SEVEN HILLS PREPARATORY ACADEMY
CHARTER SCHOOL NO. 4159

FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT

For The Year Ended June 30, 2020

- This page intentionally left blank -

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

- This page intentionally left blank -

INTRODUCTORY SECTION

- This page intentionally left blank -

SEVEN HILLS PREPARATORY ACADEMY
CHARTER SCHOOL NO. 4159
SCHOOL BOARD
June 30, 2020

BOARD OF DIRECTORS

Name	Board Position During 2019 - 2020
Lisa Barnidge	Board Chair
Kim Hubertus	Board Vice Chair
Michael Meyer	Board Treasurer
Molly Lee	Board Secretary
Celeste Wiederholt	Board Member
Renson Anjere	Board Member
Kate Docken	Board Member
Jeffrey Miller	Board Member
Jessica Marcy	Board Member
Leah Lellman	Board Member
Martine Walker	Board Member
Carl Schlueter, Executive Director	Ex-Officio Board Member

- This page intentionally left blank -

FINANCIAL SECTION

- This page intentionally left blank -

REDPATH AND COMPANY

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, 2020, 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.

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, 2020, 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 2019 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 2, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019 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 November 24, 2020, 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 solely 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 the effectiveness of Seven Hills Preparatory Academy's 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

November 24, 2020

- This page intentionally left blank -

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, 2020. Please read it in conjunction with the School's financial statements, which immediately follow this section.

Financial Highlights

Key financial highlights for the 2019-2020 fiscal year includes the following:

- Based on the fund financial statements, total General Fund revenues of $12,638,691 (including loan proceeds) were received and total General Fund expenditures of $12,129,219 (including transfers) were incurred, which resulted in a $509,472 increase in General Fund balance.
- The School's actual average daily membership (ADM) was 1,063 in the 2019-2020 fiscal year, compared to ADM of 982 in the 2018-2019 fiscal year. This resulted in an increase of 81 students from the 2018-2019 fiscal year.
- Total General Fund cumulative fund balance was $1,563,033 or 12.9% of current year expenditures. This compares to a fund balance of $1,053,561 or 9.1% of expenditures from the 2018-2019 fiscal year.

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

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 and debt covenants. 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 ($6,174,581) on June 30, 2020 as shown below:

	June 30,	
	2020	2019
Current assets	$4,036,107	$3,605,568
Capital assets	13,202,598	13,271,408
Deferred outflows of resources	5,919,105	7,615,535
Total assets and deferred outflows	23,157,810	24,492,511
Current liabilities	1,768,030	1,754,780
Noncurrent liabilities	20,225,845	19,847,053
Deferred inflows of resources	7,305,496	8,170,235
Total liabilities and deferred inflows	29,299,371	29,772,068
Net position:		
Net investment in capital assets	(467,314)	(358,339)
Restricted	77,362	42,870
Unrestricted	(5,751,609)	(4,964,088)
	($6,141,561)	(5,279,557)

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 $7,293,335 and $5,868,889 for the years ended June 30, 2020 and 2019, respectively.

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

MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)

Changes in Net Position

The School’s total revenue was $12,994,579 for the year ended June 30, 2020. There were no unspent restricted grant revenues as of June 30, 2020.

	As of June 30,	
	2020	2019
Revenues:		
Program revenues:		
Charges for services	$301,587	$382,338
Operating grants and contributions	4,258,905	4,058,270
Capital grants and contributions	137,500	1,500
General revenues	8,296,587	7,240,218
Total revenues	12,994,579	11,682,326
Expenses:		
School support services	1,208,001	1,149,781
Regular instruction	5,515,756	3,326,826
Special education instruction	3,168,554	2,188,718
Instructional support services	230,741	166,160
Pupil support services	1,420,619	1,327,912
Site, building and equipment	1,523,781	1,470,643
Fiscal and other fixed costs	50,492	43,921
Interest expense	738,639	739,757
Total expenses	13,856,583	10,413,718
Change in net position	(862,004)	1,268,608
Net position - beginning	(5,279,557)	(6,548,165)
Net position - ending	($6,141,561)	($5,279,557)

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:

	2020				2019			
	General	Food Service	Community Service	Building Company	General	Food Service	Community Service	Building Company
Assets	$2,889,628	$19,283	$8,211	$1,142,488	$2,585,448	$20,033	$8,211	$1,115,390
Liabilities	1,326,595	19,283	-	5,549	1,531,887	20,023	-	107,332
Fund balance	$1,563,033	$0	$8,211	$1,136,939	$1,053,561	$10	$8,211	$1,008,058

	2020				2019			
	General	Food Service	Community Service	Building Company	General	Food Service	Community Service	Building Company
Revenue	$12,592,704	$244,800	$ -	$892,854	$11,654,107	$233,188	$ -	$780,519
Expenditures	12,108,325	265,704	-	763,973	11,607,353	242,567	-	1,434,733
Other financing sources (uses)	25,093	20,894	-	-	190,611	9,389	-	-
Change in fund balance	$509,472	($10)	$0	$128,881	$237,365	$10	$0	($654,214)

REVENUE ANALYSIS

Total General Fund revenues increased by $938,597, or 8.0%, from the previous year due to an increase in enrollment of 81 students and increases in special education program to service additional students with special education needs.

Total Food Service Fund revenues increased by $11,612, or 5.0%, due to student growth and increased participation in the food service program.

The School discontinued before and after school care activities in the 2018-2019 fiscal year, and recognized after school club programs in the General Fund.

Total Building Company Fund revenues increased by $112,335, or 14.4%, due to an increase in rental revenue.

EXPENDITURE ANALYSIS

Total General Fund expenditures increased by $500,972 or 4.3%, 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 $23,137, or 9.5%, due to enrollment growth which increased food service participation.

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

In the 2018-2019 fiscal year, after school activities were moved to the General Fund.
The Building Company Fund expenditures decreased by $670,760 or 46.8%, due to completing the building renovation project during fiscal year 2019.

BUDGETARY COMPARISON

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.

Revenues were originally budgeted at $12,201,975 and were later revised to $12,606,488.
Expenditures were originally budgeted at $11,884,149 and were later revised to $12,263,811.

The final budget for the General Fund anticipated a surplus of $328,677. The actual result for the year shows a surplus of $509,472.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2020, the School had capital assets net of accumulated depreciation of $13,202,598. These capital assets are related to furniture and equipment growth in the School's facility, as well as the acquisition of a building and upgrades for the School's gym.

Long-Term Debt

During the 2017-2018 fiscal year, the Building Company issued debt totaling $14.4M to acquire facilities and update the School's gym. This debt will be repaid through 2049. The entire $14.4M remains outstanding as of June 30, 2020.

During the 2018-2019 fiscal year, the School obtained a $200,000 loan from the MN Nonprofits Assistance Fund, which was used for improvements to the school building. This debt will be repaid through 2023. Approximately $140K remains outstanding as of June 30, 2020.

During the 2019-2020 fiscal year, the School obtained a $45,987 loan from Graybar Financial Services, which was used to purchase LED lights at the Bloomington campus. This debt will be repaid through 2023. Approximately $37K remains outstanding as of June 30, 2020.

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

FACTORS BEARING ON THE SCHOOL'S FUTURE

The School's management continues to strive and build towards an appropriate fund balance percentage of 25%. 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, 612-314-7600.

- This page intentionally left blank -

BASIC FINANCIAL STATEMENTS

SEVEN HILLS PREPARATORY ACADEMY
CHARTER SCHOOL NO. 4159 **Statement 1**
STATEMENT OF NET POSITION
June 30, 2020
With Comparative Amounts for June 30, 2019

	Governmental Activities	
	2020	2019
Assets:		
Cash	$1,493,065	$943,201
Cash and investments with fiscal agent	1,141,763	1,114,640
Accounts receivable	-	45,572
Due from other governments	1,380,461	1,497,685
Prepaid items	20,818	4,470
Capital assets - nondepreciable	2,890,000	2,890,000
Capital assets - net of accumulated depreciation	10,312,598	10,381,408
Total assets	17,238,705	16,876,976
Deferred outflows of resources related to pensions	5,919,105	7,615,535
Total assets and deferred outflows of resources	$23,157,810	$24,492,511
Liabilities:		
Accounts payable	$115,564	$119,273
Salaries, taxes and benefits payable	705,592	867,778
Line of credit	500,000	500,000
Unearned revnue	6,768	48,677
Accrued interest payable	181,475	181,475
Note payable:		
Due in one year	48,631	37,577
Due in more than one year	128,901	132,864
Bonds payable:		
Due in one year	210,000	-
Due in more than one year	14,190,000	14,400,000
Net pension liability	5,906,944	5,314,189
Total liabilities	21,993,875	21,601,833
Deferred inflows of resources related to pensions	7,305,496	8,170,235
Net position:		
Net investment in capital assets	(467,314)	(358,339)
Restricted for medical assistance	16,482	17,191
Restricted for food service	-	10
Restricted for community service	8,211	8,211
Restricted for debt service	24,741	-
Restricted for capital improvements	27,928	17,458
Unrestricted	(5,751,609)	(4,964,088)
Total net position	(6,141,561)	(5,279,557)
Total liabilities, deferred inflows of resources, and net position	$23,157,810	$24,492,511

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, 2020
With Comparative Totals for The Year Ended June 30, 2019

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: 2020	Net (Expense) Revenue and Changes in Net Position: 2019
Governmental activities:						
School support services	$1,208,001	$ -	$ -	$ -	($1,208,001)	($1,149,781)
Regular instruction	5,515,756	157,291	90,339	-	(5,268,126)	(3,011,475)
Special education instruction	3,168,554	-	2,441,676	-	(726,878)	198,426
Instructional support services	230,741	-	-	-	(230,741)	(166,160)
Pupil support services	1,420,619	99,805	144,995	-	(1,175,819)	(1,094,724)
Site, building and equipment	1,523,781	44,491	1,581,895	137,500	240,105	35,782
Fiscal and other fixed costs	50,492	-	-	-	(50,492)	(43,921)
Interest expense	738,639	-	-	-	(738,639)	(739,757)
Total governmental activities	$13,856,583	$301,587	$4,258,905	$137,500	(9,158,591)	(5,971,610)
General revenues:						
Local sources					91,129	111,753
State sources					8,205,458	7,128,465
Total general revenues					8,296,587	7,240,218
Change in net position					(862,004)	1,268,608
Net position - beginning					(5,279,557)	(6,548,165)
Net position - ending					($6,141,561)	($5,279,557)

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, 2020
With Comparative Amounts for June 30, 2019

	General	Food Service Fund	Community Service Fund	Building Company Fund	Total Governmental Funds 2020	Total Governmental Funds 2019
Assets:						
Cash	$1,484,129	$ -	$8,211	$725	$1,493,065	$943,201
Cash and investments with fiscal agent	-	-	-	1,141,763	1,141,763	1,114,640
Accounts receivable	-	-	-	-	-	45,572
Due from Minnesota Department of Education	1,311,417	-	-	-	1,311,417	1,445,196
Due from Federal Government through Minnesota Department of Education	49,761	19,283	-	-	69,044	52,489
Due from other funds	23,503	-	-	-	23,503	123,514
Prepaid items	20,818	-	-	-	20,818	4,470
Total assets	$2,889,628	$19,283	$8,211	$1,142,488	$4,059,610	$3,729,082
Liabilities and Fund Balance						
Liabilities:						
Accounts payable	113,821	1,743	-	-	115,564	119,273
Salaries, taxes and benefits payable	706,006	(414)	-	-	705,592	867,778
Due to other funds	-	17,954	-	5,549	23,503	123,514
Line of credit	500,000	-	-	-	500,000	500,000
Unearned revenue	6,768	-	-	-	6,768	48,677
Total liabilities	1,326,595	19,283	0	5,549	1,351,427	1,659,242
Fund balance:						
Nonspendable for prepaid items	20,818	-	-	-	20,818	4,470
Restricted for medical assistance	16,482	-	-	-	16,482	17,191
Restricted for food service	-	-	-	-	-	10
Restricted for community service	-	-	8,211	-	8,211	8,211
Restricted for debt service	-	-	-	1,113,835	1,113,835	1,097,182
Restricted for capital improvements	-	-	-	27,928	27,928	17,458
Unassigned	1,525,733	-	-	(4,824)	1,520,909	925,318
Total fund balance	1,563,033	0	8,211	1,136,939	2,708,183	2,069,840
Total liabilities and fund balance	$2,889,628	$19,283	$8,211	$1,142,488	$4,059,610	$3,729,082

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

	2020	2019
Fund balance reported above	$2,708,183	$2,069,840
Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the funds	13,202,598	13,271,408
Deferred outflows of resources related to pensions	5,919,105	7,615,535
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds:		
Notes payable	(177,532)	(170,441)
Bonds payable	(14,400,000)	(14,400,000)
Accrued interest payable	(181,475)	(181,475)
Net pension liability	(5,906,944)	(5,314,189)
Deferred inflows of resources related to pensions	(7,305,496)	(8,170,235)
Net position of governmental activities (Statement 1)	($6,141,561)	($5,279,557)

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, 2020
With Comparative Totals for The Year Ended June 30, 2019

	General	Food Service Fund	Community Service Fund	Building Company Fund	Total Governmental Funds 2020	Total Governmental Funds 2019
Revenues:						
Local sources	$275,957	$99,805	$ -	$892,854	$1,268,616	$1,227,361
State sources	12,048,694	9,297	-	-	12,057,991	11,101,853
Federal sources	268,053	135,698	-	-	403,751	338,600
Total revenues	12,592,704	244,800	0	892,854	13,730,358	12,667,814
Expenditures:						
Current:						
School support services	1,078,839	-	-	10,407	1,089,246	1,257,637
Regular instruction	4,554,083	-	-	-	4,554,083	4,307,511
Special education instruction	2,765,919	-	-	-	2,765,919	2,464,491
Instructional support services	213,475	-	-	-	213,475	175,357
Pupil support services	1,134,386	265,704	-	-	1,400,090	1,340,226
Site, building and equipment	2,149,904	-	-	23,675	2,173,579	2,018,386
Fiscal and other fixed costs	50,492	-	-	-	50,492	43,921
Capital outlay	109,592	-	-	3,991	113,583	907,808
Debt service:						
Principal	38,896	-	-	-	38,896	29,559
Interest	12,739	-	-	725,900	738,639	739,757
Total expenditures	12,108,325	265,704	0	763,973	13,138,002	13,284,653
Revenues over (under) expenditures	484,379	(20,904)	0	128,881	592,356	(616,839)
Other financing sources (uses):						
Loan proceeds	45,987	-	-	-	45,987	200,000
Transfers in	-	20,894	-	-	20,894	9,389
Transfers out	(20,894)	-	-	-	(20,894)	(9,389)
Total other financing sources (uses)	25,093	20,894	0	0	45,987	200,000
Net increase (decrease) in fund balance	509,472	(10)	0	128,881	638,343	(416,839)
Fund balance - beginning	1,053,561	10	8,211	1,008,058	2,069,840	2,486,679
Fund balance - ending	$1,563,033	$0	$8,211	$1,136,939	$2,708,183	$2,069,840

	2020	2019
Amounts reported for governmental activities in the statement of activities are different because:		
Revenues over expenditures reported above	$638,343	($416,839)
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	(277,397)	(240,940)
Capital outlay - capitalized	71,087	832,193
Capital assets contributed from private entity	137,500	-
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. However, neither has any effect on net position:		
Note proceeds	(45,987)	(200,000)
Principal payments on notes	38,896	29,559
Governmental funds report pension contributions as expenditures, however, pension expense is reported in the statement of activities:		
Pension contributions	482,256	434,616
Pension expense, net of direct aid in the amount of $35,641	(1,906,702)	830,019
Change in net position of governmental activities (Statement 2)	($862,004)	$1,268,608

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

- This page intentionally left blank -

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 primary government is 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 are 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. Aside from its responsibilities as authorizer, Friends of Education 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 of Education.

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*. Revenue is recognized when it becomes both measurable and available. *Measurable* means the amount of the transaction can be determined and *available* means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. State revenue is recognized in the year to which it applies according to Minnesota Statutes and GAAP. Minnesota Statutes include state aid formulas for specific fiscal years. Federal revenue and other non-exchange transactions are recognized when all eligibility requirements imposed by the provider have been met and the resources are available. Food service sales and other miscellaneous revenue are recorded as revenue when received because they are generally not measurable until then. A 60 day availability period is used for other fund revenue.

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.

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 were less than budgeted appropriations by $155,486 during the year ended June 30, 2020. Expenditures of the Food Service Fund exceeded budgeted appropriations by $11,011 during the year ended June 30, 2020.

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.

G. CASH AND INVESTMENTS

Cash balances of the General Fund and Food Service and Community Service Special Revenue 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. Investments are stated at fair value as of the balance sheet date.

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	3-20 years
Leasehold improvements	25 years
Buildings	50 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 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 from the State of Minnesota.

M. DEFERRED OUTFLOWS / INFLOWS OF RESOURCES

In addition to assets, the statement of financial position reports 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) until then. The School has one item that qualifies for reporting in this category. It is the pension related deferred outflows of resources reported in the school-wide statement of net position.

In addition to liabilities, the statement of financial position reports 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. The School has one item that qualifies for reporting in this category. It is the pension related deferred inflows of resources reported in the school-wide statement of net position.

N. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

OPEB are defined as benefits (such as death benefits, life insurance, disability, and long-term care) that are paid in the period after employment and that are provided separately from a pension plan, as well as healthcare benefits paid in the period after employment. With the exception of benefits provided by COBRA health coverage, the School does not offer OPEB to its employees. Therefore, management has determined any implicit rate subsidy would be immaterial and a liability for OPEB has not been recorded.

O. 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.

P. LONG-TERM OBLIGATIONS

In the school-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable government activities. Bond premiums and discounts, if material, are amortized over the life of the related debt.

In the fund financial statements, governmental funds recognize bond premiums and discounts, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses.

Q. 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.

R. MINIMUM FUND BALANCE POLICY

The School's Board has formally adopted a fund balance policy for the General Fund. The policy establishes a minimum fund balance for the General Fund equal to 25% of current year expenditures.

At June 30, 2020, the targeted minimum fund balance for the General Fund was $3,027,081. Actual fund balance in the General Fund was $1,563,033.

S. 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.

T. COMPARATIVE DATA

The basic financial statements and schedules include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the School's financial statements for the year ended June 30, 2019 from which the summarized information was derived.

U. 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.

V. 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 for which the School carries commercial insurance. 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.

W. 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, 2020.

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 – For deposits, custodial credit risk is the risk that in the event of a bank failure, the School's deposits may not be returned to it. Minnesota Statutes require that all deposits be protected by insurance, surety bond or collateral. Minnesota Statute 118A.03 identifies allowable forms of collateral.

The market value of collateral pledged must equal 110% of the deposits not covered by insurance or corporate surety bonds. Securities pledged as collateral must 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, 2020, all of the School's deposits were covered by insurance or collateral.

B. INVESTMENTS

The School may also invest idle funds as authorized by Minnesota Statute 118A.04. Such investments are subject to the following risks:

Credit Risk – Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. The School's investment policy does not place further limits on its investment choices.

Custodial Credit Risk – For investments in securities, custodial credit risk is the risk that in the event of failure of the counterparty to a transaction, the School will not be able to recover the value of its investment securities that are in the possession of an outside party. Investments in investment pools and money markets are not evidenced by securities that exist in physical or book entry form, and therefore are not subject to custodial credit risk disclosures. The School's investment policy does not address custodial credit risk.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates of debt investments could adversely affect the fair value of an investment. The School's investment policy does not address interest rate risk.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss that may be attributed to the magnitude of an entity's investment in a single issuer. The School places no limit on the amount it may invest in any one issuer. At June 30, 2020, all of the School's investments are in the First American Government Obligation Fund.

In addition to following Minnesota Statutes pertaining to deposits and investments, the Building Company complies with all investment limitations and requirements imposed by its bondholders.

C. CASH AND INVESTMENTS WITH FISCAL AGENT

As of June 30, 2020, the Building Company had cash and investments held with a fiscal agent for the following purposes:

Purpose	Amount
Future debt service payments	$199,172
Reserve fund requirement	914,663
Capital improvements	27,928
Total	$1,141,763

The amounts are held in a First American Government Obligation Fund which has an S&P rating of AAAm. The fund utilizes the amortized cost method of valuation to transact at a $1.00 share price. The securities held by the fund are valued on the basis of amortized cost. Shares may be redeemed without penalty on any business day.

Note 3 CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2020 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	$2,890,000	$ -	$ -	$2,890,000
Total capital assets, not being depreciated	2,890,000	0	0	2,890,000
Capital assets, being depreciated:				
Building	10,236,906	-	-	10,236,906
Furniture and equipment	753,339	208,587	-	961,926
Leasehold improvements	19,259	-	-	19,259
Total capital assets, being depreciated	11,009,504	208,587	0	11,218,091
Less accumulated depreciation for:				
Building	(268,868)	(204,739)	-	(473,607)
Furniture and equipment	(356,914)	(71,887)	-	(428,801)
Leasehold improvements	(2,314)	(771)	-	(3,085)
Total accumulated depreciation	(628,096)	(277,397)	0	(905,493)
Governmental activities capital assets - net	$13,271,408	($68,810)	$0	$13,202,598

Depreciation expense for the year ended June 30, 2020 was charged to the following functions:

School support services	$2,784
Regular instruction	52,400
Special education instruction	2,271
Site, building and equipment	219,942
Total depreciation expense - governmental activities	$277,397

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 Coordinated Plan in accordance with Minnesota Statutes, Chapters 354 and 356. TRA is a separate statutory entity administered by a Board of Trustees. The Board consists of four active members, one retired member and three statutory officials. Educators employed in Minnesota's public elementary and secondary schools, charter schools, and certain other TRA-covered 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, and is governed by an eleven member Board of Trustees. All full-time and certain part-time employees of the School, other than educators, are covered by the GERF.

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 Statutes 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.

Tier 1 Benefits – for 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 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 is applied. For years of service July 1, 2006 and after, a level formula of 1.9% per year is applied. Beginning July 1, 2015, the early retirement reduction factors are based on rates established under Minnesota Statutes. 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 benefit 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 Statutes and can only be modified by the state legislature. 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.

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 Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated Plan members is 1.2% of average salary for each of the first ten years of service and 1.7% for each additional year. Under Method 2, the accrual rate for Coordinated Plan members is 1.7% for all years 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.

Annuities, disability benefits and survivor benefits are increased effective every January 1st. Beginning January 1, 2019, the postretirement increase will be equal to 50% of the cost of living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1% and a maximum of 1.5%. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. For recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. For members retiring on January 1, 2024 or later, the increase will be delayed until normal retirement age. Members retiring under the Rule of 90 are exempt from the delay to normal retirement.

C. CONTRIBUTIONS

Employee and employer contribution rates are established by Minnesota Statutes. Contribution rates can only be modified by the state legislature. The School's contributions to TRA and PERA were equal to the required contributions as set by Minnesota Statutes.

TRA

Employees were required to contribute 7.5% of their annual covered salary in fiscal year 2020 and the School was required to contribute 7.92%. The School's contributions to the plan for the year ended June 30, 2020 were $390,422.

PERA

Employees were required to contribute 6.5% of their annual covered salary in fiscal year 2020 and the School was required to contribute 7.5%. The School's contributions to the plan for the year ended June 30, 2020 were $91,834.

D. NET PENSION LIABILITY AND PENSION EXPENSE

The net pension liability reported as of June 30, 2020 was measured as of June 30, 2019. 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 to each respective plan during the measurement period for employer payroll paid dates from July 1, 2018 through June 30, 2019, 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, 2020 are as follows:

	TRA	PERA	Total
Net pension liability	$4,978,110	$928,834	$5,906,944
Proportionate share of net pension liability:			
Measurement date	0.0781%	0.0168%	
Prior measurement date	0.0702%	0.0163%	
Pension expense	$1,740,277	$202,066	$1,942,343

The pension expense related to TRA includes recognition of $33,482 as an increase to pension expense (and grant revenue) for the support provided by direct aid. The pension expense related to PERA includes recognition of $2,159 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 $4,978,110, $440,488, and $5,418,598, respectively.

The net pension liability related to PERA reflected a reduction due to direct aid in the amount of $16,000,000 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 $928,834, $28,832, and $957,666, respectively.

E. DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience:		
TRA	$ -	$120,674
PERA	25,742	-
Difference between projected and actual investment earnings:		
TRA	-	412,609
PERA	-	94,238
Changes in actuarial assumptions:		
TRA	4,131,970	6,604,969
PERA	-	73,006
Changes in proportion:		
TRA	1,171,355	-
PERA	107,782	-
Contributions paid subsequent to the measurement date:		
TRA	390,422	-
PERA	91,834	-
Total	$5,919,105	$7,305,496

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, 2021. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized as pension expense during the following years:

	Pension Expense		
Year	TRA	PERA	Total
2021	$557,707	$19,250	$576,957
2022	304,634	(42,339)	262,295
2023	(1,605,051)	(12,106)	(1,617,157)
2024	(1,144,893)	1,475	(1,143,418)
2025	52,676	-	52,676
Thereafter	-	-	-

F. ACTUARIAL ASSUMPTIONS

TRA

The total pension liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Actuarial Information	
Valuation date	July 1, 2019
Experience study	June 5, 2015 and November 6, 2017 (economic assumptions)
Actuarial cost method	Entry Age Normal
Actuarial assumptions:	
Investment rate of return	7.50%
Price inflation	2.50%
Wage growth rate	2.85% before July 1, 2028 and 3.25% after June 30, 2028
Projected salary increase	2.85% to 8.85% before July 1, 2028 and 3.25% to 9.25% after June 30, 2028
Cost of living adjustment	1.0% for January 2019 through January 2023, then increasing by 0.1% each year up to 1.5% annually.
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.

The TRA actuary has determined the average of the expected remaining service lives of all members for fiscal year 2019 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 five years as required by GASB 68.

There were no changes in actuarial assumptions since the 2018 valuation.

PERA
The total pension liability in the June 30, 2019 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 were based on RP-2014 tables for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases after retirement for retirees are assumed to be 1.25% per year.

Actuarial assumptions used in the June 30, 2019 valuation were based on the results of actuarial experience studies. The most recent four-year experience study was completed in 2019. Economic assumptions were updated in 2018 based on a review of inflation and investment return assumptions.

The following changes in actuarial assumptions and plan provisions occurred in 2019:

- The mortality projection scale was changed from MP-2017 to MP-2018.
- The employer supplemental contribution was changed prospectively, decreasing from $31 million to $21 million per year. The state's special funding contribution was changed prospectively, requiring $16 million due per year through 2031.

TRA and PERA
The State Board of Investment, which manages the investments of TRA and PERA, prepares an analysis on a regular basis of the reasonableness of the long-term expected rate of return using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentages and by adding expected inflation. 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 equity	35.5%	5.10%
Private markets	25.0%	5.90%
Fixed income	20.0%	0.75%
International equity	17.5%	5.30%
Cash equivalents	2.0%	0.00%
Total	100%	

G. DISCOUNT RATE

TRA
The discount rate used to measure the total pension liability was 7.50%. There was no change since the prior measurement date. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal 2019 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 not projected to be depleted and, as a result, the Municipal Bond Index Rate was not used in the determination of the Single Equivalent Interest Rate (SEIR).

PERA
The discount rate used to measure the total pension liability was 7.50%. 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 that assumption, 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 (6.50% for TRA and PERA) and one percent higher (8.50% for TRA and PERA) than the current discount rate:

	1% Decrease	Current	1% Increase
TRA	$7,936,325	$4,978,110	$2,539,106
PERA	$1,526,954	$928,834	$434,968

I. PENSION PLAN FIDUCIARY NET POSITION

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

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.

J. SUBSEQUENT EVENTS AND THE COVID-19 PANDEMIC SUBSEQUENT TO YEAR-END

The United States and global markets experienced declines in values resulting from uncertainty caused by COVID-19. The resulting declines are expected to have a negative impact on TRA's and PERA's discount rate as well as the value of each plan's investments. Any impact caused by the resulting declines have not been included in the schedules as of June 30, 2019.

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 2020.

Note 6 INTERFUND ACTIVITY

As of June 30, 2020, the School's due to/from other funds consisted of the following:

- $17,954 due to the General Fund from the Food Service Fund to cover a temporary cash deficit.
- $5,549 due to the General Fund from the Building Company Fund for un-reimbursed operating expenses.

During 2020, the School made a routine transfer of $20,894 from the General Fund to eliminate a deficit in the Food Service Fund.

Note 7 LINE OF CREDIT

The School has a revolving line of credit loan agreement to assist with the timing of cash flows. The note has a maximum available amount of $500,000, a variable interest rate equal to the prime rate plus 2% (subject to a 6% floor) and matures on April 18, 2021. It is secured by substantially all School assets. As of June 30, 2020, the interest rate was 6% and the outstanding balance was $500,000.

A summary of line of credit activity for the year ending June 30, 2020 is as follows:

	Balance 6/30/2019	Draws	Payments	Balance 6/30/2020
Line of credit	$500,000	$500,000	($500,000)	$500,000

Note 8 LONG-TERM DEBT

A summary of long-term debt is as follows:

	Interest Rate	Maturity Date	Original Issue	Payable June 30, 2020
Building Company				
Charter School Lease Revenue Bonds:				
Tax-exempt Series 2017A	4.375% - 5.00%	10/1/2049	$13,320,000	$13,320,000
Taxable Series 2017B	6.125%	10/1/2024	1,080,000	1,080,000
			14,400,000	14,400,000
School				
Propel Nonprofits Note Payable	6.00%	10/31/2023	200,000	140,742
Graybar Note Payable	7.50%	12/13/2023	45,987	36,790
			245,987	177,532
			$14,645,987	$14,577,532

On October 1, 2017, the Building Company obtained a $14,400,000 loan from lease revenue bond proceeds sold by the City of Deephaven, Minnesota. The loan proceeds were used by the Building Company to finance the acquisition, construction, improvement, and equipping of an approximately 75,000 square foot charter school facility, which was previously leased by the School from a third party. The School subsequently entered into an agreement to lease these facilities from the Building Company (see Note 9).

The bond proceeds were placed in an escrow account under the terms of a trust agreement for the benefit of the Building Company. The loan is payable in semi-annual principal and interest installments through October 2049 and bears the same interest rates as the related lease revenue bonds. The debt is secured by the facility owned by the Building Company as well as a security interest in all leases and rents. The agreements contain certain covenants including a minimum cash on hand requirement and a covenant to maintain income available for debt service at levels specified in the loan documents.

On August 24, 2018, the School entered into a promissory note agreement with Propel Nonprofits for $200,000, with a 6% annual interest rate. The purpose of the note is to help finance the Richfield Campus renovation costs. The note is payable in monthly payments of $3,900 and matures October 31, 2023.

On December 12, 2019, the School entered into a note agreement with Graybar Financial Services for $45,987, with a 7.5% effective interest rate. Note proceeds were used to finance the purchase of LED lights at the Bloomington Campus. The note is payable in annual payments of $10,583 and matures December 13, 2023.

SEVEN HILLS PREPARATORY ACADEMY
CHARTER SCHOOL NO. 4159
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Changes in long-term debt are as follows:

	Beginning Balance 6/30/2019	Additions	Retirements	Ending Balance 6/30/2020	Due Within One Year
Bonds payable	$14,400,000	$ -	$ -	$14,400,000	$210,000
Notes payable	170,441	45,987	(38,896)	177,532	48,631
	$14,570,441	$45,987	($38,896)	$14,577,532	$258,631

Annual debt service requirements to maturity for the long-term debt are as follows:

Fiscal Year	Lease Revenue Bonds Series 2017A Principal	Lease Revenue Bonds Series 2017A Interest	Lease Revenue Bonds Series 2017B Principal	Lease Revenue Bonds Series 2017B Interest	Propel Nonprofits Note Payable Principal	Propel Nonprofits Note Payable Interest	Graybar Note Payable Principal	Graybar Note Payable Interest
2021	$20,000	$659,750	$190,000	$66,150	$39,434	$7,366	$9,197	$1,385
2022	20,000	658,875	205,000	54,513	41,855	4,945	9,197	1,385
2023	25,000	658,000	215,000	41,956	44,436	2,364	9,197	1,385
2024	25,000	656,906	230,000	28,788	15,017	188	9,199	1,385
2025	30,000	655,813	240,000	14,699	-	-	-	-
2026	280,000	654,500	-	-	-	-	-	-
2027	295,000	642,250	-	-	-	-	-	-
2028	305,000	629,344	-	-	-	-	-	-
2029	320,000	616,000	-	-	-	-	-	-
2030	335,000	600,000	-	-	-	-	-	-
2031	350,000	583,250	-	-	-	-	-	-
2032	370,000	565,750	-	-	-	-	-	-
2033	390,000	547,250	-	-	-	-	-	-
2034	410,000	527,750	-	-	-	-	-	-
2035	430,000	507,250	-	-	-	-	-	-
2036	450,000	485,750	-	-	-	-	-	-
2037	470,000	463,250	-	-	-	-	-	-
2038	495,000	439,750	-	-	-	-	-	-
2039	520,000	415,000	-	-	-	-	-	-
2040	545,000	389,000	-	-	-	-	-	-
2041	575,000	361,750	-	-	-	-	-	-
2042	605,000	333,000	-	-	-	-	-	-
2043	635,000	302,750	-	-	-	-	-	-
2044	665,000	271,000	-	-	-	-	-	-
2045	700,000	237,750	-	-	-	-	-	-
2046	735,000	202,750	-	-	-	-	-	-
2047	770,000	166,000	-	-	-	-	-	-
2048	810,000	127,500	-	-	-	-	-	-
2049	850,000	87,000	-	-	-	-	-	-
2050	890,000	44,499	-	-	-	-	-	-
	$13,320,000	$13,489,437	$1,080,000	$206,106	$140,742	$14,863	$36,790	$5,540

Note 9 COMMITMENTS AND CONTINGENCIES

A. LITIGATION

Existing and pending lawsuits, claims, and other actions in which the School is a defendant are either covered by insurance; of an immaterial amount; or, in the judgment of the School's management, remotely recoverable by plaintiffs.

B. 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.

C. LEASE COMMITMENTS

The School leases classroom and office space at its Bloomington Campus from Cedar Valley Church. The lease requires monthly base rent payments in the amount of $62,050, as well as building maintenance fees and utility charges. The lease term expires on June 30, 2027.

The School leases classroom and office space at its Richfield Campus from the Building Company. Annual rent is determined each year based upon the Lease Aid Maximum Amount calculated by the Minnesota Department of Education. The lease term expires on June 30, 2050 and contains ten renewal options of five years each.

For the year ended June 30, 2020, the School paid $1,620,500 in rent under the terms of both leases. Estimated minimum future rent based on current factors is as follows:

Fiscal Year Ended	Bloomington Campus	Richfield Campus	Total
2021	$744,600	$937,558	$1,682,158
2022	744,600	939,433	1,684,033
2023	744,600	940,448	1,685,048
2024	744,600	940,573	1,685,173
2025	744,600	936,504	1,681,104
2026-2030	1,489,200	4,676,260	6,165,460
2031-2035	-	4,682,917	4,682,917
2036-2040	-	4,673,416	4,673,416
2041-2045	-	4,686,916	4,686,916
2046-2050	-	4,681,416	4,681,416
Total	$5,212,200	$28,095,441	$33,307,641

Note 10 CELL TOWER LEASE REVENUE

The School leases space above its Richfield campus to a communications company for antennas and various other equipment. The lease expires on December 31, 2031. For accounting purposes, the lease is considered an operating lease. Revenue from the lease for the year ended June 30, 2020 was $31,576. Future anticipated payments are as follows:

Fiscal Year Ended	Amount
2021	$32,154
2022	33,036
2023	33,936
2024	34,614
2025	35,304
2026-2030	194,244
2031-2032	62,910
Total	$426,198

Note 11 RECENTLY ISSUED ACCOUNTING STANDARDS

The Government Accounting Standards Board approved GASB Statement No. 87 *Leases,* which is effective for the School's July 1, 2021 – June 30, 2022 fiscal year. This standard is likely to have a material impact on the School's financial statements. Other recently issued standards are not expected to be material to the School's financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

	2020				
	Budgeted Amounts		Actual	Variance with Final Budget -	2019 Actual
	Original	Final	Amounts	Over (Under)	Amounts
Revenues:					
Local sources	$296,500	$307,795	$275,957	($31,838)	$328,943
State sources	11,647,775	12,036,866	12,048,694	11,828	11,090,405
Federal sources	257,700	261,827	268,053	6,226	234,759
Total revenues	12,201,975	12,606,488	12,592,704	(13,784)	11,654,107
Expenditures:					
School support services:					
Current:					
Salaries	779,400	651,570	635,808	(15,762)	722,936
Employee benefits	258,787	226,423	207,771	(18,652)	233,492
Purchased services	215,804	180,011	155,483	(24,528)	203,041
Supplies and materials	14,900	24,825	41,735	16,910	39,879
Other expenditures	39,240	22,700	38,042	15,342	42,686
Capital outlay	1,500	2,700	3,030	330	1,587
Total school support services	1,309,631	1,108,229	1,081,869	(26,360)	1,243,621
Regular instruction:					
Current:					
Salaries	3,340,362	3,396,157	3,423,526	27,369	3,081,752
Employee benefits	957,151	947,634	875,352	(72,282)	865,240
Purchased services	195,057	162,317	61,932	(100,385)	173,506
Supplies and materials	149,675	172,690	158,943	(13,747)	161,182
Other expenditures	1,550	750	34,330	33,580	25,831
Capital outlay	28,065	49,050	50,218	1,168	56,616
Total regular instruction	4,671,860	4,728,598	4,604,301	(124,297)	4,364,127
Special education instruction:					
Current:					
Salaries	1,649,327	1,938,938	1,919,457	(19,481)	1,683,245
Employee benefits	438,594	520,415	533,145	12,730	446,790
Purchased services	311,799	319,269	295,147	(24,122)	317,847
Supplies and materials	31,123	19,663	18,020	(1,643)	16,609
Other expenditures	-	100	150	50	-
Capital outlay	11,355	-	-	-	5,660
Total special education instruction	2,442,198	2,798,385	2,765,919	(32,466)	2,470,151
Instructional support services:					
Current:					
Salaries	61,903	60,600	63,051	2,451	56,987
Employee benefits	15,343	20,438	18,884	(1,554)	13,787
Purchased services	104,393	123,469	112,796	(10,673)	93,661
Supplies and materials	9,187	9,350	18,744	9,394	10,922
Capital outlay	8,500	-	-	-	9,275
Total instructional support services	199,326	213,857	213,475	(382)	184,632

See accompanying notes to the required supplementary information.

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, 2020
With Comparative Actual Amounts For the Year Ended June 30, 2019

	2020				
	Budgeted Amounts		Actual	Variance with Final Budget -	2019 Actual
	Original	Final	Amounts	Over (Under)	Amounts
Pupil support services:					
Current:					
Salaries	139,734	122,700	122,078	(622)	129,672
Employee benefits	46,871	42,702	38,092	(4,610)	42,298
Purchased services	869,015	952,665	965,420	12,755	922,188
Supplies and materials	3,580	6,800	8,796	1,996	3,501
Total pupil support services	1,059,200	1,124,867	1,134,386	9,519	1,097,659
Site, building and equipment:					
Current:					
Salaries	-	200	240	40	-
Employee benefits	-	49	37	(12)	-
Purchased services	2,114,076	2,163,792	2,140,476	(23,316)	1,951,987
Supplies and materials	7,065	6,350	9,141	2,791	6,943
Other expenditures	110	10	10	-	110
Capital outlay	5,083	22,000	56,344	34,344	200,786
Total site, building and equipment	2,126,334	2,192,401	2,206,248	13,847	2,159,826
Fiscal and other fixed costs:					
Current:					
Purchased services	28,800	33,045	50,492	17,447	43,921
Debt service:					
Principal	30,800	45,000	38,896	(6,104)	29,559
Interest	16,000	19,429	12,739	(6,690)	13,857
Total debt service	46,800	64,429	51,635	(12,794)	43,416
Total expenditures	11,884,149	12,263,811	12,108,325	(155,486)	11,607,353
Revenues over (under) expenditures	317,826	342,677	484,379	141,702	46,754
Other financing sources (uses):					
Loan proceeds	-	-	45,987	45,987	200,000
Transfers out	(12,830)	(14,000)	(20,894)	(6,894)	(9,389)
Total other financing sources (uses)	(12,830)	(14,000)	25,093	39,093	190,611
Net change in fund balance	$304,996	$328,677	509,472	$180,795	237,365
Fund balance - beginning			1,053,561		816,196
Fund balance - ending			$1,563,033		$1,053,561

See accompanying notes to the required supplementary information.

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, 2020
With Comparative Actual Amounts For the Year Ended June 30, 2019

	2020				
	Budgeted Amounts		Actual	Variance with Final Budget -	2019 Actual
	Original	Final	Amounts	Over (Under)	Amounts
Revenues:					
Local sources	$131,270	$99,000	$99,805	$805	$117,899
State sources	12,500	9,459	9,297	(162)	11,448
Federal sources	100,000	119,500	135,698	16,198	103,841
Total revenues	243,770	227,959	244,800	16,841	233,188
Expenditures:					
Pupil support services:					
Current:					
Salaries	24,000	19,000	19,478	478	15,193
Employee benefits	3,850	2,938	3,005	67	1,970
Purchased services	750	350	403	53	769
Supplies and materials	228,000	232,105	242,508	10,403	224,635
Other	-	300	310	10	-
Total pupil support services	256,600	254,693	265,704	11,011	242,567
Revenues over (under) expenditures	(12,830)	(26,734)	(20,904)	5,830	(9,379)
Other financing sources (uses):					
Transfers in	12,830	14,000	20,894	6,894	9,389
Total other financing sources (uses)	12,830	14,000	20,894	6,894	9,389
Net change in fund balance	$0	($12,734)	(10)	$12,724	10
Fund balance - beginning			10		-
Fund balance - ending			$0		$10

See accompanying notes to the required supplementary information.

SEVEN HILLS PREPARATORY ACADEMY
CHARTER SCHOOL NO. 4159 **Statement 7**
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
For The Last Ten Years

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%
June 30, 2017	June 30, 2018	0.0626%	12,496,096	1,208,814	13,704,910	3,159,040	433.8%	51.6%
June 30, 2018	June 30, 2019	0.0702%	4,409,932	414,284	4,824,216	3,954,133	122.0%	78.1%
June 30, 2019	June 30, 2020	0.0781%	4,978,110	440,488	5,418,598	4,446,122	121.9%	78.2%
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%
June 30, 2017	June 30, 2018	0.0146%	932,054	11,742	943,796	660,187	143.0%	75.9%
June 30, 2018	June 30, 2019	0.0163%	904,257	29,600	933,857	1,114,973	83.8%	79.5%
June 30, 2019	June 30, 2020	0.0168%	928,834	28,832	957,666	1,224,267	78.2%	80.2%

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 **Statement 8**
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION CONTRIBUTIONS
For The Last Ten Years

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%
June 30, 2018	296,560	296,560	-	3,954,133	7.50%
June 30, 2019	342,796	342,796	-	4,446,122	7.71%
June 30, 2020	390,422	390,422	-	4,929,571	7.92%
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%
June 30, 2018	83,623	83,623	-	1,114,973	7.50%
June 30, 2019	91,820	91,820	-	1,224,267	7.50%
June 30, 2020	91,834	91,834	-	1,224,453	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.

See accompanying notes to the required supplementary information.

Note A BUDGETARY INFORMATION

The General Fund and Food 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

TEACHERS RETIREMENT ASSOCIATION

2019 Changes – None.

2018 Changes
Changes in actuarial assumptions:

- The COLA was reduced from 2.0% each January 1 to 1.0%, effective January 1, 2019. Beginning January 1, 2024, the COLA will increase 0.1% each year until reaching the ultimate rate of 1.5% in January 1, 2028.
- Beginning July 1, 2024, eligibility for the first COLA changes to normal retirement age (age 65 to 66, depending on date of birth). However, members who retire under Rule of 90 and members who are at least age 62 with 30 years of service credit are exempt.
- The COLA trigger provision, which would have increased the COLA to 2.5% if the funded ratio was at least 90% for two consecutive years, was eliminated.
- Augmentation in the early retirement reduction factors is phased out over a five-year period beginning July 1, 2019 and ending June 30, 2024 (this reduces early retirement benefits). Members who retire and are at least age 62 with 30 years of service are exempt.
- Augmentation on deferred benefits will be reduced to zero percent beginning July 1, 2019. Interest payable on refunds to members was reduced from 4.0% to 3.0%, effective July 1, 2018. Interest due on payments and purchases from members, employers is reduced from 8.5% to 7.5%, effective July 1, 2018.
- The employer contribution rate is increased each July 1 over the next 6 years, (7.71% in 2018, 7.92% in 2019, 8.13% in 2020, 8.34% in 2021, 8.55% in 2022, and 8.75% in 2023). In addition, the employee contribution rate will increase from 7.50% to 7.75% on July 1, 2023. The state provides funding for the higher employer contribution rate through an adjustment in the school aid formula.

2017 Changes
Changes in actuarial assumptions:

- The investment return assumption was changed from 8.00% to 7.50%.
- The price inflation assumption was lowered from 2.75% to 2.50%.
- The payroll growth assumption was lowered from 3.50% to 3.00%.
- The general wage growth assumption was lowered from 3.50% to 2.85% for ten years followed by 3.25% thereafter.
- The salary increase assumption was adjusted to reflect the changes in the general wage growth assumption.
- Adjustments were made to the combined service annuity loads. The active load was reduced from 1.4% to 0.0%, the vested inactive loan increased from 4.0% to 7.0% and the non-vested inactive load increased from 4.0% to 9.0%.

2016 Changes
Changes in actuarial assumptions:

- The assumed investment rate of return and discount rate was reduced from 8.00% to 4.66%.
- 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.

<u>2015 Changes</u>
Changes of benefit terms:
- The Duluth Teacher's Retirement Fund Association was merged into TRA on June 30, 2015.

Changes in actuarial assumptions:
- Post-retirement benefit adjustments are assumed to remain level at 2.0% annually. The previous valuation assumed a 2.5% increase commencing July 1, 2034.
- The discount rate was reduced from 8.25% to 8.00%

PERA – GENERAL EMPLOYEES RETIREMENT FUND

<u>2019 Changes</u>
Changes in actuarial assumptions:
- The mortality projection scale was changed from MP-2017 to MP-2018.

Changes in plan provisions:
- The employer supplemental contribution was changed prospectively, decreasing from $31 million to $21 million per year. The state's special funding contribution was changed prospectively, requiring $16 million due per year through 2031.

<u>2018 Changes</u>
Changes in actuarial assumptions:
- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase was changed from 1.00% per year through 2044 and 2.50% per year thereafter to 1.25% per year.

<u>2017 Changes</u>
Changes in actuarial assumptions:
- The Combined Service Annuity (CSA) loads were changed from 0.8% for active members and 60% for vested and non-vested deferred members. The revised CSA loads are now 0% for active member liability, 15% for vested deferred member liability and 3% for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1% per year for all future years to 1% per year through 2044 and 2.5% per year thereafter.

<u>2016 Changes</u>
Changes in actuarial assumptions:
- The assumed post-retirement benefit increase rate was changed from 1% per year through 2035 and 2.5% per year thereafter to 1% per year for all future years.
- The assumed investment rate of return and discount rate was reduced from 7.9% to 7.5%.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. Assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.5% for inflation.

<u>2015 Changes</u> – None.

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

INDIVIDUAL FUND FINANCIAL STATEMENTS

SEVEN HILLS PREPARATORY ACADEMY
CHARTER SCHOOL NO. 4159 **Statement 9**
BALANCE SHEET - GENERAL FUND
June 30, 2020
With Comparative Totals For June 30, 2019

	2020	2019
Assets:		
Cash	$1,484,129	$934,240
Accounts receivable	-	28,060
Due from Minnesota Department of Education	1,311,417	1,444,799
Due from Federal Government through Minnesota Department of Education	49,761	50,365
Due from other funds	23,503	123,514
Prepaid items	20,818	4,470
Total assets	$2,889,628	$2,585,448
Liabilities:		
Accounts payable	$113,821	$118,805
Salaries, taxes and benefits payable	706,006	864,405
Line of credit	500,000	500,000
Unearned revenue	6,768	48,677
Total liabilities	1,326,595	1,531,887
Fund balance:		
Nonspendable for prepaid items	20,818	4,470
Restricted for medical assistance	16,482	17,191
Unassigned	1,525,733	1,031,900
Total fund balance	1,563,033	1,053,561
Total liabilities and fund balance	$2,889,628	$2,585,448

SEVEN HILLS PREPARATORY ACADEMY
CHARTER SCHOOL NO. 4159 **Statement 10**
BALANCE SHEET - FOOD SERVICE SPECIAL REVENUE FUND
June 30, 2020
With Comparative Totals For June 30, 2019

	2020	2019
Assets:		
Accounts receivable	$ -	$17,512
Due from Minnesota Department of Education	-	397
Due from Federal Government through Minnesota Department of Education	19,283	2,124
Total assets	$19,283	$20,033
Liabilities:		
Accounts payable	$1,743	$468
Salaries, taxes and benefits payable	(414)	3,373
Due to other funds	17,954	16,182
Total liabilities	19,283	20,023
Fund balance:		
Restricted for food service	-	10
Total liabilities and fund balance	$19,283	$20,033

SEVEN HILLS PREPARATORY ACADEMY
CHARTER SCHOOL NO. 4159 **Statement 11**
BALANCE SHEET - COMMUNITY SERVICE SPECIAL REVENUE FUND
June 30, 2020
With Comparative Totals For June 30, 2019

	2020	2019
Assets:		
Cash	$8,211	$8,211
Liabilities	$ -	$ -
Fund balance:		
Restricted for community service	8,211	8,211
Total liabilities and fund balance	$8,211	$8,211

SEVEN HILLS PREPARATORY ACADEMY
CHARTER SCHOOL NO. 4159 **Statement 12**
BALANCE SHEET - BUILDING COMPANY SPECIAL REVENUE FUND
June 30, 2020
With Comparative Totals For June 30, 2019

	2020	2019
Assets:		
Cash	$725	$750
Cash and investments with fiscal agent	1,141,763	1,114,640
Total assets	$1,142,488	$1,115,390
Liabilities:		
Due to other funds	$5,549	$107,332
Fund balance:		
Restricted for debt service	1,113,835	1,097,182
Restricted for capital improvements	27,928	17,458
Unassigned	(4,824)	(106,582)
Total fund balance	1,136,939	1,008,058
Total liabilities and fund balance	$1,142,488	$1,115,390

- This page intentionally left blank -

SUPPLEMENTAL INFORMATION

SEVEN HILLS PREPARATORY ACADEMY
CHARTER SCHOOL NO. 4159 **Schedule 1**
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS COMPLIANCE TABLE
June 30, 2020

	Audit	UFARS	Variance
01 GENERAL FUND			
Total Revenue	$12,592,704	$12,592,702	$2
Total Expenditures	12,108,325	12,108,324	1
Non-Spendable:			
4.60 Non Spendable Fund Balance	20,818	20,818	-
Restricted/Reserved:			
4.01 Student Activities	-	-	-
4.02 Scholarships	-	-	-
4.03 Staff Development	-	-	-
4.07 Capital Projects Levy	-	-	-
4.08 Cooperative Revenue	-	-	-
4.13 Project Funded By COP	-	-	-
4.14 Operating Debt	-	-	-
4.16 Levy Reduction	-	-	-
4.17 Taconite Building Maint	-	-	-
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	-	-	-
4.40 Teacher Development and Evaluati	-	-	-
4.41 Basic Skills Programs	-	-	-
4.48 Achievement and Integration	-	-	-
4.49 Safe Schools Crime - Crime Levy	-	-	-
4.51 QZAB Payments	-	-	-
4.52 OPEB Liab Not In Trust	-	-	-
4.53 Unfunded Sev & Retiremt Levy	-	-	-
4.59 Basic Skill Extended Time	-	-	-
4.67 LTFM	-	-	-
4.72 Medical Assistance	16,482	16,482	-
4.73 PPP Loan	-	-	-
4.74 EIDL Loan	-	-	-
Restricted:			
4.64 Restricted Fund Balance	-	-	-
4.75 Title VII Impact Aid	-	-	-
4.76 Payments in Lieu of Taxes	-	-	-
Committed:			
4.18 Committed For Separation	-	-	-
4.61 Committed Fund Balance	-	-	-
Assigned:			
4.62 Assigned Fund Balance	-	-	-
Unassigned:			
4.22 Unassigned Fund Balance	1,525,733	1,525,732	1
02 FOOD SERVICE			
Total Revenue	$244,800	$244,799	$1
Total Expenditures	265,704	265,705	(1)
Non-Spendable:			
4.60 Non Spendable Fund Balance	-	-	-
Restricted/Reserved:			
4.52 OPEB Liab Not In Trust	-	-	-
4.74 EIDL Loan			
Restricted:			
4.64 Restricted Fund Balance	-	-	-
Unassigned:			
4.63 Unassigned Fund Balance	-	-	-
04 COMMUNITY SERVICE			
Total Revenue	$ -	$ -	$ -
Total Expenditures	-	-	-
4.60 Non Spendable Fund Balance	-	-	-
Restricted/Reserved:			
4.26 $25 Taconite	-	-	-
4.31 Community Education	-	-	-
4.32 E.C.F.E	-	-	-
4.40 Teacher Development and Evaluati	-	-	-
4.44 School Readiness	-	-	-
4.47 Adult Basic Education	-	-	-
4.52 OPEB Liab Not In Trust	-	-	-
4.73 PPP Loan	-	-	-
4.74 EIDL Loan	-	-	-
Restricted:			
4.64 Restricted Fund Balance	8,211	8,211	-
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/Reserved:			
4.07 Capital Projects Levy	-	-	-
4.13 Projects Funded By COP	-	-	-
4.67 LTFM	-	-	-
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/Reserved:			
4.25 Bond Refundings	-	-	-
4.33 Maximum Effort Loan Aid	-	-	-
4.51 QZAB Payments	-	-	-
4.67 LFTM	-	-	-
Restricted:			
4.64 Restricted Fund Balance	-	-	-
Unassigned:			
4.63 Unassigned Fund Balance	-	-	-
08 TRUST			
Total Revenue	$ -	$ -	$ -
Total Expenditures	-	-	-
Restricted/Reserved:			
4.01 Student Activities	-	-	-
4.02 Scholarships	-	-	-
4.22 Unassigned Fund Balance (Net Assets)	-	-	-
18 CUSTODIAL			
Total Revenue	-	-	-
Total Expenditures	-	-	-
Restricted/Reserved:			
4.01 Student Activities	-	-	-
4.02 Scholarships	-	-	-
4.22 Unassigned Fund Balance (Net Assets)	-	-	-
20 INTERNAL SERVICE			
Total Revenue	$ -	$ -	$ -
Total Expenditures	-	-	-
4.22 Unassigned Fund Balance (Net Assets)	-	-	-
25 OPEB REVOCABLE TRUST			
Total Revenue	$ -	$ -	$ -
Total Expenditures	-	-	-
4.22 Unassigned Fund Balance (Net Assets)	-	-	-
45 OPEB IRREVOCABLE TRUST			
Total Revenue	$ -	$ -	$ -
Total Expenditures	-	-	-
4.22 Unassigned Fund Balance (Net Assets)	-	-	-
47 OPEB DEBT SERVICE FUND			
Total Revenue	$ -	$ -	$ -
Total Expenditures	-	-	-
Non-Spendable:			
4.60 Non Spendable Fund Balance	-	-	-
Restricted:			
4.25 Bond Refundings	-	-	-
4.64 Restricted Fund Balance	-	-	-
Unassigned:			
4.63 Unassigned Fund Balance	-	-	-

OTHER REQUIRED REPORTS

- This page intentionally left blank -

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, 2020, 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 November 24, 2020.

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.

55 E 5th Street Suite 1400, St. Paul, MN, 55101 651.426.7000 www.redpathcpas.com

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

November 24, 2020

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, 2020, 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 November 24, 2020.

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 uniform financial accounting and reporting standards and charter schools sections of the *Minnesota Legal Compliance Audit Guide for Charter Schools,* promulgated by the State Auditor pursuant to Minnesota Statute § 6.65, insofar as they relate to accounting matters. 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, insofar as they relate to accounting matters.

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

November 24, 2020

- This page intentionally left blank -