AUDIT MANAGEMENT LETTER

To the Board of Directors
Seven Hills Preparatory Academy
Charter School No. 4159
Bloomington, Minnesota

We have audited the financial statements of the governmental activities and each major fund of Seven Hills Preparatory Academy (the School) for the year ended June 30, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 19, 2017. Professional standards also require that we communicate to you the following information related to our audit.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the School are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2017. We noted no transactions entered into by the School during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. We believe the most sensitive estimates affecting the School's financial statements are the calculation of receivables due from the Minnesota Department of Education, as well as factors used to calculate the net pension liability and pension related deferred outflows and inflows of resources and pension expense. Receivables due from the Minnesota Department of Education are based on expenditures, reported enrollment and entitlements. Estimates relating to pension amounts are based on actuarial studies. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. We believe the disclosures most likely to be considered sensitive are Note 4 – Defined Benefit Pension Plans, and Note 11 – Subsequent Events.

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The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. There were no uncorrected misstatements that have an effect on our opinion on the financial statements. There were no corrected misstatements identified during the audit.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 5, 2017.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the School's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the School's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the management's discussion and analysis, the budgetary comparison schedules, and the pension information, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the individual fund financial statements and the Uniform Financial Accounting and Reporting Standards Compliance Table, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the introductory section, which accompanies the financial statements but is not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Restriction on Use

This information is intended solely for the use of the Board of Directors and management of Seven Hills Preparatory Academy and is not intended to be, and should not be, used by anyone other than these specified parties.

Redpath and Company, Ltd.

REDPATH AND COMPANY, LTD.
St. Paul, Minnesota

October 5, 2017

SEVEN HILLS PREPARATORY ACADEMY
CHARTER SCHOOL NO. 4159

FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT

For The Year Ended June 30, 2017

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SEVEN HILLS PREPARATORY ACADEMY
CHARTER SCHOOL NO. 4159
TABLE OF CONTENTS

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INTRODUCTORY SECTION

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SEVEN HILLS PREPARATORY ACADEMY
CHARTER SCHOOL NO. 4159
SCHOOL BOARD
June 30, 2017

BOARD OF DIRECTORS

Name	Board Position During 2016 - 2017
Kim Hubertus	Board Chair
Kelly Bartsh	Vice Chair
Michael Meyer	Board Treasurer
Mark Quistad	Board Secretary
Shelly Bartle	Board Member
Lisa Carlin	Board Member
Kate Docken	Board Member
Nick Freiheit	Board Member
Abdiaziz Hirsi	Board Member
Janeen Raaen	Board Member
Celeste Wiederholt	Board Member
Carl Schlueter	Ex-Officio Executive Director

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Seven Hills Preparatory Academy
Charter School No. 4159
Bloomington, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Seven Hills Preparatory Academy, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Seven Hills Preparatory Academy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Seven Hills Preparatory Academy, as of June 30, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Seven Hills Preparatory Academy's 2016 financial statements, and we expressed an unmodified audit opinion on the respective financial statements of the governmental activities and each major fund in our report dated October 7, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and pension information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Seven Hills Preparatory Academy's basic financial statements. The introductory section and individual fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Uniform Financial Accounting and Reporting Standards Compliance Table is presented as supplemental information as required by the Minnesota Department of Education and is also not part of the basic financial statements.

The individual fund financial statements and the Uniform Financial Accounting and Reporting Standards Compliance Table are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the individual fund financial statements and the Uniform Financial Accounting and Reporting Standards Compliance Table are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2017, on our consideration of Seven Hills Preparatory Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Seven Hills Preparatory Academy's internal control over financial reporting and compliance.

Redpath and Company, Ltd.

REDPATH AND COMPANY, LTD.
St. Paul, Minnesota

October 5, 2017

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MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)

This section of Seven Hills Preparatory Academy’s (the School) annual financial reporting presents our discussion and analysis of the School’s financial performance during the year ended June 30, 2017. Please read it in conjunction with the School’s financial statements, which immediately follow this section.

Financial Highlights

Key financial highlights for the 2016-2017 fiscal year includes the following:

- Based on the fund financial statements, total General Fund revenues of $9,082,488 were received and total General Fund expenditures of $9,285,146 (including transfers) were incurred, which resulted in a $202,658 decrease in General Fund balance.
- The School budgeted for 811 students in the 2016-2017 fiscal year, where actual enrollment was 814 students in grades K-8. This is an increase of 100 students from the 2015 – 2016 school year.
- Total General Fund balance was $811,179 or 9% of total expenditures.

Overview of the Financial Statements

The financial section of the annual report consists of four parts – Independent Auditor’s Report, required supplementary information which includes the MD&A (this section), the basic financial statements, and supplemental information. The basic financial statements include two kinds of statements that present different views of the School:

- The first two statements are School-wide financial statements that provide both short-term and long-term information about the School’s overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the School, reporting the School’s operations in more detail than the School-wide statements. These statements tell how basic services such as regular and special education were financed in the short-term as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data.

School-wide Statements

The School-wide statements report information about the School as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the School’s assets and liabilities. All of the current year’s revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two School-wide statements report the School's net position and how they have changed. Net position – the difference between the School's assets plus deferred outflows and liabilities plus deferred inflows – is one way to measure the School's financial health or position.

- Over time, increases or decreases in the School's net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the School you need to consider additional non-financial factors such as changes in the School's creditworthiness and the condition of school buildings and other facilities.

In the School-wide financial statements, the School's activities are shown in one category:

- Governmental activities – all of the School's basic services will be included here, such as regular and special education, transportation, and administration.

Fund Financial Statements

The fund financial statements provide more detailed information about the School's funds – focusing on its most significant or "major" funds – not the School as a whole. Funds are accounting devices the School uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law.
- The School may establish other funds to control and manage money for a specific purpose.

The School has the following fund type:

- Governmental funds – the School's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the School's programs. Because this information does not encompass the additional long-term focus of the School-wide statements, we provide additional information at the bottom of the governmental funds statements to explain the relationship (or differences) between them.

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE

Net Position

The School's net position was ($3,818,392) on June 30, 2017 as shown below:

	June 30, 2017	June 30, 2016
Current assets	$1,507,026	$1,509,280
Capital assets	518,287	323,472
Deferred outflows of resources	9,599,668	1,010,977
Total assets and deferred outflows	11,624,981	2,843,729
Current liabilities	849,002	486,732
Noncurrent liabilities	14,499,149	3,680,296
Deferred inflows of resources	95,222	353,665
Total liabilities and deferred inflows	15,443,373	4,520,693
Net position:		
Net investment in capital assets	518,287	323,472
Restricted for community service	8,711	8,711
Unrestricted	(4,345,390)	(2,009,147)
Total net position	($3,818,392)	($1,676,964)

The School participates in cost-sharing multiple-employer defined benefit pension plans administered by the Teachers Retirement Association (TRA) and the Public Employees Retirement Association (PERA). Governmental accounting standards require that the School's share of each plan's net pension liability be recorded on the Statement of Net Position. The portion attributable to the School is based on its contributions to each plan in comparison to contributions made by all plan participants.

The School's net pension liability, combined with pension related deferred outflows and inflows of resources, negatively impacted unrestricted net position by $4,994,703 and $3,022,984 for the years ended June 30, 2017 and 2016, respectively. The increased deficit was primarily due to changes in actuarial assumptions used to calculate the net pension liability, as well as lower than expected investment earnings by each plan.

The School continues to make its required contributions to each plan. Additional information can be found in Note 4 to the financial statements.

Changes in Net Position

The School's total revenue was $9,449,344 for the year ended June 30, 2017. There were no unspent restricted grant revenues as of June 30, 2017.

	As of June 30,	
	2017	2016
Revenues:		
Program revenues:		
Charges for services	$254,843	$176,131
Operating grants and contributions	3,216,731	2,503,011
Capital grants and contributions	70,623	69,235
General revenues	5,907,147	5,366,012
Total revenues	9,449,344	8,114,389
Expenses:		
School support services	1,122,644	1,130,121
Regular instruction	5,561,475	3,326,084
Community services	27,706	11,561
Special education instruction	2,065,260	1,407,816
Instructional support services	176,394	124,371
Pupil support services	1,028,744	935,827
Site, building and equipment	1,584,668	1,437,178
Fiscal and other fixed costs	23,881	22,310
Total expenses	11,590,772	8,395,268
Change in net position	(2,141,428)	(280,879)
Net position - beginning	(1,676,964)	(1,396,085)
Net position - ending	($3,818,392)	($1,676,964)

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

The financial performance of the School as a whole is reflected in its governmental funds as well. Financial information from the fund statements is as follows:

	2017				2016		
	General	Food Service	Community Service	Building Company	General	Food Service	Community Service
Assets	$1,653,374	$38,815	$9,441	$ -	$1,499,958	$12,107	$8,711
Liabilities	842,195	38,815	730	161,866	486,121	12,107	-
Fund balance	$811,179	$0	$8,711	($161,866)	$1,013,837	$0	$8,711

	2017				2016		
	General	Food Service	Community Service	Building Company	General	Food Service	Community Service
Revenue	$9,082,488	$175,172	$21,423	$ -	$7,881,346	$146,730	$19,760
Expenditures	9,255,691	204,627	21,423	161,866	8,251,507	158,545	11,323
Transfers	(29,455)	29,455	-	-	(11,815)	11,815	-
Change in fund balance	($202,658)	$0	$0	($161,866)	($381,976)	$0	$8,437

REVENUE ANALYSIS

Total General Fund revenues increased by $1,201,142, or 15.2%, from the previous year due to the increase in enrollment plus a 2% increase in state per pupil funding.

Total Food Service Fund revenues increased by $28,442, or 19.4%, due to student growth and increased participation in the food service program.

Total Community Service Fund revenues increased by $1,663, or 8.4%, due to student growth and increased participation in the after school program.

Total Building Company Fund was established in fiscal year 2016 – 2017, however, no revenues were recognized during this period.

EXPENDITURE ANALYSIS

Total General Fund expenditures increased by $1,004,184, or 12.2%, from the previous year due to the growth and expansion of the School's programs to include salaries and benefits as well as other operating expenses.

Total Food Service Fund expenditures increased by $46,082, or 29.1%, due to student growth and increased participation in the food service program.

Total Community Service Fund expenditures increased by $10,100, or 89.2%, due to changes in staffing for the before and after school program.

The Building Company Fund incurred expenditures for the first time in 2017 relating to the start-up and construction costs.

BUDGETARY COMPARISON

An annual budget for 2016 – 2017 was established prior to June 30, 2016. One budget revision was approved during the fiscal year to better reflect the estimated forecast of the School.

The School's board and management use the budget as an important tool to make prudent decisions in the ongoing management of the School. The Board reviews the School's financial progress monthly and values its ability to maintain financial flexibility as circumstances change. The primary metric that is reviewed is the annual surplus and resulting fund balance.

The final budget for the General Fund anticipated a deficit of $157,690. The actual result for the year shows a deficit of $202,658.

CAPITAL ASSETS

As of June 30, 2017, the School had capital assets net of accumulated depreciation of $518,287. These capital assets are related to furniture and equipment growth in the School's facility among other building improvements made to the facility.

FACTORS BEARING ON THE SCHOOL'S FUTURE

The board of directors has mandated that School management builds appropriate fund balance percentage and monitor revenues and expenditures throughout the year. The School is dependent on the State of Minnesota for most of its revenue. This revenue source is mostly impacted by two variables: legislation and school enrollment.

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our stakeholders with a general overview of the School's finances and to demonstrate the School's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact: Carl Schlueter, Executive Director, 612-314-7602.

BASIC FINANCIAL STATEMENTS

SEVEN HILLS PREPARATORY ACADEMY
CHARTER SCHOOL NO. 4159 **Statement 1**
STATEMENT OF NET POSITION
June 30, 2017
With Comparative Amounts for June 30, 2016

	Governmental Activities	
	2017	2016
Assets:		
Cash	$437,333	$115,565
Accounts receivable	6,692	146,233
Due from other governments	987,643	1,145,589
Prepaid items	75,358	101,893
Capital assets (net of accumulated depreciation)	518,287	323,472
Total assets	2,025,313	1,832,752
Deferred outflows of resources related to pensions	9,599,668	1,010,977
Total assets and deferred outflows of resources	$11,624,981	$2,843,729
Liabilities:		
Accounts payable	$60,474	$26,028
Salaries, taxes and benefits payable	688,528	460,704
Short-term indebtedness	100,000	-
Net pension liability	14,499,149	3,680,296
Total liabilities	15,348,151	4,167,028
Deferred inflows of resources related to pensions	95,222	353,665
Net position:		
Net investment in capital assets	518,287	323,472
Restricted for community service	8,711	8,711
Unrestricted	(4,345,390)	(2,009,147)
Total net position	(3,818,392)	(1,676,964)
Total liabilites, deferred inflows of resources, and net position	$11,624,981	$2,843,729

The accompanying notes are an integral part of these financial statements.

SEVEN HILLS PREPARATORY ACADEMY
CHARTER SCHOOL NO. 4159
STATEMENT OF ACTIVITIES **Statement 2**
For The Year Ended June 30, 2017
With Comparative Totals for The Year Ended June 30, 2016

		Program Revenues			Net (Expense) Revenue and Changes in Net Position	
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	2017	2016
Governmental activities:						
School support services	$1,122,644	$ -	$ -	$ -	($1,122,644)	($1,130,121)
Regular instruction	5,561,475	144,201	249,165	-	(5,168,109)	(3,199,066)
Community services	27,706	21,423	-	-	(6,283)	8,199
Special education instruction	2,065,260	-	1,610,958	-	(454,302)	(19,049)
Instructional support services	176,394	-	-	-	(176,394)	(124,371)
Pupil support services	1,028,744	89,219	85,953	-	(853,572)	(789,097)
Site, building and equipment	1,584,668	-	1,270,655	70,623	(243,390)	(371,076)
Fiscal and other fixed costs	23,881	-	-	-	(23,881)	(22,310)
Total governmental activities	$11,590,772	$254,843	$3,216,731	$70,623	(8,048,575)	(5,646,891)
General revenues:						
Local sources					2,958	94,318
State sources					5,904,189	5,271,694
Total general revenues					5,907,147	5,366,012
Change in net position					(2,141,428)	(280,879)
Net position - beginning					(1,676,964)	(1,396,085)
Net position - ending					($3,818,392)	($1,676,964)

The accompanying notes are an integral part of these financial statements.

SEVEN HILLS PREPARATORY ACADEMY
CHARTER SCHOOL NO. 4159 **Statement 3**
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2017
With Comparative Amounts for June 30, 2016

	General	Food Service Fund	Community Service Fund	Building Company Fund	Total Governmental Funds 2017	Total Governmental Funds 2016
Assets:						
Cash	$427,892	$ -	$9,441	$ -	$437,333	$115,565
Accounts receivable	6,692	-	-	-	6,692	146,233
Due from Minnesota Department of Education	887,959	1,206	-	-	889,165	1,069,961
Due from Federal Government through Minnesota Department of Education	60,869	37,609	-	-	98,478	60,887
Due from other governments	-	-	-	-	-	14,741
Due from other funds	194,604	-	-	-	194,604	11,496
Prepaid items	75,358	-	-	-	75,358	101,893
Total assets	$1,653,374	$38,815	$9,441	$0	$1,701,630	$1,520,776
Liabilities and Fund Balances						
Liabilities:						
Accounts payable	$56,216	$4,258	$ -	$ -	$60,474	$26,028
Salaries, taxes and benefits payable	685,979	1,819	730	-	688,528	460,704
Due to other funds	-	32,738	-	161,866	194,604	11,496
Short-term indebtedness	100,000	-	-	-	100,000	-
Total liabilities	842,195	38,815	730	161,866	1,043,606	498,228
Fund balance:						
Nonspendable for prepaid items	75,358	-	-	-	75,358	101,893
Restricted for community service	-	-	8,711	-	8,711	8,711
Unassigned	735,821	-	-	(161,866)	573,955	911,944
Total fund balance	811,179	0	8,711	(161,866)	658,024	1,022,548
Total liabilities and fund balance	$1,653,374	$38,815	$9,441	$0	$1,701,630	$1,520,776

Amounts reported for governmental activities in the statement of net position are different because:

	2017	2016
Fund balance reported above	$658,024	$1,022,548
Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the funds	518,287	323,472
Deferred outflows of resources related to pensions	9,599,668	1,010,977
Net pension liability is not due and payable in the current period and, therefore, is not reported in the funds	(14,499,149)	(3,680,296)
Deferred inflows of resources related to pensions	(95,222)	(353,665)
Net position of governmental activities (Statement 1)	($3,818,392)	($1,676,964)

The accompanying notes are an integral part of these financial statements.

SEVEN HILLS PREPARATORY ACADEMY
CHARTER SCHOOL NO. 4159 **Statement 4**
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For The Year Ended June 30, 2017
With Comparative Totals for The Year Ended June 30, 2016

	General	Food Service Fund	Community Service Fund	Building Company Fund	Total Governmental Funds 2017	2016
Revenues:						
Local sources	$147,159	$89,219	$21,423	$ -	$257,801	$270,449
State sources	8,507,123	9,759	-	-	8,516,882	7,508,997
Federal sources	428,206	76,194	-	-	504,400	268,390
Total revenues	9,082,488	175,172	21,423	0	9,279,083	8,047,836
Expenditures:						
Current:						
School support services	1,105,316	-	-	-	1,105,316	1,118,009
Regular instruction	3,847,804	-	-	-	3,847,804	3,185,670
Special education instruction	1,631,855	-	-	-	1,631,855	1,386,764
Instructional support services	143,437	-	-	-	143,437	122,828
Pupil support services	810,735	204,627	-	-	1,015,362	934,707
Community services	-	-	21,423	-	21,423	11,323
Site, building and equipment	1,570,133	-	-	7,550	1,577,683	1,429,049
Fiscal and other fixed costs	23,881	-	-	-	23,881	22,310
Capital outlay	122,530	-	-	154,316	276,846	210,715
Total expenditures	9,255,691	204,627	21,423	161,866	9,643,607	8,421,375
Revenues over (under) expenditures	(173,203)	(29,455)	0	(161,866)	(364,524)	(373,539)
Other financing sources (uses):						
Transfers in	-	29,455	-	-	29,455	11,815
Transfers out	(29,455)	-	-	-	(29,455)	(11,815)
Total other financing sources (uses)	(29,455)	29,455	0	0	0	0
Net increase (decrease) in fund balance	(202,658)	0	0	(161,866)	(364,524)	(373,539)
Fund balance - beginning	1,013,837	-	8,711	-	1,022,548	1,396,087
Fund balance - ending	$811,179	$0	$8,711	(161,866)	$658,024	$1,022,548

	2017	2016
Amounts reported for governmental activities in the statement of activities are different because:		
Revenues over expenditures reported above	($364,524)	($373,539)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:		
Depreciation	(56,571)	(47,693)
Capital outlay	276,846	210,715
Capital outlay not capitalized	(25,460)	(22,398)
Governmental funds report pension contributions as expenditures, however, pension expense is reported in the statement of activities	(1,971,719)	(47,964)
Change in net position of governmental activities (Statement 2)	($2,141,428)	($280,879)

The accompanying notes are an integral part of these financial statements.

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Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Seven Hills Preparatory Academy (the School) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of significant accounting policies.

A. FINANCIAL REPORTING ENTITY

As required by state statute, the School operates as a nonprofit corporation under Minnesota Statutes §317A. State law also requires that the School comply with Uniform Financial Accounting and Reporting Standards for Minnesota School Districts (UFARS), which mandates the use of a governmental accounting structure.

The financial statements of the reporting entity include those of the School (the primary government) and its component units. Generally, component units are legally separate organizations for which the officials of the primary government are financially accountable.

There is one organization that is considered to be a component unit of the School. SHPA ABC (the Building Company) is an affiliated nonprofit building corporation which is classified as a 501(c)(3) tax exempt organization. The Building Company is governed by a separate board. Although it is legally separate from the School, the Building Company is reported as if it were part of the School (as a blended component unit) because its sole purpose is to acquire and own educational sites which will be leased to the School. No separate financial statements of the Building Company are issued.

The School is required to operate under a charter agreement with an entity that has been approved by the Minnesota Department of Education (MDE) to be a charter school "authorizer." The authorizer monitors and evaluates the School's performance, and periodically determines whether to renew the School's charter. The School's authorizer is Friends of Education (Friends). Aside from its responsibilities as authorizer, Friends has no authority or control over the School, and is not financially accountable for it. Therefore, the School is not considered a component unit of Friends.

B. SCHOOL-WIDE FINANCIAL STATEMENTS

The school-wide financial statements (the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the School. Amounts are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. *Governmental activities* generally are financed through intergovernmental revenues, and other non-exchange transactions. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider are met.

As a general rule the effect of interfund activity has been eliminated from the school-wide financial statements. Exceptions to this general rule are transactions that would be treated as revenues, expenditures or expenses if they involved external organizations, such as buying goods and services, are similarly treated when they involve other funds of the School. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include charges for goods and services, as well as operating and capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not included among program revenues are reported instead as *general revenues*.

C. FUND FINANCIAL STATEMENTS

Fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School considers all revenues, except reimbursement grants, to be available if they are collected within 60 days of the end of the current fiscal period. Reimbursement grants are considered available if they are collected within one year of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, as applicable, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Intergovernmental revenues, grants, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the School.

The emphasis of fund financial statements is on major funds, each displayed in a separate column. The School reports the following major funds:

The *General Fund* is the general operating fund of the School. The General Fund accounts for all financial resources except those that are required to be accounted for in another fund.

The *Food Service Special Revenue Fund* is used to account for the School's child nutrition program.

The *Community Service Special Revenue Fund* is used to account for after school programs.

The *Building Company Fund* is used to account for the revenues and expenditures of the Building Company, a blended component unit.

D. INCOME TAXES

The School and Building Company are classified as tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code and comparable sections of the Minnesota income tax statutes.

A tax expense or benefit from an uncertain income tax position (including tax-exempt status) may be recognized only when it is more likely than not that the position will be sustained upon examination by taxing authorities. Management believes the School and Building Company have no uncertain income tax positions that would result in an accrual, expense or benefit under the more likely than not standard.

E. BUDGETS

The School's Board adopts an annual budget for the General Fund, the Food Service Special Revenue Fund and the Community Service Special Revenue Fund. Budgets are prepared on the same basis of accounting as the financial statements. Legal budgetary control is at the fund level. Budgeted amounts are as originally adopted or as amended by the Board. Budgeted expenditure appropriations lapse at year end. Encumbrance accounting is not used.

Expenditures of the General Fund and the Food Service Special Revenue Fund exceeded budgeted appropriations by $6,197 and $21,027, respectively, during the year ended June 30, 2017.

F. STUDENT ACTIVITIES

Extracurricular student activities are determined primarily by student participants under the guidance of an adult and are generally conducted outside of school hours. In accordance with Minnesota Statutes, school boards can elect to either control or not control extracurricular activities. The School's Board has elected to control extracurricular activities. Therefore, the extracurricular student activity accounts are included in the School's General Fund.
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G. CASH AND INVESTMENTS

Cash balances from all funds are combined and invested to the extent available in various securities as authorized by Minnesota Statutes. Earnings from the pooled investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund.

H. RECEIVABLES

Receivables represent amounts receivable from other governments, individuals, firms, and corporations for goods and services furnished by the School. No substantial losses are anticipated from present receivable balances, therefore, no allowance for uncollectible accounts is deemed necessary.

I. PREPAID ITEMS

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the school-wide and fund financial statements. Prepaid items are reported using the consumption method and are recorded as expenditures at the time of consumption.

J. CAPITAL ASSETS

Capital assets, which include property, plant and equipment are reported in the school-wide financial statements. Capital assets are defined by the School as assets with an initial, individual cost of more than $1,000, and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Furniture and equipment	5-20 years
Leasehold improvements	25 years

K. ACCRUED EMPLOYEE BENEFITS

Since vacation benefits do not carryover at year end, no long-term liability for unused vacation has been recorded. Substantially all employees are entitled to sick leave at rates specified in their contracts. Employees are not compensated for unused sick leave upon termination of employment; therefore, no long-term liability for unused sick leave has been recorded.

L. DEFINED BENEFIT PENSION PLANS

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Teachers Retirement Association (TRA) and the Public Employees Retirement Association (PERA) and additions to/ deductions from the TRA's and PERA's fiduciary net position have been determined on the same basis as they are reported by TRA and PERA. Plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

TRA has a special funding situation created by direct aid contributions made by the State of Minnesota, the City of Minneapolis, and the Minneapolis School District. This direct aid is a result of the merger of the Minneapolis Teachers Retirement Fund Association into TRA in 2006. A second direct aid source is from the State of Minnesota for the merger of the Duluth Teacher's Retirement Fund Association in 2015. PERA also has a special funding situation created by direct aid contributions made by the State of Minnesota.

M. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time.

N. UNEARNED REVENUE

Unearned revenue represents amounts received under federal, state or private grant programs but not expended in the current year. Such amounts are unearned until subsequent periods when the funds are expended.

O. FUND BALANCE

In the fund financial statements, governmental funds report fund balance in classifications that disclose constraints for which amounts in those funds can be spent. These classifications are as follows:

Nonspendable - consists of amounts that are not in spendable form, such as prepaid items.

Restricted - consists of amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions.

Committed - consists of internally imposed constraints that are established by resolution of the School's Board. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.

Assigned - consists of internally imposed constraints that are intended to be used by the School for specific purposes, but do not meet the criteria to be classified as restricted or committed. Assigned amounts represent intended uses established by the School's Board itself or by an official to which the governing body delegates the authority. The Board has delegated to the School Director and Chief Financial Officer the authority to assign fund balance for specific purposes.

Unassigned - is the residual classification for the General Fund and also reflects negative residual amounts in other funds.

When both restricted and unrestricted resources are available for use, it is the School's policy to first use restricted resources, then use unrestricted resources as they are needed. When committed, assigned or unassigned resources are available for use, it is the School's policy to use resources in the following order; 1) committed 2) assigned and 3) unassigned.

P. MINIMUM FUND BALANCE POLICY

The School's Board has formally adopted a fund balance policy regarding the level of fund balance for the General Fund. The policy establishes a goal to achieve a fund balance in the General Fund of 25% of the ensuing year's budgeted expenditures. At June 30, 2017, the targeted minimum fund balance for the General Fund was $2,501,591. Actual fund balance in the General Fund was $811,179.

Q. NET POSITION

Net position represents the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources in the school-wide financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net position is reported as restricted in the school-wide financial statements when there are limitations on its use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

R. COMPARATIVE DATA

Comparative data for the prior year has been presented only for certain sections of the accompanying financial statements in order to provide an understanding of the changes in the School's financial position and operations.

S. USE OF ESTIMATES

The preparation of financial statements in accordance with GAAP requires management to make estimates that affect amounts reported in the financial statements during the reporting period. Actual results could differ from such estimates.

T. FAIR VALUE OF FINANCIAL INSTRUMENTS

The School defines fair value as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date. To determine fair value, the School uses a fair value hierarchy categorized into three levels based on the inputs used. Generally, the three levels are as follows:

- Level 1 – Quoted prices in active markets for identical assets.
- Level 2 – Significant other observable inputs.
- Level 3 – Significant unobservable inputs.

The School does not have any significant fair value measurements as of June 30, 2017.

Note 2 DEPOSITS AND INVESTMENTS

A. DEPOSITS

In accordance with Minnesota Statutes, the School maintains deposits at financial institutions which are authorized by the School's Board.

Custodial Credit Risk – is the risk that in the event of a bank failure, the School's deposits may not be returned to it. The School does not have a deposit policy for custodial credit risk and follows Minnesota Statutes for deposits.

Minnesota Statutes require that all deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or corporate surety bonds.

Authorized collateral include: U.S. government treasury bills, notes, or bonds; issues of a U.S. government agency; general obligations of a state or local government rated "A" or better; revenue obligations of a state or local government rated "AA" or better; irrevocable standby letter of credit issued by a Federal Home Loan Bank; and time deposits insured by a federal agency. Minnesota Statutes require securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or at an account at a trust department of a commercial bank or other financial institution not owned or controlled by the depository. The School does not have a deposit policy that is more restrictive than Minnesota Statutes.

At June 30, 2017, all of the School's deposits were covered by insurance or collateral.

B. INVESTMENTS

Minnesota Statutes outline authorized investments for charter schools. During 2017, the School did not have any such investments.

Note 3 CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2017 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Construction in progress	$0	$154,316	$0	$154,316
Capital assets, being depreciated:				
Furniture and equipment	657,064	90,350	-	747,414
Leasehold improvements	12,539	6,720	-	19,259
Total capital assets, being depreciated	669,603	97,070	0	766,673
Less accumulated depreciation for:				
Furniture and equipment	(345,993)	(55,935)	-	(401,928)
Leasehold improvements	(138)	(636)	-	(774)
Total accumulated depreciation	(346,131)	(56,571)	0	(402,702)
Governmental activities capital assets - net	$323,472	$194,815	$0	$518,287

Depreciation expense for the year ended June 30, 2017 was charged to the following functions:

Governmental activities:	
School support services	$2,211
Regular instruction	45,086
Special education instruction	3,460
Site, building and equipment	5,814
Total depreciation expense - governmental activities	$56,571

Note 4 DEFINED BENEFIT PENSION PLANS

The School participates in cost-sharing multiple-employer defined benefit pension plans administered on a statewide basis by the Teachers Retirement Association (TRA) and the Public Employees Retirement Association (PERA). The defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code. Disclosures relating to these plans are as follows:

A. PLAN DESCRIPTIONS

TRA administers a Basic Plan (without Social Security coverage) and a Coordinated Plan (with Social Security coverage) in accordance with Minnesota Statutes, Chapters 354 and 356. TRA is a separate statutory entity and administered by a Board of Trustees. The Board consists of four active members, one retired member and three statutory officials. Teachers employed in Minnesota's public elementary and secondary schools, charter schools, and certain educational institutions maintained by the state are required to be TRA members.

PERA administers the General Employees Retirement Fund (GERF) in accordance with Minnesota Statutes, Chapters 353 and 356. All full-time and certain part-time employees of the School, other than teachers, are covered by the GERF. GERF members belong to either the Basic Plan (without Social Security coverage) or the Coordinated Plan (with Social Security coverage). The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

B. BENEFITS PROVIDED

TRA

TRA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by Minnesota Statute and vest after three years of service credit. The defined retirement benefits are based on a member's highest average salary for any five consecutive years of allowable service, age, and a formula multiplier based on years of credit at termination of service. Two methods (Tier I and Tier II) are used to compute benefits for TRA's Basic and Coordinated Plan members.

Tier 1 Benefits – for Basic Plan members, a step rate formula of 2.2% per year for the first ten years of service and 2.7% per year thereafter is applied. For Coordinated Plan members with service years up to July 1, 2006, a step rate formula of 1.2% per year for the first ten years of service and 1.7% per year thereafter is applied. For Coordinated Plan members with service years beginning July 1, 2006, a step rate formula of 1.4% per year for the first ten years of service and 1.9% per year thereafter is applied.

Tier II Benefits – for years of service prior to July 1, 2006, a level formula of 1.7% per year for Coordinated Plan members and 2.7% per year for Basic Plan members is applied. For years of service July 1, 2006 and after, a level formula of 1.9% per year for Coordinated Plan members and 2.7% per year for Basic Plan members is applied. Beginning July 1, 2015, the early retirement reduction factors are based on rates established under Minnesota Statute. Smaller reductions, more favorable to the member, will be applied to individuals who reach age 62 and have 30 years or more of service credit.

Members first employed before July 1, 1989 receive the greater of the Tier I or Tier II benefits as described. Members first employed after June 30, 1989 receive only the Tier II calculation with a normal retirement age that is their retirement age for full Social Security retirement benefits, but not to exceed age 66.

The benefit provisions stated apply to active plan participants. Vested, terminated employees who are entitled to benefits but not yet receiving them are bound by the plan provisions in effect at the time they last terminated their public service.

PERA

PERA provides retirement, disability, and death benefits. Benefit provisions are established by Minnesota Statute and can only be modified by the state legislature. Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90% funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.

The benefit provisions stated in the following paragraph are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

GERF benefits are based on a member’s highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first ten years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

C. CONTRIBUTIONS

Employee and employer contribution rates are established by Minnesota Statutes. Rates for the years ended June 30, 2017 and 2016 were as follows:

	Employee	Employer
TRA - Basic Plan	11.0%	11.5%
TRA - Coordinated Plan	7.5%	7.5%
PERA - Basic Plan	9.1%	11.78%
PERA - Coordinated Plan	6.5%	7.5%

The School’s contributions to TRA for the years ended June 30, 2017 and 2016 were $236,928 and $222,096, respectively. The School’s contributions to PERA for the years ended June 30, 2017 and 2016 were $49,514 and $58,098, respectively. The School’s contributions were equal to the required contributions as set by state statute.

D. NET PENSION LIABILITY AND PENSION EXPENSE

The net pension liability reported at June 30, 2017 was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of the measurement date. The School's proportionate share of the net pension liability was based on contributions received by each respective plan during the measurement period for employer payroll paid dates from July 1, 2015 through June 30, 2016, relative to the total contributions to the plan, which included direct aid from the State of Minnesota, the City of Minneapolis and the Minneapolis School District. The School has no pension-related assets.

The School's net pension liability, its proportionate share of the plan's net pension liability, and pension expense as of and for the year ended June 30, 2017 are as follows:

	TRA	PERA	Total
Net pension liability	$13,500,450	$998,699	$14,499,149
Proportionate share of net pension liability:			
Measurement date	0.0566%	0.0123%	
Prior measurement date	0.0512%	0.0099%	
Pension expense	$2,297,321	$154,014	$2,451,335

The pension expense related to TRA and PERA includes recognition of $189,274 and $3,901, respectively, as an increase to pension expense (and grant revenue) for the support provided by direct aid.

The net pension liability related to TRA reflected a reduction due to direct aid in the amount of $35,587,410 provided to TRA. The amount recognized by the School as its proportionate share of the net pension liability, the State's proportionate share of the net pension liability, and the total portion of the net pension liability that was associated with the School were $13,500,450, $1,355,503 and $14,855,953, respectively.

The net pension liability related to PERA reflected a reduction due to direct aid in the amount of $6,000,000 provided to PERA. The amount recognized by the School as its proportionate share of the net pension liability, the State's proportionate share of the net pension liability, and the total portion of the net pension liability that was associated with the School were $998,699, $13,085 and $1,011,784, respectively.

E. DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

At June 30, 2017, the School reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience:		
TRA	$136,018	$ -
PERA	2,955	81,129
Difference between projected and actual investment earnings:		
TRA	584,038	-
PERA	111,497	-
Changes in actuarial assumptions:		
TRA	7,688,086	-
PERA	215,395	-
Changes in proportion:		
TRA	476,453	-
PERA	98,784	14,093
Contributions paid subsequent to the measurement date:		
TRA	236,928	-
PERA	49,514	-
Total	$9,599,668	$95,222

Amounts reported as deferred outflows of resources resulting from the School's contributions subsequent to the measurement date will be recognized as a reduction to the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized as pension expense during the following years:

Year Ended June 30,	Pension Expense TRA	PERA	Total
2018	$1,798,432	$95,385	$1,893,817
2019	1,798,432	72,582	1,871,014
2020	2,003,418	129,368	2,132,786
2021	1,733,859	36,074	1,769,933
2022	1,550,454	-	1,550,454
Thereafter	-	-	-

F. ACTUARIAL ASSUMPTIONS

TRA

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Measurement date	June 30, 2016
Valuation date	July 1, 2016
Experience study	June 5, 2015
Actuarial cost method	Entry Age Normal
Actuarial assumptions:	
Investment rate of return	4.66%, from the Single Equivalent Interest Rate calculation
Price inflation	2.75%
Wage growth rate	3.5%
Projected salary increase	3.5 - 9.5%
Cost of living adjustment	2.0%
Mortality Assumptions:	
Pre-retirement	RP-2014 white collar employee table, male rates set back six years and female rates set back five years. Generational projection uses the MP-2015 scale.
Post-retirement	RP-2014 white collar annuitant table, male rates set back three years and female rates set back three years, with further adjustments of the rates. Generational projection uses the MP-2015 scale.
Post-disability	RP-2014 disabled retiree mortality table, without adjustment.

For TRA, there was a change in actuarial assumptions that affected the measurement of the total liability since the prior measurement date. Post-retirement benefit adjustments are now assumed to remain level at 2.0% annually. While in the previous measurement the COLA increased to 2.5% in 2034.

The TRA actuary has determined the average of the expected remaining service lives of all members for fiscal year 2016 is six years. The “Difference Between Expected and Actual Economic Experience,” “Changes in Actuarial Assumptions,” and “Changes in Proportion” use the amortization period of six years in the schedule presented. The amortization period for “Difference Between Projected and Actual Investment Earnings” is over a period of five years as required by GASB 68.

PERA

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Active member payroll growth	3.25% per year
Investment rate of return	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2014 tables for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be 1% per year for all future years.

Actuarial assumptions used in the June 30, 2016 valuation were based on the results of actuarial experience studies. The most recent four-year experience study was completed in 2015.

The following changes in actuarial assumptions occurred in 2016:

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.
- The assumed investment return and the single discount rate was changed from 7.9% to 7.5%.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

TRA and PERA

The State Board of Investment, which manages the investments of TRA and PERA, prepares an analysis of the reasonableness of the long-term expected rate of return using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic stocks	45%	5.50%
International stocks	15%	6.00%
Bonds	18%	1.45%
Alternative assets	20%	6.40%
Unallocated cash	2%	0.50%
Total	100%	

G. DISCOUNT RATE

TRA
The discount rate used to measure the total pension liability was 4.66%. This is a decrease from the discount rate at the prior measurement date of 8.00%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal 2017 contribution rate, contributions from schools will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be depleted in 2052 and, as a result, the Municipal Bond Index Rate was used in the determination of the Single Equivalent Interest Rate (SEIR). The long-term expected rate of return was applied to periods before 2052 and the Municipal Bond Index Rate of 3.01% was applied to periods on and after 2052, resulting in a SEIR of 4.66%. Based on Fiduciary Net Position at prior year measurement date, the discount rate of 8.00% was used and it was not necessary to calculate the SEIR.

PERA
The discount rate used to measure the total pension liability in 2016 was 7.50%, a reduction from the 7.9% used in 2015. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

H. PENSION LIABILITY SENSITIVITY

The following presents the School's proportionate share of the net pension liability calculated using the discount rate for each plan, as well as the liability measured using one percent lower (3.66% for TRA; 6.50% for PERA) and one percent higher (5.66% for TRA; 8.50% for PERA).

	1% Decrease	Current	1% Increase
TRA	$17,391,955	$13,500,450	$10,330,947
PERA	$1,418,449	$998,699	$652,940

I. PENSION PLAN FIDUCIARY NET POSITION

Detailed information about TRA's fiduciary net position is available in a separately-issued TRA financial report. That report can be obtained at www.MinnesotaTRA.org, by writing to TRA at 60 Empire Drive, Suite 400, St. Paul, MN, 55103; or by calling 651-296-2409 or 1-800-657-3669.

Detailed information about PERA's fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained at www.mnpera.org.

Note 5 DEFINED CONTRIBUTION PLAN

The School provides eligible employees future retirement benefits through the School's 403(b) Plan (the Plan). The Plan provisions are established and can be modified by the School. All full-time employees of the School are eligible to participate in the Plan commencing on the date of their employment. Eligible employees may elect to have a percentage of their pay contributed to the Plan. The Plan allows for discretionary employer contributions. There were no employer contributions for 2017.

Note 6 INTERFUND ACTIVITY

As of June 30, 2017, the School's due to/from other funds consisted of the following:

- $32,738 due to the General Fund from the Food Service Fund to cover a temporary cash deficit.
- $161,866 due to the General Fund from the Building Company Fund for un-reimbursed start-up and construction related expenses.

During 2017, the School made a routine transfer of $29,455 from the General Fund to eliminate a deficit in the Food Service Fund.

Note 7 SHORT-TERM DEBT

On June 30, 2017, the School entered into a revolving line of credit agreement to assist with the timing of cash flows. The note has a maximum available amount of $200,000, is subject to a variable interest rate equal to the prime rate plus 2.00%, and matures on June 30, 2018. It is secured by substantially all School assets. As of June 30, 2017, the interest rate was 6.25% and the outstanding balance was $100,000.

Note 8 LONG-TERM DEBT

On June 30, 2017, the School entered into a straight line of credit agreement to cover expenditures of the Building Company prior to bond sale. The note has a maximum available amount of $100,000, is subject to a variable interest rate equal to the prime rate plus 2.00%, and matures on June 30, 2022. The note contains a 24 month draw period through June 30, 2019. If the School does not draw on the note within 24 months, the note will terminate. It is secured by substantially all School assets. As of June 30, 2017, the interest rate was 6.25% and the outstanding balance was $0.

Note 9 COMMITMENTS AND CONTINGENCIES

A. GRANTS

Amounts received or receivable from federal and state agencies are subject to agency audit and adjustment. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of funds which may be disallowed by the agencies cannot be determined at this time although the School expects such amounts, if any, to be immaterial. The federal financial assistance received may be subject to an audit pursuant to Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost*

Principles, and Audit Requirements for Federal Awards (Uniform Guidance) or audits by the grantor agency.

B. LEASE COMMITMENTS

The School has entered into lease agreements for each of its schools. The School amended the lease for its Bloomington location subsequent to year end, which extended the term to June 30, 2027. The leases, which contain varying terms, renewal options and security deposit requirements, have expiration dates ranging from June 30, 2020 to June 30, 2027. Lease payments are based on required minimum base rent payments. For the year ended June 30, 2017, the School paid $1,216,190 in rent under the terms of the leases. Estimated minimum future rent based on current factors is as follows:

Fiscal Year Ended	Amount
2018	$1,262,431
2019	1,247,971
2020	1,263,080
2021	744,600
2022	744,600
Thereafter	3,723,000
Total	$8,985,682

Note 10 RISK MANAGEMENT

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School carries commercial insurance for these risks. There were no significant reductions in insurance coverage from the previous year or settlements in excess of insurance coverage for any of the past three fiscal years.

Note 11 SUBSEQUENT EVENTS

On October 3, 2017, the Building Company sold $13,320,000 of tax-exempt Charter School Lease Revenue Bonds (Series 2017A) and $1,080,000 of taxable Charter School Lease Revenue Bonds (Series 2017B). The average coupon rate of the bonds is 5.00%. Total bond proceeds in the amount of $14,423,517 will be used to purchase the building at the Richfield Campus. The bonds are payable over a 30 year period and contain a final maturity date of October 1, 2049. The Building Company will be leasing the building to the School over that 30 year period.

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REQUIRED SUPPLEMENTARY INFORMATION

SEVEN HILLS PREPARATORY ACADEMY
CHARTER SCHOOL NO. 4159 **Statement 5**
REQUIRED SUPPLEMENTARY INFORMATION **Page 1 of 2**
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
For The Year Ended June 30, 2017
With Comparative Actual Amounts For the Year Ended June 30, 2016

	2017				
	Budgeted Amounts			Variance with Final Budget -	2016
	Original	Final	Actual Amounts	Over (Under)	Actual Amounts
Revenues:					
Local sources	$138,300	$168,800	$147,159	($21,641)	$166,078
State sources	8,471,810	8,393,549	8,507,123	113,574	7,501,776
Federal sources	383,000	529,455	428,206	(101,249)	213,492
Total revenues	8,993,110	9,091,804	9,082,488	(9,316)	7,881,346
Expenditures:					
School support services:					
Current:					
Salaries	624,522	625,522	604,586	(20,936)	592,604
Employee benefits	207,642	205,935	193,512	(12,423)	181,062
Purchased services	223,529	268,413	216,546	(51,867)	274,870
Supplies and materials	54,150	58,631	57,911	(720)	63,417
Other expenditures	15,425	15,425	32,761	17,336	6,056
Capital outlay	-	-	-	-	6,118
Total school support services	1,125,268	1,173,926	1,105,316	(68,610)	1,124,127
Regular instruction:					
Current:					
Salaries	2,660,203	2,682,852	2,687,963	5,111	2,251,467
Employee benefits	604,992	602,581	698,280	95,699	570,058
Purchased services	169,235	167,741	196,878	29,137	202,583
Supplies and materials	244,895	290,912	247,034	(43,878)	161,349
Other expenditures	3,100	2,300	17,649	15,349	213
Capital outlay	104,390	127,826	110,482	(17,344)	172,511
Total regular instruction	3,786,815	3,874,212	3,958,286	84,074	3,358,181
Special education instruction:					
Current:					
Salaries	929,726	1,009,758	1,007,800	(1,958)	870,755
Employee benefits	236,214	269,578	279,556	9,978	226,877
Purchased services	299,049	379,817	328,379	(51,438)	269,486
Supplies and materials	14,101	21,794	11,970	(9,824)	19,376
Other expenditures	-	-	4,150	4,150	270
Capital outlay	4,858	7,908	3,603	(4,305)	1,747
Total special education instruction	1,483,948	1,688,855	1,635,458	(53,397)	1,388,511
Instructional support services:					
Current:					
Salaries	50,480	50,480	51,570	1,090	36,955
Employee benefits	11,596	11,596	13,301	1,705	7,632
Purchased services	87,400	83,260	77,144	(6,116)	74,957
Supplies and materials	1,100	1,100	1,028	(72)	3,284
Other expenditures	75	75	394	319	-
Total instructional support services	150,651	146,511	143,437	(3,074)	122,828

SEVEN HILLS PREPARATORY ACADEMY
CHARTER SCHOOL NO. 4159 **Statement 5**
REQUIRED SUPPLEMENTARY INFORMATION **Page 2 of 2**
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
For The Year Ended June 30, 2017
With Comparative Actual Amounts For the Year Ended June 30, 2016

	2017				
	Budgeted Amounts		Actual	Variance with Final Budget -	2016 Actual
	Original	Final	Amounts	Over (Under)	Amounts
Pupil support services:					
Current:					
Salaries	$54,585	$54,585	$57,340	$2,755	$70,379
Employee benefits	16,650	16,650	17,752	1,102	21,635
Purchased services	622,000	664,850	733,010	68,160	681,287
Supplies and materials	2,535	2,535	2,564	29	2,861
Other expenditures	-	-	69	69	-
Capital outlay	-	-	-	-	994
Total pupil support services	695,770	738,620	810,735	72,115	777,156
Site, building and equipment:					
Current:					
Salaries	2,800	2,800	2,678	(122)	-
Employee benefits	450	450	419	(31)	-
Purchased services	1,613,843	1,595,545	1,566,265	(29,280)	1,425,211
Supplies and materials	750	750	771	21	3,838
Capital outlay	1,725	2,025	8,445	6,420	29,345
Total site, building and equipment	1,619,568	1,601,570	1,578,578	(22,992)	1,458,394
Fiscal and other fixed costs:					
Current:					
Purchased services	41,500	25,800	23,881	(1,919)	22,310
Total expenditures	8,903,520	9,249,494	9,255,691	6,197	8,251,507
Revenues over (under) expenditures	89,590	(157,690)	(173,203)	(15,513)	(370,161)
Other financing sources (uses):					
Transfers out	-	-	(29,455)	(29,455)	(11,815)
Net change in fund balance	$89,590	($157,690)	(202,658)	($44,968)	($381,976)
Fund balance - beginning			1,013,837		1,395,813
Fund balance - ending			$811,179		$1,013,837

SEVEN HILLS PREPARATORY ACADEMY
CHARTER SCHOOL NO. 4159 **Statement 6**
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - FOOD SERVICE SPECIAL REVENUE FUND
For The Year Ended June 30, 2017
With Comparative Actual Amounts For the Year Ended June 30, 2016

	2017				
	Budgeted Amounts			Variance with	2016
	Original	Final	Actual Amounts	Final Budget - Over (Under)	Actual Amounts
Revenues:					
Local sources	$105,605	$104,420	$89,219	($15,201)	$84,611
State sources	11,000	10,000	9,759	(241)	7,221
Federal sources	60,000	60,000	76,194	16,194	54,898
Total revenues	176,605	174,420	175,172	752	146,730
Expenditures:					
Pupil support services:					
Current:					
Salaries	15,000	14,500	18,344	3,844	11,594
Employee benefits	4,100	4,100	4,169	69	2,287
Purchased services	725	725	723	(2)	982
Supplies and materials	166,075	164,275	181,391	17,116	143,682
Total pupil support services	185,900	183,600	204,627	21,027	158,545
Revenues over (under) expenditures	(9,295)	(9,180)	(29,455)	(20,275)	(11,815)
Other financing sources (uses):					
Transfers in	-	-	29,455	29,455	11,815
Total other financing sources (uses)	0	0	29,455	29,455	11,815
Net change in fund balance	($9,295)	($9,180)	0	$9,180	0
Fund balance - beginning			-		-
Fund balance - ending			$0		$0

SEVEN HILLS PREPARATORY ACADEMY
CHARTER SCHOOL NO. 4159 **Statement 7**
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - COMMUNITY SERVICE SPECIAL REVENUE FUND
For The Year Ended June 30, 2017
With Comparative Actual Amounts For the Year Ended June 30, 2016

	2017				
	Budgeted Amounts		Actual	Variance with Final Budget -	2016 Actual
	Original	Final	Amounts	Over (Under)	Amounts
Revenues:					
Local sources	$23,900	$22,400	$21,423	($977)	$19,760
Expenditures:					
Community services:					
Current:					
Salaries	17,225	17,225	18,926	1,701	9,725
Employee benefits	3,250	3,250	2,453	(797)	1,471
Purchased services	1,000	500	-	(500)	-
Supplies and materials	2,425	1,425	44	(1,381)	127
Total community services	23,900	22,400	21,423	(977)	11,323
Revenues over (under) expenditures	$0	$0	0	$0	8,437
Fund balance - beginning			8,711		274
Fund balance - ending			$8,711		$8,711

SEVEN HILLS PREPARATORY ACADEMY
CHARTER SCHOOL NO. 4159
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
For The Year Ended June 30, 2017

Measurement Date	Fiscal Year Ending	School's Proportion of the Net Pension Liability	School's Proportionate Share of the Net Pension Liability (a)	State's Proportionate Share of the Net Pension Liability Associated with the School (b)	Total Proportionate Share of the Net Pension Liability (a+b)	Covered Payroll (c)	School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
Teacher's Retirement Association								
June 30, 2014	June 30, 2015	0.0524%	$2,414,555	$169,903	$2,584,458	$2,491,190	103.7%	81.5%
June 30, 2015	June 30, 2016	0.0512%	3,167,227	388,625	3,555,852	2,641,886	134.6%	76.8%
June 30, 2016	June 30, 2017	0.0566%	13,500,450	1,355,503	14,855,953	2,961,227	501.7%	44.9%
PERA - General Employees Retirement Fund								
June 30, 2014	June 30, 2015	0.0105%	$493,237	$ -	$493,237	$557,859	88.4%	78.8%
June 30, 2015	June 30, 2016	0.0099%	513,069	-	513,069	602,066	85.2%	78.2%
June 30, 2016	June 30, 2017	0.0123%	998,699	13,085	1,011,784	774,568	130.6%	68.9%

The schedule is provided prospectively beginning with the School's fiscal year ended June 30, 2015 and is intended to show a ten year trend. Additional years will be reported as they become available.

SEVEN HILLS PREPARATORY ACADEMY
CHARTER SCHOOL NO. 4159
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION CONTRIBUTIONS
For The Year Ended June 30, 2017

Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (c)	Contributions as a Percentage of Covered Payroll (b/c)
Teacher's Retirement Association					
June 30, 2015	$198,220	$198,220	$ -	$2,641,886	7.50%
June 30, 2016	222,096	222,096	-	2,961,227	7.50%
June 30, 2017	236,928	236,928	-	3,159,040	7.50%
PERA - General Employees Retirement Fund					
June 30, 2015	$44,535	$44,535	$ -	$602,066	7.40%
June 30, 2016	58,098	58,098	-	774,568	7.50%
June 30, 2017	49,514	49,514	-	660,187	7.50%

The schedule is provided prospectively beginning with the School's fiscal year ended June 30, 2015 and is intended to show a ten year trend. Additional years will be reported as they become available.

Note A BUDGETARY INFORMATION

The General Fund, Food Service Special Revenue Fund and the Community Service Special Revenue Fund budgets are legally adopted on a basis consistent with accounting principles generally accepted in the United States of America. The legal level of budgetary control is at the fund level.

Note B PENSION INFORMATION

2016 Changes
Changes of benefit terms (TRA) – the Duluth Teacher's Retirement Fund Association was merged into TRA on June 30, 2015.

Changes of assumptions (TRA) – Post-retirement benefit adjustments used for the June 30, 2015 valuation are now assumed to be 2% annually with no increase to 2.5% projected. The previous valuation assumed a 2.5% increase commencing July 1, 2034. Also, the discount rate used to measure the total pension liability was 8.0%. This is a decrease from the discount rate at the prior measurement date of 8.25%.

There were no changes of benefit terms or assumptions for PERA.

2017 Changes
TRA – Teachers Retirement Association:
Changes in actuarial assumptions for the July 1, 2016 valuation include:

- The assumed investment rate of return and discount rate was reduced from 8.00% to 4.66%.
- Post-retirement benefit adjustments are now assumed to remain level at 2.0% annually. In the previous measurement, benefit adjustments increased to 2.5% in 2034.
- The price inflation assumption was reduced from 3.00% to 2.75%.
- The general wage growth and payroll growth assumptions were reduced from 3.75% to 3.50%.
- Projected salary increases of 3.5% – 12.0% were changed to 3.5% – 9.5%.
- Mortality assumptions changed as a result of using updated mortality tables.

PERA – General Employees Retirement Fund:
Changes in Actuarial Assumptions:

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.5% for inflation.

Additional details can be obtained from the financial reports of TRA and PERA.

INDIVIDUAL FUND STATEMENTS

SEVEN HILLS PREPARATORY ACADEMY
CHARTER SCHOOL NO. 4159 **Statement 8**
BALANCE SHEET - GENERAL FUND
June 30, 2017
With Comparative Totals For June 30, 2016

	2017	2016
Assets:		
Cash	$427,892	$106,854
Accounts receivable	6,692	144,563
Due from Minnesota Department of Education	887,959	1,069,736
Due from Federal Government through Minnesota Department of Education	60,869	50,675
Due from other governments	-	14,741
Due from other funds	194,604	11,496
Prepaid items	75,358	101,893
Total assets	$1,653,374	$1,499,958
Liabilities and Fund Balance		
Liabilities:		
Accounts payable	$56,216	$26,028
Salaries, taxes and benefits payable	685,979	460,093
Short-term indebtedness	100,000	-
Total liabilities	842,195	486,121
Fund balance:		
Nonspendable for prepaid items	75,358	101,893
Unassigned	735,821	911,944
Total fund balance	811,179	1,013,837
Total liabilities and fund balance	$1,653,374	$1,499,958

SEVEN HILLS PREPARATORY ACADEMY
CHARTER SCHOOL NO. 4159 **Statement 9**
BALANCE SHEET - FOOD SERVICE SPECIAL REVENUE FUND
June 30, 2017
With Comparative Totals For June 30, 2016

	2017	2016
Assets:		
Accounts receivable	$ -	$1,670
Due from Minnesota Department of Education	1,206	225
Due from Federal Government through Minnesota Department of Education	37,609	10,212
Total assets	$38,815	$12,107
Liabilities and Fund Balance		
Liabilities:		
Accounts payable	$4,258	$ -
Salaries, taxes and benefits payable	1,819	611
Due to other funds	32,738	11,496
Total liabilities	38,815	12,107
Fund balance:		
Restricted for food service	-	-
Total liabilities and fund balance	$38,815	$12,107

SEVEN HILLS PREPARATORY ACADEMY
CHARTER SCHOOL NO. 4159 **Statement 10**
BALANCE SHEET - COMMUNITY SERVICE SPECIAL REVENUE FUND
June 30, 2017
With Comparative Totals For June 30, 2016

	2017	2016
Assets:		
Cash	$9,441	$8,711
Total assets	$9,441	$8,711
Liabilities and Fund Balance		
Liabilities:		
Salaries, taxes and benefits payable	$730	$ -
Fund balance:		
Restricted for community service	8,711	8,711
Total liabilities and fund balance	$9,441	$8,711

SEVEN HILLS PREPARATORY ACADEMY
CHARTER SCHOOL NO. 4159 **Statement 11**
BALANCE SHEET - BUILDING COMPANY SPECIAL REVENUE FUND
June 30, 2017
With Comparative Totals For June 30, 2016

	2017	2016
Assets:		
Total assets	$0	$0
Liabilities and Fund Balance		
Liabilities:		
Due to other funds	$161,866	$ -
Fund balance (deficit):		
Unassigned	(161,866)	-
Total fund balance	(161,866)	0
Total liabilities and fund balance	$0	$0

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SUPPLEMENTAL INFORMATION

SEVEN HILLS PREPARATORY ACADEMY
CHARTER SCHOOL NO. 4159 **Schedule 1**
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS COMPLIANCE TABLE
June 30, 2017

	Audit	UFARS	Variance
01 GENERAL FUND			
Total Revenue	$9,082,488	$9,082,488	$ -
Total Expenditures	9,255,691	9,255,691	-
Non-Spendable:			
4.60 Non Spendable Fund Balance	75,358	75,357	1
Restricted/Reserve:			
4.03 Staff Development	-	-	-
4.05 Deferred Maintenance	-	-	-
4.06 Health and Safety	-	-	-
4.07 Capital Projects Levy	-	-	-
4.08 Cooperative Revenue	-	-	-
4.11 Severance Pay	-	-	-
4.13 Project Funded By COP	-	-	-
4.14 Operating Debt	-	-	-
4.16 Levy Reduction	-	-	-
4.17 Taconite Building Maint	-	-	-
4.23 Certain Teacher Programs	-	-	-
4.24 Operating Capital	-	-	-
4.26 $25 Taconite	-	-	-
4.27 Disabled Accessibility	-	-	-
4.28 Learning and Development	-	-	-
4.34 Area Learning Center	-	-	-
4.35 Contracted Alt. Programs	-	-	-
4.36 St. Approved Alt. Program	-	-	-
4.38 Gifted & Talented	-	-	-
4.41 Basic Skills Programs	-	-	-
4.45 Career & Tech Programs	-	-	-
4.46 First Grade Preparedness	-	-	-
4.49 Safe Schools Levy	-	-	-
4.50 Pre-Kindgergarten	-	-	-
4.51 QZAB Payments	-	-	-
4.52 OPEB Liab Not In Trust	-	-	-
4.53 Unfunded Sev & Retiremt Levy	-	-	-
Restricted:			
4.64 Restricted Fund Balance	-	-	-
Committed:			
4.18 Committed For Separation	-	-	-
4.61 Committed Fund Balance	-	-	-
Assigned:			
4.62 Assigned Fund Balance	-	-	-
Unassigned:			
4.22 Unassigned Fund Balance	735,821	735,820	1
02 FOOD SERVICE			
Total Revenue	$175,172	$175,172	$ -
Total Expenditures	204,627	204,627	-
Non-Spendable:			
4.60 Non Spendable Fund Balance	-	-	-
Restricted/Reserve:			
4.52 OPEB Liab Not In Trust	-	-	-
Restricted:			
4.64 Restricted Fund Balance	-	-	-
Unassigned:			
4.63 Unassigned Fund Balance	-	-	-
04 COMMUNITY SERVICE			
Total Revenue	$21,423	$21,423	$ -
Total Expenditures	21,423	21,423	-
Restricted/Reserve:			
4.26 $25 Taconite	-	-	-
4.31 Community Education	-	-	-
4.32 E.C.F.E	-	-	-
4.44 School Readiness	-	-	-
4.47 Adult Basic Education	-	-	-
4.52 OPEB Liab Not In Trust	-	-	-
Restricted:			
4.64 Restricted Fund Balance	8,711	8,711	-
Unassigned:			
4.63 Unassigned Fund Balance	-	-	-

	Audit	UFARS	Variance
06 BUILDING CONSTRUCTION			
Total Revenue	$ -	$ -	$ -
Total Expenditures	-	-	-
Non-Spendable:			
4.60 Non Spendable Fund Balance	-	-	-
Restricted/Reserve:			
4.07 Capital Projects Levy	-	-	-
4.09 Alternative Fac. Program	-	-	-
4.13 Projects Funded By COP	-	-	-
Restricted:			
4.64 Restricted Fund Balance	-	-	-
Unassigned:			
4.63 Unassigned Fund Balance	-	-	-
07 DEBT SERVICE			
Total Revenue	$ -	$ -	$ -
Total Expenditures	-	-	-
Non-Spendable:			
4.60 Non Spendable Fund Balance	-	-	-
Restricted/Reserve:			
4.25 Bond Refundings	-	-	-
4.51 QZAB Payments	-	-	-
Restricted:			
4.64 Restricted Fund Balance	-	-	-
Unassigned:			
4.63 Unassigned Fund Balance	-	-	-
08 TRUST			
Total Revenue	$ -	$ -	$ -
Total Expenditures	-	-	-
Unrestricted:			
4.22 Net Assets	-	-	-
20 INTERNAL SERVICE			
Total Revenue	$ -	$ -	$ -
Total Expenditures	-	-	-
Unrestricted:			
4.22 Net Assets	-	-	-
25 OPEB REVOCABLE TRUST			
Total Revenue	$ -	$ -	$ -
Total Expenditures	-	-	-
Unrestricted:			
4.22 Net Assets	-	-	-
45 OPEB IRREVOCABLE TRUST			
Total Revenue	$ -	$ -	$ -
Total Expenditures	-	-	-
Unrestricted:			
4.22 Net Assets	-	-	-
47 OPEB DEBT SERVICE FUND			
Total Revenue	$ -	$ -	$ -
Total Expenditures	-	-	-
Non-Spendable:			
4.60 Non Spendable Fund Balance	-	-	-
Restricted/Reserve:			
4.25 Bond Refundings	-	-	-
Restricted:			
4.64 Restricted Fund Balance	-	-	-
Unassigned:			
4.63 Unassigned Fund Balance	-	-	-

OTHER REQUIRED REPORTS

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Seven Hills Preparatory Academy
Charter School No. 4159
Bloomington, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Seven Hills Preparatory Academy, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Seven Hills Preparatory Academy's basic financial statements, and have issued our report thereon dated October 5, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Seven Hills Preparatory Academy's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Seven Hills Preparatory Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of Seven Hills Preparatory Academy's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Seven Hills Preparatory Academy's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Redpath and Company, Ltd.

REDPATH AND COMPANY, LTD.
St. Paul, Minnesota

October 5, 2017

MINNESOTA LEGAL COMPLIANCE REPORT

To the Board of Directors
Seven Hills Preparatory Academy
Charter School No. 4159
Bloomington, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Seven Hills Preparatory Academy as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Seven Hills Preparatory Academy's basic financial statements, and have issued our report thereon dated October 5, 2017.

The *Minnesota Legal Compliance Audit Guide for Charter Schools*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains two categories of compliance to be tested in audits of charter schools: uniform financial accounting and reporting standards, and charter schools.

In connection with our audit, nothing came to our attention that caused us to believe that Seven Hills Preparatory Academy failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Charter Schools*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding Seven Hills Preparatory Academy's noncompliance with the above referenced provisions.

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

Redpath and Company, Ltd.

REDPATH AND COMPANY, LTD.
St. Paul, Minnesota

October 5, 2017

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