

WESTERN NEW YORK MARITIME CHARTER SCHOOL
FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2011
AND JUNE 30, 2010

**WESTERN NEW YORK MARITIME CHARTER SCHOOL
FOR THE YEARS ENDED JUNE 30, 2011
AND JUNE 30, 2010
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R.A. MERCER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

6455 LAKE AVENUE
ORCHARD PARK, NEW YORK 14127
(716)675-4270 Fax (716)675-4272
www.ramercercpa.com

Raymond A. Mercer, CPA, 1931-1983

Cathie J. Bridges, CPA *
Kenneth S. Frank, CPA
Roger J. Lis, Jr., CPA *
Kathryn A. Larracuente, CPA*
Julie L. Jagoda, CPA
Denise D. Veloski, CPA

Robert W Irwin, CPA *

* Also Licensed in Pennsylvania

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
Western New York Maritime Charter School
Buffalo, New York

We have audited the accompanying statement of financial position of Western New York Maritime Charter School(a nonprofit organization) as of June 30, 2011 and 2010, and the related statements of activities, and cash flows for the years then ended. These financial statements are the responsibility of the Western New York Maritime Charter School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Western New York Maritime Charter School as of June 30, 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2011, on our consideration Western New York Maritime Charter 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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance

with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of functional expenses on pages 17 and 18 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

R.A. Mercer & Co., P.C.
R.A. Mercer & Co., P.C.

Orchard Park, New York
October 28, 2011

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FINANCIAL STATEMENTS

**WESTERN NEW YORK MARITIME CHARTER SCHOOL
STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2011 AND JUNE 30, 2010**

	2011	2010
ASSETS		
Current Assets		
Cash	\$ 598,418	\$ 284,352
Grants and Other Receivables	156,311	126,556
Prepaid Expenses	95,411	67,462
Deposits	53,833	63,833
Fixed Assets		
Property and Equipment, net	619,639	628,912
Total Assets	1,523,612	1,171,115
 LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts Payable	39,032	69,404
Lease Payable-Current Portion	11,834	9,145
Term Note-Current Portion	18,592	10,450
Deferred Revenue	6,120	1,645
Accrued Expenses	441,788	391,275
Long Term liabilities:		
Lease Payable-Long Term Portion	37,962	34,936
Term Note-Long Term Portion	41,414	30,386
Total Liabilities	596,742	547,241
Net Assets:		
Unrestricted	920,542	618,364
Temporarily Restricted	6,328	5,510
Total Net Assets	926,870	623,874
Total Liabilities and Net Assets	\$ 1,523,612	\$ 1,171,115

The accompanying independent auditors' report should be read in conjunction with these financial statements.

**WESTERN NEW YORK MARITIME CHARTER SCHOOL
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2011
AND JUNE 30, 2010**

	2011	2010
Unrestricted Net Assets:		
Revenue, Gains and Other Support		
Public School District:		
Revenue - Resident Student Enrollment	\$ 3,459,929	\$ 3,140,009
- Special Education	454,798	575,448
Contributions	139,299	152,549
Fundraising	5,586	8,748
Other Income	50,676	34,986
Net Assets Released from Restrictions	239,860	302,252
Total Revenue, Gains and Other Support	4,350,148	4,213,992
 Expenses		
Program Expenses:		
Regular Education	2,626,173	2,506,798
Special Education	325,950	317,041
Other Program	164,201	161,086
Supporting Services:		
Management and General	927,436	953,096
 Total Expenses:	4,043,760	3,938,022
 Change in Unrestricted Net Assets	306,388	275,970
 Changes in Temporarily Restricted Net Assets		
Federal and State Grants	223,968	288,781
Foundation Grants	12,500	-
Net Assets Released from Restrictions	(239,860)	(302,252)
Change in Temporarily Restricted Net Assts	(3,392)	(13,471)
 Change in Net Assets	302,996	262,499
 Net Assets - Beginning	623,874	361,375
 Net Assets - Ending	\$ 926,870	\$ 623,874

The accompanying independent auditors' report should be read in conjunction with these financial statements.

**WESTERN NEW YORK MARITIME CHARTER SCHOOL
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2011
AND JUNE 30, 2010**

	2011	2010
Cash Flows From Operating Activities		
Change in Net Assets	\$ 302,996	\$ 262,499
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	149,521	145,149
Loss on disposal of property and equipment	5,658	555
Increase in receivables	(29,755)	(25,252)
(Increase)/Decrease in prepaid expense and deposits	(17,949)	16,470
Increase/(Decrease) in deferred revenue	4,475	(1,305)
Increase/(Decrease) in accounts payable and accrued expenses	20,141	(36,859)
Net cash flows provided by operating activities	435,087	361,257
Cash Flows Provided by Investing Activities		
Purchase of property and equipment	(122,900)	(139,107)
Net cash used by investing activities	(122,900)	(139,107)
Cash Flows from Financing Activities		
Repayment of lease payable	(17,291)	(7,747)
Proceeds from term note	32,000	45,000
Repayment of term note	(12,830)	(4,164)
Net Cash provided by/(used by) financing activities	1,879	33,089
Net Increase in Cash and Cash Equivalents	314,066	255,239
Cash and Cash Equivalents - Beginning of Year	284,352	29,113
Cash and Cash Equivalents - End of Year	598,418	284,352
Supplemental disclosures:		
Cash paid for interest	12,756	13,633
Copier purchased with lease:	(18,000)	-
Vending machine purchased with lease:	(5,006)	-
Capital Lease:	\$ 23,006	\$ -

The accompanying independent auditors' report should be read in conjunction with these financial statements.

**WESTERN NEW YORK MARITIME CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2011
AND JUNE 30, 2010**

Note 1. Summary of Significant Accounting Policies

Organization and Description of Activities

On January 12, 2004, the Board of Regents of the University of the State of New York granted a five year provisional charter to the Western New York Maritime Charter School (the School) to operate as an education corporation under New York law. On December 16, 2008 the Board of Regents approved the renewal application effective January 12, 2009 through June 30, 2012. Prior to the end of the current renewal, Western New York Maritime Charter School will re-apply to the Board of Regents for a renewal of their charter.

Charter schools receive state and federal public school funding and must meet all the same state and federal testing and learning requirements as public schools, yet they operate independently of the local school district, serving as their own local education agency.

Western New York Maritime Charter School is governed by a ten member, uncompensated Board of Directors and has 292 students in ninth through twelfth grades.

Western New York Maritime Charter School is a charter member of the U.S. Navy Junior Reserve Officers Training Corps Program.

Accrual Basis

The financial statements have been prepared on the accrual basis of accounting.

Cash and Cash Equivalents

The School considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents which are included as cash in the accompanying financial statements.

At various times, cash and cash equivalents in financial institutions may exceed insured limits and subject the School to concentrations of credit risk.

Property, Equipment and Leasehold Improvements

Purchased property and equipment are recorded at cost and depreciation is provided for using the straight-line method over estimated useful lives. Leasehold improvements are capitalized at cost and are being amortized over their estimated useful lives.

Generally, equipment which has a cost in excess of \$500 at the date of acquisition and has an expected useful life of five years is capitalized.

Income Taxes

The School is a 501 (c) (3) organization exempt from taxation under Section 501 (a) of the Internal Revenue Code.

Support and Revenue

The School receives NYS per pupil aid which is passed through the district in which the student resides. Most of the students reside in the Buffalo Public School District. New York State Education Department mandates the rate per pupil. For the years ended June 30, 2011 and 2010, respectively, the per pupil rate was \$12,005 and \$10,429 for Buffalo Public School District.

Contributions and grants are reported at fair value at the date the contribution/grant is made. A contribution or grant that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Gifts of goods and equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used, in which case they are recorded as restricted support.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates and assumptions are made in a variety of areas, including useful lives of long lived assets.

Cost Allocation

The School's costs of providing its various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

Note 2. Fair Value of Financial Instruments

The carrying amount of cash and cash equivalents, accounts receivable and current liabilities approximates fair value because of the short maturity of these instruments.

Note 3. Property and Equipment

Property and equipment consists of the following:

	<u>2011</u>	<u>2010</u>
Leasehold and Land Improvements	\$ 516,668	476,018
Office and Other Equipment	169,551	157,742
Instructional Equipment	<u>665,847</u>	<u>583,350</u>
	1,352,066	1,217,110
Less Accumulated Depreciation	<u>(732,427)</u>	<u>(588,198)</u>
Property and Equipment, Net	<u>\$ 619,639</u>	<u>628,912</u>

Depreciation expense was \$149,521 and \$145,149 in 2011 and 2010 respectively.

Note 4. Accrued Liabilities

Accrued liabilities were as follows:

	<u>2011</u>	<u>2010</u>
Accrued Payroll	\$ 230,762	218,860
Accrued NYS TRS-Employer	158,581	118,831
Accrued NYS TRS-Employee	<u>52,445</u>	<u>53,584</u>
Total	<u>\$ 441,788</u>	<u>391,275</u>

Note 5. Federal and State Grants

The School has received grants which are subject to audit by agencies of the state and federal government. Such audits may result in disallowances and a request for a return of funds. The School believes that disallowances, if any will not be material.

Note 6. Line of Credit

The School has a \$150,000 line of credit with a local bank with interest payable at 1.5% above the bank's prime rate. This is a demand note and substantially all of the School's assets secure the loan. At June 30, 2011 the interest rate was 4.75% and the balance outstanding was \$0.

Note 7. Capital Lease Obligation

The School is obligated under three non-cancellable capital leases for various equipment. At June 30, 2011 the assets carry a capitalizable cost totaling \$65,504 less accumulated depreciation in the amount of \$21,019 for a net book value of \$44,485. Future minimum lease payments due under the three leases are as follows:

Year ending:	6/30/2012	\$	17,482
	6/30/2013		20,923
	6/30/2014		17,167
	6/30/2015		4,835
	6/30/2016		<u>2,037</u>
			62,444
Less: Amount representing interest			<u>(20,737)</u>
Present value of minimum capital lease payments		\$	<u>41,707</u>

Note 8. Term Note

	<u>Total</u>	<u>Due Within One Year</u>	<u>Due After One Year</u>
Due, M & T, \$1,068.99 per month including interest at 6.59%, final payment due January 2014	\$ 30,388	11,159	19,229
Due, M & T, \$756.84 per month including interest at 6.28%, final payment due July 2014	<u>29,618</u>	<u>7,433</u>	<u>22,185</u>
Total	<u>\$ 60,006</u>	<u>18,592</u>	<u>41,414</u>
Debt Maturities:			
	6/30/2012		18,592
	6/30/2013		19,830
	6/30/2014		15,738
	6/30/2015		<u>5,846</u>
Total			<u>\$ 60,006</u>

Note 9. Temporarily Restricted Net Assets

At June 30, 2011 and 2010 the School's Temporarily Restricted Net Assets were restricted for the following purposes:

	<u>2011</u>	<u>2010</u>
Sailing Program	\$ 5,393	5,000
Scholarships	<u>935</u>	<u>510</u>
	<u>\$ 6,328</u>	<u>5,510</u>

Note 10. Operating Lease

The School has entered into a lease for its facilities effective April 1, 2005. The lease term is for a fifteen year period expiring March 31, 2020. There are two five year renewal options at escalating rent rates. The lease calls for a security deposit of \$28,833 and a special additional security deposit of \$100,000 by August 1, 2005. The total amount of the deposit at June 30, 2011 is \$53,833, of which \$28,833 is the initial security deposit and \$25,000 is the flexible security deposit.

Pursuant to a Memorandum dated August 7, 2009 between the School and the landlord, the School has released the landlord from its obligation to repay the security deposit in the amount of \$10,000 per year with the first installment due in

fiscal year June 30, 2010 without pro rata adjustment until the security deposit is exhausted, in exchange for expanded use of the facility.

The School has agreed to pay for the demolition costs of 290 Genesee Street in the amount of \$25,700. Western New York Maritime Charter School will use the additional space as an athletic field, with the option to erect a gymnasium or similar building as long as the footprint does not decrease the paved parking area currently in use.

The following is a schedule by years of future minimum rental payments required under the operating lease that have initial or remaining non-cancelable lease terms in excess of one year as of June 30, 2011.

Year ended	6/30/2012	\$ 633,402
	6/30/2013	\$ 649,234
	6/30/2014	\$ 665,472
	6/30/2015	\$ 682,107
	6/30/2016	\$ 699,160
	Thereafter	\$ 2,782,514

Note 11. Pension Plan

Western New York Maritime Charter School participates in the New York State Teachers' Retirement System (NYSTRS). This system is a cost sharing multiple employer, public employee retirement system. The system offers a wide range of plans and benefits which are related to years of service and final average salary, vesting of retirement benefits, death and disability.

The New York State Teachers' Retirement Board administers NYSTRS. The System provides benefits to plan members and beneficiaries as authorized by the Education Law and the Retirement and Social Security Law of the State of New York. NYSTRS issues a publicly available financial report that contains financial statements and required supplementary information for the System. The report may be obtained by writing to the New York State Teachers' Retirement System, 10 Corporate Woods Drive, Albany, NY 12211-2395.

The System is noncontributory, except for employees who joined the System after July 27, 1976, who contribute 3% of their salary, except that employees in the System more than ten years are no longer required to contribute. Those joining the system on or after January 1, 2010 are required to contribute 3.5% of their salary. Pursuant to Article 11 of the Education Law, the New York State Teachers' Retirement Board establishes rates annually for NYSTRS.

The charter school is required to contribute at an actuarially determined rate. The School's contributions made to the System were equal to 100% of the contributions required for each year. The required contributions for the current year and two preceding years were:

2011	\$ 151,363
2010	\$ 114,538
2009	\$ 127,446

Note 12. Subsequent Events

Management has evaluated subsequent events through October 28, 2011, the date on which the financial statements were available to be issued.

**WESTERN NEW YORK MARITIME CHARTER SCHOOL
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2011**

	Program Services			Supporting Services	
	Regular Education	Special Education	Other Program	Management & General	Total
Salaries	\$ 1,299,370	220,273	91,820	508,774	2,120,237
Payroll Taxes	111,039	18,823	7,846	43,477	181,185
Employee Benefits	225,772	38,273	15,954	88,402	368,401
Instructional Materials	3,345	-	-	-	3,345
Classroom Supplies	8,333	-	-	-	8,333
Technology	40,969	-	-	-	40,969
Field Trips	2,191	-	-	-	2,191
Military Events	12,298	-	-	-	12,298
Uniforms	40,666	-	-	-	40,666
Athletic Department	11,117	-	-	-	11,117
Awards and Scholarships	2,550	-	-	-	2,550
Student Activities	14,032	-	-	-	14,032
Transportation	11,003	-	-	-	11,003
Conferences	4,928	-	-	120	5,048
Food Service	4,060	-	-	-	4,060
Student Testing and Assessment	34,676	-	-	-	34,676
Staff Development	8,719	-	-	-	8,719
Consultants	-	-	-	4,950	4,950
Recruitment	29,177	-	-	-	29,177
Dues and Memberships	7,075	-	-	-	7,075
Occupancy	578,140	36,133	36,133	72,267	722,673
Maintenance Expense	-	-	-	64,191	64,191
Insurance	35,822	2,239	2,239	4,478	44,778
Telephone	1,263	1,263	1,263	8,836	12,625
Office Supplies and Expense	-	-	-	13,370	13,370
Postage	2,642	330	330	3,302	6,604
Printing	874	109	109	1,093	2,185
Outside Services	8,495	531	531	1,062	10,619
Professional Fees	-	-	-	61,665	61,665
Fundraising	-	-	-	2,429	2,429
Miscellaneous	-	-	-	20,312	20,312
Depreciation	119,617	7,476	7,476	14,952	149,521
Amortization Expense	8,000	500	500	1,000	10,000
Interest expense	-	-	-	12,756	12,756
Total	\$ 2,626,173	325,950	164,201	927,436	4,043,760

See paragraph on supplemental information included in Auditor's Report.

Supplemental Information

WESTERN NEW YORK MARITIME CHARTER SCHOOL
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2010

	Program Services			Supporting Services		Total
	Regular Education	Special Education	Other Program	Management & General		
Salaries	1,261,052	216,344	90,728	537,741	2,105,865	
Payroll Taxes	108,389	18,595	7,798	46,219	181,001	
Employee Benefits	196,182	33,657	14,115	83,657	327,611	
Instructional Materials	768	-	-	-	768	
Classroom Supplies	8,544	-	-	-	8,544	
Technology	46,912	-	-	-	46,912	
Field Trips	17,626	-	-	-	17,626	
Military Events	12,509	-	-	-	12,509	
Uniforms	32,290	-	-	-	32,290	
Athletic Department	-	-	-	-	-	
Student Services	-	-	-	-	-	
Awards and Scholarships	-	-	-	-	-	
Student Activities	9,498	-	-	-	9,498	
Transportation	7,196	-	-	-	7,196	
Conferences	9,851	-	-	-	9,851	
Food Service	-	-	-	-	-	
Student Testing and Assessment	17,683	-	-	-	17,683	
Staff Development	13,118	-	-	11,912	13,118	
Consultants	-	-	-	-	-	
Recruitment	19,106	-	-	-	19,106	
Board Development	8,778	-	-	-	8,778	
Dues and Memberships	557,444	34,840	34,840	69,680	696,805	
Occupancy	-	-	-	45,707	45,707	
Maintenance expense	-	-	-	5,236	5,236	
Insurance	41,897	2,619	2,619	15,977	22,826	
Telephone	2,283	2,283	2,283	12,491	12,491	
Office Supplies and Expense	-	-	-	3,560	7,120	
Postage	2,848	356	356	932	1,864	
Printing	746	93	93	995	9,948	
Outside Services	7,959	497	497	76,754	76,754	
Professional Fees	-	-	-	3,546	3,546	
Fundraising	-	-	-	9,540	9,540	
Miscellaneous	-	-	-	14,516	14,516	
Depreciation	116,119	7,257	7,257	1,000	10,000	
Amortization Expense	8,000	500	500	13,633	13,633	
Interest expense	-	-	-	-	-	
Total	\$ 2,506,798	317,041	161,086	953,096	\$ 3,938,022	

See paragraph on supplemental information included in Auditor's Report.

COMPLIANCE AND INTERNAL CONTROL

R.A. MERCER & CO., P.C.

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ORCHARD PARK, NEW YORK 14127
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors of
Western New York Maritime Charter School
Buffalo, New York

We have audited the financial statements of Western New York Maritime Charter School (a nonprofit organization) as of and for the years ended June 30, 2011 and 2010, and have issued our report thereon dated October 28, 2011. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Western New York Maritime Charter School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Western New York Maritime Charter School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Western New York Maritime Charter School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Orchard Park, New York
October 28, 2011

R.A. Mercer & Co., P.C.
R.A. Mercer Co., P.C.

**Western New York Maritime Charter School
Schedule of Findings and Responses
Year Ended June 30, 2011**

I. Prior Audit Findings

For the year ended June 30, 2010, no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses, as required to be reported by *Government Auditing Standards*, were disclosed by the audit. No instances of noncompliance which were material to the financial statements of Western New York Maritime Charter School as required by *Government Auditing Standards* were disclosed by the audit.

II. Current Audit Findings

For the year ended June 30, 2011, no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses, as required to be reported by *Government Auditing Standards*, were disclosed by the audit. No instances of noncompliance which were material to the financial statements of Western New York Maritime Charter School as required by *Government Auditing Standards* were disclosed by the audit.