

Friends of Education

Authorizing Content-Rich Schools

April 30, 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

Summary

On February 20, 2026, Friends of Education issued a Notice of Concern to Seven Hills Preparatory Academy (the “School” or “Seven Hills”) identifying significant concerns regarding the School’s financial condition, financial management practices, and long-term financial viability. Friends of Education’s concerns resulted primarily from key issues identified in the School’s FY2025 audit and related financial reporting.

Most notably, the School’s FY2025 audit required a \$928,291 correction due to prior-year salary and benefit accrual errors, demonstrating a material weakness in the School’s financial reporting processes. In addition, the School reported an unplanned operating deficit of approximately \$723,000 in its FY2025 general fund, reflecting inadequate financial management. The School continued inadequate financial management well into the current fiscal year; as one example, the School did not approve its FY2026 budget until seven months into its fiscal year, limiting the budget’s effectiveness as a planning and oversight tool. Essentially, the School did not have an accurate or timely understanding of its financial position.

As many charter schools do, Seven Hills outsourced significant business and financial processes and reporting. That both its financial service provider and external auditor did not timely identify the errors is a cautionary tale as to what can happen when schools rely too heavily on service providers. Simply stated, charter schools must understand and “own” their finances.

In response to Friends of Education’s Notice of Concern, the School submitted materials on March 13, 2026, including a corrective action plan and supporting documentation in response to the required actions outlined in the Notice of Concern. Friends of Education completed a preliminary review of the School’s submission and, on March 23, 2026, issued a Request for Additional Information to ensure an accurate understanding and evaluation of the School’s financial position and the assumptions underlying its financial projections.

Since that time, the School has provided additional financial information and participated in discussions with Friends of Education, including most recently on April 27, 2026, to address the areas identified in the Notice of Concern and subsequent request. These discussions have focused on, among other items, payroll reconciliation, the development of a reforecasted FY2026 budget, FY2027 cash flow projections, and clarification of key balance sheet accounts and financial assumptions.

This letter summarizes the information provided by the School, Friends of Education's review of that information, and Friends of Education's determination with respect to its February 20, 2026, Notice of Concern. As explained in this letter, Friends of Education is withdrawing its Notice of Concern based on the School's demonstrated near-term financial viability and responsiveness to the concerns identified by Friends of Education; however, Friends of Education's withdrawal of its Notice of Concern does not indicate that all underlying financial management challenges have been fully resolved, and the School will continue working to strengthen its financial position.

While Friends of Education maintains an oversight role with respect to the School's financial condition and compliance with its charter contract, responsibility for the School's financial management rests with the School's board and administration, including budgeting, accounting, monitoring accruals, internal controls, and the preparation of its financial statements.

Actions Taken by the School

In response to the Notice of Concern and subsequent Request for Additional Information, the School provided additional financial documentation, analyses, and clarifications addressing the areas identified by Friends of Education.

Payroll Reporting and Reconciliation

The School provided a detailed compensation budget with staffing by site, along with an explanation of the salary/benefits timing differences reflected in the cash flow statement.

Budgeting and Financial Projections

While the School did not provide the requested ten-year forecast, the School provided a revised FY2026 budget based on the actual year-to-date revenues and expenditures and the remaining projected FY2026 activity. The reforecast provides a revised view of the School's projected year-end financial position, including fund balance and bond covenant ratios.

Additional Financial Information

The School provided a plan addressing liquidity, covenant compliance, and achieving its 25% fund balance target. The School also provided a capital assessment plan, responses to questions related to deferred revenue, affiliated building company receivables, capital improvements funding (within the school budget and the affiliated building company budget), and the challenges presented by the timing differences between receipt of holdback amounts and summer payables.

Authorizer Assessment

Based on the information provided and subsequent discussions, Friends of Education has completed its review of the School's financial position, financial reporting, and financial management practices.

Current Financial Position

The School has demonstrated an improved understanding of its current financial position through the development of a reforecasted FY2026 budget and updated cash flow projections. The reforecast reflects a modest improvement in the School's projected year-end fund balance; under current assumptions, the School's cash flow projection indicates a path to meeting financial obligations (without accessing the line of credit) through FY2027.

Ongoing Risks and Limitations

While the information provided by the School demonstrates near-term viability, the School's financial position remains constrained by limited liquidity and a continued reliance on the timing of revenues and expenditures. The School's projections assume consistent enrollment, timely receipt of state and federal revenues, and close management of expenditures.

Certain financial risks remain unresolved. These include enrollment and the status and accounting treatment of a material vendor invoice¹ related to prior-year services. Resolution of this invoice may result in a significant cash outflow impacting the current or subsequent fiscal year. The School's recent FY2024 and FY2025 challenges with respect to accurate accrual reporting underscore the School's need to ensure that all current-year obligations are properly identified and recorded within the appropriate fiscal period.

Financial Management and Internal Controls

The School has demonstrated an improved ability to produce key financial analyses, including payroll reconciliation, revised financial projections, and cash flow modeling. Continued attention is required to ensure that these financial management practices are implemented as part of the School's regular ongoing financial operations.

Authorizer Determination

Based on the information provided and subsequent discussions, Friends of Education has determined that the School has demonstrated an improved and sufficient understanding of its current financial position and a viable path to meeting its financial obligations through FY2027. Accordingly, the Notice of Concern issued on February 20, 2026, is withdrawn. This determination is based on the School's demonstrated near-term financial viability and responsiveness to the concerns identified by Friends of Education, and does not indicate that all underlying financial management challenges have been fully resolved; however, if the School exercises consistent and sustainable financial management processes, together with prudent decision-making, the School will establish long-term viability.

¹ The invoice exceeds \$150,000 for services related to FY2025.

Ongoing Requirements and Expectations

To support continued financial stability and strengthen financial management practices, the School has agreed to implement the following additional requirements:

Budget Development and Approval

The School will adopt a FY2027 budget that reflects conservative and supportable assumptions. Given the lack of demonstrated enrollment growth in the current year, Friends of Education strongly recommends the School develop a budget based on flat enrollment. If the School elects to adopt a budget that includes enrollment growth assumptions, the School will provide a Board-approved sensitivity analysis no later than July 31, 2026. This analysis must identify enrollment thresholds, corresponding financial impacts, and specific actions to be implemented in the event enrollment targets are not met.

Monthly Financial Management

The School will prepare monthly financial statements that reflect a working budget updated to incorporate year-to-date actuals with revised projections. These statements will include variance analysis and a rolling 12-month cash flow statement. Key account reconciliations will be incorporated into the monthly close process.

Monthly and Quarterly Board Oversight

The Board of Directors will engage in oversight of the School's financial position through both monthly and quarterly processes.

On a monthly basis, the Board will review financial reports presented by the Finance Committee; these reports will include, at a minimum, budget-to-actual performance, cash position, bond covenant ratios, and key financial indicators. This monthly review will extend beyond routine acceptance of reports and include meaningful discussion demonstrating the Board's understanding of the School's financial condition; evidence of Board review and related discussion will be clearly documented in Board minutes.

On at least a quarterly basis, the Board will review and approve financial statements and updated financial projections. This quarterly review will include, at a minimum, analysis of enrollment by grade and site, evaluation of variances in revenues and expenditures, and review of key financial indicators (including fund balance, days cash on hand, and debt service coverage). As part of this process, the Board will identify financial risks, evaluate the reasonableness of management assumptions, and require specific actions to maintain and protect the School's financial stability which may include adjustments to staffing, expenditures, or programming. Evidence of Board review, related discussion, and approval will be clearly documented in Board minutes.

Financial Controls and Expense Recognition

The School will ensure that all financial obligations are identified and recorded in the appropriate fiscal period. As noted in the FY2025 audit, a material weakness in internal control was identified related to year-end accruals of salary and benefit expenses for the

previous fiscal year. This resulted in a prior-year misstatement and restatement of beginning fund balance. In light of this, and based on ongoing questions related to the timing and treatment of a disputed invoice, the School will take additional steps to ensure completeness and accuracy of expense recognition. Specifically, the School will conduct a comprehensive review of vendor activity, including direct confirmation with vendors representing material balances, to ensure that all current-year invoices have been received, properly recorded, and scheduled for payment within the appropriate fiscal period.

Affiliated Building Company Oversight

The Board will review and approve financial information related to the affiliated building company at least twice annually, including a detailed assessment of intercompany balances, capital reserves, and facility-related financial obligations. Any material intercompany balances will be monitored on an ongoing basis and reflected appropriately in the School's financial reporting and cash flow projections.

Site-Based Financial Reporting

No later than October 31, 2026, the School will develop and implement site-based financial reporting consistent with the requirements of its charter contract. These reports will provide greater transparency into the financial performance of each campus and support more effective financial decision-making.

Ongoing Authorizer Oversight

Friends of Education will continue to attend the School's Finance Committee meetings on a monthly basis through at least October. The School's Finance Committee meetings will focus on financial performance, cash flow, variance analysis, and the School's progress in implementing the requirements outlined above.

Friends of Education will continue to provide oversight consistent with its authorizing responsibilities; **however, the responsibility for the School's financial management, decision-making, and overall success rests solely with the School's Board of Directors and leadership.** The School must demonstrate its ongoing ability to maintain accurate financial reporting, implement effective internal controls, and make timely, informed decisions to address emerging financial risks. Sustained financial stability will depend on the School's consistent execution of these responsibilities.

Very truly yours,

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