

DALE R. FOLWELL, CPA  
STATE TREASURER OF NORTH CAROLINA

STEVEN C. TOOLE  
EXECUTIVE DIRECTOR

## **MEMORANDUM**

**TO: Teachers' and State Employees' Retirement System Board of Trustees**

**FROM: Nick Byrne**

**SUBJECT: New Charter School Applying for TSERS Participation at the January 2017 Board of Trustees Meeting**

The N.C. Leadership Academy requests participation in the Teachers' and State Employees' Retirement System ("TSERS") effective February 1, 2017.

The Board of Trustees may grant final approval of a charter school's application to participate in TSERS if it finds the following:

- Completion of a signed Application for Participation on a form approved by the Board of Trustees;
- All members of the board of directors of the charter school have signed a written statement acknowledging and accepting the withdrawal liability estimate;
- The charter school has not been identified as inadequate by the N.C. State Board of Education as provided in N.C.G.S. §115C-218.95(b); and
- The charter school's most recent audited financial statements and independent audit report demonstrate that it is financially sound and can meet the financial obligations of participation in the Retirement System.

Retirement Systems Division staff recommends the approval of The N.C. Leadership Academy for participation in the Teachers' and State Employees' Retirement System. The N.C. Leadership Academy has complied with the requirements of N.C.G.S §135-5.3. The submitted audit report and financial statements demonstrate that The N.C. Leadership Academy is financially sound and can meet the financial obligations of participation in the Retirement System.

### **Application**

The N.C. Leadership Academy submitted a signed and attested Application for Participation dated November 16, 2016. The charter school has attested that it is obligated to comply with all provisions governing TSERS pursuant to Article I, Chapter 135 of the North Carolina General Statutes and that it has not been identified as inadequate by the N.C. State Board of Education.

## **Signed Acknowledgement and Acceptance of Withdrawal Liability**

The N.C. Leadership Academy submitted a form signed by each member of the school's board of directors acknowledging and accepting the payment of a withdrawal liability in the event that the charter school elects to cease participation in the Retirement System.

## **Financial Review**

Pursuant to N.C.G.S. § 135-5.3 (b4) (Session Law 2015-168), a charter school seeking to become a participating employer in TSERS after the end of its initial year of operation shall undergo a financial review. The financial review will be based on financial statements and independent audit reports held by the Local Government Commission or functionally equivalent financial statements and independent audit reports submitted by the charter school for the fiscal year ending prior to acceptance of the application.

Based on information provided by The N.C. Leadership Academy, the school has 46 eligible general employees and an estimated payroll of \$1,897,216.00 for the 2016-2017 school year. The employer contribution rate will be 16.54% effective February 1, 2017.

The N.C. Leadership Academy is largely funded by the N.C. State Board of Education and receives funding in an amount equal to the average per pupil allocation for the average daily membership ("ADM") from the local school administrative unit allotments in which the school is located (i.e., Forsyth County Board of Education) for each child attending the Academy. The school receives an additional amount for each child attending the school who is a child with special needs. Additionally, for each child who resides outside the local administrative unit and attends the school, the school receives an amount equal to the per pupil local current expense appropriation to that respective local school administrative unit.

For the fiscal year ended June 30, 2016, the school received funding from the Boards of Education for Alamance County, Davidson County, Davie County, Guilford County, Forsyth County, Rockingham County, Randolph County, Stokes County, and Yadkin County. The N.C. Leadership Academy also receives funding from State and Federal grants, student fees and activities, and contributions and donations.

The independent auditor's report for The N.C. Leadership Academy attached to the audited financial statements for fiscal year ended 2016 indicates an unmodified financial opinion. The N.C. Leadership Academy reported an ending General Fund balance for fiscal year ended 2016 of \$1,756,177, an increase of \$668,464 from fiscal year ended 2015. The fund balance available is sufficient to provide cash flow and a safety net for the employer, and is not currently being utilized as a source of funding to meet its operating costs.

## **Assessing Financial Soundness**

N.C.G.S. §135-5.3(b7) provides that the Board of Trustees may grant final approval of a charter school's application to enter TSERS if "the charter school's most recent audited financial statements and independent audit report demonstrate that it is financially sound and can meet the financial obligations of participation in the Retirement System."

The Retirement System's recommendation to the Board of Trustees as to the financial soundness of a charter school and its ability to meet the financial obligations of participation in the Retirement System is based on the following indicators:

### **Asset to Liability Ratio**

Target: A debt/asset ratio of less than 0.5, which indicates that most of the assets are financed through equity and that total assets exceed total liabilities.

Actual: The N.C. Leadership Academy's audited financial statements indicate assets exceed liabilities resulting in a total net position of \$1,951,924 for fiscal year ended 2016. The school's total net position increased by \$737,787 from fiscal year ended 2015 to fiscal year ended 2016, primarily due to an increase in the student population compared to predictions. The debt/asset ratio is 0.21 for fiscal year ended 2016.

### **Student Enrollment**

Target: Average daily membership (ADM) variance equals or exceeds 1.0 (current actual year final ADM/actual ADM for year prior).

Actual: The ADM variance for The N.C. Leadership Academy is 1.2. Based on the Average Daily Membership reports prepared by the N.C. Department of Public Instruction, the final month ADM for The N.C. Leadership Academy for school year 2014-2015 was 522 pupils. The final month ADM for The N.C. Leadership Academy for school year 2015-2016 was 630. The N.C. Leadership Academy has indicated an enrollment of 730 students for the 2016-2017 school year.

### **Fund Balance**

Target: Current financial statement demonstrates a net surplus with few variances present or, alternatively, a sufficient explanation as to how a negative fund balance will be eliminated in the subsequent fiscal year.

Actual: The N.C. Leadership Academy's audited financial statements indicate an excess of revenue over expenditures resulting in an ending General Fund balance of \$1,756,177 for fiscal year ended 2016. The school's General Fund balance increased by \$668,464 from fiscal year ended 2015 to fiscal year ended 2016.

## **Internal Controls and Governance Measures**

Target: Segregation of duties related to financial transactions and indication of written policies and procedures regarding operations, accounting, personnel, and academics.

Actual: The school's independent audit report indicates no deficiencies in internal controls over compliance that would be considered to be material weaknesses.

The school's governing board has established a policy that expenditures may not exceed appropriations for the school's government-wide operations based on the school's adopted budget. In addition, the school follows a revenue spending policy that provides detailed guidance for the spending of funds from different sources, and has adopted accounting policies to address deposits and investments with an FDIC insured bank, the recording of capital assets, and the treatment of deferred outflows and inflows. In addition, the school follows procedures to ensure accounting and disbursement functions are properly segregated and retains an outside financial service to handle billing and payment requests. The school also has developed policies addressing operations, academics, personnel, and accounting.

One finding from the independent auditor's 2016 report indicates that the school did not have a procedure in place to have the Adult Concussion Information Form signed by the applicable individuals, a requirement in accordance with N.C.G.A. Session Law 2011-147, the Gfeller-Waller Concussion Awareness Act. Effective November 2016, the school has undertaken corrective action on this matter and implemented a procedure to ensure all applicable individuals have signed the Adult Concussion Information Form prior to any interscholastic athletic activities each year.

## **Cash Flow**

Target: Positive cash flow and a minimum of one month of operating expenses cash on hand.

Actual: The N.C. Leadership Academy's audited financial statements report available cash of \$1,860,570 for fiscal year ended 2016. The school's available cash increased by \$789,141 from fiscal year ended 2015 to fiscal year ended 2016.

## **Presence of Large Loans Outstanding to Fund Operations**

Target: If present, charter school must address the paying down of the outstanding obligation.

Actual: During fiscal year ended 2016, N.C. Leadership Academy took out a loan to purchase a modular unit. Substantially all assets of the school secured the loan. A

\$330,000 note payable was issued. The principal balance of \$309,466 is due at maturity in December 2022.