enrollment through its first expansion in fiscal 2012 when it enrolled 1,416 students. In its second year of offering grades K-9, Providence Hall enrolled 1,465 students. This fall, the high school opened and now has an enrollment of 232, including 30 12th grade students. Total Providence Hall enrollment for fall 2014 was 1,983, an increase of 433 students (or 28%) over fall 2013. While this level of growth is impressive, in our view, we understand that management expected, and had forecast, enough growth to meet the charter cap this fall. The school's inability to meet the forecast affected fiscal 2014's operating results.

While Providence Hall did not fully reach the charter cap of 2,150 students as expected this fall, we note the school's historical ability to grow swiftly, as well as its large wait list of more than 3,300 students (although we understand that the list may not be regularly purged). Therefore, we believe that growth to the level of the charter cap, which is only 167 more students, is attainable over the next one to two years, particularly given the availability of the full K-12 IB program, regional demographics and growth, our understanding that road access near the schools has improved, and the additional visibility by a new community college campus that is being built near the high school.

Although the school's SAGE (student assessment of growth and excellence) test results exhibited some evidence of minor deterioration from prior years, we believe that academic results remain sound and continue to exceed those of the local district and medians for the state. Among all Utah charters, Providence Hall ranked in the mid-high (or 2nd) quartile for academic and engagement performance for the 2012-2013 school year. We understand that the school was named the 2012 school of the year in Utah.

Management and governance

In fiscal 2014, Providence Hall turned over the superintendent role. The superintendent's former responsibilities are being handled by the three principals over the elementary, junior high, and high school. The business management role continues to be performed under an annual contract with Charter Solutions Inc. Services under the annual agreement, which may be terminated by either party with 60 days' notice, and includes all financial management, human resources assistance and consulting, recordkeeping and reporting, and other responsibilities. The fee for these services is fixed and is renegotiated each year. For fiscal 2015, the management fee is approximately \$225,000. Providence Hall's by laws call for between five and nine board members, who serve three-year terms. Board members may serve a term, roll off of the board for a year, and then serve again. Providence Hall's board currently has eight members, but it will

likely increase to nine as soon as the right candidate is chosen. The school is looking for a candidate who supports the school's culture and its passion for the IB program. We also understand that for the most part parents of enrolled students make up the board and that board members have a good mix of governance skills. One of the school's founders continues to serve on the board.

Financial Profile

Operating performance

Providence Hall's recent operating track record exhibits some volatility, with robust operating surpluses in fiscal 2010 and, to a lesser extent, in fiscal 2011 followed by an operating loss in fiscal 2012 and robust performance in fiscal 2013. For fiscal 2014, Providence Hall incurred a \$505,000 operating deficit (or a \$273,000 decrease in net assets inclusive of temporarily restricted special education funds). Fiscal 2014 results were affected by higher-than-forecast series 2013 bond issuance and interest expense, along with higher than budgeted depreciation. In addition, the school incurred about \$149,000 of one-time expenses associated with the high school project, which had not been forecast. Results in fiscal 2012 had been similarly eroded by initial start-up costs associated with opening the junior high school.

In fiscal 2014, Providence Hall's revenues climbed to slightly more than \$9.7 million from \$8.7 million in fiscal 2013. Robust enrollment growth and the state's modest 2% increase in per-pupil funding supported the revenue growth. Based on the fiscal 2014 results and according to Standard & Poor's calculations, MADS coverage (assuming MADS of \$2.07 million and including all debt) is inadequate for the rating, in our opinion, at just under 1.0x. However, we recognize that these results include the one-time costs, which somewhat deflate earnings. In addition, we understand that Providence Hall's auditor has attested to the school's compliance with the 1.15x minimum MADS coverage requirement. When adjusting for these costs, MADS coverage just exceeds 1.0x, which is adequate to avoid an event of default but will require that the school bring in a consultant. Assuming the school meets its fiscal 2015 budgeted surplus, MADS coverage will improve to 1.1x by our calculation, which will remain inadequate to meet the minimum MADS requirement. Therefore, to maintain the rating, we anticipate Providence Hall will reduce discretionary operating expenses during the current fiscal year.

Debt and financial resources

Providence Hall's unrestricted reserves have increased, in absolute terms, during recent audited years although days' cash on hand declined slightly for fiscal 2014. Nevertheless, days' cash on hand remains in line with rating medians, with 84 days' cash on hand as of the fiscal 2014 audit. Providence Hall funded some start-up costs for its junior high school and high school out of cash, including a \$360,000 equity contribution to the junior high financing in fiscal 2013. Also, in fiscal 2012, management funded a \$264,000 expansion to the elementary school out of cash reserves. These investments in previous years helped to suppress the pace of growth in unrestricted reserves.

In our opinion, Providence Hall has a high debt load of \$34 million. In addition, the debt burden remains high, in our view, at 20% based on fiscal 2014 expenses. However, we expect this ratio will continue to moderate within the next one to two years as revenues and enrollment increase and since the school has no plans for incremental debt. With the completion of the high school, Providence Hall owns all three of its buildings. Planned capital spending during the next five years is relatively modest and ranges from \$122,000 in 2015 to \$215,000 in 2018 (for an average of \$154,000 per

year), or roughly 18% of depreciation. We believe that these expenditures will easily be accommodated through the use of unrestricted reserves and cash flow from operations requiring no additional debt.

Related Criteria And Research

Related Criteria

USPF Criteria: Charter Schools, June 14, 2007

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