

**BOROUGH OF UNION BEACH**  
**COUNTY OF MONMOUTH**  
**LENGTH OF SERVICE AWARD PROGRAM**  
**DECEMBER 31, 2016**

**BOROUGH OF UNION BEACH – COUNTY OF MONMOUTH**

**LENGTH OF SERVICE AWARD PROGRAM**

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# Robert A. Hulsart and Company

CERTIFIED PUBLIC ACCOUNTANTS

ARMOUR S. HULSART, C.P.A., R.M.A., P.S.A. (1959-1992)  
ROBERT A. HULSART, C.P.A., R.M.A., P.S.A.  
ROBERT A. HULSART, JR., C.P.A., P.S.A.

Telecopier:  
(732) 280-8888

e-mail:  
rah@monmouth.com

2807 Hurley Pond Road • Suite 100  
P.O. Box 1409  
Wall, New Jersey 07719-1409  
(732) 681-4990

RICHARD J. HELLENBRECHT, JR., C.P.A., P.S.A.

## INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Honorable Mayor and Members  
Of the Borough Council  
Borough of Union Beach  
County of Monmouth  
Union Beach, New Jersey 07735

We have reviewed the accompanying Statements of the Net Position Available for Program Benefits of the Length of Service Award Program of the Borough of Union Beach (the "Borough") as of December 31, 2016 and 2015, and the related Statement of Changes in Program Benefits for the years then ended, in accordance with standards established by the American Institute of Certified Public Accountants.

A review includes primarily applying analytical procedures to management's financial data and making inquiries of company management. A review is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement whether due to fraud or error.

### *Accountant's Responsibility*

Our responsibility is to conduct the review engagements in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

*Accountant's Conclusion*

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

  
ROBERT A. HULSART AND COMPANY

June 2, 2017

**BOROUGH OF UNION BEACH - COUNTY OF MONMOUTH**

**Exhibit 1**

**LENGTH OF SERVICE AWARD PROGRAM**

**STATEMENT OF NET POSITION AVAILABLE**

**FOR PROGRAM BENEFITS**

	<u>2016</u>	<u>2015</u>
<b><u>Assets</u></b>		
Investments Held by Trustee	<u>\$ 395,731.39</u>	<u>397,390.96</u>
<b><u>Liabilities</u></b>		
Net Position Available for Program Benefits	<u>\$ 395,731.39</u>	<u>397,390.96</u>

See Notes to Financial Statements and Independent Accountant's Review Report.

**BOROUGH OF UNION BEACH - COUNTY OF MONMOUTH****LENGTH OF SERVICE AWARD PROGRAM**

Exhibit 2

**STATEMENT OF CHANGES IN NET POSITION AVAILABLE**

	<u>2016</u>	<u>2015</u>
<b><u>Increases in Program Assets</u></b>		
Deposits	\$ -	65,350.00
Appreciation of Investments	27,797.19	4,110.92
Total Increase in Program Assets	<u>27,797.19</u>	<u>69,460.92</u>
<b><u>Decreases in Program Assets</u></b>		
Withdrawals	27,623.16	9,764.72
Accounting Charges	1,833.60	1,943.53
Total Decrease in Program Assets	<u>29,456.76</u>	<u>11,708.25</u>
Net Gain/(Loss) of Program Assets	(1,659.57)	57,752.67
<b><u>Net Position Available</u></b>		
Beginning of Year	<u>397,390.96</u>	<u>339,638.29</u>
End of Year	<u>\$ 395,731.39</u>	<u>397,390.96</u>

See Notes to Financial Statements and Independent Accountant's Review Report.

**BOROUGH OF UNION BEACH – COUNTY OF MONMOUTH**

**LENGTH OF SERVICE AWARD PROGRAM**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2016**

**NOTE 1. DESCRIPTION OF THE PROGRAM**

On November 4, 2003 the voters of the Borough approved the creation of a Length of Service Award Program (“LOSAP”). Subsequently, the Division approved the Borough’s LOSAP program, provided by Lincoln Financial Group. The purpose of this program is to enhance the Borough’s ability to retain and recruit volunteer firefighters and volunteer members of emergency service squads.

Lincoln Financial Group will provide for the benefit of participants, a multi-fund variable annuity contract as its funding vehicle. The program shall provide for a fixed annual contribution of \$800 for the fire company and the first aid squad to each eligible volunteer who accumulates a minimum of 80 service points based on criteria established by Borough Ordinance No. 2003-32. The Borough’s contribution shall be included in the current year’s budget.

All amounts awarded under a length of service award program shall remain the asset of the sponsoring agency; the obligation of the sponsoring agency to participating volunteers shall be contractual only; and no preferred or special interest in the awards made shall accrue to such participants. Such money shall be subject to the claims of the sponsoring agency’s general creditors until distributed to any or all participants.

Borough contributions for the year ended December 31, 2016 totaling \$44,000.00, which were expended in 2016 but not paid out until 2017. The Borough’s estimated contribution for the year ended December 31, 2017 is \$48,000.00, which is to be paid out in 2017.

**Contributions**

If an active member meets the year of active service requirement, a length of service awards program must provide a benefit between the minimum contribution of \$100.00 and a maximum contribution of \$1,623.00 per year. While the maximum amount is established by statute, it is subject to periodic increases that are related to the consumer price index (N.J.S.A. 40A:14-185(f)). The Division of Local Government Services of the State of New Jersey will issue the permitted maximum annually.

The Borough elected to contribute \$800.00 for the year ended December 31, 2016 and \$800.00 for the year ended December 31, 2015, per eligible volunteer, into the Plan, depending on how many years the volunteer has served. Participants direct the investment of the contributions into various investment options offered by the Plan. The Plan currently offers twenty-three mutual funds, one money market fund, and one fixed account investment contracts.

**NOTE 1.      DESCRIPTION OF THE PROGRAM (Continued)****Participant Accounts**

Each participant's account is credited with the Boroughs contribution and Plan earnings, and charged with administrative expenses. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account. In accordance with the amendments to Section 457 of the Internal Revenue Code, and the State Deferred Revenue Regulations, the Borough has placed the amounts deferred, including earnings, in a trust for the exclusive benefit of the plan participants and their beneficiaries.

Lincoln Financial Group ("Plan Administrator"), an approved Length of Service Awards Program provider, is the administrator of the Plan. The Borough's practical involvement in administering the Plan is essentially limited to verifying the eligibility of each participant and remitting the funds to the Plan Administrator. Since the Borough is not considered to be holding the assets, the Length of Service Awards Program is not presented in the Borough's financial statements.

**Vesting**

Benefits, plus actual earnings thereon, are one hundred percent (100%) vested after five (5) years of service. Any volunteer who has already successfully completed five (5) years or more of service as an active member in good standing became one hundred percent (100%) vested at the onset of the program. Any member who has successfully completed four (4) years of service as an active member in good standing will be one hundred percent (100%) vested after on (1) additional year of service, and so forth.

**Forfeited Accounts**

For the years ended December 31, 2016 and 2015, no accounts were forfeited.

**Payment of Benefits**

Upon retirement or disability, participants may select various payout options, which include lump sum, periodic, or annuity payments. In the case of death, with certain exceptions, any amount invested under the participant's account is paid to the beneficiary or the participant's estate.

In the event of an unforeseeable emergency, as outlined in the Plan document, a participant or a beneficiary entitled to vested accumulated deferrals may request the local plan administrator to payout a portion of vested accumulated deferrals.



**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****Basis of Accounting**

The financial statements of the Plan are prepared on the accrual basis of accounting. Under this method, revenues are recorded in the accounting period in which they are earned and deductions are recorded at the time the liabilities are incurred, regardless of the timing of related cash flows.

**Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires the Plan Administrator to make estimates and assumptions that affect the reported amounts of assets and liabilities and changes therein, and disclosures. Actual results could differ from those estimates.

**Investment Valuation and Income Recognition**

Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Purchase and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net appreciation includes the Plan's gains and losses on investments bought and sold as well as held during the year.

Investment contracts held by a defined contribution plan are required to be reported at fair value. The fixed account investment contract is presented at contract value, which approximates fair value. Contract value represents contributions received plus interest earned to date, less applicable charges and amounts withdrawn. The interest rate credited to the account is based on the overall rate of return for the entire portfolio.

Mutual fund investment income consists of dividends earned and realized and unrealized gains and losses attributable to the mutual funds.

Earnings are accrued to individual participant's accounts based upon the investment performance of the specific options selected.

The Financial Accounting Standards Board (FASB) provides a framework for measuring fair values under generally accepted accounting principles. See Note 5 for a discussion of fair value measurements.

**Receivables, Payables and Benefits Paid**

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to remain uncollectible. Contributions due from the Borough are recognized when due, since the Borough has a legal requirement to make the contribution.

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****Receivables, Payables and Benefits Paid (Continued)**

Liabilities for items other than benefits are recognized when incurred. Benefits payable, including accrued benefits and amounts allocated to accounts of vested persons who have elected to withdraw from the Plan, are not recognized until paid. Vested accumulated deferrals shall be paid to the participant in one or more installments as elected by the participant.

**Administration Expenses**

In 2016 and 2015, the Plan's administrative costs were paid by the participants.

**Net Position**

The difference between Plan assets and Plan liabilities is reported as net position available for benefits.

**Subsequent Events**

Subsequent events have been evaluated through June 2, 2017, which is the date the financial statements were available to be issued. No additional subsequent event disclosures are required.

**NOTE 3: INVESTMENTS**

An investment agreement was entered into at the inception of the Plan between the Borough and the Plan Administrator, whereby the Plan Administrator would have custody of the securities of the Plan and also advises the Borough as to investment alternatives.

The investments consist of a money market fund, mutual funds, and a fixed account investment contract. Each participant may choose his/her allocation from among these investments. The investments are made by the Plan Administrator for benefit of plan participants. The investments are valued at fair value at the end of each year and the increase/decrease is posted to the participant's account.

The fair value of the Plan's investments at December 31, 2015 and 2016 was as follows:

	<u>2015</u>	<u>2016</u>
Money Market Fund	\$ 12,183.39	9,076.00
Fixed Account Investment Contract	93,555.14	84,887.33
Mutual Funds	<u>291,652.43</u>	<u>301,768.06</u>
	<u>\$ 397,390.96</u>	<u>395,731.39</u>

**NOTE 3: INVESTMENTS (Continued)**

The following represents investments at December 31, 2015 and 2016 that represent five-percent or more of the Plan's net position.

	<u>2015</u>
Fixed Account Investment Contract	\$ 93,555.14
Mutual Funds:	
LVIP SSGA S & P 500 Index	152,516.86
Delaware Mid CAP	20,441.81
American Funds Growth	24,061.61

Assets at Fair Value as of December 31, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money Market Fund LVIP	\$ 12,183.39			12,183.39
Fixed Capital Investment Contract			93,555.14	93,555.14
Mutual Funds:				
Alliance Bernstein-Global Thematic Growth	17,495.80			17,495.80
American Funds – Growth/Income	7,249.11			7,249.11
American Funds – Global Growth	2,745.40			2,745.40
American Funds Growth	29,904.44			29,904.44
Delaware VIP Diversified Income	7,600.19			7,600.19
Delaware VIP Small Cap	5,509.34			5,509.34
Delaware VIP Mid Cap	20,441.81			20,441.81
Delaware VIP Value	1,227.60			1,227.60
Fidelity VIP Contrafund	4,221.23			4,221.23
LVIP Baron Growth	3,604.13			3,604.13
LVIP Delaware Special	365.88			365.88
LVIP Delaware Social Awareness	3,929.00			3,929.00
LVIP Mondrain International	1,174.54			1,174.54
LVIP SSGA S & P 500	152,516.86			152,516.86
LVIP T. Rowe Price Structured Mid Cap	17,808.58			17,808.58
LVIP UBS Large CAP Growth	997.88			997.88
Delaware VIP REIT	182.96			182.96
MSF VIP Utilities	7,555.54			7,555.54
Fidelity VIP Growth	5,224.09			5,224.09
LVIP SSGA Small Cap	1,898.05			1,898.05
	<u>\$ 303,835.82</u>		<u>93,555.14</u>	<u>397,390.96</u>

**NOTE 3:      INVESTMENTS (Continued)**

	<u>2016</u>
Fixed Account Investment Contract	\$ 84,887.33
Mutual Funds:	
LVIP SSGA S&P 500 Index Fund	158,697.30
American Funds Growth	22,609.29
Delaware VIP Mid Cap Growth	21,834.41

Assets at Fair Value as of December 31, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money Market Fund LVIP	\$ 9,076.00			9,076.00
Fixed Capital Investment Contract			84,887.33	84,887.33
Mutual Funds:				
Alliance Bernstein-Global Thematic Growth	14,797.24			14,797.24
American Funds – Growth/Income	7,962.27			7,962.27
American Funds – Global Growth	2,711.53			2,711.53
American Funds Growth	28,942.70			28,942.70
LVIP Dimensional U.S. Core Equity	8,580.80			8,580.80
Delaware VIP Small Cap	7,108.52			7,108.52
Delaware VIP Mid Cap	21,834.41			21,834.41
Delaware VIP Value	1,374.90			1,374.90
Fidelity VIP Contrafund	4,484.00			4,484.00
LVIP Baron Growth	3,748.32			3,748.32
LVIP SSGA S&P 500 Index Fund	158,697.30			158,697.30
LVIP Delaware Special	425.31			425.31
LVIP Delaware Social Awareness	4,131.73			4,131.73
LVIP Mondrian International	1,203.99			1,203.99
LVIP T. Rowe Price Structured Mid Cap	18,879.40			18,879.40
LVIP UBS Large CAP Growth	970.54			970.54
Delaware VIP REIT	179.83			179.83
MSF VIP Utilities	8,308.87			8,308.87
Fidelity VIP Growth	5,173.40			5,173.40
LVIP SSGA Small Cap Index	2,253.00			2,253.00
	<u>\$ 310,844.06</u>	<u>                    </u>	<u>84,887.43</u>	<u>395,731.39</u>

**NOTE 3: INVESTMENTS (Continued)**

During 2015 and 2016, the Plan's investments (including gains and losses on investments bought and sold, as well as held during the year) and net changes appreciated in value by \$2,167.41 and by \$26,386.97 respectively, as follows:

	<u>2015</u>	<u>2016</u>
Money Market Funds	\$ (171.27)	(3,107.29)
Fixed Account Investment Contract	1,779.43	(8,667.81)
Mutual Fund	<u>559.25</u>	<u>10,115.53</u>
	<u>\$ 2,167.41</u>	<u>(1,659.57)</u>

**NOTE 4: INVESTMENT CONTRACT**

The Plan has guaranteed interest account contract with Valic Variable Life Insurance Company. The funds are maintained by the insurance company in a general account. The account is credited with earnings on the underlying investments and charged for participant withdrawals and administrative expenses. The contract is included in the financial statements at fair value reported by the insurance company which approximates contract value. Since contract value approximates fair value, there is no adjustment from contract value to fair value.

**NOTE 5: FAIR VALUE MEASUREMENTS**

Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC) 820, *Fair Value Measurements and Disclosures*, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.
- Level 2 Inputs to the valuation methodology include:
- Quoted prices for similar assets or liabilities in active markets;
  - Quoted prices for identical or similar assets or liabilities in inactive markets;
  - Inputs other than quoted prices that are observable for the asset or liability.
  - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual term, the level 2 input must be observable for substantially the full term of the asset or liability.

**NOTE 5: FAIR VALUE MEASUREMENTS (Continued)**

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2014 and 2013.

*Money Market Fund and Mutual Funds:* Valued at the net asset value (NAV) of shares held by the plan at year end.

*Fixed Account Investment Contract:* Valued at the contract's market value as reported by the insurance company.

The preceding methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

**Level 3 Gains and Losses**

The following table sets forth a summary of changes in the fair value of the Plan's Level 3 assets for the years ended December 31, 2015 and 2016.

	<b>Level 3 Assets Year Ended</b>	
	<b>December 31,</b>	
	<u>2015</u>	<u>2016</u>
	<b><u>Fixed Account Investment Contract</u></b>	
Balance, Beginning of Year	\$ 74,023.37	93,555.14
Realized Gains/(Losses)	1,779.43	2,135.26
Contributions	19,940.00	0
Withdrawals	<u>(2,187.66)</u>	<u>(10,803.07)</u>
Balance End of Year	<u>\$ 93,555.14</u>	<u>84,887.33</u>

**NOTE 6: PLAN TERMINATION**

Although the Borough has not expressed any intent to do so, a length of service awards program, pursuant to N.J.S.A. 40A:14-187 and N.J.A.C. 5:30-11.08, may be abolished or amended in the same way by which it was created, except in the case of minor amendments. Upon such termination, vested accumulated deferrals will be paid.

**NOTE 7: RECEIVABLES**

There were no receivables as of December 31, 2015 however the 2016 contributions were not made until 2017 and as such are not reflected in these statements .

**NOTE 8: TAX STATUS**

In accordance with the amendments to Section 457 of the Internal Revenue Code and the State Deferred Revenue Regulations, the Borough has placed the amounts deferred, including earnings, in a trust for the exclusive benefit of the plan participants and their beneficiaries. The Plan administrator and the management of the Borough believe that the Plan is designed, and is currently being operated, in compliance with the applicable requirements of the Internal Revenue Code.

The Plan is generally subject to routine audits by the Internal Revenue Service, for three years. There are currently no audits in progress.

**NOTE 9: RISKS AND UNCERTAINTIES**

The Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participant's account balances and the amounts reported in the statement of net position available for benefits.

**Supplementary Information**



BOROUGH OF UNION BEACH - COUNTY OF MONMOUTH

Exhibit 3

LENGTH OF SERVICE AWARD PROGRAM

SCHEDULE OF INVESTMENT PROGRAM ACTIVITY

<u>Investments</u> Lincoln Financial Group	Balance	Increased by	Decreased by	Balance
	Dec. 31, 2015	Appreciation	Distributions	Dec. 31, 2016
	\$ 397,390.96	27,797.19	27,623.16	395,731.39
		-	1,833.60	

**BOROUGH OF UNION BEACH**  
**LENGTH OF SERVICE AWARDS PROGRAM**  
**SCHEDULE OF FINDINGS AND RECOMMENDATIONS**  
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

**BOROUGH OF UNION BEACH**  
**LENGTH OF SERVICE AWARDS PROGRAM**

**Schedule of Findings and Recommendations**  
**For The Year Ended December 31, 2016**

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This section identifies any instances of noncompliance with applicable statues and regulations governing Length of Service Awards Programs disclosed during our review.

None

**APPRECIATION**

We express our appreciation for the assistance and courtesies rendered by the Borough officials and the Plan Administrator during the course of this review engagement.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Robert A. Hulsart". The signature is written in a cursive style with a large, prominent initial "R".

ROBERT A. HULSART AND COMPANY  
Certified Public Accountants