

Friends of Education
Authorizing Content-Rich Schools

Elizabeth Topoluk
Executive Director

February 20, 2026

Seven Hills Preparatory Academy
Board of Directors
ATTN: Board Chair
1401 West 76th Street
Richfield, MN 55423

To: The Board of Directors of Seven Hills Preparatory Academy

NOTICE OF CONCERN

Friends of Education has significant concerns regarding the financial stability and long-term viability of Seven Hills Preparatory Academy.

Seven Hills experienced an erroneous accrual reversal in FY2024, resulting in understating FY2024 expense by \$928,291. While neither the school's financial services contractor nor its auditor identified the error until late FY2025, the school's financial statements and audit ultimately remain the responsibility of the school. The failure of the school to detect and correct a material accounting error in a timely manner reflects deficiencies in internal financial oversight and governance controls.

Following the discovery of this material misstatement, timely and disciplined financial planning was critical; however, Seven Hills did not approve its FY2026 budget until January 8, 2026, more than six months into the fiscal year. In light of the prior year's material accounting correction, the delay in adopting a current-year budget raises additional concerns regarding financial management processes and board-level oversight.

Seven Hills is now preparing its FY2027 budget. Based on discussions with school leadership on January 21, 2026, the school was planning to issue employment offer letters for FY2027 prior to finalizing staffing levels and compensation models within a FY2027 financial framework. While we understand the school's desire to issue employment offer letters in a timely manner, salaries and benefits comprise two-thirds of Seven Hills' total expenditures. Simply stated, sound financial management requires that financial parameters be established first, followed by staffing decisions that align within those parameters. Deviating from this sequence for such a significant portion of the school's total expenditures is not simply a procedural irregularity, it reflects a lack of adequate planning, financial discipline, and organizational readiness necessary to responsibly manage the institution.

Liquidity. Seven Hills’ January 2026 financial statements project year-end Days Cash on Hand (DCOH) of negative five (–5) days. Days Cash on Hand represents the number of days the school can operate using available cash without additional revenue. Said another way, negative DCOH means the school has no available funds. Seven Hills’ affiliated building company’s bond covenants require a minimum of 40 days DCOH for FY2026 and 45 days for FY2027. Seven Hills’ February 5, 2026, financial projections indicate the school will not meet this requirement. Minn. Stat. 124E.13 subd. 3 requires the charter school board of directors to ensure affiliated building corporation compliance and states:

A school’s board of directors that fails to ensure the affiliated nonprofit building corporation’s compliance violates its responsibilities and an authorizer must consider that failure when evaluating the charter school, Minn. Stat. 124E.13 subd. 3(c).

10-Year Forecast. On September 12, 2025, via email from school leadership, Seven Hills stated it would provide a 10-year financial forecast by January 31, 2026. Friends had requested a ten-year financial forecast to assess the school’s long-term sustainability. The purpose of this forecast is to evaluate whether enrollment, revenue assumptions, debt obligations, and expense growth support continued operations. As one example, in an August 27, 2025, meeting with the school’s financial contractor, the contractor questioned the sustainability of the school’s compensation model, referring to it as “rich” in comparison with other charter schools with which the contractor works. In addition, and as noted under “Five-Year Capital Assessment Plan,” Friends also requested that the school’s financial plan incorporate projected capital needs (e.g. roof replacement, parking lot resurfacing, HVAC replacement, etc.), including consideration of available resources within the affiliated building company. Despite verbal assurances from the school on October 29th, November 12th, and December 3rd that the school was working on its ten-year forecast, as of the date of this notice, Seven Hills has not provided this forecast.

On February 5, 2026, Friends received a five-year forecast. That forecast assumes annual revenue growth of 2%, annual salaries and benefits growth of 3.5%, and annual increases of 5% for contracted services and transportation. The forecast also includes a line item entitled “Cumulative reductions to be made – unknown at this time,” totaling \$1,200,000 over five years. Because the school made significant expenditure reductions to its current FY2026 budget, the reliance on further unidentified expenditure reductions raises concerns regarding the credibility and feasibility of the forecast.

Moreover, the five-year forecast contains questionable enrollment projections. For example:

- the school has projected 115 K students for the next five years, when it historically has had 125 K students. We question why, in view of the school’s financial situation, it would reduce K enrollment.
- the forecast assumes 137 1st graders in FY27, when it has 127 K students in FY26, and assumes 139 4th graders in FY27 when it has 128 2nd graders in FY26 (when the other grades reflect a slight and expected decrease from FY26 to FY27). Based on

discussion with school administration on February 18, 2026, we understand the school does not have a waitlist in those grades; consequently, we question the reasonableness of the significant enrollment increase in 1st and 4th grades.

- the FY28-FY31 enrollment projections assume no enrollment loss from one year over the next, which would be inconsistent with the school's history.

Five-Year Capital Assessment Plan. Friends also requested the five-year capital assessment plan required under Seven Hills' affiliated building company's Public Offering Statement dated May 24, 2024. This plan is required to include an independent assessment of facility condition and projected capital needs, along with identified funding sources. To date, Friends of Education has not received this plan. Additionally, Friends has requested that projected capital needs be incorporated into the school's financial forecast, including consideration of available resources within the affiliated building company.

Fund Balance. Seven Hill's FY2026 projected fund balance is 6%. Exhibit H of the Charter Contract requires the Board to implement a financial plan to establish and maintain a 25% fund balance by the conclusion of FY2028. The school's five-year forecast projects only a 12% fund balance by FY2031, which does not align with the school's charter contract obligation.

Required Action: Friends requires Seven Hills to provide no later than March 13:

1. A complete and credible ten-year financial forecast in excel format;
2. The required capital assessment plan;
3. A written corrective action plan addressing liquidity, covenant compliance, and the path to achieving the required fund balance target.

This Notice of Concern remains in effect until formally withdrawn by Friends of Education. If the school fails to resolve its financial issues satisfactorily, Friends of Education will initiate charter termination proceedings pursuant to Article X of the charter contract.

Very truly yours,

A handwritten signature in black ink, appearing to be 'J. P. ...', written in a cursive style.