

**TOWN OF CLARENCE, NEW YORK**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2011**

# TOWN OF CLARENCE, NEW YORK

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December 31, 2011

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## **INDEPENDENT AUDITORS' REPORT**

The Town Board  
Town of Clarence, New York

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Town of Clarence, New York (the Town) as of and for the year ended December 31, 2011, which collectively comprise the Town's financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

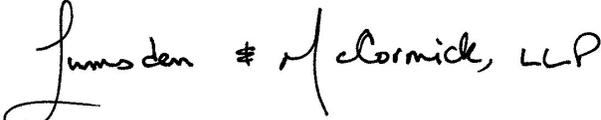
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town as of December 31, 2011, and the respective changes in financial position and budgetary comparisons for the general, highway, and fire protection funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2 to the financial statements, the Town adopted GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* in 2011.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 25, 2012 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedule of funding progress postemployment benefit plan on pages 3 through 7 and page 28 be presented to supplement the financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's financial statements as a whole. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The combining nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate 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.

  
April 25, 2012

**Town of Clarence, New York**  
**Management's Discussion and Analysis**  
**December 31, 2011**  
*Unaudited*

**Introduction**

Management's Discussion and Analysis (MD&A) of Town of Clarence, New York (the Town) provides an overview of the Town's financial performance and activities for the year ended December 31, 2011. The information contained in the MD&A should be considered in conjunction with the information presented as part of the Town's financial statements which follow. This MD&A, the financial statements and notes thereto are essential to obtaining a full understanding of the Town's financial position and results of operations. The Town's financial statements have the following components: (1) government-wide financial statements; (2) governmental fund financial statements; (3) reconciliations between the government-wide and governmental fund financial statements; (4) agency fund statements; and (5) notes to the financial statements.

The government-wide financial statements are designed to provide readers with a broad overview of the Town's finances in a manner similar to a private-sector business. The statement of net assets presents information on all of the Town's assets and liabilities and the difference between the two is reported as net assets. The statement of activities and changes in net assets presents information showing how the Town's net assets change during each year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in the statement for some items that will result in cash flows in future periods. The government-wide financial statements present information about the Town as a whole. All of the activities of the Town are considered to be governmental activities.

Governmental fund financial statements focus on near-term inflows and outflows of resources, as well as on balances of resources available at the end of the year. As required by GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the Town classified fund balances into five categories to better display resources that are available for future appropriation: nonspendable, restricted, committed, assigned and unassigned. Such information may be useful in evaluating the Town's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide statements, it is useful to compare the information presented for governmental activities in the government-wide financial statements. By doing so, the reader may better understand the long-term impact of the Town's near-term financing decisions. The reconciliation portion of the financial statements facilitates the comparison between governmental funds and governmental activities.

Agency funds are used to account for resources held for the benefit of parties outside the Town. Agency funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Town's programs. The notes to the financial statements provide additional information that is essential for a full understanding of the information provided in the government-wide and governmental fund financial statements.

<b>Condensed Statement of Net Assets</b>	<b>2011</b>	<b>2010</b>
Current and other assets	\$ 14,191,000	\$ 14,286,000
Capital assets	111,011,000	104,547,000
Total assets	<u>125,202,000</u>	<u>118,833,000</u>
Long-term liabilities outstanding	11,427,000	12,739,000
Other liabilities	10,381,000	9,014,000
Total liabilities	<u>21,808,000</u>	<u>21,753,000</u>
Net assets:		
Invested in capital assets, net of related debt	95,959,000	87,276,000
Restricted	3,935,000	1,335,000
Unrestricted	3,500,000	8,469,000
Total net assets	<u>\$ 103,394,000</u>	<u>\$ 97,080,000</u>

Assets exceeded liabilities by \$103,394,000 (\$97,080,000 in 2010) at the close of the year. Capital assets (infrastructure, buildings and improvements, machinery and equipment) represent the largest portion (88.7%) of the Town's total assets (88.0% for 2010). Long-term liabilities outstanding total 52.4% (58.6% in 2010) of total liabilities and are directly related to the Town's investment in the capital assets. The Town uses these capital assets to provide services to citizens and as such these assets are not available for future use. Although the Town's investment in assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot typically be used to liquidate these liabilities.

Capital assets increased as a result of continued construction projects, such as Miles Road Bridge, as well as land purchases on Rapids and Harris Hill roads. The Town also received contributed land, roads, and sewer lines, primarily as a result of new residential development, amounting to almost \$4.5 million. These additions were somewhat offset by depreciation expense recognized during the year.

Current and other assets decreased by \$95,000 or 0.7% compared to 2010. These balances consist of cash and receivables from other governments and third parties. The changes in individual account balances reflect the timing of cash flows and the results from current year operations. Total liabilities were consistent with 2010 with an increase of \$55,000 or 0.3%. The increase is due to the issuance of \$1,820,000 in bond anticipation notes and an increase in the other postemployment benefits liability of \$255,000, offset by \$397,000 of redeemed bond anticipation notes, \$1,200,000 in bond principal payments and a decrease in the compensated absences liability of \$367,000.

The Town's unfunded actuarial accrued liability as of December 31, 2011 under GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* is estimated to be \$5,562,000 and is recognized as a component of other postemployment expense on a recurring basis over a 30 year period.

<b>Condensed Statement of Activities</b>	<b>2011</b>	2010
<b>Revenue</b>		
Program revenues		
Charges for services	\$ 1,347,000	\$ 1,290,000
Operating and capital grants and contributions	7,286,000	2,267,000
General revenues		
Real property tax	10,707,000	10,396,000
Nonproperty taxes	5,459,000	4,767,000
Interest and other	89,000	419,000
Total revenue	<u>24,888,000</u>	<u>19,139,000</u>
<b>Program expenses</b>		
Support services		
General governmental	2,918,000	2,122,000
Public safety	3,806,000	3,563,000
Transportation	5,820,000	5,946,000
Economic assistance and opportunity	7,000	10,000
Culture and recreation	3,477,000	4,874,000
Home and community services	1,820,000	1,274,000
Interest	726,000	489,000
Total expenses	<u>18,574,000</u>	<u>18,278,000</u>
Increase in net assets	6,314,000	861,000
Net assets - beginning	97,080,000	96,219,000
Net assets - end	<u>\$103,394,000</u>	<u>\$ 97,080,000</u>

The main sources of revenue to support the Town's programs are real property taxes and nonproperty taxes. These items represent 65.0% of total revenues (79.2% for 2010). Real property taxes increased by \$311,000 or 3.0% compared to 2010. Sales tax revenue increased by \$692,000 or 14.5% over the 2010 amount due to an increase in the Town's population as recorded in the 2010 census and a stronger economy. The increase in operating and capital grants and contributions of \$5,019,000 is a result of donated land, roads, and sewer lines, as mentioned previously. The Town also received federal funding of \$612,000 for solar panels installed at the highway department, senior center, and Town library.

A majority of Town expenses are in transportation (highway funds), public safety, and culture and recreation. These are basic program (citizen services) and related administrative costs associated with running the Town. These expenses represent 70.5% of total Town expenses for 2011 (78.7% for 2010). Changes in categories from year to year are a result of variances in departments in which capital projects occurred, however total expenses were consistent with the prior year, increasing only \$296,000 or 1.6%.

## Financial Analysis of the Town's Funds

Total fund balances for the governmental funds decreased from \$5,206,000 to \$3,976,000 as described below:

- In the general fund, revenue increased by \$610,000 or 6.0% in 2011 and is largely due to an increase in sales tax revenue and franchise fees of \$691,000 or 14.5%. As mentioned previously, the increase in the Town's population resulted in an increase in the sales tax allocated to the Town by Erie County.
- General fund expenditures increased by \$283,000 or 3.0% in 2011 with the largest increase in employee benefit expenses of \$159,000 or 9.0%. This increase is attributable to increases in the required contribution rates for the New York State Employees' Retirement System.
- Revenue in the highway fund increased by \$139,000 or 4.0% in 2011. The increase is a result of an increase in real property taxes of \$189,000 or 6.7%. This increase is partially offset by variances in the other revenue lines within the fund.
- Fire protection fund real property tax revenue increased \$127,000 or 5.3% in 2011 as planned in the 2011 budget to compensate for additional length of service award program contributions. Expenditures of \$2,563,000 resulted in a net loss of \$53,000.
- Capital projects expenditures in total increased by \$333,000 or 9.5% with the increases in general government expenditures of \$1,229,000, transportation of \$559,000, and public safety of \$99,000, offset by decreases in culture and recreation expenditures of \$557,000 and home and community services of \$997,000. Fluctuations are typical due to the variety of projects that may be ongoing at any given time.

## General Fund Budgetary Highlights

The original and final budget revenues for 2011 totaled \$9,848,000 while actual revenues were \$10,825,000. The largest variance was in the amount of sales tax revenue received resulting in \$709,000 more than budgeted.

Total expenditures were \$1,024,000 under budget (before other financing uses). Controls on spending and lower than anticipated employee benefit increases contributed to expenditures that were lower than budget.

## Capital Assets

	2011	2010
Land	\$ 14,068,000	\$ 11,945,000
Construction in Progress	1,132,000	1,641,000
Infrastructure	124,292,000	118,902,000
Buildings and improvements	14,193,000	12,714,000
Machinery and equipment	6,262,000	6,126,000
	159,947,000	151,328,000
Accumulated depreciation	(48,936,000)	(46,781,000)
	<u>\$ 111,011,000</u>	<u>\$ 104,547,000</u>

Capital additions of \$8,841,000 were offset by depreciation and disposals of \$2,377,000. As mentioned previously, increases in capital assets were largely due to donated sewer lines, roads, gutters, and land; purchases of land on Rapids and Harris Hill roads; solar panels purchased with federal grants; and ongoing construction projects.

## **Debt**

At December 31, 2011, the Town had \$8,586,000 in bonds outstanding with \$1,245,000 due within one year (\$9,786,000 outstanding in 2010). Outstanding compensated absences payable were \$1,959,000 (\$2,325,000 in 2010), and the amount accrued to date for other postemployment benefits increased from \$627,000 to \$882,000.

## **Factors Impacting the Town's Future**

Town representatives monitor residential and commercial growth to ensure that it fits with the Town's development plan. The 2% real property tax levy cap which was required to be implemented in the 2012 budget will place an added burden on the Town to continue to provide the same quality of services as costs increase.

The Town continues to face increases in health insurance costs. Required contributions to the New York State Employees' Retirement System (ERS) will continue to increase based on expected contributions rates announced by the State Comptroller's Office. The volatile pricing of oil affects not only the cost of diesel fuel and gasoline, but all petroleum-based products, including asphalt, sealing compounds and paving materials and makes it very difficult to budget appropriately. These factors will continue to impact the programs offered by the Town and the amount of funds it will need to provide services.

## **Contact for Town's Financial Management**

This report is designed to provide a general overview of the finances of the Town of Clarence for interested parties. Questions concerning any information within this report or requests for additional information should be addressed to David C. Hartzell, Jr., Supervisor, One Town Place, Clarence, New York 14031.

## TOWN OF CLARENCE, NEW YORK

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### Statement of Net Assets

December 31, 2011

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#### Assets

Cash	10,475,549
Accounts receivable	912,113
Due from other governments	2,588,014
Prepaid expenses	215,497
Capital assets (Note 6)	159,946,756
Accumulated depreciation	(48,935,794)
<b>Total assets</b>	<b>125,202,135</b>

#### Liabilities

Accounts payable	959,259
Accrued liabilities	280,469
Due to other governments	222,977
Due to fiduciary funds	10,400
Bond Anticipation Notes	8,908,000
Long-term liabilities	
Due within one year	
Bonds	1,245,000
Compensated Absences	350,000
Due beyond one year	
Bonds	7,341,300
Compensated Absences	1,608,586
Other postemployment benefits	882,413
<b>Total liabilities</b>	<b>21,808,404</b>

#### Net Assets

Invested in capital assets, net of related debt	95,959,319
Restricted	3,934,963
Unrestricted	3,499,449
<b>Total net assets</b>	<b>\$ 103,393,731</b>

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**TOWN OF CLARENCE, NEW YORK**

**Statement of Activities and Changes in Net Assets**

For the year ended December 31, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Governmental activities</b>					
General government	\$ 2,918,252	\$ 258,647	\$ 1,174,197	\$ 692,362	\$ (793,046)
Public safety	3,805,993	404,739	-	-	(3,401,254)
Health	-	12,060	-	-	12,060
Transportation	5,819,423	325,433	137,000	1,114,492	(4,242,498)
Economic assistance and opportunity	6,766	-	-	-	(6,766)
Culture and recreation	3,477,222	164,236	23,222	1,275,005	(2,014,759)
Home and community services	1,820,077	181,770	-	2,869,733	1,231,426
Interest expense	725,819	-	-	-	(725,819)
	<u>\$ 18,573,552</u>	<u>\$ 1,346,885</u>	<u>\$ 1,334,419</u>	<u>\$ 5,951,592</u>	<u>(9,940,656)</u>
		<b>General revenues</b>			
		Real property taxes			10,706,869
		Nonproperty taxes			5,458,542
		Interest income			101,207
		Loss on disposal of property			(11,672)
		<b>Total general revenues</b>			<u>16,254,946</u>
		<b>Change in net assets</b>			6,314,290
		<b>Net assets - beginning</b>			<u>97,079,441</u>
		<b>Net assets - ending</b>			<u>\$ 103,393,731</u>

**TOWN OF CLARENCE, NEW YORK**

**Balance Sheet - Governmental Funds**

December 31, 2011

	General	Highway	Fire Protection	Capital Projects	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>						
Cash	\$ 2,974,783	\$ 1,969,737	\$ 142,765	\$ 2,879,790	\$ 2,508,474	\$ 10,475,549
Accounts receivable	60,379	68,594	-	775,000	8,140	912,113
Due from other governments	1,863,781	137,000	242,907	344,326	-	2,588,014
Prepaid expenses	128,903	86,594	-	-	-	215,497
Due from other funds, net	107,516	-	-	-	104,359	211,875
<b>Total assets</b>	<b>\$ 5,135,362</b>	<b>\$ 2,261,925</b>	<b>\$ 385,672</b>	<b>\$ 3,999,116</b>	<b>\$ 2,620,973</b>	<b>\$ 14,403,048</b>
<b>Liabilities and Fund Balances</b>						
Accounts payable	\$ 280,484	\$ 123,056	\$ 65,578	\$ 437,133	\$ 53,008	\$ 959,259
Accrued liabilities	79,449	34,920	-	-	-	114,369
Due to other governments	-	-	-	-	222,977	222,977
Due to other funds, net	-	-	222,275	-	-	222,275
Bond anticipation notes	-	-	-	8,908,000	-	8,908,000
<b>Total liabilities</b>	<b>359,933</b>	<b>157,976</b>	<b>287,853</b>	<b>9,345,133</b>	<b>275,985</b>	<b>10,426,880</b>
<b>Fund Balances</b>						
Nonspendable:						
Prepaid expenses	128,903	86,594	-	-	-	215,497
Restricted:						
Debt service	276,201	-	-	-	108,869	385,070
Workers' compensation	60,900	-	-	-	-	60,900
Highway	-	1,264,355	-	-	-	1,264,355
Fire protection	-	-	97,819	-	-	97,819
Water	-	-	-	-	33,448	33,448
Sewer	-	-	-	-	831,142	831,142
Land acquisition	-	-	-	-	812,269	812,269
Drainage	-	-	-	-	372,603	372,603
Other restricted purposes	-	-	-	-	77,357	77,357
Assigned:						
Designated for subsequent year's expenditures	1,300,000	753,000	-	-	109,300	2,162,300
Other purposes	5,580	-	-	-	-	5,580
Unassigned (deficit)	3,003,845	-	-	(5,346,017)	-	(2,342,172)
<b>Total fund balances</b>	<b>4,775,429</b>	<b>2,103,949</b>	<b>97,819</b>	<b>(5,346,017)</b>	<b>2,344,988</b>	<b>3,976,168</b>
<b>Total liabilities and fund balances</b>	<b>\$ 5,135,362</b>	<b>\$ 2,261,925</b>	<b>\$ 385,672</b>	<b>\$ 3,999,116</b>	<b>\$ 2,620,973</b>	<b>\$ 14,403,048</b>

See accompanying notes.

**TOWN OF CLARENCE, NEW YORK**

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**Reconciliation of the Governmental Funds  
Balance Sheet to the Statement of Net Assets**

**December 31, 2011**

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**Total fund balances - governmental funds** \$ 3,976,168

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. 111,010,962

Certain liabilities are not due and payable currently and therefore are not reported as liabilities of the governmental funds. These liabilities are:

Bonds	(8,586,300)	
Accrued interest	(166,100)	
Compensated absences	(1,958,586)	
Other postemployment benefits	(882,413)	(11,593,399)

**Net assets - governmental activities** \$ 103,393,731

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TOWN OF CLARENCE, NEW YORK

**Statement of Revenues, Expenditures, and  
Changes in Fund Balances - Governmental Funds**

For the year ended December 31, 2011

	General	Highway	Fire Protection	Capital Projects	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>						
Real property taxes	\$ 3,330,881	\$ 3,007,348	\$ 2,510,131	\$ -	\$ 1,858,509	\$ 10,706,869
Nonproperty tax items	5,458,542	-	-	-	-	5,458,542
Departmental income	65,047	454,814	-	-	86,319	606,180
Use of money and property	68,103	16,634	-	39,552	16,711	141,000
Licenses and permits	263,653	-	-	-	-	263,653
Fines and forfeitures	392,330	-	-	-	-	392,330
Miscellaneous local sources	39,507	5,422	-	775,000	-	819,929
Sale of property and compensation for loss	9,028	1,170	-	-	-	10,198
State sources	1,197,419	137,000	-	67,353	8,100	1,409,872
Federal sources	-	-	-	612,277	-	612,277
<b>Total revenues</b>	<b>10,824,510</b>	<b>3,622,388</b>	<b>2,510,131</b>	<b>1,494,182</b>	<b>1,969,639</b>	<b>20,420,850</b>
<b>Expenditures</b>						
General government	2,279,713	2,242	-	1,589,870	2,000	3,873,825
Public safety	701,371	-	2,512,104	98,892	-	3,312,367
Transportation	615,266	2,761,065	-	974,803	-	4,351,134
Economic assistance and opportunity	6,766	-	-	-	-	6,766
Culture and recreation	2,494,107	-	-	782,150	-	3,276,257
Home and community services	259,390	-	-	405,176	1,426,453	2,091,019
Employee benefits	1,929,266	1,041,641	50,844	-	23,297	3,045,048
Debt service						
Principal	1,089,300	328,100	-	-	179,600	1,597,000
Interest	366,894	82,965	-	-	44,239	494,098
<b>Total expenditures</b>	<b>9,742,073</b>	<b>4,216,013</b>	<b>2,562,948</b>	<b>3,850,891</b>	<b>1,675,589</b>	<b>22,047,514</b>
<b>Excess revenues (expenditures)</b>	<b>1,082,437</b>	<b>(593,625)</b>	<b>(52,817)</b>	<b>(2,356,709)</b>	<b>294,050</b>	<b>(1,626,664)</b>
<b>Other financing sources (uses)</b>						
Operating transfers, net	(350,000)	350,000	-	-	-	-
BANs redeemed from appropriations	-	-	-	397,000	-	397,000
	(350,000)	350,000	-	397,000	-	397,000
<b>Net change in fund balances</b>	<b>732,437</b>	<b>(243,625)</b>	<b>(52,817)</b>	<b>(1,959,709)</b>	<b>294,050</b>	<b>(1,229,664)</b>
Fund balances (deficit) - beginning	4,042,992	2,347,574	150,636	(3,386,308)	2,050,938	5,205,832
<b>Fund balances (deficit) - ending</b>	<b>\$ 4,775,429</b>	<b>\$ 2,103,949</b>	<b>\$ 97,819</b>	<b>\$ (5,346,017)</b>	<b>\$ 2,344,988</b>	<b>\$ 3,976,168</b>

See accompanying notes.

**TOWN OF CLARENCE, NEW YORK**

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**Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities and Changes in Net Assets**

**For the year ended December 31, 2011**

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**Total net change in fund balances - governmental funds** \$ (1,229,664)

Amounts reported for governmental activities in the statement of activities and changes in net assets are different because:

Capital outlays are reported in governmental funds as expenditures. However in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

This is the amount by which capital outlays exceed depreciation expense and disposals. 1,975,124

Infrastructure and land donations are not recognized in the governmental funds because capital assets are only recognized as expenditures when purchased. However, in the statement of activities, these donated assets, including land, roads, and sewer lines, are recognized as a contribution at estimated fair value. 4,488,862

Payments of long-term liabilities are reported as expenditures in governmental funds and as a reduction of debt in the statement of net assets. 1,200,000

In the statement of activities, certain operating expenses are measured by the amounts earned during the year. In the governmental funds these expenditures are reported when paid. The differences are:

Interest expense	(231,721)	
Compensated absences	366,604	
Other postemployment benefits	(254,915)	(120,032)

**Change in net assets - governmental activities** \$ 6,314,290

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TOWN OF CLARENCE, NEW YORK

Statement of Major Funds Revenues, Expenditures, and Changes in Fund Balances Budget (Non-GAAP) and Actual

For the year ended December 31, 2011

	General Fund				Highway Fund				Fire Protection Fund			
	Budgeted Amounts		Actual	Variance with	Budgeted Amounts		Actual	Variance with	Budgeted Amounts		Actual	Variance with
	Original	Final	(Budgetary Basis)	Final Budget Over/(Under)	Original	Final	(Budgetary Basis)	Final Budget Over/(Under)	Original	Final	(Budgetary Basis)	Final Budget Over/(Under)
<b>Revenues</b>												
Real property taxes	\$ 3,342,819	\$ 3,342,819	\$ 3,330,881	\$ (11,938)	\$ 3,006,751	\$ 3,006,751	\$ 3,007,348	\$ 597	\$ 2,510,131	\$ 2,510,131	\$ 2,510,131	\$ -
Nonproperty tax items	4,750,000	4,750,000	5,458,542	708,542	-	-	-	-	-	-	-	-
Departmental income	90,700	90,700	65,047	(25,653)	317,492	317,492	454,814	137,322	-	-	-	-
Use of money and property	34,000	34,000	68,103	34,103	20,000	20,000	16,634	(3,366)	-	-	-	-
Licenses and permits	184,100	184,100	263,653	79,553	-	-	-	-	-	-	-	-
Fines and forfeitures	343,000	343,000	392,330	49,330	-	-	-	-	-	-	-	-
Miscellaneous local sources	41,100	41,100	39,507	(1,593)	43,775	43,775	5,422	(38,353)	-	-	-	-
Sale of property and compensation for loss	25,000	25,000	9,028	(15,972)	-	-	1,170	1,170	-	-	-	-
State sources	1,037,455	1,037,455	1,197,419	159,964	137,000	137,000	137,000	-	-	-	-	-
<b>Total revenues</b>	<b>9,848,174</b>	<b>9,848,174</b>	<b>10,824,510</b>	<b>976,336</b>	<b>3,525,018</b>	<b>3,525,018</b>	<b>3,622,388</b>	<b>97,370</b>	<b>2,510,131</b>	<b>2,510,131</b>	<b>2,510,131</b>	<b>-</b>
<b>Expenditures</b>												
General government	2,653,307	2,653,307	2,279,713	(373,594)	2,242	2,242	2,242	-	-	-	-	-
Public safety	736,130	736,130	701,371	(34,759)	-	-	-	-	2,419,349	2,419,349	2,512,104	92,755
Transportation	721,018	721,018	615,266	(105,752)	3,004,720	3,004,720	2,761,065	(243,655)	-	-	-	-
Economic assistance and opportunity	10,000	10,000	6,766	(3,234)	-	-	-	-	-	-	-	-
Culture and recreation	2,710,686	2,710,686	2,494,107	(216,579)	-	-	-	-	-	-	-	-
Home and community services	289,207	289,207	259,390	(29,817)	-	-	-	-	-	-	-	-
Employee benefits	2,175,650	2,175,650	1,929,266	(246,384)	1,206,990	1,206,990	1,041,641	(165,349)	90,782	90,782	50,844	(39,938)
Debt service												
Principal	1,089,300	1,089,300	1,089,300	-	328,100	328,100	328,100	-	-	-	-	-
Interest	381,071	381,071	366,894	(14,177)	82,966	82,966	82,965	(1)	-	-	-	-
<b>Total expenditures</b>	<b>10,766,369</b>	<b>10,766,369</b>	<b>9,742,073</b>	<b>(1,024,296)</b>	<b>4,625,018</b>	<b>4,625,018</b>	<b>4,216,013</b>	<b>(409,005)</b>	<b>2,510,131</b>	<b>2,510,131</b>	<b>2,562,948</b>	<b>52,817</b>
<b>Excess revenues (expenditures)</b>	<b>(918,195)</b>	<b>(918,195)</b>	<b>1,082,437</b>	<b>2,000,632</b>	<b>(1,100,000)</b>	<b>(1,100,000)</b>	<b>(593,625)</b>	<b>506,375</b>	<b>-</b>	<b>-</b>	<b>(52,817)</b>	<b>(52,817)</b>
<b>Other financing sources (uses)</b>												
Operating transfers in (out)	(350,000)	(350,000)	(350,000)	-	350,000	350,000	350,000	-	-	-	-	-
Appropriated fund balance	1,268,195	1,268,195	-	(1,268,195)	750,000	750,000	-	(750,000)	-	-	-	-
<b>Total other financing sources (uses)</b>	<b>918,195</b>	<b>918,195</b>	<b>(350,000)</b>	<b>(1,268,195)</b>	<b>1,100,000</b>	<b>1,100,000</b>	<b>350,000</b>	<b>(750,000)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Excess revenues (expenditures) and other financing sources (uses)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 732,437</b>	<b>\$ 732,437</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (243,625)</b>	<b>\$ (243,625)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (52,817)</b>	<b>\$ (52,817)</b>

See accompanying notes.

**TOWN OF CLARENCE, NEW YORK**

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**Statement of Fiduciary Net Assets**

**December 31, 2011**

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	<u>Agency</u>
<b>Assets</b>	
Cash	\$ 279,470
Investments	2,131,173
Other assets	2,728
Due from governmental funds	10,400
<b>Total assets</b>	<u>\$ 2,423,771</u>
 <b>Liabilities</b>	
Service awards	\$ 2,131,173
Bid deposits	130,383
Other agency liabilities	162,215
<b>Total liabilities</b>	<u>\$ 2,423,771</u>

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# TOWN OF CLARENCE

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## Notes to Basic Financial Statements

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### 1. Summary of Significant Accounting Policies

The financial statements of Town of Clarence, New York (the Town) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Town's accounting policies are described below.

#### Financial Reporting Entity

The Town is governed by local laws and ordinances, Town law, General Municipal Law, and other laws of the State of New York (the State). The elected governing body is the Town Board. The Town Supervisor serves as the executive and chief fiscal officer. The scope of activities included within the accompanying financial statements are those transactions that comprise the Town's operations and are governed by, or significantly influenced by, the Town Board. The primary function of the Town is to provide basic services such as governmental administration, tax collection, highway, sewer, water, fire protection, drainage, lighting, and recreational services. The financial reporting entity includes all funds, account groups, functions, and organizations over which Town officials exercise oversight responsibility. Oversight responsibility is determined on the basis of financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters. The Town has no component units as defined by GASB Statement 14 as amended by GASB Statement 39.

#### Basis of Presentation

*Government-wide Statements:* The statement of net assets and the statement of activities and changes in net assets display financial activities of the overall Town, except for fiduciary activities. Eliminations have been made to minimize double counting of internal activities. These statements are required to distinguish between *governmental* and *business-type* activities of the Town. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties. The Town does not maintain any business-type activities.

The statement of activities and changes in net assets presents a comparison between direct expenses and program revenues for each function of the Town's governmental activities.

- Direct expenses are those that are specifically associated with a program or are clearly identifiable to a particular function. Indirect expenses relate to the administration and support of the Town's programs, including personnel, overall administration and finance. Employee benefits are allocated to functional expenses based on a percentage of related payroll expense.
- Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational requirements of a particular program, and (c) grants and contributions limited to the purchase or construction of specific capital assets. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

*Fund Financial Statements:* The fund financial statements provide information about the Town's funds, including fiduciary funds. Separate statements for each fund category - *governmental and fiduciary* - are presented. The emphasis of the fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The Town reports the following major funds:

- *General fund.* This fund is the Town's primary operating fund. It accounts for all financial resources, except those required to be accounted for in another fund.
- *Highway fund.* This fund is a special revenue fund whose specific revenue sources, including property taxes, are restricted to expenditure for repairs and maintenance of the Town's roadways.
- *Fire Protection fund.* This fund is a special revenue fund whose revenues, which are derived solely from property taxes levied specifically on the residents of these districts, are restricted for the operations of the Town's legally created fire protection districts.
- *Capital Projects fund.* This fund is used to account for and report financial resources that are restricted, committed or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

The Town's nonmajor funds include the water, sewer, park land, drainage, central alarm, lighting, and aquatic growth funds. Each fund is established to account for the separate activities for which it is named.

The Town reports the following fiduciary fund:

- *Agency fund.* This fund accounts for assets held by the Town as agent for payroll, employee third party withholdings, and assets restricted for the Town's length of service awards programs. The agency fund is custodial in nature and does not involve measurement of results of operations.

### **Basis of Accounting and Measurement Focus**

The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the Town receives value directly without giving equal value in exchange, include property and sales taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The Town considers all revenues reported in the governmental funds to be available if they are collected within sixty days after year end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. Capital asset purchases are reported as expenditures in governmental funds. Proceeds of long-term liabilities and equipment and property purchased under capital leases are reported as other financing sources.

Under the terms of grant agreements, revenues are recognized to the extent of program expenditures. Amounts received in advance of the expenditures are deferred and reported as revenue when the expense is incurred.

## **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 amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

## **Property Taxes**

Real property taxes of the Town and Erie County (the County) are levied annually no later than December 31<sup>st</sup> and become a lien on January 1. Taxes for County purposes are levied together with taxes for Town and special district purposes on a single bill. The Town and special districts receive their levies annually out of the first amounts collected on the combined bills. The County assumes enforcement responsibility for all taxes levied by the Town including uncollected water and sewer charges.

## **Budgetary Process, Amendments and Transfers**

Annual appropriations are adopted and employed for control of the general fund and all special revenue funds. These budgets are adopted under the modified accrual basis of accounting. Appropriations established by the adoption of the budget constitute a limitation on expenditures (and encumbrances) which may be incurred. Appropriations authorized for the current year are increased by the planned use of specific restricted, committed and assigned fund balances and subsequent budget amendments approved by the Town Board as a result of new revenue sources not included in the original budget.

No later than October 5th of each year, a tentative budget is submitted to the Town Board for the fiscal year commencing the following January 1. The tentative budget includes both proposed expenditures and the means of financing for the general and all special revenue funds. Upon completion of a review by the Town Board, the tentative budget becomes the preliminary budget.

After public hearings are conducted to obtain taxpayer comments, the Town Board adopts the budget. The preliminary budget as submitted or amended after the public hearing is adopted as the annual budget by resolution of the Town Board no later than November 20<sup>th</sup> and entered "in full" in the board minutes.

Capital projects funds are subject to individual project expenditures determined primarily by the cost of the project together with the requirements for external borrowings used to fund a particular project rather than annual appropriations. These budgets do not lapse at year end and are carried over to the completion of the project.

Encumbrance accounting is used to assure effective budgetary control. Encumbrances represent commitments related to unperformed (executory) contracts for goods or services. Amounts outstanding at year end represent the estimated amount of the expenditures ultimately to result if unperformed contracts in process at year end are completed. Encumbrances are reflected as a budgetary expenditure in the year of incurrence of the commitment for the purchase and in the subsequent period when the expenditure is paid. All budget appropriations that are unencumbered lapse at the end of the fiscal year. Encumbrances outstanding at year end are presented for GAAP-related purposes as committed or assigned fund balances and do not constitute expenditures or liabilities. At January 1, encumbrances carried forward from the prior year are reestablished as budgeted appropriations.

## **Prepaid Expenses**

Certain payments to vendors reflect costs applicable to future periods and are recorded as prepaid expenses.

## Capital Assets

Capital assets including infrastructure are reported at actual or estimated historical cost based on appraisals. Contributed assets, such as infrastructure in new developments that is turned over to the Town by the developers upon completion, are recorded at fair value at the time received. Depreciation is provided in the government-wide statements over estimated useful lives using the straight-line method. Maintenance and repairs are expensed as incurred; significant improvements are capitalized.

Capitalization thresholds for determining which asset purchases are added to capital accounts and the estimated useful lives of capital assets are:

	<b>Capitalization Policy</b>	<b>Estimated Useful Life</b>
Infrastructure	\$ 15,000	50-75 Years
Buildings and improvements	\$ 15,000	25-70 Years
Machinery and equipment	\$ 15,000	5-10 Years

## Compensated Absences

The liability for compensated absences reported in the government-wide financial statements consists of unpaid accumulated sick and vacation time. The liability has been calculated using the vesting method, in which leave amounts for both employees currently eligible to receive payments and other employees expected to become eligible in the future to receive such payments are included. Sick pay is accrued on the basis of negotiated contracts with employee groups which provide for the payment of accumulated sick time at various amounts at retirement.

The government-wide financial statements reflect the entire liability, while in the governmental funds financial statements, only the amount of matured liabilities is accrued based on expendable available financial resources. These amounts are expensed as paid.

## Equity Classifications

### Government-wide statements

- *Invested in capital assets, net of related debt* - consists of net capital assets reduced by outstanding balances of any related debt obligations attributable to the acquisition, construction, or improvement of those assets.
- *Restricted net assets* – net assets are considered restricted if their use is constrained to a particular purpose. Restrictions are imposed by external organizations such as federal or state laws or buyers of the Town's bonds.
- *Unrestricted net assets* – consists of all other net assets that do not meet the definition of the above two components and are available for general use by the Town.

### Governmental fund statements

The Town considers unrestricted resources to have been spent first when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, unless the use of the restricted amount was appropriated in the current year's budget. Within unrestricted fund balance, the Town considers committed, assigned, then unassigned resources to have been spent when an expenditure is incurred for which amounts in any of those fund balance classifications could be used.

Restricted fund balances and net assets generally result from reserves created by the State of New York Legislature and included in General Municipal Law, as authorized for use by the Town Board. Earnings on invested resources are required to be added to the various reserves.

Committed fund balances are authorized by the Town Board as recommended by the Town's management prior to the end of the year, although funding of the commitment may be established subsequent to year end. Assigned fund balances include the planned use of existing fund balance to offset the subsequent year's tax levy provided that it does not result in a deficit unassigned fund balance. Additionally, the Town Board has given management the authority to assign fund balances for specific purposes that are neither restricted nor committed. Nonspendable fund balances represent resources that cannot be spent as they are not expected to be converted to cash and include prepaid expenses.

Fund balance and net asset restrictions include the following reserves:

- *Debt service* – is used to account for proceeds from the sale of property that was financed by obligations still outstanding, interest and earnings on outstanding obligations (including bond and BAN premiums), and remaining bond proceeds not needed for their original purpose. This reserve must be used to pay the debt service obligations for which the original money was generated.
- *Worker's compensation* - is used to pay for compensation benefits and other expenses authorized by Article 2 of the Workers' Compensation Law, and for payment of expenses.

### **Interfund Transfers**

The operations of the Town include transactions between funds. The Town typically provides resources between funds for cash flow purposes. These interfund receivables and payables are repaid within one year. Permanent transfers of funds include the transfer of expenditures and revenues to provide financing or other services.

In the government-wide statements, the amounts reported on the statement of net assets for interfund receivables and payables represent amounts due between different fund types (governmental activities and fiduciary funds). Eliminations have been made for all interfund receivables and payables between the funds, with the exception of those due from or to fiduciary funds.

Interfund receivables and payables are netted on the accompanying governmental funds balance sheet as the right of legal offset exists. It is the Town's practice to settle these amounts at the net balances due between funds.

### **2. Change in Accounting Principle**

For the year ended December 31, 2011, the Town adopted GASB 54 – *Fund Balance Reporting and Governmental Fund Type Definitions*. This pronouncement requires the Town to classify fund balance into five distinctive categories: nonspendable, restricted, committed, assigned and unassigned based on the relative strength of the constraints that control how specific amounts can be spent including policy disclosure on how amounts in these categories are considered spent. This pronouncement also requires that if certain criteria are not met relative to special revenue funds, their activity should be included within the general fund.

### **3. Stewardship and Accountability**

The capital projects fund's deficit fund balance of \$5,346,017 will be funded when bond anticipation notes are redeemed from subsequent budget appropriations or converted to permanent financing.

Public safety expenditures within the fire protection fund exceeded the legally adopted budgetary amount by \$92,755. Consequently, total expenditures of the fund were in excess of the total budgetary expenditures by \$52,817.

#### 4. Cash and Investments

Investment policies are governed by State laws and as established in the Town's written policies. Cash resources must be deposited in FDIC-insured commercial banks or trust companies located within the State.

The Town Supervisor is authorized to invest in certificates of deposit, repurchase agreements, savings accounts, money market accounts, and NOW checking accounts, provided that approved securities are pledged to secure those funds on deposit in amounts equal to those funds. In addition, the Town can invest in direct debt securities of the United States, the State, other State municipalities, public authorities and agencies.

Collateral is required for demand and time deposits and certificates of deposit not covered by Federal Deposit Insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and its municipalities and school districts.

Custodial credit risk is the risk that, in the event of a bank failure, the Town's deposits may not be returned to it. At December 31, 2011, the Town's bank deposits were fully collateralized by FDIC coverage and securities held by the pledging institutions' agents in the Town's name.

#### 5. Interfund Transactions – fund financial statements

Fund	Receivable	Payable	Transfers	
			In	Out
General	\$ 117,916	\$ 10,400	\$ -	\$ 350,000
Highway	-	-	350,000	-
Fire protection	-	222,275	-	-
Water	104,359	-	-	-
Fiduciary	10,400	-	-	-
	<b>\$ 232,675</b>	<b>\$ 232,675</b>	<b>\$ 350,000</b>	<b>\$ 350,000</b>

The Town's general and water funds provide interim cash flow throughout the year to the fire protection fund. These amounts are repaid once contract payments are received from neighboring towns. Amounts owed to the fiduciary fund represent payroll withholdings to be reimbursed by the general fund. Amounts transferred from the general to the highway fund are for ongoing operations and are considered permanent.

## 6. Capital Assets

	Balance January 1, 2011	Increases	Retirements/ Reclassifications	Balance December 31, 2011
Capital assets not being depreciated:				
Land	\$ 11,945,352	\$ 683,981	\$ 1,438,159	\$ 14,067,492
Construction in progress	1,640,464	3,395,446	(3,903,504)	1,132,406
Total non-depreciated assets	<u>13,585,816</u>	<u>4,079,427</u>	<u>(2,465,345)</u>	<u>15,199,898</u>
Capital assets being depreciated:				
Infrastructure	118,902,292	4,403,473	986,215	124,291,980
Buildings and improvements	12,713,748	-	1,479,130	14,192,878
Machinery and equipment	6,126,247	358,458	(222,705)	6,262,000
Total depreciated assets	<u>137,742,287</u>	<u>4,761,931</u>	<u>2,242,640</u>	<u>144,746,858</u>
Less accumulated depreciation:				
Infrastructure	40,270,702	1,615,523	-	41,886,225
Buildings and improvements	2,685,464	235,034	-	2,920,498
Machinery and equipment	3,824,961	504,945	(200,835)	4,129,071
Total accumulated depreciation	<u>46,781,127</u>	<u>2,355,502</u>	<u>(200,835)</u>	<u>48,935,794</u>
Total depreciated assets, net	<u>90,961,160</u>	<u>2,406,429</u>	<u>2,443,475</u>	<u>95,811,064</u>
	<b>\$ 104,546,976</b>	<b>\$ 6,485,856</b>	<b>\$ (21,870)</b>	<b>\$ 111,010,962</b>

Depreciation expense has been allocated to the following functions: general government, \$105,622; public safety, \$29,001; transportation, \$1,524,767; culture and recreation, \$259,711; and home and community services \$436,401.

As of December 31, 2011, invested in capital assets, net of related debt consists of the following:

Capital assets, net of accumulated depreciation	\$ 111,010,962
Cash restricted for capital projects, net of related payables	2,442,657
Bond anticipation notes	(8,908,000)
Bonds	(8,586,300)
	<u>\$ 95,959,319</u>

## 7. Short-Term Debt

Bond anticipation notes (BANs) outstanding at December 31, 2011 amounted to \$8,908,000 (\$7,485,000 at December 31, 2010) and carry interest at 1% (1.5% at December 31, 2010). In 2011, \$397,000 of outstanding BANs were redeemed and \$1,820,000 of new BANs were issued. The Town plans to annually reissue all BANs with annual reductions in principal until they are paid in full.

BANs are generally issued as short term financing to fund major capital projects. The notes, or renewal thereof, may not extend more than two years beyond the original date of issue unless a portion is redeemed within two years and within each 12 month period thereafter. State law requires that BANs issued for capital purposes be converted into long-term obligations within five years of the original issue date. However, BANs issued for assessable improvement projects may be renewed for periods equivalent to the maximum life of the permanent financing, provided that stipulated annual reductions of principal are made.

## 8. Long-Term Liabilities

	January 1, 2011	Increases	Decreases	December 31, 2011	Due in One Year
Bonds	\$ 9,786,300	\$ -	\$ 1,200,000	\$ 8,586,300	\$ 1,245,000
Compensated absences	2,325,190	-	366,604	1,958,586	350,000
Other postemployment benefits	627,498	344,919	90,004	882,413	-
	<b>\$ 12,738,988</b>	<b>\$ 344,919</b>	<b>\$ 1,656,608</b>	<b>\$ 11,427,299</b>	<b>\$ 1,595,000</b>

### Existing obligations:

Description	Final Maturity	Interest Rate	Balance
1978 Water Improvements	July 2017	5.0%	\$ 60,000
1985 Water Improvements	December 2019	5.0%	81,300
1998 Refunding	December 2013	4.2%	465,000
2003 Refunding	August 2018	3.5-3.6%	3,285,000
2005 Refunding	August 2025	3.5-4.125%	1,875,000
2007 General Obligation Serial Bonds	August 2027	4.125-4.25%	2,820,000
			<b>\$ 8,586,300</b>

### Debt service requirements:

Years ending December 31,	Principal	Interest
2012	\$ 1,245,000	\$ 337,748
2013	1,105,000	290,093
2014	905,000	246,839
2015	930,000	212,105
2016	920,000	176,145
2017-2021	2,331,300	462,266
2022-2026	1,015,000	148,712
2027	135,000	5,738
	<b>\$ 8,586,300</b>	<b>\$ 1,879,646</b>

## 9. Contributions to Pension Plans

### New York State and Local Employees' Retirement System

The Town participates in the New York State and Local Employees' Retirement System (ERS), which is a cost-sharing, multiple-employer, public employee retirement system. ERS provides retirement benefits as well as death and disability benefits. New York State Retirement and Social Security Law governs obligations of employers and employees to contribute and provide benefits to employees. ERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Retirement System, 110 State Street, Albany, New York 12244-0001.

ERS requires employee contributions of 3% of salary for the first 10 years of service for those employees who joined between July 1976 and December 2009. Participants hired on or after January 1, 2010 are required to contribute 3% of compensation throughout their active membership in ERS. No employee contribution is required for those hired prior to July 1976. The Comptroller annually certifies the rates expressed as a percentage of the wages of participants used to compute the contributions required to be made by the Town to the pension accumulation fund.

The required contributions and rates over the past three years were:

	<u>Contributions</u>	<u>Rate</u>
2011	\$ 861,987	12.7 - 21.5%
2010	605,800	9.1 - 15.4%
2009	409,803	7.0 - 9.4%

The Town's contributions were equal to 100% of the amount required for each year.

### **Length of Service Awards Program**

The Town established separate defined benefit Length of Service Awards Programs (LOSAP) during 1992 for the active volunteers of the Clarence Center, Swormville, East Amherst, and Harris Hill fire departments. The programs were established pursuant to Article 11-A of State General Municipal Law. The programs provide municipally-funded pension-like benefits to facilitate the recruitment and retention of active volunteers. The Town is the sponsor of the programs.

Under LOSAP, participating members are paid a service award upon attainment of the program's entitlement age based upon the number of years of credited service. Active members age 18 or older who have completed one year of service are eligible to participate in the program. Participants acquire a nonforfeitable right to a service award after being credited with 5 years of service or upon attaining the program's entitlement age of 62 (55 for East Amherst).

A participant's service award benefit is the actuarial equivalent of a monthly payment for life with payments guaranteed for 10 years equal to \$20 multiplied by the number of years of credited service. The number of years of service used to compute the benefit cannot exceed 30 years. Except in the case of disability or death, benefits are payable when the participant reaches entitlement age. The Town has retained and designated JF Actuarial Services, Inc. to assist in administration of the program.

The programs provide death and disability benefits equal to the greater of \$25,000 (\$10,000 for Clarence Center) or the actuarial value of the participant's earned service award at the time of death or disability. The program does not provide extra line-of-duty death or disability benefits. All death and disability benefits are self-insured and paid from the program trust fund.

Program assets are required to be held in trust by Article 11-A exclusively to provide benefits to participants and their beneficiaries or for defraying reasonable expenses for operation and administration of the program. The Board created a Service Award Program Trust Fund through the adoption of the Trust document, a copy of which is available from the Town Clerk. The Town Board serves as the programs' trustee.

Information for the programs' years ended February 28, 2012 (March 31, 2012 for Clarence Center fire protection district) are as follows:

Actuarial present value of benefits at program year end	\$ 6,213,816
Assets available for benefits - annuities	<u>(2,220,217)</u>
Total unfunded benefits	3,993,599
Unfunded liability for prior service	<u>(360,719)</u>
Unfunded normal benefits	<u>\$ 3,632,880</u>

The unfunded liability for prior service is being amortized over twenty years at 4.75%.

Receipts and disbursements:

Plan net assets - beginning of program year	\$ 2,078,049
Changes during the year:	
Plan contributions	455,266
Investment income	95,026
Changes in fair market value	10,152
Benefits paid	(408,353)
Administrative and other fees	<u>(9,923)</u>
	<u>142,168</u>
Plan net assets - end of program year	<u>\$ 2,220,217</u>

Contributions as recommended by the actuary were \$698,776. Portions of the Swormville and East Amherst fire departments are within another town. That town contributed \$242,907 towards the programs during 2011. The actual contribution paid by the Town totaled \$487,589 for the year ended December 31, 2011.

The actuarial valuation method used by the actuary to determine the Town's contribution is the Entry Age Normal Frozen Initial Liability. The assumptions used by the actuary to determine the Town's contribution and the actuarial present value of benefits are as follows:

Assumed rate of return on program investments	4.75%
Tables used for:	
Post-entitlement age mortality	U8400
Pre-entitlement age mortality	U8400
Pre-entitlement age disability	None
Pre-entitlement age withdrawal	None
Pre-entitlement age service award accruals	100%

## 10. Postemployment Healthcare Benefits

The Town maintains a single-employer defined benefit healthcare plan (the Plan) providing for continuation of medical insurance for certain employees hired on or before December 31, 2006. For those employees who meet eligibility criteria, the Town contributes up to 50% of health insurance premiums for a length of time equal to the number of years of consecutive employment with the Town.

The Plan is also open to all eligible employees and provides continued insurance through the conversion of sick time or by payment of monthly premiums by retirees through the Town's experience-rated policies. The Town thereby provides an implicit rate subsidy on behalf of all eligible employees. Plan options include single and family coverage.

Benefit provisions are based on individual contracts with the Town, as negotiated from time to time. The Plan does not issue a publicly available financial report. The required contribution is based on projected pay-as-you-go financing requirements, with no current funding of actuarially determined liabilities. For the year ended December 31, 2011, the Town contributed \$90,004 for plan benefits.

The Town's annual other postemployment benefit (OPEB) expense is calculated based on the annual required contribution (ARC) which represents a level funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortizes unfunded actuarial liabilities over 30 years. OPEB expense also includes the following components:

- Amortization of the unfunded actuarial accrued liability (UAAL) for the current year, which is the actuarially-determined, unfunded present value of all future OPEB costs associated with current employees and retirees at the beginning of the year.
- Normal cost which is the actuarially-determined cost of future OPEB earned in the current year.

The following table summarizes the Town's annual OPEB for the year ended December 31, 2011:

Annual required contribution	
Normal cost	\$ 115,800
Amortization of unfunded actuarial accrued liability	226,849
Interest	28,237
ARC adjustment	(25,967)
	<u>344,919</u>
Contributions made	(90,004)
Increase in net OPEB obligation	<u>254,915</u>
Net OPEB obligation - beginning of year	627,498
Net OPEB obligation - end of year	<u>\$ 882,413</u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

	<b>Annual OPEB Cost</b>	<b>Percentage of Annual OPEB Cost Contributed</b>	<b>Net OPEB Obligation</b>
2011	\$ 344,919	26.1%	\$ 882,413
2010	\$ 311,919	32.9%	\$ 627,498
2009	\$ 311,919	32.9%	\$ 418,332

As of January 1, 2012, the actuarial accrued liability for benefits was \$5,561,710, all of which is unfunded. The annual payroll of employees covered by the Plan was \$5,012,080, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 111%.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and ARC of the Town are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. A schedule of funding progress for the past two actuarial valuations is presented as required supplementary information and displays trend data on plan assets (if any) and the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the Plan as understood by the Town and Plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the Town and Plan members. The methods and assumptions used included techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets (if any), consistent with the long-term perspective of the calculations. The following assumptions were made:

- Retirement age for active employees*** – active plan members were assumed to retire at age 55
- Marital status*** – 70% married, with male spouses assumed to be three years older than female spouses; actual ages for retirees
- Mortality*** – RP-2000 mortality tables, with separate tables used for males and females
- Turnover*** – 2003 Society of Actuaries small plan withdrawal rates
- Healthcare cost trend rate*** – 8.5% initially, with an ultimate rate of 5.0% after eight years
- Actuarial cost method*** – Entry Age Normal Method over a level percent of pay
- Discount rate*** – 4.5% (reduced from 5% in previous valuation)
- Salary scale*** – 4%
- Amortization method*** – 30 years level percent of pay, open group

## 11. Risk Management

The Town purchases commercial insurance for various risks of loss due to torts, thefts, damage, errors, omissions, and natural disasters. Settled claims resulting from these risks have not exceeded commercial coverage in any of the past three years.

**TOWN OF CLARENCE, NEW YORK**

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**Required Supplementary Information  
Schedule of Funding Progress  
Postemployment Benefit Plan (Unaudited)**

**December 31, 2011**

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<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability</b>	<b>Unfunded Actuarial Accrued Liability (UAAL)</b>	<b>Funded Ratio</b>	<b>Covered Payroll</b>	<b>UAAL as a Percentage of Covered Payroll</b>
March 1, 2008	\$ -	\$ 3,962,311	\$ (3,962,311)	-	\$ 4,637,207	85.4%
January 1, 2012	\$ -	\$ 5,561,710	\$ (5,561,710)	-	\$ 5,012,080	111.0%

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TOWN OF CLARENCE, NEW YORK

Supplementary Information  
 Combining Balance Sheet - Nonmajor Governmental Funds

December 31, 2011

	Special Revenue Funds							Total Nonmajor Governmental Funds
	Water	Sewer	Park Land	Drainage	Central Alarm	Lighting	Aquatic Growth	
<b>Assets</b>								
Cash	\$ 83,197	\$ 1,121,980	\$ 806,379	\$ 409,969	\$ 65,120	\$ 16,507	\$ 5,322	\$ 2,508,474
Accounts receivable	-	2,250	5,890	-	-	-	-	8,140
Due from other funds, net	104,359	-	-	-	-	-	-	104,359
<b>Total assets</b>	<b>\$ 187,556</b>	<b>\$ 1,124,230</b>	<b>\$ 812,269</b>	<b>\$ 409,969</b>	<b>\$ 65,120</b>	<b>\$ 16,507</b>	<b>\$ 5,322</b>	<b>\$ 2,620,973</b>
<b>Liabilities and Fund Balances</b>								
Accounts payable	\$ 34,520	\$ 330	\$ -	\$ 17,366	\$ -	\$ 792	\$ -	\$ 53,008
Due to other governments	-	222,977	-	-	-	-	-	222,977
<b>Total liabilities</b>	<b>34,520</b>	<b>223,307</b>	<b>-</b>	<b>17,366</b>	<b>-</b>	<b>792</b>	<b>-</b>	<b>275,985</b>
<b>Fund Balances</b>								
Restricted:								
Debt Service	79,588	29,281	-	-	-	-	-	108,869
Water	33,448	-	-	-	-	-	-	33,448
Sewer	-	831,142	-	-	-	-	-	831,142
Land acquisition	-	-	812,269	-	-	-	-	812,269
Drainage	-	-	-	372,603	-	-	-	372,603
Other restricted purposes	-	-	-	-	59,720	14,815	2,822	77,357
Assigned:								
Designated for subsequent year's expenditures	40,000	40,500	-	20,000	5,400	900	2,500	109,300
<b>Total fund balances</b>	<b>153,036</b>	<b>900,923</b>	<b>812,269</b>	<b>392,603</b>	<b>65,120</b>	<b>15,715</b>	<b>5,322</b>	<b>2,344,988</b>
<b>Total liabilities and fund balances</b>	<b>\$ 187,556</b>	<b>\$ 1,124,230</b>	<b>\$ 812,269</b>	<b>\$ 409,969</b>	<b>\$ 65,120</b>	<b>\$ 16,507</b>	<b>\$ 5,322</b>	<b>\$ 2,620,973</b>

TOWN OF CLARENCE, NEW YORK

Supplementary Information  
 Combining Statement of Revenues, Expenditures, and Changes in  
 Fund Balances - Nonmajor Governmental Funds

For the year ended December 31, 2011

	Special Revenue Funds							Total Nonmajor Governmental Funds
	Water	Sewer	Park Land	Drainage	Central Alarm	Lighting	Aquatic Growth	
<b>Revenues</b>								
Real property taxes	\$ 561,628	\$ 639,385	\$ -	\$ 402,497	\$ 239,799	\$ 12,100	\$ 3,100	\$ 1,858,509
Departmental income	-	17,250	69,069	-	-	-	-	86,319
Use of money and property	1,743	9,744	3,033	2,112	-	79	-	16,711
State sources	-	-	8,100	-	-	-	-	8,100
<b>Total revenues</b>	<b>563,371</b>	<b>666,379</b>	<b>80,202</b>	<b>404,609</b>	<b>239,799</b>	<b>12,179</b>	<b>3,100</b>	<b>1,969,639</b>
<b>Expenditures</b>								
General Support	823	361	-	517	299	-	-	2,000
Home and community services	413,390	478,808	-	280,124	243,250	9,831	1,050	1,426,453
Employee benefits	13,899	-	-	9,398	-	-	-	23,297
Debt Service:								-
Principal	131,600	48,000	-	-	-	-	-	179,600
Interest	21,083	23,156	-	-	-	-	-	44,239
<b>Total expenditures</b>	<b>580,795</b>	<b>550,325</b>	<b>-</b>	<b>290,039</b>	<b>243,549</b>	<b>9,831</b>	<b>1,050</b>	<b>1,675,589</b>
<b>Net change in fund balances</b>	<b>(17,424)</b>	<b>116,054</b>	<b>80,202</b>	<b>114,570</b>	<b>(3,750)</b>	<b>2,348</b>	<b>2,050</b>	<b>294,050</b>
Fund balances - beginning	170,460	784,869	732,067	278,033	68,870	13,367	3,272	2,050,938
<b>Fund balances - ending</b>	<b>\$ 153,036</b>	<b>\$ 900,923</b>	<b>\$ 812,269</b>	<b>\$ 392,603</b>	<b>\$ 65,120</b>	<b>\$ 15,715</b>	<b>\$ 5,322</b>	<b>\$ 2,344,988</b>

**TOWN OF CLARENCE, NEW YORK**

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**Supplementary Information  
Schedule of Expenditures of Federal Awards**

**For the year ended December 31, 2011**

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<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Expenditures</u>
<b>U.S. Department of Energy:</b>		
<b>Passed Through New York State Energy Research and Development Authority</b>		
ARRA - State Energy Program, Recovery Act	81.041	\$ 394,144
ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG), Recovery Act	81.128	<u>218,133</u>
<b>Total Expenditures of Federal Awards</b>		<b>\$ 612,277</b>

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**Notes to Schedule of Expenditures of Federal Awards**

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**1. Summary of Significant Accounting Policies**

**Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal award programs administered by Town of Clarence, New York (the Town), an entity as defined in Note 1 to the Town's basic financial statements. Federal awards received directly from federal agencies, as well as federal awards passed through from other governmental agencies, are included on the Schedule of Expenditures of Federal Awards.

**Basis of Accounting**

The Town uses the modified accrual basis of accounting for each federal program, consistent with the fund basis financial statements.

The amounts reported as federal expenditures generally were obtained from the appropriate federal financial reports for the applicable program and periods. The amounts reported in these federal financial reports are prepared from records maintained for each program, which are periodically reconciled with the Town's financial reporting system.

**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***

The Town Board  
Town of Clarence, New York

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Town of Clarence, New York (the Town) as of and for the year ended December 31, 2011, which collectively comprise the Town's basic financial statements and have issued our report thereon dated April 25, 2012. We conducted our audit 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**

Management of the Town is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Town's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town'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. However, we identified a deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs [2011-01] that we consider to be a significant deficiency in internal control over financial reporting. 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.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Town'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*.

The Town's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Town's response and, accordingly, we express no opinion on it.

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

Janssen & McCormick, LLP

April 25, 2012

**Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133**

The Town Board  
Town of Clarence, New York

**Compliance**

We have audited Town of Clarence, New York's (the Town) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Town's major federal programs for the year ended December 31, 2011. The Town's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Town's management. Our responsibility is to express an opinion on the Town's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Town's compliance with those requirements.

In our opinion, the Town complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011.

**Internal Control over Compliance**

Management of the Town is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Town's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance 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 compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

*Junsden # McCormick, LLP*

April 25, 2012

TOWN OF CLARENCE, NEW YORK

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**Schedule of Findings and Questioned Costs**

For the year ended December 31, 2011

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*Section I. Summary of Auditors' Results*

**Financial Statements**

Type of auditors' report issued: *Unqualified*

Internal control over financial reporting:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified? Yes [2011-01]

Noncompliance material to financial statements noted? No

**Federal Awards**

Internal control over major programs:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified? None reported

Type of auditors' report issued on compliance for major programs: *Unqualified*

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? No

Identification of major programs:

<u>Name of Federal Program</u>	<u>CFDA #</u>	<u>Amount</u>
ARRA - State Energy Program, Recovery Act	81.041	<u>\$ 394,144</u>

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? No

**TOWN OF CLARENCE, NEW YORK**

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**Schedule of Findings and Questioned Costs (continued)**

For the year ended December 31, 2011

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*Section II. Financial Statement Findings*

2011-01	<b>Condition:</b>	Management uses its external auditors to provide feedback and assistance with adjustments required by GASB 34 and in drafting the annual financial statements and footnote disclosures.
	<b>Criteria:</b>	Controls should be in place to ensure proper financial reporting and complete and accurate disclosures, exclusive of the efforts of the external auditor.
	<b>Effect:</b>	The Town's financial statements may not be properly presented in accordance with generally accepted accounting principles.
	<b>Recommendation:</b>	While possibly impractical, management may wish to consider additional training or other resources to ensure completeness of its reporting process and control system.
	<b>Management's Response:</b>	In order to eliminate this condition, the Town would need to devote considerable resources either internally or externally to ensure complete mastery of existing and future accounting principles and disclosure requirements. Management would have to compile the financial statements, including footnotes, and employ separate and distinct personnel for all standard implementation issues, in lieu of the services presently provided by the auditing firm. Based on an evaluation of resources and cost/benefit scenarios, we do not believe this option is practical for the Town.

*Section III. Federal Award Findings and Questioned Costs*

No matters were reported.

TOWN OF CLARENCE, NEW YORK

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**Summary Schedule of Prior Audit Findings**

December 31, 2011

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<u>Reference Number</u>	<u>Discussion</u>	<u>Cost</u>	<u>Status of Finding</u>
	No findings were reported and as such no corrective action plan is needed.		