



## **AUDIT MANAGEMENT LETTER**

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

We have audited the financial statements of the governmental activities and each major fund of Seven Hills Preparatory Academy (the School) for the year ended June 30, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 17, 2018. Professional standards also require that we communicate to you the following information related to our audit.

### **Significant Audit Matters**

#### **Qualitative Aspects of Accounting Practices**

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the School are described in Note 1 to the financial statements.

For fiscal year 2018, the School adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB). Management determined the liability, if any, for OPEB is immaterial. Therefore, OPEB related amounts and disclosures have been excluded from the financial statements.

Effective July 1, 2017, the School's capitalization threshold increased from \$500 to \$1,000.

We noted no transactions entered into by the School during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. We believe the most sensitive estimates affecting the School's financial statements are the calculation of receivables due from the Minnesota Department of Education, as well as factors used to calculate

the net pension liability and pension related deferred outflows and inflows of resources and pension expense. Receivables due from the Minnesota Department of Education are based on expenditures, reported enrollment and entitlements. Estimates relating to pension amounts are based on actuarial studies. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. We believe the disclosures most likely to be considered sensitive are Note 4 – Defined Benefit Pension Plans and Note 8 – Long-Term Debt.

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

#### **Difficulties Encountered in Performing the Audit**

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

#### **Corrected and Uncorrected Misstatements**

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

#### **Disagreements with Management**

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

#### **Management Representations**

We have requested certain representations from management that are included in the management representation letter dated October 4, 2018.

#### **Management Consultations with Other Independent Accountants**

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

### **Other Audit Findings or Issues**

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

#### Days Cash on Hand Covenant

As of June 30, 2018, the School did not pass its days cash on hand bond covenant. The covenant requires the School to maintain sufficient "unrestricted cash on hand in its operation fund" equal to or greater than 25 days of operating expenditures. Actual cash on hand was sufficient to cover 18 days of operating expenditures, which represents a shortage of approximately \$200,000. Management has communicated with the Trustee regarding this matter.

Effective June 30, 2019 (the next measurement date), the Days Cash on Hand requirement increases to 35 days. Effective June 30, 2020 and thereafter, the requirement is 45 days.

### **Other Matters**

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

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

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

**Other Reports**

Various reports on compliance and internal controls are contained in the Other Required Reports section of the audited financial statements document. In those reports, we noted no reportable findings for the period under audit. The reader should refer to those reports for further detail.

**Restriction on Use**

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

*Redpath and Company, Ltd.*

REDPATH AND COMPANY, LTD.  
St. Paul, Minnesota

October 4, 2018