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Public Finance Authority, Wisconsin Coral Academy of Science-Las Vegas; Charter Schools

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Credit Profile

Public Finance Authority, Wisconsin

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Public Fin Auth (Coral Academy of Science-Las Vegas) CHARTERSCH

Long Term Rating

BBB-/Stable

Affirmed

Rationale

S&P Global Ratings affirmed its 'BBB-' long-term rating on the Public Finance Authority, Wis.' series 2014A and 2014B (taxable) education revenue bonds issued on behalf of Coral Academy of Science - Las Vegas (CASLV). The outlook is stable.

The rating reflects our opinion of CASLV's good financial profile, including healthy unrestricted cash and investments and impressive lease-adjusted maximum annual debt service (MADS) coverage for fiscal 2015. CASLV has experienced consistent growth during its history, and with two new schools opened in fall 2016, we expect growth will continue. The rating also reflects our anticipation that the school's operating performance and MADS coverage will remain in line with the rating, however, may be more modest in fiscal 2016. A higher rating at this time is precluded by the schools expansion plans that may result in additional debt over the next two to three years.

The rating reflects our opinion of the following credit risks:

- Growth risk that, depending on how aggressive expansion plans are, could increase the risk of the school's credit profile;
- CASLV's lease renewal risk, as two of its three campuses are on leased properties (as of fiscal 2015), although we recognize that the current leases do extend through 2018 and 2020 and that both leases have extension options by the school; and
- The possibility that CASLV's charter could be revoked due to noncompliance with the terms of the charter (as with all charter schools) prior to the bonds' final maturity.

In our view, credit strengths that mitigate the preceding risks include CASLV's:

- Impressive lease-adjusted MADS coverage of 2.35x in fiscal 2015;
- Healthy unrestricted cash and investments equal to 186 days' cash on hand based on the latest audit;
- Robust demand, as demonstrated by steady enrollment growth during the past several years, a large waitlist, and strong academic performance; and
- Moderate lease-adjusted MADS burden of 13.9% of fiscal 2015's expenditures, which is in line with the rating.

CASLV is a kindergarten through grade 12 (K-12) charter school situated on five campuses located in Henderson and

Las Vegas. CASLV's only debt outstanding is the 2014 bonds in the amount of \$9.2 million, the funds from which were used to purchase the school's Sandy Ridge campus (grades 6-12). The bonds are secured by the revenues of CASLV (all schools) consisting primarily of per-pupil funding from the state of Nevada. The academy's Tamarus campus (K-2) and the Windmill campus (3-5), will continue to operate in leased facilities. Management has indicated that it opened two new elementary schools in fall 2016, one of which is located on Nellis Air Force Base and the second, Centennial Hills, is still in the Las Vegas area. We understand that the Centennial Hills facility is currently being leased and that the facility at Nellis Air Force Base has been provided rent free for the academy's use. Management indicates that it plans to build a new building at Nellis in two to three years, but plans are still preliminary and no decisions have been made with regard to financing or cost of the new facility. While we view any type of growth as having expansion risk, we believe management has handled its growth successfully in recent years, so we expect it to handle future plans in a similar manner.

Outlook

The stable outlook reflects our expectation that the school's demand will remain strong, and that its margins and coverage may be more modest in fiscal 2016, but will remain at levels commensurate with the rating category. We also anticipate that CASLV will prudently manage its growth so that its financial metrics will remain at levels consistent with the rating category.

Upside scenario

We could consider raising the rating over time if the school's metrics remain consistent with a higher rating category, and the schools growth plans are managed successfully.

Downside scenario

We could consider a lower rating or negative outlook during the two-year outlook period if there were a significant decrease in liquidity levels, financial performance, if lease adjusted MADS coverage weakens, or if the academy issues additional debt without an increase in financial resources commensurate with the rating category.

Enterprise Profile

The school

CASLV began operations in fiscal 2008 and was started by a group of founders that replicated the school off of Coral Academy of Science - Reno (CASR). The founders' goal was to develop a college preparatory environment that emphasizes math, science, and technology. While CASLV is modeled after CASR, we understand that the two schools are separate organizations with separate charters, no historical or anticipated financial ties, and no shared management. The two organizations have separate governing bodies, but the executive directors of CASLV and CASR sit on one another's boards, although this is not a requirement in the bylaws, according to management. There is no other board overlap. As such, our credit analysis is based solely on CASLV.

In its first year of operations (fiscal 2008), CASLV enrolled 121 students in grades six through 10, which at the time was at the Tamarus campus. The school grew in each subsequent year to the point that it needed to add two additional

leased facilities, the Windmill and Sandy Ridge campuses in 2010. Across these three campuses, the school enrolled 1,566 students in K-12, as of fall 2015. The facilities consist of the Tamarus campus (K-2), which has a lease term through June 2018 and one five-year extension option; the Windmill campus (3-5), which has a lease term through 2020 and two five-year extension options; and the Sandy Ridge campus (6-12), which was purchased using the series 2014 bond proceeds. The three facilities are located approximately three miles from one another, in the Henderson/Las Vegas area. As of fall 2016, the academy opened two new K-5 schools, Centennial Hills and a location at Nellis Air Force base. We understand that the Centennial Hills location is leased and that CASLV is able to use a facility on Nellis Air Force base rent free. Management has indicated that over the next two to three years, it plans to build a new school at Nellis Air Force base, but that plans are preliminary at this time and the timeline, costs, and financing with the construction have not been determined.

CASLV initially operated under a six-year charter issued by the Nevada Department of Education. The charter was subsequently transferred to the State Public Charter School Authority (SPCSA) of Nevada in 2011, when the new charter authority was established. In April 2013, the SPCSA renewed the charter for an additional six-year term through 2019. Within the SPCSA's charter framework, schools are required to maintain compliance with organizational, academic, and financial metrics. The financial metrics include 60 days' cash on hand and 1.1x debt service coverage, among others. Although we were unable to connect with a representative from the authorizer's office, we understand from management that the school is in good standing with the terms of its charter.

Demand and enrollment

In our opinion, CASLV has a very good demand profile, as demonstrated by steady enrollment growth and a sizable waiting list. Over the past three years, the school's enrollment has gradually grown annually, to 1,566 as of fall 2015. As mentioned above, CASLV opened two new K-5 schools in fall 2016 and we understand that demand has been strong for the new schools and enrollment is already at capacity at both schools with waitlists. Management indicates that it expects enrollment (across its five campuses) to total 2,766 for fall 2016.

Based on its steady enrollment and healthy demand, demonstrated by a waiting list equivalent to 143% (2,243 students) of fall 2015 enrollment, we anticipate that the school's demand will remain strong. In our view, the school has good testing results, and its achievement indicators have consistently exceeded those of Clark County and the state. It received a 5-star rating under the state's performance framework, which is the highest rating that can be received. Under this same system, its middle school was also designated an Exemplary Reward School, which designates it as scoring among the top 5% of schools in the state in both high student achievement on the state assessments during the previous year and high student growth on the state assessment over multiple years. In our view, the favorable academics contribute to the school's good demand profile.

Management and governance

CASLV is governed by a seven-member board. The members have two-term limits, and no school employees are members of the board. We understand that board members include two members who have been with the school since its inception. Another founding member of the school is currently CASLV's human resources director.

The school is led by the executive director, who has extensive experience working with charter schools, including in California and Nevada. Other management positions reporting to the executive director include site directors at each

of the school's campuses, who manage the campuses and ensure consistent messages across the different schools. Management indicates that it would like to add another school in the Henderson area, but has yet to locate a facility. Other than that and the possible building of a facility at Nellis Air Force base in a few years, management has no other plans on the horizon to expand. We will more fully evaluate the impact of expansion on the rating when plans have been finalized and more details are available.

Financial Profile

Operating performance

The school's operating performance has had positive operations in the last several years. It produced a surplus on a full-accrual basis of nearly \$1.5 million in fiscal 2015, equal to a solid excess margin of 13.4%. This compares favorably to the prior two years, which had produced positive operations of \$1 million (excess margin of 10%) and \$131,000 (excess margin of 1.5%) in fiscal 2014 and 2013, respectively. We anticipate fiscal 2016 to produce breakeven operations and management indicated that it strategically increased its expenses by increasing teacher compensation. Based on fiscal 2015 results, lease-adjusted MADS coverage is strong, in our opinion, at about 2.35x, an increase from 2.05x the prior year. Our MADS figure assumes MADS of \$1.32 million and includes debt service associated with the series 2014 bonds and the annual lease expense related to the Tamarus and Windmill campuses in 2018.

Debt and financial resources

CASLV's continues to improve with unrestricted cash growing to nearly \$4.7 million, equal to 186 days' cash on hand as of June 30, 2015 from \$2.8 million--equal to 117 days' cash on hand--the prior year. Fiscal 2016's fourth quarter financial statements as of June 31, 2015, show that cash was very strong at \$5.5 million and of that \$4.3 million is unrestricted. In our opinion, CASLV has a moderate long-term debt load of \$9.2 million, translating to a MADS burden of 13.9% of fiscal 2015's expenses, which is in line with rating medians. As the school continues to expand we expect management to maintain its unrestricted liquidity levels and its MADS burden at levels commensurate with the rating.

Coral Academy of Science-Las Vegas, Nev.

Enrollment	--Fiscal year ended June 30--					--Medians--
	2016	2015	2014	2013	2012	Charter Schools Rated 'BBB-' In 2014
Total headcount	1,566	1,488	1,379	1,194	1,093	771
Total waiting list	2,243	2,766	2,079	N.A.	N.A.	MNR
Waiting list as % of enrollment	143.20	185.90	150.80	N.A.	N.A.	MNR
Financial performance						
Total revenues (\$000s)	N.A.	10,996	10,163	8,526	7,837	MNR
Total expenses (\$000s)	N.A.	9,524	9,134	8,395	6,958	MNR
EBIDA (\$000s)	N.A.	2,409	1,414	244	958	MNR
EBIDA margin (%)	N.A.	21.91	13.91	2.86	12.22	16.70
Excess revenues over expenses (\$000s)	N.A.	1,472	1,029	131	879	MNR
Excess income margin (%)	N.A.	13.39	10.12	1.54	11.22	3.30
Lease adjusted annual debt service coverage (x)	N.A.	2.33	2.02	1.52	1.86	1.50

Coral Academy of Science-Las Vegas, Nev. (cont.)

Lease adjusted annual debt service burden (% total revenues)	N.A.	12.10	13.60	14.90	13.80	MNR
Lease adjusted annual debt service burden (% total expenses)	N.A.	14.00	15.10	15.10	15.60	MNR
MADS (\$000s)	N.A.	1,323	1,363	1,375	1,375	994
Lease adjusted MADS coverage (x)	N.A.	2.35	2.05	1.41	1.47	1.40
Lease adjusted MADS burden (% total revenues)	N.A.	12.00	13.40	16.10	17.50	MNR
Lease adjusted MADS burden (% total expenses)	N.A.	13.90	14.90	16.40	19.80	13.40
Pro forma MADS (\$000s)	N.A.	N.A.	2,007	1,320	1,320	MNR
Pro forma lease adjusted MADS coverage (x)	N.A.	N.A.	1.39	1.46	1.53	MNR
Pro forma lease adjusted MADS burden (% total revenues)	N.A.	N.A.	19.70	15.50	16.80	MNR
Pro forma lease adjusted MADS burden (% total expenses)	N.A.	N.A.	22.00	15.70	19.00	MNR
Total revenue per student (\$)	N.A.	7,390	7,370	7,141	7,170	MNR
Balance Sheet Metrics						
Days' cash on hand	N.A.	186.00	116.70	70.30	61.10	111.00
Total long-term debt (\$000s)	N.A.	9,200	9,260	N.A.	7	MNR
Unrestricted reserves to debt (%)	N.A.	50.70	30.20	N.A.	19,183.30	18.10
Unrestricted net assets as % of expenses	N.A.	41.00	25.20	12.10	14.80	28.20
General fund balance (\$000s)	N.A.	3,757	2,257	1,001	1,021	MNR
Debt to capitalization (%)	N.A.	70.70	80.70	N.A.	N.A.	MNR
Debt per student (\$)	N.A.	6,095	6,674	N.A.	N.A.	MNR
Pro forma Metrics						
Pro forma unrestricted reserves (\$000s)	N.A.	N.A.	N.A.	1,595	N.A.	MNR
Pro forma days' cash on hand	N.A.	N.A.	N.A.	70.29	N.A.	MNR
Pro forma long-term debt (\$000s)	N.A.	9,200	19,260	N.A.	7	MNR
Pro forma unrestricted reserves to debt (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Pro forma debt to capitalization (%)	N.A.	71.72	168.86	N.A.	0.69	MNR
Pro forma debt per student (\$)	N.A.	6,183.00	13,967.00	N.A.	6.00	MNR

N.A.--not available. N/A--not applicable. MNR--median not reported. MADS--maximum annual debt service.

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