



North Carolina
Total Retirement Plans



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MEMORANDUM

TO: Teachers' and State Employees' Retirement System (TSERS) Board of Trustees

FROM: Patrick Kinlaw, Director of Policy, Planning and Compliance

DATE: July 25, 2024

RE: Application of Charter School for Participation in TSERS

Pursuant to G.S. 135-5.3(b3), Aspire Trade High School (ATHS) of Huntersville, NC, was granted provisional entry into TSERS effective September 1, 2023. Approaching the end of its one-year provisional period, ATHS has applied for continued participation in TSERS.

Pursuant to G.S. 135-5.3(b7), the Board of Trustees (Board) may grant final approval of a charter school's application to participate in TSERS if it finds the following:

- The school has completed an application using the form approved by the Board;
- All members of the Board of Directors of the school have signed a written statement acknowledging and accepting the estimate of the withdrawal liability performed as described under G.S. 135-5.3(b5);
- The school has not been identified as continually low-performing by the State Board of Education (SBOE) as provided in G.S. 115C-218.94; and
- The 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 TSERS.

Pursuant to G.S. 135-5.3(b6), the fourth finding outlined above – i.e., the Board's financial review – is to be based on "financial statements and independent audit reports or functionally equivalent reports submitted to the [Board] by the charter school." Although ATHS has provided the Retirement Systems Division (RSD) with some financial information, the information did not include "financial statements and independent audit reports" (which RSD understands are not yet complete for the first year of operation) nor was it "functionally equivalent" information in the opinion of RSD staff. Therefore, RSD staff's opinion is that ATHS has not provided the information necessary for the review. As a result, RSD staff's opinion is that the Board is not in a position to make the fourth finding outlined above, as to the school's financial soundness.

Pursuant to G.S. 135-5.3(b8), the Board "may make the final decision for acceptance of the application contingent upon the receipt of a financially sound independent audit report for the fiscal year ending prior to acceptance of the application."



Application

ATHS submitted a signed and attested Application for Participation dated February 26, 2024. On this application, ATHS attested that it is obligated to comply with all provisions governing TSERS pursuant to Article I, Chapter 135 of the NC General Statutes and that it has not been identified as continually low-performing by the SBOE. RSD staff has also confirmed that ATHS was not on the SBOE's 2022-2023 list of continually low-performing charter schools.

Signed Acknowledgement and Acceptance of Withdrawal Liability

ATHS has submitted a form signed by each member of its Board of Directors, acknowledging and accepting the payment of a withdrawal liability in the event that ATHS elects to cease participation in TSERS in the future. This form included the projected amount of the withdrawal liability after five and ten years of participation in TSERS, which were \$682,429 and \$1,056,835 respectively, as estimated by TSERS' consulting actuary pursuant to G.S. 135-5.3(b5).

Provisional Participation

ATHS's provisional participation in TSERS began effective September 1, 2023. From September 2023 through and including June 2024, ATHS reported \$863,549.34 in retirement-eligible employee compensation to TSERS for ten (monthly) payroll reporting periods. ATHS has paid the required contributions. On June 10, 2024, TSERS assessed ATHS a penalty of \$270.40 for paying a monthly contribution one business day after the deadline. That penalty has not yet been paid. No other late payment penalties have been assessed.

Financial Review

Pursuant to G.S. 135-5.3(b3), one year after a charter school is granted provisional entry into TSERS, the charter school shall undergo a financial review. As stated above, in the opinion of RSD staff, ATHS has not yet submitted the information necessary for this review.

If the Board votes to make the acceptance of the application contingent on the receipt of a financially sound independent audit report, then employees of ATHS will continue to participate in TSERS until the Board is in a position to make a finding relative to financial soundness. RSD staff will return to the Board with an analysis of ATHS's audited financial statements following the submission of those statements to RSD. The analysis will address the metrics that the Board has typically used to assess financial soundness for charter schools. Those include the debt-to-assets ratio, student enrollment, fund balance, internal controls / governance measures, cash flow, and the existing of any large loans outstanding to fund the school's operations.

Staff Recommendation

RSD staff recommends that pursuant to G.S. 135-5.3(b8), the Board make the acceptance of ATHS's application for continued participation in TSERS contingent upon the receipt of a financially sound independent audit report for the fiscal year ending June 30, 2024.