

**FIRE DISTRICT NO. 1 OF THE TOWNSHIP OF EAST BRUNSWICK  
LENGTH OF SERVICE AWARD PROGRAM**

**Financial Statements**

**For the year ended December 31, 2015**

**(With Accountant's Review Report thereon)**

**FIRE DISTRICT NO. 1 OF THE TOWNSHIP OF EAST BRUNSWICK  
LENGTH OF SERVICE AWARD PROGRAM  
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For the year ended December 31, 2015**

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## INDEPENDENT ACCOUNTANT'S REVIEW REPORT

Board of Fire Commissioners  
Fire District No. 1 of the Township of East Brunswick

We have reviewed the accompanying financial statements of Fire District No. 1 of the Township of East Brunswick Length of Service Award Program, which comprise the statement of net assets available for benefits as of December 31, 2015, and the related statement of changes in net assets available for benefits for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to plan management's financial data and making inquiries of plan management. A review is substantially less in scope than an audit, 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**

Plan 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 financial statements that are free from material misstatement whether due to fraud or error.

### **Accountant's Responsibility**

Our responsibility is to conduct the review engagement 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 review, 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.

**Prior Period Financial Statements**

The statement of net assets available for benefits as of December 31, 2014, was reviewed by other auditors, and whose report dated January 7, 2016, stated they were not aware of any material modifications that should be made to the report.

**HOLMAN FRENIA ALLISON, P.C.**  
*Certified Public Accountants*

June 21, 2016  
Toms River, New Jersey

**FIRE DISTRICT NO. 1 OF THE TOWNSHIP OF EAST BRUNSWICK**  
**LENGTH OF SERVICE AWARD PROGRAM**  
**Statements of Net Assets Available for Benefits**  
**December 31, 2015 and 2014**

| <b>ASSETS</b>                           | <b>2015</b> | <b>2014</b>  |
|---|-------------|--------------|
| Investments                             | \$ 949,943  | \$ 938,597   |
| Contribution receivable - District      | 45,063      | 66,760       |
| Total assets                            | \$ 995,006  | \$ 1,005,357 |
| <b>NET ASSETS</b>                       |             |              |
| Net assets:                             |             |              |
| Available for benefits                  | \$ 995,006  | \$ 1,005,357 |
| Total net assets available for benefits | \$ 995,006  | \$ 1,005,357 |

See accompanying notes and independent accountant's review report.

**FIRE DISTRICT NO. 1 OF THE TOWNSHIP OF EAST BRUNSWICK**  
**LENGTH OF SERVICE AWARD PROGRAM**  
**Statements of Changes in Net Assets Available for Benefits**  
**For the year ended December 31, 2015**

|  | <b>2015</b> |
|--|-------------|
| Additions:   |             |
| District contributions                               | \$ 45,063   |
| Investment Earnings                                  |             |
| Net (decrease)/increase in fair value of investments | (1,638)     |
| Interest   | 4,302       |
| Net investment earnings                              | 2,664       |
| Total additions                                      | 47,727      |
| Deductions:  |             |
| Benefits paid to participants or beneficiaries       | 58,078      |
| Total deductions                                     | 58,078      |
| Net increase in net assets                           | (10,351)    |
| Net assets available for benefits, January 1         | 1,005,357   |
| Net assets available for benefits, December 31       | \$ 995,006  |

See accompanying notes and independent accountant's review report.

**FIRE DISTRICT NO. 1 OF THE TOWNSHIP OF EAST BRUNSWICK**  
**LENGTH OF SERVICE AWARD PROGRAM**  
**Notes to Financial Statements**  
**For the year ended December 31, 2015 and 2014**

**NOTE 1: DESCRIPTION OF THE PROGRAM**

Fire District No. 1 of the Township of East Brunswick (“the District”) currently sponsors the Length of Service Award Program (“LOSAP”) (“Plan”) for volunteer firefighters. This Plan was established on November 12, 1998 and is currently administered by the VALIC. As of December 31, 2015, there were approximately 62 participants in this Plan.

The first year of eligibility for entrance into the program was calendar year 1999. The tax deferred income benefits for active volunteer members of Fire District No. 1 of the Township of East Brunswick came from contributions made solely by the District, on behalf of those volunteers who meet the criteria of the Plan created by the respective governing body of the District. Fire District No. 1 of the Township of East Brunswick is responsible for contributing one hundred (100%) of the total annual contribution.

The maximum annual contribution to be made by the Fire District No. 1 of the Township of East Brunswick for each “active volunteer member” shall be \$1,169 for the year ended December 31, 2015. The annual contribution to be made by the Fire District No. 1 of the Township of East Brunswick for each of the active volunteer members shall be subject to periodic increases based upon the “consumer price index factor” pursuant to subsection f of section 3 of P.L. 1997, c.388 and at the discretion of the governing body.

Fire District No. 1 of the Township of East Brunswick has contributed a total of \$45,063 for the year ended December 31, 2015 for all eligible volunteers into the program, based on the annual accumulated points of each member.

In accordance with the amendments to Section 457 of the Internal Revenue Service Code and the State Deferred Revenue Regulations, the District has placed the amounts deferred, including earnings, in a trust for the exclusive benefit of the program participants and their beneficiaries.

The District’s practical involvement in administering the program is essentially limited to verifying the eligibility of each participant and remitting the funds to the program administrator.

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Basis of Accounting**

The accompanying financial statements are prepared on the accrual basis of accounting.

**B. Basis of Presentation**

Although the District has a contractual obligation to pay the LOSAP benefits to eligible members, the assets set aside to pay the LOSAP benefits belong to the District and are available to the unsecured creditors of the District. As such, the assets and liabilities of the LOSAP are included in the financial statements of the District as a fiduciary fund. The accompanying financial statements present a portion of that fund representing the unfunded liability and related designated assets of the LOSAP.

See independent accountant’s review report.

**FIRE DISTRICT NO. 1 OF THE TOWNSHIP OF EAST BRUNSWICK**  
**LENGTH OF SERVICE AWARD PROGRAM**  
**Notes to Financial Statements (continued)**  
**For the year ended December 31, 2015 and 2014**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**C. Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires the plan administrator to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

**D. Investment Valuation**

Upon enrollment in the Plan, a participant may direct their contributions among funds offered by Variable Annuity Life Insurance Company ("VALIC"). VALIC offers a variety of funds, including funds managed by VALIC and funds managed by other investment companies. A portion of the plan assets are invested in a fixed-income Group Annuity Contract (GAC) with VALIC which is valued in the financial statements at fair value, which is equal to contract value.

**E. Terms of Participation**

The Plan Administrator shall have the right to require any active volunteer member at the time of his or her becoming a participant to agree, in writing, to be bound by the terms, covenants and conditions of the LOSAP and accompanying trust. Each participant shall furnish to the Plan Administrator all pertinent information required for the administration of the LOSAP. The Plan Administrator shall rely upon all such information furnished.

**F. Vesting**

The active volunteer member shall not be permitted to receive a distribution of the fund in his or her LOSAP account until the completion of a 12-month period during which an active volunteer participated in the fire service and satisfies the minimum requirements of participation established by the District on a consistent and uniform basis.

**G. Termination of Service**

Any participant who terminates service as an active volunteer member shall cease to participate hereunder. A former participant may resume participation immediately upon returning to the service of the Fire District No. 1 of the Township of East Brunswick as an active volunteer member. Any active volunteer member who terminates service with the Fire District No. 1 of the Township of East Brunswick, subsequently returns to service and again becomes a participant shall be treated as a new participant for purposes of eligibility unless said participant was fully vested prior to his or her termination from service.

**H. Payment of Benefits**

Benefit payments to participants are recorded upon distribution.

See independent accountant's review report.



**FIRE DISTRICT NO. 1 OF THE TOWNSHIP OF EAST BRUNSWICK  
 LENGTH OF SERVICE AWARD PROGRAM  
 Notes to Financial Statements (continued)  
 For the year ended December 31, 2015 and 2014**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**I. Subsequent Events**

The District has evaluated subsequent events through June 21, 2016, the date the financial statements were available to be issued.

**NOTE 3: INVESTMENTS**

An investment agreement was entered into at the inception of the plan between the District and Variable Annuity Life Insurance Company, whereby VALIC would have custody of the securities of the plan and also advises the District as to investment alternatives.

The investments consist of stocks, bonds, money markets, fixed investments and guaranteed accumulation. Each participant may choose his/her allocation from among these investments. The investments are made by VALIC for benefit of plan participants. The investments are valued at market value at the end of each year and the increase/decrease is posted to the individual's account.

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

|                                   |                    |
|-----------------------------------|--------------------|
|                                   | <b><u>2015</u></b> |
| Fixed Account Investment Contract | \$ 110,533         |
| Mutual Funds                      | <u>839,410</u>     |
|                                   | <u>\$ 949,943</u>  |

The following represents investments at December 31, 2015 that represent five (5) percent or more of the program's Net Assets.

|                                   |                    |
|-----------------------------------|--------------------|
|                                   | <b><u>2015</u></b> |
| Fixed Account Investment Contract | \$ 110,533         |
| Mutual Funds:                     |                    |
| Health Sciences Fund              | 91,512             |
| Mid Cap Index Fund                | 93,367             |
| Short Term Fixed Account          | 58,254             |
| Stock Index Fund                  | 55,660             |
| Vanguard Welling Fund Inc         | 59,390             |
| Vanguard Windsor II               | 62,075             |

During 2015, the program's investments (including gains and losses on investments bought and sold, as well as held during the year) appreciated in value by \$2,664 for the year ended December 31, 2015, as follows:

|                                   |                    |
|-----------------------------------|--------------------|
|                                   | <b><u>2015</u></b> |
| Fixed Account Investment Contract | \$ 2,742           |
| Mutual Funds                      | <u>(78)</u>        |
|                                   | <u>\$ 2,664</u>    |

See independent accountant's review report.

**FIRE DISTRICT NO. 1 OF THE TOWNSHIP OF EAST BRUNSWICK  
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 Notes to Financial Statements (continued)  
 For the year ended December 31, 2015 and 2014**

**NOTE 4: FAIR VALUE MEASUREMENTS**

The framework for measuring fair value 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) and the lowest priority to unobservable inputs (level 3). 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<br>- quoted prices for similar assets or liabilities in active markets;<br>- quoted prices for identical or similar assets or liabilities in inactive markets;<br>- inputs other than quoted prices that are observable for the asset or liability;<br>- inputs that are derived principally from or corroborated by observable market data by correlation or other means.<br><br>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. |
| Level 3 | Inputs to the valuation methodology are unobservable and significant to the fair value measurement.   |

The asset 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 or 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, 2015.

**Mutual funds:** Valued at the daily closing price as reported by the fund. Mutual funds held by the Plan are open-end mutual funds that are registered with the SEC. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Plan are deemed to be actively traded.

**Fixed Income Option:** Valued at fair value by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the credit-worthiness of the issuer.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the plan believes its valuation methods are appropriate and consistent with other market participants, the use of

See independent accountant’s review report.

**FIRE DISTRICT NO. 1 OF THE TOWNSHIP OF EAST BRUNSWICK**  
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**Notes to Financial Statements (continued)**  
**For the year ended December 31, 2015 and 2014**

**NOTE 4: FAIR VALUE MEASUREMENTS (continued)**

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.

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.

The following tables set forth by level, within the fair value hierarchy, the LOSAP's assets at fair value as of December 31, 2015:

| <i>Assets at Fair Value as of December 31, 2015</i> |                |                |                |              |
|---|----------------|----------------|----------------|--------------|
|   | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
| Mutual funds:                                       |                |                |                |              |
| Bond  | \$ 18,615      | \$ -           | \$ -           | \$ 18,615    |
| Conservative Allocation                             | 13,413         | -              | -              | 13,413       |
| Foreign Large Value                                 | 6,066          | -              | -              | 6,066        |
| Health  | 91,512         | -              | -              | 91,512       |
| Intermediate Government                             | 14,250         | -              | -              | 14,250       |
| International Securities                            | 10,402         | -              | -              | 10,402       |
| Large Cap Growth/Blend                              | 358,484        | -              | -              | 358,484      |
| Mid Cap Growth/Blend                                | 102,291        | -              | -              | 102,291      |
| Money Market  | 38,780         | -              | -              | 38,780       |
| Small Growth  | 145,474        | -              | -              | 145,474      |
| Technology  | 28,386         | -              | -              | 28,386       |
| World Stock   | 11,737         | -              | -              | 11,737       |
| Total mutual funds                                  | 839,410        | -              | -              | 839,410      |
| Fixed Income Option                                 | -              | -              | 110,533        | 110,533      |
| Total assets at fair value                          | \$ 839,410     | \$ -           | \$ 110,533     | \$ 949,943   |

**Level I Gains and Losses**

The following table sets forth a summary of changes in the fair value of the LOSAP's Level I assets for the years ended December 31, 2015:

See independent accountant's review report.

**FIRE DISTRICT NO. 1 OF THE TOWNSHIP OF EAST BRUNSWICK**  
**LENGTH OF SERVICE AWARD PROGRAM**  
**Notes to Financial Statements (continued)**  
**For the year ended December 31, 2015 and 2014**

**NOTE 4: FAIR VALUE MEASUREMENTS (continued)**

| <i>Level 3 Assets</i>  |                                |
|--|--------------------------------|
| <i>Year Ended December 31, 2015</i>  |                                |
|  | <i>Fixed<br/>income option</i> |
| Balance, beginning of year   | \$ 100,781                     |
| Unrealized gains/(losses)<br>relating to instruments still<br>held at the reporting date | (2,742)                        |
| Purchases, sales, issuances,<br>settlements and transfers (net)                          | 7,010                          |
| Balance, end of year   | \$ 110,533                     |

**NOTE 5: FUNDING POLICY**

The District’s funding policy is to make annual contributions to the Plan.

**NOTE 6: PLAN TERMINATION**

Although it has not expressed any intention to do so, the District has the right under the Plan to discontinue its contributions and to terminate the Plan at any time.

**NOTE 7: TAX STATUS**

The Plan has not applied to the Internal Revenue Service for a determination that it is designed in accordance with applicable sections of the Internal Revenue Code (IRC). However, the Plan administrator believes the Plan is designed and is currently being operated in compliance with the applicable requirements in the IRC. The Plan is intended to comply with Section 457(e)(11)(A)(ii) of the Internal Service Code of 1986, as amended. Taxation of benefits under the LOSAP is governed by Code Section 451 and participants will be taxed on their benefits when the benefits are distributed to them.

**NOTE 8: RISKS AND UNCERTAINTIES**

The LOSAP 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 assets available for benefits.

See independent accountant’s review report.