

MEMORANDUM

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

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

DATE: April 24, 2025

RE: Aspire Trade High School (ATHS) Application for Permanent 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. As the end of its one-year provisional period approached, ATHS applied for continued participation in TSERS. At its July 25, 2024 meeting, the TSERS Board accepted 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, pursuant to G.S. 135-5.3(b8). Since then, employees of ATHS have continued to participate in TSERS until the Board makes a finding relative to financial soundness. On January 8, 2025, ATHS submitted its audited financial report for the fiscal year ending June 30, 2024.

The TSERS Board's remaining role is to determine if, as described in G.S. 135-5.3(b7)(4), ATHS'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."

Activity Since Provisional Entry into TSERS

Based on information to be used in TSERS' actuarial valuation as of December 31, 2024, ATHS had 28 eligible employees. For calendar year 2024, ATHS reported a total of \$1,359,627 in retirement-eligible compensation to TSERS. ATHS was one day late in submitting its TSERS contributions for the month of May 2024. As permitted by G.S. 135-8(f)(3), ATHS received a waiver of any penalty for the one-day delay. All other contributions since September 2023 have been made on-time.

In September 2024, ATHS was placed on the N.C. Department of Public Instruction's (DPI's) "Low-Performing Schools" list from the 2023-2024 school year. According to DPI, a low-performing school "has a School Performance Grade of 'D' or 'F,' and a growth status of 'Met' or 'Not Met.'"

- ATHS's School Performance Grade, which is based 80% on school achievement and 20% on academic growth, was listed as "F," with a school performance grade of 29. (According to DPI, a school performance grade below 40 is "F," and 40-54 is "D," ranging up to 85-100 for "A.")
- ATHS's Growth Status, which represents the academic progress of each student compared to students across the state in a given grade level or subject, was "Not Met," with a growth score of 57.9. (According to DPI, a growth score of 50-69.9 is "Not Met," 70-84.9 is "Met," and 85-100 is "Exceeded.")
- ATHS's school report card for 2023-2024 may be found here:
https://ncreports.ondemand.sas.com/src/school?school=62N000&year=2024&residing_district=600LEA

Financial Review

ATHS is largely funded by the SBOE 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., Charlotte-Mecklenburg County Board of Education) for each student attending ATHS. The school receives an additional amount for each student with special needs who attends the school. Additionally, for each student who resides outside the local school administrative unit jurisdiction 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, 2024, ATHS received funding from Cabarrus County Schools, Charlotte-Mecklenburg County Schools, Gaston County Schools, Iredell-Statesville Schools, Kannapolis City Schools, Lincoln County Schools, Mooresville City Schools, and Rowan-Salisbury Schools. ATHS also receives funding from private donations.

ATHS's audited financial statements for the fiscal year ended June 30, 2024 show:

- Fund balance of \$89,593 as of June 30, 2024, at the end of the school's first year of operation.
- Assets of \$16.4 million (primarily from investment in the building).
- Liabilities of \$16.8 million (primarily from the lease liability for the building).
- Resulting net position of negative \$0.4 million.
- The net position (negative \$0.4 million) and fund balance (\$89,593) reconcile through the investment value in the building (lease liability versus depreciated value of building), equal to negative \$0.5 million.
- Revenues for FY ending 2024 were \$2.7 million, consisting of \$0.6 million from private contributions or donations and the rest from governmental sources.
- Annual operating expenses for FY ending 2024 were \$2.6 million, including \$0.8 million for interest on debt.

Assessing Financial Soundness

G.S. 135-5.3(b7)(4) provides that the Board may grant final approval of a charter school's application for participation in TSERS if the Board assesses that the school "is financially sound and can meet the financial obligations of participation in the Retirement System."

As has been the case for financial reviews of charter schools since enactment of the Agency Participation Procedure Act (S.L. 2015-168), RSD staff's review of the financial soundness of a charter school and its ability to meet the financial obligations of participation in TSERS is based on the following indicators:

Metrics Meeting TSERS Board's Historical Targets

- Student Enrollment
 - Target: Average Daily Membership (ADM) variance, defined as current actual year final ADM divided by actual ADM for the prior year, equals or exceeds 1.0.
 - Actual: Because the 2023-2024 school year was ATHS's first year of operation, the ADM variance was not calculable under this definition. However, enrollment appears to have increased during the first year of operation. According to data from Principal's Monthly Reports submitted to DPI, ATHS opened the 2023-2024 school year with 119 ninth-graders and 82 tenth-graders (201 total students in two grade levels). It ended the 2023-2024 school year with 134 ninth-graders and 89 tenth-

graders (223 total students in two grade levels). It started the 2024-2025 school year with 128 ninth-graders, 100 tenth-graders, and 50 eleventh-graders (278 total students in three grade levels). The most recent report, for “Month 5” of the school year, shows 141 ninth-graders, 105 tenth-graders, and 52 eleventh-graders (298 total students in three grade levels).

- Fund Balance
 - Target: The most recent audited financial statement should demonstrate a net surplus with few variances present or, alternatively, a sufficient explanation as to how a negative fund balance will be eliminated in the next fiscal year.
 - Actual: ATHS’s 2024 financial statement shows an ending fund balance of \$89,593 as of June 30, 2024.
- 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 auditor reviewing ATHS’s 2024 financial statements found no material weaknesses in internal controls over financial reporting. In addition, they identified no significant deficiencies that were not considered to be material weaknesses, and they identified no instances of noncompliance material to the financial statements.

Metrics Not Meeting TSERS Board’s Historical Targets (With ATHS’s Comments)

- Presence of Large Loans Outstanding to Fund Operations
 - Target: If present, the charter school must address the paying down of the outstanding obligation.
 - Actual: ATHS’s 2024 financial statement indicates a lease liability of \$16,755,000, which is a large amount in the school’s financial statement, equivalent to more than six years of revenue or expenses. The statement indicates that the lease agreement is with Aspire Foundation, for a term of 35 years with 7.625% interest. It shows that the school expects to pay about \$1.3 million per year through FY ending 2028, and then about \$1.4 million year for each of the 30 years from FY ending 2029 through 2058.
 - *ATHS’s comment: “We would like the Board to be aware that Aspire Carolinas Foundation has recently granted Aspire Trade High School a six-month period (March-August 2025) with no lease payments. This adjustment is intended to help the school achieve a strong financial position for the 2025-2026 school year. Additionally, Aspire Carolinas Foundation plans to refinance the loan next year to secure a lower interest rate. The lease agreement between Aspire Carolinas Foundation and Aspire Trade High School stipulates that lease payments cannot exceed \$1.3 million per year. Furthermore, Aspire Carolinas Foundation is actively fundraising to provide financial support to Aspire Trade High School. This year, Aspire Carolinas Foundation contributed \$400,000 to Aspire Trade High School’s operating budget. The Foundation will continue to fundraise for Aspire Trade High School.”*

- Debt-to-Assets Ratio

- Target: Debt-to-assets ratio of less than 0.50, which indicates that most of the assets are financed through equity and that total assets exceed total liabilities.
- Actual: ATHS's 2024 financial statement indicates that liabilities (\$16,782,158) exceeded assets (\$16,378,957), resulting in a total net position of negative \$403,201. Based on this measure, the debt-to-assets ratio was 1.02 as of June 30, 2024.
- *ATHS's comment: "The school does not own the land or building; these are owned by Aspire Carolinas Foundation. Therefore, this debt is not reflected in [ATHS's] financial obligations."*
- *RSD staff note: See appendix for ATHS's financial statement disclosure of the lease liability.*

- Cash Flow

- Target: Positive cash flow and a minimum of one month of operating expenses cash on hand.
- Actual: ATHS's 2024 financial statement indicates net additions to cash over that period, resulting in an ending fund balance of \$89,593 as of June 30, 2024. Operating expenses (excluding interest on debt) totaled \$1,856,717, meaning that the cash on hand represented about six-tenths of a month of operating expenses. If interest on debt (\$753,721) were included in the expenses, the cash on hand would represent about four-tenths of a month of operating expenses.
- *ATHS's comment regarding positive cash flow: "We anticipate maintaining a positive fund balance at the end of this fiscal year as well. In addition, Aspire Carolinas Foundation actively fundraises to support the school's financial stability and will continue these efforts."*
- *ATHS's comment regarding cash on hand relative to operating expenses: "Our goal is to meet the Board's expectation of maintaining one month's worth of operating expenses in cash on hand. We are actively working toward this and hope to achieve it by the end of the year. As we expand by adding a new grade each year and as awareness of our school grows, enrollment continues to increase. This growth directly boosts our incoming funds."*

Summary

The TSERS Board's role is to determine whether ATHS is financially sound and can meet the obligations of participating in TSERS. ATHS's 2024 financial statements meet the Board's historical targets on some metrics, but not others. Where they do not meet the Board's historical targets, written responses from ATHS are included above. ATHS's inclusion on DPI's 2023-2024 low-performing schools list may be a related factor in the Board's evaluation of ATHS's ability to meet financial obligations in the future.

Appendix: Disclosure from ATHS's 2024 Financial Statement Regarding Building Lease Liability

2. Long Term Obligations

a. Lease liability

The School has entered into an agreement to lease their school building. The lease agreement qualifies as other than short-term leases under GASB 87 and therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception.

The School entered into a lease with Aspire Foundation for the use of its school building, The initial term of the lease was 35 year. The lease requires monthly payments that coincide with the bond payments owed by the Foundation for the construction of the building. The School paid \$753,721 on the account for the year ended June 30, 2024. The lease carries the same interest rate of the bond which is 7.625%. During the year ended June 30, 2024, the School recorded \$492,794 and \$753,721 for amortization expense and interest expense, respectively, related to this arrangement. The liability balance as of June 30, 2024 is \$16,755,000. The School's obligations for the remainder of the lease are as follows:

Future maturities of this debt are as follows:

	Principal	Interest	Total
Year Ending June 30, 2025	-	1,277,569	1,277,569
Year Ending June 30, 2026	-	1,277,569	1,277,569
Year Ending June 30, 2027	-	1,277,569	1,277,569
Year Ending June 30, 2028	-	1,277,569	1,277,569
Year Ending June 30, 2029	150,000	1,277,569	1,427,569
Years Ending June 30, 2030-2034	960,000	6,169,673	7,129,673
Years Ending June 30, 2035-2039	1,395,000	5,730,855	7,125,855
Years Ending June 30, 2040-2044	2,040,000	5,089,212	7,129,212
Years Ending June 30, 2045-2049	2,975,000	4,152,861	7,127,861
Years Ending June 30, 2050-2054	4,340,000	2,786,270	7,126,270
Years Ending June 30, 2055-2058	4,895,000	805,200	5,700,200
	<u>\$ 16,755,000</u>	<u>\$ 31,121,916</u>	<u>\$ 47,876,916</u>