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MEMORANDUM

DATE: Wednesday, July 08, 2015

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

FROM: Brian F. Baker
Zions Bank Public Finance

RE: Lakeview Academy Charter School

The purpose of this report is to document Lakeview Academy Charter School's ("Lakeview," "LCS," 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 Lakeview'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 except one, 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 Lakeview Academy from the State Charter School Board ("SCSB Letter"), which provides detailed analysis and historical information on Enrollment/Student Demand, and Academic Performance. Because the Academy has one "Unsatisfactory" mark, related to budgeting and forecasting, the SCSB Letter must be formally approved at the July 9 meeting of the SCSB.

Lakeview Academy—Introduction

Lakeview Academy is a K-9 charter school located in Saratoga Springs, Utah. The School opened with only grades K-8 but expanded in 2008 to add 9th grade as well. LCS's enrollment cap has been increased three times: from 750 to 850 in 2013; from 850 to 950 in 2014; and from 950 to 1000 for the 2015 school year. With strong retention and a large waiting list, the School should not have a problem increasing to and maintaining this enrollment into the future.

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

Lakeview Academy's mission is to develop Capable, Confident, and Contributing members of society through learning experiences which foster growth, creativity and character development. These "three C's" are an integral part of the purpose and design of our program and the school takes great pride in developing these noble qualities in our students.

Capable: A student who is knowledgeable, inquisitive, and an open-minded problem solver.

Confident: A student who is able to approach situations with courage, integrity and a strong sense of self-worth.

Contributing: A student who is caring, responsible and proactive in his/her family and community.

The School plans to issue approximately $15 million in revenue bonds, which will provide $12.5 million to refinance its existing bonds for economic savings, and $2.5 million for improvements to the Academy's existing educational facilities.

Basic Eligibility

1. Lakeview's 2015 bonds will be issued through the Authority.

2. The SCSB Letter indicates that LCS is in good standing with the State Charter School Board, with the exception of forecasting revenues and expenditures. This unsatisfactory mark is a result of a bond issuance in 2012, and the explanation provided by the School is reasonable.

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 pro forma MADS burden of 17%, albeit lower than fiscal 2014 MADS burden—as mentioned, the burden is improved and will improve due to the refunding.
   b. Limited growth potential given that the school will likely hit its charter enrollment cap of 1,000 in fall 2015, which could limit future revenue growth—we see this as a positive that growth targets have been met and the school is no longer reliant in growth to hit financial metrics.
   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 and improving liquidity for the rating with 124 days cash on hand.
b. History of positive operating performance with a surplus of $195,000 in fiscal 2014 and positive operations expected for fiscal 2015.
c. Strong enrollment growth with total headcount increasing in fall 2014 from prior year.

4. Lakeview recently completed its 9th 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. Their mission statement reads:

   The mission of Lakeview Academy is to develop Capable, Confident, and Contributing members of society through learning experiences that foster growth, creativity, and character development.

6. Lakeview issued bonds in both 2007 and 2012. The 2015 bonds will refinance these bonds for economic savings. The School is not in default under its existing bonds.

Enrollment/Student Demand

7. The School had 969 students enrolled for the 2014-2015 school year.

8. Enrollment at Lakeview has increased each year since operations began in 2006. For the past four years the school has operated above 96% of its enrollment cap, even during a period where the enrollment cap was increased three times. Table 1 from the SCSB Letter includes detailed enrollment history back to the 2006-2007 school year.

9. Lakeview Academy exceeds the re-enrollment standard established by the SCSB, with the most recent total re-enrollment rate of 84.0%. Over the years the School has consistently ranged between 77% and 87% reenrollment. The enrollment figures indicate that LCS isn't having difficulty filling seats. 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, LCS's Average Daily Membership rate has been 96.9%, 97.4%, and 97.5%.

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 605 potential students trying for admission in the 2015-2016 academic year. The waiting list is relatively strong and includes a satisfactory amount of students for every grade level offered, with the exception of 8th and 9th grade.

Academic Performance

12. The SCSB Letter indicates that the School meets required academic standards. Table 3 from the SCSB Letter provides a breakdown of Lakeview Academy's performance relative to other schools. Over the past three years the School has been slightly better than 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. Lakeview Academy has a five-member board. The board members have a diverse set of backgrounds, which include construction management, accounting, health and wellness, policy management, and project managements. The Board serves staggered terms.

15. The School has contracted with Charter Solutions as its management company. Charter Solutions is paid approximately $130,000 annually for these services, which is reasonable in considering comparable agreements between charter schools and other service providers.

16. Lakeview 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 over the past three years. The School was substantially off on both revenues and expenses in 2012, as a result of a bond-financed construction project.

Financial Performance

The School meets all of the current requirements for the Financial Performance section of the application.

17. Projections used by the School in financial forecasting appear reasonable. Lakeview seems positioned to continue and improve its healthy financial standing of the past. LCS revenues are forecasted to grow at a similar rate to expenses. The School appears to be in a healthy financial position.

18. Debt Coverage Ratio

Requirement	Measure	Sufficient?
At least 105%	126%	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 $193,496 and adding back depreciation expense of $316,549 and interest expense of $707,978. This leaves net revenues available for debt service of $1,218,023. When this number is divided by maximum annual debt service of $964,171, the coverage is 126%.

Coverage in 2012 would fall below 100%, to 96%. However, this is due mainly to the School having 200+ less student in 2012 than in 2014, which is a significant hit to revenues relative to debt service. Those new students allowed the School to fund the 2012 bond issue, which did not have to be covered by the smaller amount of students attending in 2012 and prior.

	2014	2013	2012
Net Income Available for Debt Service	$1,218,023	$1,230,341	$924,850
Maximum Annual Debt Service	964,171	964,171	964,171
Debt Coverage Ratio	126%	128%	96%

19. Debt Burden Ratio

Requirement	Measure	Sufficient?
Less than 25%	17.6%	Yes

The debt burden ratio requirement is based on the level of the School's fund balance, which we calculate at 34% (cash of $1,685,756 divided by total operating expenses net of depreciation of $4,974,412). Debt burden ratio is calculated as maximum annual debt service ($964,171) divided by unrestricted operating revenues ($5,484,457), taken from 2014 financial statements.

	2014	2013	2012
Maximum Annual Debt Service	$964,171	$964,171	$964,171
Unrestricted Operating Revenues	5,484,457	4,988,503	4,394,014
Debt Burden Ratio	17.6%	19.4%	21.9%

20. Operating Margin

Requirement	Measure	Sufficient?
At least 7%	22%	Yes

Lakeview 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 124 days. Operating margin of 22% is calculated by dividing net income available for debt service of $1,181,200 (see calculation under Debt Coverage Ratio) by total revenues of $4,496,167.

	2014	2013	2012
Net Income Available for Debt Service	$1,218,023	$1,230,341	$924,850
Revenues	5,484,457	4,988,503	4,394,014
Operating Margin	22.2%	24.7%	21.0%

The School has exceeded the operating margin requirement in each of the past three years.

21. Current Ratio

Requirement	Measure	Sufficient?
At least 150%	201%	Yes

The current ratio is defined as current unrestricted assets ($1,805,023 for 2014) divided by current liabilities ($898,259). The School has exceeded a 150% current ratio each of the last five years.

Lakeview Academy	2014	2013	2012
Current Assets	$1,805,023	1,499,814	1,177,727
Current Liabilities	898,259	777,149	574,676
Current Ratio	201%	193%	205%

Bond Documents

20-23. LCS'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 Lakeview Academy, has confirmed that each of the required legal provisions is present in the bond documents.