

Little Water Preparatory Charter School

Audited Financial Statements

In Accordance with *Government Auditing Standards*

June 30, 2024

Little Water Preparatory Charter School

Audited Financial Statements

June 30, 2024

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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, 2024, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the School as of June 30, 2024, and the changes in its net assets and its cash flows for the year then ended 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 issued or 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 judgment 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.

Report on Summarized Comparative Information

We have previously audited the School's 2023 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 22, 2023. In our opinion, the summarized comparative information presented herein as of and for the period from inception through June 30, 2023, is consistent, in all material respects with the audited financial statement from which it was derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 10, 2025, 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
February 10, 2025

Little Water Preparatory Charter School

Statement of Financial Position

As of June 30, 2024
(with comparative totals as of June 30, 2023)

	<u>June 30,</u>	
	<u>2024</u>	<u>2023</u>
ASSETS		
Cash and cash equivalents	\$ 10,993	\$ 34,048
Government grants receivable	533,312	574,029
Security deposit	1,700	1,700
Property and equipment, net	690,842	406,421
Operating lease right-of-use asset	3,413,152	3,625,226
TOTAL ASSETS	<u>\$ 4,649,999</u>	<u>\$ 4,641,424</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 583,412	\$ 531,839
Operating lease liability	3,551,623	3,702,929
Total liabilities	<u>4,135,035</u>	<u>4,234,768</u>
NET ASSETS		
Without donor restrictions	514,964	406,656
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,649,999</u>	<u>\$ 4,641,424</u>

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

Little Water Preparatory Charter School

Statement of Activities

From the Year Ended June 30, 2024

(With comparative totals for the period from inception through June 30, 2023)

	<u>June 30,</u>	
	<u>2024</u>	<u>2023</u>
WITHOUT DONOR RESTRICTIONS		
Public support and revenue:		
Public school district revenue	\$ 2,368,073	\$ 1,542,049
Other government grants	575,166	808,032
Contributions	7,192	283,492
Other income	21,265	828
Total public support and revenue	<u>2,971,696</u>	<u>2,634,401</u>
EXPENSES		
Program services:		
Regular education	2,203,826	1,566,730
Special education	222,236	172,168
Total program services	<u>2,426,062</u>	<u>1,738,898</u>
Supporting services:		
Management and general	437,326	488,847
Total expenses	<u>2,863,388</u>	<u>2,227,745</u>
Change in net assets	108,308	406,656
NET ASSETS - beginning	<u>406,656</u>	<u>-</u>
NET ASSETS - ending	<u><u>\$ 514,964</u></u>	<u><u>\$ 406,656</u></u>

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 the Year Ended June 30, 2024

(With comparative totals for the period from inception through June 30, 2023)

	Program Services			Supporting Services	Total Expenses 6/30/24	Total Expenses 6/30/23
	Regular Education	Special Education	Total Program Services	Management and General		
Salaries	\$ 1,133,770	\$ 114,330	\$ 1,248,100	\$ 158,692	\$ 1,406,792	\$ 1,039,000
Payroll taxes and employee benefits	194,898	19,654	214,552	27,389	241,941	177,647
Total personnel costs	1,328,668	133,984	1,462,652	186,081	1,648,733	1,216,647
Professional fees	242,767	24,481	267,248	188,010	455,258	380,919
Curriculum and classroom expenses	163,513	16,489	180,002	-	180,002	86,279
Occupancy and facility costs	338,775	34,162	372,937	-	372,937	347,747
Non-capitalized equipment and furnishings	1,518	153	1,671	-	1,671	4,376
Office expense	9,418	950	10,368	55,308	65,676	72,416
Professional development	11,301	1,140	12,441	-	12,441	26,110
Insurance	16,049	1,618	17,667	2,255	19,922	19,640
Student and staff recruitment	8,735	881	9,616	-	9,616	9,642
Other expenses	-	-	-	5,672	5,672	8,443
Depreciation	83,082	8,378	91,460	-	91,460	55,526
Total other than personnel costs	875,158	88,252	963,410	251,245	1,214,655	1,011,098
Total expenses	\$ 2,203,826	\$ 222,236	\$ 2,426,062	\$ 437,326	\$ 2,863,388	\$ 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

For the Year Ended June 30, 2024

(With comparative totals for the period from inception through June 30, 2023)

	June 30,	
	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 108,308	\$ 406,656
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	91,460	55,526
Change in operating lease right-of-use asset and liability	60,768	77,703
Changes in assets and liabilities:		
Government grants receivable	40,717	(574,029)
Security deposit	-	(1,700)
Accounts payable and accrued expenses	51,573	531,839
Total adjustments	244,518	89,339
Net cash provided by operating activities	352,826	495,995
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of furniture and equipment	(375,881)	(461,947)
Net cash used for investing activities	(375,881)	(461,947)
Net (decrease)/increase in cash and cash equivalents	(23,055)	34,048
CASH AND CASH EQUIVALENTS - <i>beginning</i>	34,048	-
CASH AND CASH EQUIVALENTS - <i>ending</i>	\$ 10,993	\$ 34,048
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid during the year for interest	\$ -	\$ -
Cash paid during the year for taxes	\$ -	\$ -

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, 2024

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 2023-2024 fiscal year with an enrollment of approximately 140 students. On June 15, 2021, the School was granted a provisional charter for a term up to and including July 31, 2027.

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. The School has not been designated as a private foundation.

Note 2 - Summary of Significant Accounting Policies

a. Basis of Accounting and Presentation

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

The financial statements are presented in accordance with the provisions of the Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC") 958 - *Presentation of Financial Statement of Not-For-Profit Entities*. FASB ASC 958 requires the School to report information regarding its financial position and activities according to the following specific 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, 2024.

Little Water Preparatory Charter School

Notes to Financial Statements

June 30, 2024

Note 2 - Summary of Significant Accounting Policies - Continued

b. Recently Adopted Accounting Standard

On July 1, 2023, the School adopted the FASB's Accounting Standards Update ("ASU") No. 2016-13, *Financial Instruments - Credit Losses* ("Topic 326"). Expected losses are recorded to an allowance for credit losses valuation account that is net against the corresponding asset to present the net amount expected to be collected on the financial asset. The credit loss allowance is determined through analysis of the financial assets and assessments of risk that are based on historical trends and evaluation of the impact of current and projected economic conditions. Contributions as well as government grant revenue recognized under FASB ASC 958-605 are not included in this standard. Based on the analysis performed, all open receivables as of June 30, 2024 are related to government grant revenue. As such the impact of the adoption was not material to the financial statements.

c. Revenue Recognition

The School follows the requirements of FASB 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, 2024. All receivables at June 30, 2024 are expected to be received within one year.

d. 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, 2024

Note 2 - Summary of Significant Accounting Policies - Continued

e. 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, 2024, and the School did not suffer any losses due to bank failure.

f. Property and Equipment

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*

g. 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.

h. 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 Full Time Equivalent (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, 2024

Note 2 - Summary of Significant Accounting Policies - Continued

i. 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.

j. 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.

k. Accounting for Uncertainty of Income Taxes

Management does not believe its financial statements include any material, uncertain tax positions. Tax filings for periods ending June 30, 2021 and later are subject to examination by applicable taxing authorities.

l. Comparative Financial Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Such information should be read in conjunction with the School's financial statements for the period from inception through June 30, 2023, from which the summarized information was derived.

Note 3 - Property and Equipment

Property and equipment consist of the following:

	June 30,	
	2024	2023
Leasehold improvements	\$ 617,116	\$ 292,244
Furniture and fixtures	118,675	103,698
Computers and equipment	102,037	66,005
	<u>837,828</u>	<u>461,947</u>
Less: accumulated depreciation	(146,986)	(55,526)
Total property and equipment, net	<u>\$ 690,842</u>	<u>\$ 406,421</u>

Little Water Preparatory Charter School

Notes to Financial Statements

June 30, 2024

Note 4 - 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, 2024 was 3.12%. As of June 30, 2024, the weighted average remaining lease term for the School's operating lease was 156 months.

For the year ended June 30, 2024, the total operating lease cost was \$325,000 and cash paid for the operating lease totaled \$264,000. There were no noncash investing and financing transactions related to leasing during the year ended June 30, 2024.

Future required minimum lease payments are as follows:

Year ending:

June 30, 2025	\$ 288,000
June 30, 2026	295,200
June 30, 2027	302,580
June 30, 2028	310,145
June 30, 2029	318,560
Thereafter	<u>2,845,962</u>
Total lease payments	4,360,447
Less: present value discount	<u>(808,824)</u>
Total lease liability at June 30, 2024	<u><u>\$ 3,551,623</u></u>

Note 5 - 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. There were no employer contributions to the Plan during the year ended June 30, 2024.

Note 6 - Significant Concentrations

The School is dependent upon grants from public school districts to carry out its operations. Approximately 80% of the School's total public support and revenue was received from Poughkeepsie and other public-school districts during the year ended June 30, 2024. 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, 2024

Note 7 - 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	\$ 10,993
Government grants receivable	<u>533,312</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 544,305</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 8 - Subsequent Events

Subsequent events have been evaluated through February 10, 2025, the date the financial statements were available to be issued. There were no material events that have occurred that required 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 as of June 30, 2024, and the related statements of activities, functional expenses, and cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated February 10, 2025.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2024-001 to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2024-002 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 instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as items 2024-001 and 2024-002.

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
February 10, 2025

Little Water Preparatory Charter School

Schedule of Findings and Responses

June 30, 2024

Current Year:

2024-001 - 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: The School was not able to complete the audit in time for the authorizer's submission deadline. In addition, 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.

2024-002 - 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, 2024.

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:

2023-001 - Account Analysis - The condition still exists. See 2024-001.

2023-002 - Minimum Escrow Account Balances - The condition still exists. See 2024-002.



LWP Corrective Action Plan Findings 2024-001 and 2024-002

Purpose

To document the Corrective Action Plan to address and correct Findings 2024-001 and 2024-002.

Finding 2024-001

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 uses its staff and systems to provide all the required and necessary financial services for LWP. EdTec provides LWP with a monthly financial dashboard which includes financial statements and a cash flow forecast. A weekly meeting is scheduled for EdTec and LWP administration to review financial and code financial transactions and to update the school's financial position. On a monthly basis, EdTec meets with LWP's Finance Committee to review the school's financial dashboards and financial performance for the month.

During both the first year and second 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 continued to experience unexpected administrative staffing turnover during the year. Communication between LWP administration and EdTec was negatively impacted by these challenges.

Corrective Action Plan

LWP management is actively working with EdTec to improve communications and ensure financial transactions are coded, recorded and accounted for on a timely basis. Management meetings with EdTec now include multiple members of the administration team to ensure appropriate and timely coverage and address any open issues. Increased oversight and review of the weekly meetings with LWP management and EdTec are being performed by the Finance Committee.

A meeting with EdTec and the LWP Finance Committee was held in February 2025 to further clarify work and task expectations. The weekly meetings with LWP management and EdTec have been restructured with specific agenda items which will be discussed at each meeting. A new revenue spreadsheet has been

developed to more accurately and clearly track revenues on a monthly basis. The revenue spreadsheet will also be used in the monthly bank reconciliation process. The monthly bank reconciliations performed by EdTec will be shared with LWP management every month. In addition to the weekly management meetings, other check-ins and communication with school leadership, including emails, calls and video conferencing will be performed.

Finding 2024-002

The school did not have an escrow account as of June 30, 2024.

School Response

LWP did have an escrow account on June 30, 2024. The escrow account was established during fiscal year 2023-24. However, the funding was below the required \$50,000 amount as of June 30, 2024. LWP had a large, unpaid receivable balance on June 30, 2024. The unpaid receivable balances resulted in a temporary cash shortfall. In order to pay outstanding expenses, LWP had to utilize its escrow account on a temporary basis. LWP did receive payment on the outstanding receivables in the first quarter of FY2024-25. On October 4, 2024, the escrow account was funded to \$75,000, the balance required for FY2024-25. The escrow balance remains at the required \$75,000 balance.

Corrective Action Plan

LWP invested the funding into the escrow account as soon as the receivable balance payment was received and cash became available to transfer. A transfer of \$75,000 was made on October 4, 2024 to meet the required escrow level of \$50,000 as of June 30, 2024, plus an additional \$25,000 to meet the year three escrow value requirement of \$75,000. The full balance of \$75,000 needed has been maintained in the escrow account since October 4, 2024. LWP's liquid operating funds and operating cash inflow has solidified in FY2024-25 as the school has more established operations and the school facility has been renovated with all construction contracts fully paid.