

Little Water Preparatory Charter School

Audited Financial Statements

In Accordance with *Government Auditing Standards*

June 30, 2023

Little Water Preparatory Charter School

Audited Financial Statements

June 30, 2023

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Independent Auditor's Report

To the Board of Trustees of
Little Water Preparatory Charter School

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Little Water Preparatory Charter School (the "School"), which comprise the statement of financial position as of June 30, 2023, and the related statements of activities, functional expenses, and cash flows from inception through June 30, 2023, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School as of June 30, 2023, and the changes in its net assets and its cash flows from inception through June 30, 2023 in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS") and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States ("*Government Auditing Standards*"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the School and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the School's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 School's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the School's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2023, on our consideration of the School'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 the School'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 the School's internal control over financial reporting and compliance.

Sax CPAs LLP

New York, NY
November 22, 2023

Little Water Preparatory Charter School

Statement of Financial Position

At June 30, 2023

ASSETS

Cash and cash equivalents	\$ 34,048
Government grants receivable - per pupil funding	54,082
Government grants receivable - other	519,947
Security deposit	1,700
Fixed assets, net	406,421
Operating lease right-of-use asset	<u>3,625,226</u>
TOTAL ASSETS	<u>\$ 4,641,424</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable and accrued expenses	\$ 531,839
Operating lease liability	<u>3,702,929</u>
Total liabilities	<u>4,234,768</u>

NET ASSETS

Without donor restrictions	<u>406,656</u>
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TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,641,424</u>
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The attached notes and auditor's report are an integral part of these financial statements.

Little Water Preparatory Charter School

Statement of Activities

From Inception Through June 30, 2023

WITHOUT DONOR RESTRICTIONS

Public support and revenue:	
Public school district revenue:	
Resident student enrollment	\$ 1,487,967
Students with special education services	54,082
Subtotal public school district revenue	<u>1,542,049</u>
Other government grants	808,032
Contributions	283,492
Other income	828
Total public support and revenue	<u><u>2,634,401</u></u>

EXPENSES

Program services:	
Regular education	1,566,730
Special education	172,168
Total program services	<u>1,738,898</u>
Supporting services:	
Management and general	<u>488,847</u>
Total expenses	<u><u>2,227,745</u></u>

Change in net assets **406,656**

NET ASSETS - beginning -

NET ASSETS - ending \$ 406,656

The attached notes and auditor's report are an integral part of these financial statements.

Little Water Preparatory Charter School

Statement of Functional Expenses

From Inception Through June 30, 2023

	Program Services			Supporting Services	Total Expenses
	Regular Education	Special Education	Total Program Services	Management and General	
Salaries	\$ 821,005	\$ 90,220	\$ 911,225	\$ 127,775	\$ 1,039,000
Payroll taxes and employee benefits	140,375	15,426	155,801	21,846	177,647
Total personnel costs	961,380	105,646	1,067,026	149,621	1,216,647
Professional fees	150,270	16,513	166,783	214,136	380,919
Curriculum and classroom expenses	77,737	8,542	86,279	-	86,279
Occupancy and facility costs	274,785	30,196	304,981	42,766	347,747
Non-capitalized equipment and furnishings	3,943	433	4,376	-	4,376
Office expense	16,046	1,763	17,809	54,607	72,416
Professional development	11,816	1,299	13,115	12,995	26,110
Insurance	15,519	1,705	17,224	2,416	19,640
Student and staff recruitment	6,256	688	6,944	2,698	9,642
Other expenses	5,102	561	5,663	2,780	8,443
Depreciation	43,876	4,822	48,698	6,828	55,526
Total other than personnel costs	605,350	66,522	671,872	339,226	1,011,098
Total expenses	\$ 1,566,730	\$ 172,168	\$ 1,738,898	\$ 488,847	\$ 2,227,745

The attached notes and auditor's report are an integral part of these financial statements.

Little Water Preparatory Charter School

Statement of Cash Flows

From Inception Through June 30, 2023

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 406,656
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	55,526
Change in operating lease right-of-use asset and liability	77,703
Changes in assets and liabilities:	
Government grant receivable - per pupil funding	(54,082)
Government grants receivable - other	(519,947)
Security deposit	(1,700)
Accounts payable and accrued expenses	531,839
Total adjustments	<u>89,339</u>
Net cash flows provided by operating activities	<u>495,995</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of furniture and equipment	(461,947)
Net cash used for investing activities	<u>(461,947)</u>

Net increase in cash and cash equivalents **34,048**

CASH AND CASH EQUIVALENTS - beginning -

CASH AND CASH EQUIVALENTS - ending **\$ 34,048**

SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid during the year for interest	<u>\$ -</u>
Cash paid during the year for taxes	<u>\$ -</u>

The attached notes and auditor's report are an integral part of these financial statements.

Little Water Preparatory Charter School

Notes to Financial Statements

June 30, 2023

Note 1 - Organization

Little Water Preparatory Charter School (the "School"), located in Poughkeepsie, New York, is a not-for-profit education corporation chartered by the Board of Trustees of the State University of New York (SUNY Trustees). In partnership with the community, the School plans to provide an affirming and rigorous environment for all Kindergarten - 5th grade scholars through reflective, data-driven teaching and a responsive curriculum that allows scholars to recognize their power and have agency over their futures. The School completed the 2022-2023 fiscal year, its first year of operations, with an enrollment of approximately 100 students in grades K - 1.

On June 15, 2021, the School was granted a provisional charter for a term up to and including July 31, 2027. The School opened in the Fall 2022. The financial statements reflect activity from inception through June 30, 2023.

The School has the following programs:

- Regular Education - Instruction provided to all students.
- Special Education - Instruction that is specially designed to meet the unique needs of students with disabilities.

The School has been notified by the Internal Revenue Service that it is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been reflected in the accompanying financial statements. They have not been designated as a private foundation.

Note 2 - Summary of Significant Accounting Policies

a. Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting, which is the process of recording revenue and expenses when earned or incurred, rather than received or paid.

b. Recently Adopted Accounting Standard

Effective July 1, 2022, the School adopted the Financial Accounting Standards Board's ("FASB") Accounting Standards Update ("ASU") No. 2016-02, *Leases*, which requires lessees to recognize leases on the statement of financial position and disclose key information about leasing arrangements. The School elected not to reassess at adoption (i) expired or existing contracts to determine whether they are or contain a lease, (ii) the lease classification of any existing leases, or (iii) initial direct costs for existing leases. The School elected the practical expedient not to separate lease and non-lease components for its leases. As a result of implementing FASB ASU No. 2016-02, the School recognized right-of-use ("ROU") assets and lease liabilities of \$3,815,829 on the statement of financial position as of August 1, 2022, the lease commencement date.

Little Water Preparatory Charter School

Notes to Financial Statements

June 30, 2023

Note 2 - Summary of Significant Accounting Policies - Continued

c. Basis of Presentation

The School reports information regarding their financial position and activities in the following classes of net assets:

- *Net Assets Without Donor Restrictions* - represents those resources for which there are no restrictions by donors as to their use.
- *Net Assets With Donor Restrictions* - represents contributions and the net residual of assets with donor-imposed restrictions that are expected to be satisfied by performing certain activities or through the passage of time. The School had no donor restricted net assets at June 30, 2023.

d. Revenue Recognition

The School follows the requirements of the FASB's Accounting Standards Codification ("ASC") 958-605 for recording contributions, which are recognized when a contribution becomes unconditional in nature. Contributions are recorded in the net asset classes referred to above depending on the existence and/or nature of any donor-imposed restriction. When a restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions. If donor restricted contributions are satisfied in the same period they were received, they are classified as without donor restrictions.

The School evaluates whether contributions are conditional or unconditional. Contributions are considered to be conditional when both a barrier must be overcome for the School to be entitled to the revenue and a right of return of the asset or right of release from the obligation exists.

The School's public-school district revenue and other government grants are primarily conditional, non-exchange transactions and fall under FASB ASC 958-605. Revenue from these transactions is recognized based on rates established by the School's funding sources and when performance related outcomes are achieved, or qualifying expenditures are incurred as well as other conditions under the agreements are met.

Contributions expected to be received within one year are recorded at net realizable value. Long-term pledges are recorded at fair value, using risk-adjusted present value techniques. Receivables are reviewed for collectability. Based on knowledge of specific donors and factoring in historical experience, no allowance for doubtful accounts exists as of June 30, 2023. All receivables at June 30, 2023 are expected to be received within one year.

e. Cash and Cash Equivalents

The School considers all liquid investments with an initial maturity of three months or less to be cash and cash equivalents.

Little Water Preparatory Charter School

Notes to Financial Statements

June 30, 2023

Note 2 - Summary of Significant Accounting Policies - Continued

f. Concentration of Credit Risk

Financial instruments that potentially subject the School to a concentration of credit risk consist of checking and money market accounts, and investment securities which are placed with financial institutions that management deems to be creditworthy. There were no balances in excess of insured amounts at June 30, 2023, and the School did not suffer any losses due to bank failure.

g. Fixed Assets

Equipment and furniture that exceed \$5,000 and that have a useful life of greater than one year are recorded at cost or at fair value at the date of gift. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets as follows:

Leasehold improvement - *life of the lease*

Furniture and fixtures - *7 years*

Computers and equipment - *3 to 5 years*

h. Leases

The School determines if an arrangement is or contains a lease at inception. Leases are included in ROU assets and lease liabilities in the statement of financial position. ROU assets and lease liabilities reflect the present value of the future minimum lease payments over the lease term, and ROU assets also include prepaid or accrued rent. The change in operating lease right-of-use asset and liability on the statement of cash flows includes the amortization of the ROU asset and cash payments for leases offset by the accretion of the discounted lease liability. Operating lease expense is recognized on a straight-line basis over the lease term. The School does not report ROU assets and lease liabilities for its short-term leases (leases with a term of 12 months or less). Instead, the lease payments of those leases are reported as lease expense on a straight-line basis over the lease term. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the School will exercise that option.

i. Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the financial statements. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the School.

Salaries were allocated using time and effort as the basis. The following costs were allocated using the salary allocation as the basis:

- Payroll taxes and employee benefits
- Occupancy and facility costs
- Insurance
- Depreciation

Certain program expenses have been allocated between Regular Education and Special Education based on student FTE rates. All other expenses have been charged directly to the applicable program or supporting services.

Little Water Preparatory Charter School

Notes to Financial Statements

June 30, 2023

Note 2 - Summary of Significant Accounting Policies - Continued

j. Advertising Costs

Advertising costs are expensed as incurred.

k. Management Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

l. Contingencies

Government contracts are subject to audit by the grantor. Management does not believe that any audits, if they were to occur, would result in material disallowed costs, and has not established any reserves. Any disallowed costs would be recorded in the period notified, if it is probable that a liability has been incurred.

m. Accounting for Uncertainty of Income Taxes

The School does not believe its financial statements include any material, uncertain tax positions. Tax filings for periods ending June 30, 2023, the School's initial filing, and later are subject to examination by applicable taxing authorities.

Note 3 - Government Grants Receivable/Advance - Per Pupil Funding

Activity related to the contract with the NYCDOE can be summarized as follows:

Beginning receivable	\$ -
Funding based on allowable FTEs	1,542,049
Advances received	<u>(1,487,967)</u>
Ending receivable	<u>\$ 54,082</u>

Note 4 - Fixed Assets

Fixed assets consist of the following:

Leasehold improvements	\$ 292,244
Furniture and fixtures	103,698
Computers and equipment	<u>66,005</u>
	461,947
Less: accumulated depreciation	<u>(55,526)</u>
Total fixed assets, net	<u>\$ 406,421</u>

Little Water Preparatory Charter School

Notes to Financial Statements

June 30, 2023

Note 5 - Right-of-Use Asset and Operating Lease Liability

The School evaluated current contracts to determine which met the criteria of a lease. The School leases space in Poughkeepsie, NY under a non-cancelable lease which expires on June 30, 2037 and has been determined to be an operating lease. The lease does not include specific extension terms.

The ROU assets represent the School's right to use underlying assets for the lease term, and the lease liabilities represent the School's obligation to make lease payments arising from these leases. The ROU assets and lease liabilities were calculated based on the present value of future lease payments over the lease terms. The School has made an accounting policy election to use a risk-free rate in lieu of its incremental borrowing rate to discount future lease payments. The weighted-average discount rate applied to calculate lease liabilities as of June 30, 2023 was 3.12%. As of June 30, 2023, the weighted average remaining lease term for the School's operating lease was 168 months.

For the year ended June 30, 2023, the total operating lease cost was \$297,703. Cash paid for the operating lease for the year ended June 30, 2023 totaled \$220,000. There were no noncash investing and financing transactions related to leasing other than the transition entry described in Note 2b.

Future required minimum lease payments are as follows:

Year ending:

June 30, 2024	\$ 264,000
June 30, 2025	288,000
June 30, 2026	295,200
June 30, 2027	302,580
June 30, 2028	310,145
Thereafter	<u>3,164,522</u>
Total lease payments	4,624,447
Less: present value discount	<u>(921,518)</u>
Total lease liability at June 30, 2023	<u>\$ 3,702,929</u>

Note 6 - Retirement Plans

The School has a retirement plan ("Plan") under Section 403(b) of the Internal Revenue Code. All employees are eligible to participate. Employees may elect to defer a portion of their salary and contribute to the Plan up to statutory amounts and receive a discretionary employer-based contribution. Both employee and employer contributions are 100% vested. The School contributed \$7,000 to the Plan for the period from inception through June 30, 2023.

Note 7 - Significant Concentrations

The School is dependent upon grants from public school districts to carry out its operations. Approximately 60% of the School's total public support and revenue was received from Poughkeepsie and other public-school districts from inception through June 30, 2023. If the public-school districts were to discontinue funding, this would have a severe economic impact on the School's ability to operate.

Little Water Preparatory Charter School

Notes to Financial Statements

June 30, 2023

Note 8 - Availability and Liquidity

The School's financial assets available to meet cash needs for general expenditures within one year are as follows:

Cash and cash equivalents	\$ 34,048
Government grants receivable - per pupil funding	54,082
Government grants receivable - other	<u>519,947</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 608,077</u>

There are no external or internal limits imposed on these balances. As part of its liquidity management, the School operates its programs within a board approved budget and relies on grants and contributions to fund its operations and program activities.

Note 9 - Subsequent Events

Subsequent events have been evaluated through November 22, 2023, the date the financial statements were available to be issued. There were no material events that have occurred that require adjustment to or disclosure to the financial statements.



**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***

Independent Auditor's Report

To the Board of Trustees of
Little Water Preparatory Charter School

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 Little Water Preparatory Charter School (the "School"), which comprise the statement of financial position at June 30, 2023, and the related statements of activities, functional expenses, and cash flows for the period from inception through June 30, 2023, and the related notes to the financial statements, and have issued our report thereon dated November 22, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting ("internal control") as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2023-001 that we consider to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School'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 financial statements. 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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2023-002.

School's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the School's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The School's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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.

Sax CPAs LLP

New York, NY
November 22, 2023

Little Water Preparatory Charter School

Schedule of Findings and Responses

June 30, 2023

Current Year:

2023-001 – Account Analysis

Criteria: Complete and accurate books and records should be maintained in a timely manner throughout the year to enable management to monitor the School's financial situation.

Condition: The books and records were not ready to start the audit in a timely manner.

Cause: Account analyses were not performed on a monthly basis throughout the year.

Effect: A delay in the audit calls into question whether management was able to produce timely and accurate financial statements during the year.

Recommendation: We recommend that the accounting team perform the bank reconciliations, analysis of significant balance sheet accounts, coding of expenses related to grants, and other closing procedures on a monthly basis within three weeks of the following month.

Views of Responsible Officials: See management corrective action plan attached.

2023-002 – Minimum Escrow Account Balances

Criteria: The State University of New York requires every charter school to create a dissolution reserve account for purposes of school closure and/or dissolution. After three years of operation a charter school is required to maintain a minimum balance in its escrow account of \$75,000.

Condition: The School did not have an escrow account as of June 30, 2023.

Cause: The School was unable to fund the escrow account due to operational shortfalls.

Effect: The School was not in compliance with its charter school agreement nor the State University of New York's requirements for minimum escrow deposits.

Recommendation: The School should take steps to ensure its escrow account is properly funded.

Views of Responsible Officials: See management corrective action plan attached.

Prior Year Follow-Up:

None



LWP Corrective Action Plan

Finding 2023-001 – Financial Recordkeeping

Purpose

To document the Corrective Action Plan to address and correct Finding 2023-001.

Finding 2023-001

Complete and accurate books and records should be maintained in a timely manner throughout the year to enable management to monitor the school's financial situation. The books and records were not ready to start the audit in a timely manner. Account analyses were not performed on a monthly basis throughout the year.

School Response

Little Water Preparatory School (LWP) outsources the accounting, accounts payable, chief financial officer role and state financial reporting to EdTec. EdTec has provided these financial services to LWP since the inception of the school. EdTec uses its staff and systems to provide all the required and necessary financial services for LWP. EdTec provides LWP a monthly financial dashboard which includes financial statements and a cash flow forecast.

During the first year of school operations, there have been delays in invoice coding, invoice payments and financial reporting. Some of the invoice payment challenges stem from revenue payment delays from both local school districts and grant payments. LWP also experienced unexpected administrative staffing turnover. Communication between administration and EdTec was impacted by these challenges.

Corrective Action Plan

LWP is actively working with EdTec on a more formal communication plan. Financial service expectations are also being developed with guidance from the Finance Committee and additional oversight from the Board Chair.

A meeting with LWP Board members, administration and EdTec was held in November 2023 which clarified work and task expectations. Additional follow-up meetings with EdTec are planned to finalize and document monthly, quarterly and annual tasks and duties. Due dates will be included in the documented financial support memorandum. Already agreed upon process improvements include weekly check-ins with administration, including emails, calls and video conferencing, monthly attendance of Finance Committee meetings, quarterly on-school visits to work in-person with administration and bi-annual attendance of Board meetings.



LWP Corrective Action Plan

Finding 2023-002 – Minimum Escrow Account Balances

Purpose

To document the Corrective Action Plan to address and correct Finding 2023-002.

Finding 2023-002

The State University of New York requires every charter school to create a dissolution reserve account for purposes of school closure and/or dissolution. After three years of operation a charter school is required to maintain a minimum balance in its escrow account of \$75,000 after three years of operations.

School Response

Little Water Preparatory School (LWP) began its second academic year in August 2023. Due to the delayed receipts of district per pupil funding and state funding for LWP's Charter School Program grant, funding was not available to establish escrow account in the first year of school operations. Through strong fiscal management and cost controls, coupled with the receipt of delayed government funding, LWP is now in a position to establish an escrow account.

Corrective Action Plan

LWP will open a separate bank account with an account balance to be \$75,000 that will be maintained as a reserve account. LWP leadership is working with its current banking partner to establish an appropriate interest-bearing account. The account will be opened with a \$25,000 initial balance before December 31, 2023. This transfer will satisfy the first year escrow requirement. Subsequent planned transfers into the escrow account are as follows:

- \$25,000 in March 2024 : After the March 2024 per pupil payment is received by the City of Poughkeepsie School District
- \$25,000 in September 2024 : After the September 2024 per pupil payment is received by the City of Poughkeepsie School District

Board Approval

During a Special Board Meeting on November 19, 2023, the LWP Board of Directors unanimously approved the following motion:

- "That the Little Water Prep Board of Directors approve opening a new account at the Hudson Valley Federal Credit Union for the purpose of establishing an Escrow Account for \$75,000 as per the State University of New York dissolution reserve requirement."

Account Analysis

Delays were a result of this being a first-year audit (inception – FY23) and the implementation of the new lease standard. We have a formal monthly and annual close process in place with accompanying controls. We will continue improving all our processes to eliminate the possibility of significant adjustments or delays.

A student roster is maintained for each district. Payments received are entered and recognized in the period for which revenue is earned.

Government grant revenues and expenses are tracked on an on-going basis. Revenues are recognized as we incur expenses within the grant period.

The accounts payable ledger is reviewed monthly by the accounting team and is shared with the school monthly.

Salaries are entered into the general ledger by the accountant after each payroll run. This is reconciled to the payroll reports each period.

The general ledger is reviewed monthly to ensure all transactions are properly recorded and have sufficient documentation.