

Little Water Preparatory Charter School

Audited Financial Statements

In Accordance with *Government Auditing Standards*

June 30, 2025

Little Water Preparatory Charter School

Audited Financial Statements

June 30, 2025

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Independent Auditor's Report

To the Board of Trustees of
Little Water Preparatory Charter School

Opinion

We have audited the financial statements of Little Water Preparatory Charter School (the "School"), which comprise the statement of financial position as of June 30, 2025, 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, 2025, 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 2024 financial statements, and we expressed an unmodified audit opinion on those financial statements in our report dated February 10, 2025. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2024, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 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 LLP

New York, NY
November 13, 2025

Little Water Preparatory Charter School

Statement of Financial Position

As of June 30, 2025
(with comparative totals as of June 30, 2024)

	<u>June 30,</u>	
	<u>2025</u>	<u>2024</u>
ASSETS		
Cash and cash equivalents	\$ 88,306	\$ 10,993
Government grants receivable	47,337	533,312
Prepaid expenses and other assets	3,250	1,700
Property and equipment, net	579,441	690,842
Operating lease right-of-use asset	3,195,880	3,413,152
Restricted cash	75,257	-
TOTAL ASSETS	<u>\$ 3,989,471</u>	<u>\$ 4,649,999</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 287,624	\$ 583,412
Operating lease liability	3,371,118	3,551,623
Total liabilities	<u>3,658,742</u>	<u>4,135,035</u>
NET ASSETS		
Without donor restrictions	<u>330,729</u>	<u>514,964</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,989,471</u>	<u>\$ 4,649,999</u>

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

Little Water Preparatory Charter School

Statement of Activities

For the Year Ended June 30, 2025
(With comparative totals for the year ended June 30, 2024)

	<u>June 30,</u>	
	<u>2025</u>	<u>2024</u>
WITHOUT DONOR RESTRICTIONS		
Public support and revenue:		
Public school district revenue	\$ 3,118,542	\$ 2,368,073
Other government grants	108,984	575,166
Contributions	4,109	7,192
Other income	91	21,265
Total public support and revenue	<u>3,231,726</u>	<u>2,971,696</u>
EXPENSES		
Program services:		
Regular education	2,473,314	2,203,826
Special education	320,621	222,236
Total program services	<u>2,793,935</u>	<u>2,426,062</u>
Supporting services:		
Management and general	<u>622,026</u>	<u>437,326</u>
Total expenses	<u>3,415,961</u>	<u>2,863,388</u>
Change in net assets	(184,235)	108,308
NET ASSETS WITHOUT DONOR RESTRICTIONS - <i>beginning</i>	<u>514,964</u>	<u>406,656</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS - <i>ending</i>	<u><u>\$ 330,729</u></u>	<u><u>\$ 514,964</u></u>

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

Little Water Preparatory Charter School

Statement of Functional Expenses

For the Year Ended June 30, 2025
(With comparative totals for the year ended June 30, 2024)

	Program Services			Supporting Services	Total Expenses 6/30/25	Total Expenses 6/30/24*
	Regular Education	Special Education	Total Program Services	Management and General		
Salaries	\$ 1,182,438	\$ 122,664	\$ 1,305,102	\$ 227,174	\$ 1,532,276	\$ 1,406,792
Payroll taxes and employee benefits	210,517	21,914	232,431	40,815	273,246	241,941
Total personnel costs	1,392,955	144,578	1,537,533	267,989	1,805,522	1,648,733
Professional fees	333,255	58,274	391,529	197,891	589,420	455,258
Curriculum and classroom expenses	132,887	23,349	156,236	5,148	161,384	180,002
Occupancy and facility costs	333,508	62,532	396,040	20,845	416,885	372,937
Non-capitalized equipment and furnishings	8,396	501	8,897	3,634	12,531	1,671
Food services	76,131	4,545	80,676	32,952	113,628	350
Office expense	43,063	3,511	46,574	19,230	65,804	65,326
Professional development	30,759	7,690	38,449	-	38,449	12,441
Insurance	30,121	1,798	31,919	13,038	44,957	19,922
Student and staff recruitment	8,258	1,830	10,088	8,216	18,304	9,616
Travel	-	-	-	28,810	28,810	4,224
Other expenses	624	105	729	457	1,186	1,448
Depreciation	83,357	11,908	95,265	23,816	119,081	91,460
Total other than personnel costs	1,080,359	176,043	1,256,402	354,037	1,610,439	1,214,655
Total expenses	\$ 2,473,314	\$ 320,621	\$ 2,793,935	\$ 622,026	\$ 3,415,961	\$ 2,863,388

*Reclassified for comparative purposes

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

Little Water Preparatory Charter School

Statement of Cash Flows

For the Year Ended June 30, 2025

(With comparative totals for the period from inception through June 30, 2024)

	June 30,	
	2025	2024
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (184,235)	\$ 108,308
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	119,081	91,460
Change in operating lease right-of-use asset and liability	36,767	60,768
Changes in assets and liabilities:		
Prepaid expenses and other assets	(1,550)	-
Government grants receivable	485,975	40,717
Accounts payable and accrued expenses	(295,788)	51,573
Total adjustments	344,485	244,518
Net cash provided by operating activities	160,250	352,826
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of furniture and equipment	(7,680)	(375,881)
Net cash used for investing activities	(7,680)	(375,881)
Net increase/(decrease) in cash, cash equivalents and restricted cash	152,570	(23,055)
Cash, cash equivalents and restricted cash, <i>beginning of year</i>	10,993	34,048
Cash, cash equivalents and restricted cash, <i>end of year</i>	\$ 163,563	\$ 10,993
CASH, CASH EQUIVALENTS AND RESTRICTED CASH		
Reconciliation to statement of financial position:		
Cash and cash equivalents	\$ 88,306	\$ 10,993
Restricted cash	75,257	-
Total cash, cash equivalent and restricted cash	\$ 163,563	\$ 10,993
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid during the year for interest	\$ -	\$ -
Cash paid during the year for taxes	\$ -	\$ -

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

Little Water Preparatory Charter School

Notes to Financial Statements

June 30, 2025

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 2024-2025 fiscal year with an enrollment of approximately 190 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 Statements 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 those resources, the uses of which have been restricted by donors to specific purposes or the passage of time and/or must remain intact, in perpetuity. The release from restrictions results from the satisfaction of the restricted purposes or passage of time specified by the donor. The School did not have any net assets with donor restrictions at June 30, 2025 or June 30, 2024.

b. Revenue Recognition

The School follows the requirements of FASB ASC 958-605 - *Revenue Recognition* 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.

Little Water Preparatory Charter School

Notes to Financial Statements

June 30, 2025

Note 2 - Summary of Significant Accounting Policies - Continued

b. Revenue Recognition - Continued

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. Revenue recognized in advance of payments being received is recorded as a government grant receivable.

Contributions and government grants receivable 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. Contributions and government grants receivable 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, 2025 and 2024. All receivables at June 30, 2025 and 2024 are expected to be received within one year.

c. Cash, Cash Equivalents, and Restricted Cash

The School considers all liquid investments with an initial maturity of three months or less to be cash and cash equivalents. Cash maintained in escrow to meet requirements of the charter agreement with SUNY Trustees are treated as restricted cash.

d. Concentration of Credit Risk

Financial instruments that potentially subject the School to a concentration of credit risk consist of checking and money market accounts, which are placed with financial institutions that management deems to be creditworthy. There were no balances in excess of Federal Deposit Insurance ("FDIC") insured amounts at June 30, 2025 and 2024, and the School did not suffer any losses due to bank failure.

e. 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*

Little Water Preparatory Charter School

Notes to Financial Statements

June 30, 2025

Note 2 - Summary of Significant Accounting Policies - Continued

f. Leases

The School follows FASB ASC 842 - *Leases*, which requires lessees to recognize leases on the statement of financial position and disclose key information about leasing arrangements. The School determines if an arrangement is or contains a lease at inception. Leases are included in right-of-use ("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.

g. In-kind Contributions

Donated goods and services that create or enhance non-financial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided in-kind, are recognized at fair value.

Board members and other individuals volunteer their time and perform a variety of services that assists the School. These services do not meet the criteria of in-kind services and have not been recorded in the financial statements.

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, 2025

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, 2022 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 year ended June 30, 2024, from which the summarized information was derived.

Note 3 - Property and Equipment

Property and equipment consist of the following:

	June 30,	
	2025	2024
Leasehold improvements	\$ 624,796	\$ 617,116
Furniture and fixtures	118,675	118,675
Computers and equipment	102,037	102,037
	<u>845,508</u>	<u>837,828</u>
Less: accumulated depreciation	(266,067)	(146,986)
Total property and equipment, net	<u>\$ 579,441</u>	<u>\$ 690,842</u>

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.

Little Water Preparatory Charter School

Notes to Financial Statements

June 30, 2025

Note 4 - Right-of-Use Asset and Operating Lease Liability - Continued

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, 2025 and 2024 was 3.12%. As of June 30, 2025 and 2024, the weighted average remaining lease term for the School's operating lease was 12 years and 13 years, respectively.

For the years ended June 30, 2025 and 2024, the total operating lease cost was approximately \$323,000 and \$325,000, respectively. The cash paid for the operating lease was approximately \$288,000 and \$264,000 for the years ended June 30, 2025 and 2024, respectively. There were no noncash investing and financing transactions related to leasing during the years ended June 30, 2025 and 2024.

Future required minimum lease payments are as follows:

Year ending:	
June 30, 2026	\$ 295,200
June 30, 2027	302,580
June 30, 2028	310,145
June 30, 2029	317,898
June 30, 2030	325,846
Thereafter	<u>2,520,778</u>
Total lease payments	4,072,447
Less: present value discount	<u>(701,329)</u>
Total lease liability at June 30, 2025	<u>\$ 3,371,118</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. The School incurred 403(b) Plan expenses of \$17,000 for the year ended June 30, 2025, which is included in payroll taxes and employee benefits in the accompanying statement of functional expenses. There was no Plan expense incurred during the year ended June 30, 2024.

Note 6 - 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.

Little Water Preparatory Charter School

Notes to Financial Statements

June 30, 2025

Note 6 - Contingencies - Continued

In the normal course of business, the School is involved in proceedings, lawsuits, and other claims. These matters are subject to many uncertainties, and outcomes are not predictable with a high degree of assurance. Consequently, the ultimate aggregate amount of monetary liability or financial impact with respect to these matters as of June 30, 2025 and 2024 cannot be ascertained. Management believes that the final outcome of these matters will not have a material impact on the financial statements of the School.

Note 7 - Significant Concentrations

The School is dependent upon grants from public school districts to carry out its operations. Approximately 95% and 80% of the School's total public support and revenue was received from Poughkeepsie and other public-school districts during the years ended June 30, 2025 and 2024, respectively. If the public-school districts were to discontinue funding, this would have a severe economic impact on the School's ability to operate.

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	\$ 88,306
Government grants receivable	<u>47,337</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 135,643</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 13, 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, 2025, 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 November 13, 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 2025-001 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 2025-002 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 2025-001 and 2025-002.

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 LLP

New York, NY
November 13, 2025

Little Water Preparatory Charter School

Schedule of Findings and Responses

June 30, 2025

Current Year:

2025-001 - 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. As a result, the School was not compliant in filing the annual financial reporting package with the School's authorizer before the prescribed deadline.

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

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

2025-002 - Missing Fingerprint Clearance

Criteria: According to Section 2854(3)(a-2) of the Education Law, the board of trustees of a charter school shall require, for purposes of a criminal history record check, the fingerprinting of all prospective employees as well as consent to a criminal history records search.

Condition: During our audit, we selected a sample of four new employees and noted that the School was unable to provide fingerprint clearance documentation for three of the employees.

Cause: The School did not perform the required procedure prior to hiring these employees.

Effect: The School was not in compliance with the requirements for its hiring procedures.

Recommendation: The School should take steps to ensure fingerprint clearances are obtained for all new hires prior to each employee's start date, and documentation should be retained in the employee's personnel file in accordance with the School's record retention policy.

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

Prior Year Follow-Up:

2024-001 - Account Analysis - The condition still exists. See 2025-001.

2024-002 - Minimum Escrow Account Balances - This condition no longer exists and is resolved.



LWP Corrective Action Plan Findings 2025-001 and 2025-002

Purpose

To document the Corrective Action Plan to address and correct Findings 2025-001 and 2025-002.

Finding 2025-001

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 monthly financial reports, which include financial statements and a cash flow forecast. A weekly meeting is scheduled for EdTec and LWP administration to review financial results and code financial transactions and to update the school's financial position. The Board's Treasurer and Principal have joined multiple meetings throughout the year. EdTec also meets with LWP's Finance Committee to review the school's financial reports and financial performance.

In fiscal year 2024-25 there were invoice payment delays and cash flow challenges. These challenges were impacted from revenue payment delays from local school districts. Significant time resources from LWP administration was allocated to addressing the cash flow challenges. In addition to the payment timing challenges, LWP's founder and school leader resigned in FY24-25. The school leadership transition increased the workload responsibilities of the operations team. To support the operations team, LWP retained multiple operations consultants to assist with various operational projects and tasks.

Corrective Action Plan

LWP management is actively working with EdTec to improve utilization of all the firm's resources. To address uncoded expenses, a new procedure is being implemented in which LWP operations management will review the accounting system's weekly *Debit and Manual Check Cover Sheet* at the beginning of each week and will code all transactions. A specified time for the weekly completion of this task has been designated. The end of month *Uncategorized Expense Report* will be sent to the school leader and carbon copied to LWP operations team and the Treasurer. This will document all uncoded expenses to school leadership and will require immediate follow-up.

To address revenue reconciliations, revised per pupil invoices are being required to immediately identify variances between the invoice amount sent to school districts and the amount received. The revised invoice will be shared with EdTec and maintained in the financial records for audit support.

To address overall improvement in LWP's financial systems and operations, an Executive Director (ED) position for the school is currently being recruited. The position will be a driving force to improve financial accountability and operating structures. The ED will partner with our external financial service providers to ensure timely reconciliations and financial reports.

Finding 2025-002

The school did not have complete employee fingerprint clearance. According to 2854(3)(a-2) of the Education Law, the board of trustees of a charter school shall require, for purposes of a criminal history record check, the fingerprinting of all prospective employees as well as consent to a criminal history records search. The school was unable to provide fingerprint clearance documentation for three employees in the audit sample. The School did not perform the required procedure prior to hiring these employees. The School was not in compliance with the requirements for its hiring procedures.

School Response

LWP has reviewed the hiring practice and procedures with the operations team. It was determined that employees were providing fingerprinting background verification after their date of hire. School leadership is requiring the operations team change the hiring practice and procedures to ensure all criminal history record and fingerprinting background checks be completed before any new employee is hired.

Corrective Action Plan

LWP is updating the hiring practice and procedures policy to ensure all required criminal history record and fingerprinting background checks are completed before an employee is hired. The new ED will be conducting a comprehensive review of all hiring practices and procedures and will be addressing any identified gaps. A new employee on-boarding process will be developed and documented. The ED will ensure the school is in compliance with all hiring requirements and will ensure hiring process improvements are made.