

PENNINGTON BOROUGH FIRE DISTRICT NO. 1

December 31, 2019



PENNINGTON BOROUGH FIRE DISTRICT NO. 1

For the Year Ended December 31, 2019

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Certified Public Accountants, PC

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Independent Auditors' Report

Board of Fire Commissioners
Pennington Borough Fire District No. 1
Pennington, New Jersey

We have audited the accompanying financial statements of the governmental activities of Pennington Borough Fire District No. 1, in the County of Mercer, State of New Jersey, as of and for the year ended December 31, 2019 and the related Notes to the Financial Statements, which collectively comprise Pennington Borough Fire District No. 1's basic financial statements as listed in the Table of Contents.

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

Auditors' Responsibility

Our responsibility is to express an opinion 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Pennington Borough Fire District No. 1, as of December 31, 2019, and the respective changes in financial position thereof and for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and Schedule of Budget vs. Actual Revenues and Expenses - General Fund as identified in the Table of Contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it an essential part of the financial reporting for placing the basic financial statements in an appropriated operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with the 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 basis financial statements, and other knowledge we obtained during our audit of the basic 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's Basic Financial Statements. The Schedule of Officials and Surety Bond is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Schedule of Officials and Surety Bond is the responsibility of management and has not been subject to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with the *Government Auditing Standards*, we have also issued our report dated May 19, 2020, on our consideration of the Pennington Borough Fire District No. 1 internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Pennington Borough Fire District No. 1's internal controls over financial reporting and compliance.



BKC, CPAs, PC

May 19, 2020
Flemington, New Jersey

REQUIRED SUPPLEMENTARY INFORMATION - PART I

**BOARD OF FIRE COMMISSIONERS
DISTRICT NO. 1
BOROUGH OF PENNINGTON
Management's Discussion and Analysis
For the Year Ended December 31, 2019**

Our discussion and analysis of the financial performance of Pennington Borough Fire District No. 1 (the District) provides an overview of the District's financial activities for the year ended December 31, 2019. Please review it in conjunction with the District's basic financial statements which begin on page 7.

Financial Highlights

Total net position increased \$155,348 which represents a 7.8 percent increase from 2018. The excess of revenue over expenditures in the general fund was \$125,486, less a decrease in accrued interest on notes receivable of \$1,486, plus a decrease in accrued interest on debt totaling \$1,940 accounting for the increase in unrestricted net position of \$125,940. The decrease in net position reserved for capital projects was \$189,168 and the increase in net position invested in capital assets was \$218,576.

The amount raised by taxation was \$212,670 or 34.4 percent of all revenue and other funding sources. Funds from an adjoining municipality, other income and interest totaled \$405,615 or 65.6 percent of all revenue and other funding sources.

Total expenditures have decreased \$36,714 or 7.3 percent. Expenditures for capital projects were \$246,007 and \$138,993 in 2019 and 2018, respectively.

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities and Change in Net Position (on page 7 and 8) provide information about the activities of the District as a whole. Fund financial statements start on page 9. These statements tell how these services were financed. Fund financial statements also report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds.

Reporting the District as a Whole

The Statement of Net Position and the Statement of Activities

The financial statements of the District as a whole begin on page 7. One of the most important questions asked about the District's finances is, "Is the District as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities and Change in Net Position report information about the District as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenue and expenses are considered regardless of when cash is received or paid. These two statements report the District's *net position* and changes to them.

**BOARD OF FIRE COMMISSIONERS
DISTRICT NO. 1
BOROUGH OF PENNINGTON
Management's Discussion and Analysis
For the Year Ended December 31, 2019**

You can think of the District's net position - the difference between assets and liabilities - as one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net position are one indicator of whether its *financial health* is improving or deteriorating.

Reporting the District's Most Significant Funds

Fund Financial Statements

The financial statements of the District's major funds begin on page 9. The fund financial statements provide detailed information about the most significant funds - not the District as a whole.

General Fund - Most of the District's basic services are reported in the general fund, which focuses on how money flows in and out of the funds and the balances left at year-end that are available for spending. The general fund statements provide a detailed *short-term view* of the District's general operations and the basic services it provides. General fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

Capital Fund - The capital fund represents money allocated for future capital expenditures.

The District as a Whole

The District's total net position increased \$155,348 to \$2,145,441 or 7.8 percent. Details of the changes are reflected on page 8.

Original versus Final Budget

Page 20 reflects the variances between the original and final budgeted amounts.

Final Budget versus Actual Results

As reflected on page 20, the District operated within budgetary constraints. Actual revenues were under the final budget by \$8,149 while actual expenses were under the final budget by \$133,635. A reduction in the amount received by an adjoining municipality resulted in the under-realization of revenues. The decrease in expenditures is due to insurance, length of service award program, and capital outlay expenses coming in under budgeted amounts.

Capital Assets

At year-end, the District had \$4,321,258 at cost in total capital assets representing an increase of \$264,007 from 2018. The increase is attributable to a deposit on a new pumper and the acquisition of a turn out gear dryer being offset by the cancellation of a flooring improvement project canceled in 2019.

**BOARD OF FIRE COMMISSIONERS
DISTRICT NO. 1
BOROUGH OF PENNINGTON
Management's Discussion and Analysis
For the Year Ended December 31, 2019**

Condensed Comparative Information

	2019	2018	Increase (Decrease)
Net position			
Current and other assets	\$ 2,401,891	\$ 2,594,201	\$ (192,310)
Investment in LOSAP - Unaudited	1,982,397	1,502,345	480,052
Capital assets	1,550,287	1,409,293	140,994
Total assets	<u>\$ 5,934,575</u>	<u>\$ 5,505,839</u>	<u>\$ 428,736</u>
Liabilities and deferred inflows of resources	<u>\$ 3,789,134</u>	<u>\$ 3,515,746</u>	<u>\$ 273,388</u>
Unreserved	\$ 907,897	\$ 781,957	\$ 125,940
Reserved for capital purchases	405,912	595,080	(189,168)
Investment in capital assets	831,632	613,056	218,576
	<u>\$ 2,145,441</u>	<u>\$ 1,990,093</u>	<u>\$ 155,348</u>
Revenue and expenditures			
Revenue	\$ 618,285	\$ 648,209	\$ (29,924)
Expenditures and other financing uses	462,937	499,651	(36,714)
Change in net position	<u>\$ 155,348</u>	<u>\$ 148,558</u>	<u>\$ 6,790</u>

The prior-year financial information has been adjusted for comparative purposes to include account balances relating to the length of services award program.

Economic Factors and Next Year's Budget and Rates

The District's governing body considers many factors when setting the 2020 budget and tax rates including the economy, rate of inflation, and planned future capital projects. The tax rate will be \$.043 per \$100 of assessed valuation in 2020. The rate is the same of assessed valuation in 2019.

Contacting the District's Financial Management

The financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and shows the District's accountability for the money it receives. This discussion and analysis are based upon information that was available as of May 19, 2020.

If you have questions about this report or need additional financial information, contact the Board Clerk at P.O. 387, Pennington, NJ 08534.

PENNINGTON BOROUGH FIRE DISTRICT NO. 1
Statement of Net Position
December 31, 2019

ASSETS

Assets

Current assets

Cash and cash equivalents	\$ 882,110
Due from municipalities	149,000
Notes receivable from neighboring fire district - current	78,070
Accrued interest receivable	23,088
Cash and cash equivalents - restricted	419,130
Length of Service Awards Program receivable	78,516

Total current assets	<u>1,629,914</u>
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Non-current assets

Notes receivable from neighboring fire district - non-current	771,977
Capital assets, net of accumulated depreciation	1,550,287
Investments for Length of Service Award Program (unaudited)	1,982,397

Total non-current assets	<u>4,304,661</u>
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Total assets	<u><u>\$ 5,934,575</u></u>
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LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

Liabilities

Current liabilities

Accrued expenses	\$ 141,548
Accrued interest on debt	17,971

Total current liabilities	<u>159,519</u>
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Long-term liabilities

Lease payable - current	80,103
Lease payable - non-current	638,552
Reserve for Length of Service Award Program (LOSAP) (unaudited)	2,060,913

Total long-term liabilities	<u>2,779,568</u>
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Deferred inflows of resources

Unearned revenue	850,047
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Total liabilities and deferred inflows of resources	<u>3,789,134</u>
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See accompanying notes to the financial statements.

PENNINGTON BOROUGH FIRE DISTRICT NO. 1
Statement of Net Position
December 31, 2019

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION (continued)

Net position	
Unrestricted	\$ 907,897
Restricted for capital asset purchases	405,912
Net investment in capital assets	<u>831,632</u>
Total net position	<u>2,145,441</u>
Total liabilities, deferred inflows of resources and net position	<u><u>\$ 5,934,575</u></u>

See accompanying notes to the financial statements.

PENNINGTON BOROUGH FIRE DISTRICT NO. 1
Statement of Activities and Change in Net Position
For the Year Ended December 31, 2019

Revenue	
District taxes	\$ 212,670
Adjoining municipality taxes	286,629
Interest	36,282
Other income	82,704
Total revenue	<u>618,285</u>
Expenses	
Operating and maintenance	333,986
Depreciation	105,013
Interest	23,938
Total expenses	<u>462,937</u>
Change in net position	155,348
Net position - beginning of year	<u>1,990,093</u>
Net position - end of year	<u><u>\$ 2,145,441</u></u>

See accompanying notes to the financial statements.

PENNINGTON BOROUGH FIRE DISTRICT NO. 1
Balance Sheet - Governmental Funds
December 31, 2019

	General Fund	Capital Fund	Eliminations	Total
Assets				
Cash and cash equivalents	\$ 882,110	\$ -	\$ -	\$ 882,110
Due from municipalities	149,000	-	-	149,000
Due from capital fund	13,218		(13,218)	-
Notes receivable from neighboring fire district	850,047	-	-	850,047
Cash and cash equivalents - restricted	-	419,130	-	419,130
Total assets	<u>\$ 1,894,375</u>	<u>\$ 419,130</u>	<u>\$ (13,218)</u>	<u>\$ 2,300,287</u>
Liabilities				
Accrued expenses	\$ 141,548	\$ -	\$ -	\$ 141,548
Due to general fund	-	13,218	(13,218)	-
Total liabilities	<u>141,548</u>	<u>13,218</u>	<u>(13,218)</u>	<u>141,548</u>
Deferred inflows of resources				
Unearned revenue	850,047	-	-	850,047
Total liabilities and deferred inflow of resources	<u>991,595</u>	<u>13,218</u>	<u>(13,218)</u>	<u>991,595</u>
Fund balances				
Unrestricted	902,780	-	-	902,780
Restricted for capital asset purchases	-	405,912	-	405,912
Total fund balances	<u>902,780</u>	<u>405,912</u>	<u>-</u>	<u>1,308,692</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 1,894,375</u>	<u>\$ 419,130</u>	<u>\$ (13,218)</u>	<u>\$ 2,300,287</u>

See accompanying notes to the financial statements.

PENNINGTON BOROUGH FIRE DISTRICT NO. 1
Reconciliation of Governmental Fund Position
to the District-Wide Statement of Net Position
December 31, 2019

Amounts reported in the governmental activities in the Statement of Net Position (Page 7) are different because:

District-wide, government fund, net position	\$ 1,308,692
Capital assets used in government activities are not financial resources and therefore are not reported in the funds. The cost of the assets are \$4,321,258 and the accumulated depreciation is \$2,770,971.	1,550,287
Long-term liabilities, including lease payables are not due and payable in the current period and therefore are not reported as liabilities in the funds.	(718,655)
Interest on notes receivable is accrued regardless of when due. In the governmental funds, interest is recorded when due. The accrued interest is a reconciling item.	23,088
Interest on lease payables is accrued regardless of when due. In the governmental funds, interest is recorded when due. The accrued interest is a reconciling item.	<u>(17,971)</u>
Total net position	<u><u>\$ 2,145,441</u></u>

See accompanying notes to the financial statements.

PENNINGTON BOROUGH FIRE DISTRICT NO. 1
Statement of Revenue, Expenses and Changes in Fund Balance
For the Year Ended December 31, 2019

	<u>General Fund</u>	<u>Capital Fund</u>	<u>Eliminations</u>	<u>Total</u>
Revenue				
District taxes	\$ 212,670	\$ -	\$ -	\$ 212,670
Adjoining municipality	286,629	-	-	286,629
Interest	33,425	4,343	-	37,768
Other income	82,704	-	-	82,704
Transferred to (from) general fund	193,511	-	(193,511)	-
Total revenue	<u>808,939</u>	<u>4,343</u>	<u>(193,511)</u>	<u>619,771</u>
Expenses				
Operating and maintenance	333,986	-	-	333,986
Transfer to (from) capital fund	-	193,511	(193,511)	-
Capital outlay	246,007	-	-	246,007
Lease payable				
Principal	77,582	-	-	77,582
Interest	25,878	-	-	25,878
Total expenses	<u>683,453</u>	<u>193,511</u>	<u>(193,511)</u>	<u>683,453</u>
Excess (deficiency) of revenues over (under) fund balance	<u>125,486</u>	<u>(189,168)</u>	<u>-</u>	<u>(63,682)</u>

See accompanying notes to the financial statements.

PENNINGTON BOROUGH FIRE DISTRICT NO. 1
Statement of Revenue, Expenses and Changes in Fund Balance (continued)
For the Year Ended December 31, 2019

	General Fund	Capital Fund	Eliminations	Total
Increase in fund balance	\$ 125,486	\$ (189,168)	\$ -	\$ (63,682)
Fund balance - beginning of year	777,294	595,080	-	1,372,374
Fund balance - end of year	\$ 902,780	\$ 405,912	\$ -	\$ 1,308,692

See accompanying notes to the financial statements.

PENNINGTON BOROUGH FIRE DISTRICT NO. 1
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balance
to the District-Wide Statement of Changes in Net Position
December 31, 2019

Total changes in fund balances - governmental fund	\$ (63,682)
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>	
<p>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 expenses. This is the amount by which capital outlays exceed depreciation expense:</p>	
Capital outlays	246,007
Depreciation expense	(105,013)
<p>Repayment of debt principal and capital leases are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position and is not reported in the Statement of Activities.</p>	
Lease principal payments	77,582
<p>Interest on notes receivable is accrued regardless of when due in the Statement of Activities. In the governmental funds, interest is recorded when due.</p>	
Current year accrued interest receivable	23,088
Prior year accrued interest receivable	(24,574)
<p>Interest on long-term debt is accrued regardless of when due in the Statement of Activities. In the governmental funds, interest is recorded when due.</p>	
Current year accrued interest payable	(17,971)
Prior year accrued interest payable	19,911
	19,911
Change in net position of governmental activities	\$ 155,348

See accompanying notes to the financial statements.

PENNINGTON BOROUGH FIRE DISTRICT NO. 1
Notes to the Financial Statements

Note 1 - Summary of significant accounting policies

Nature of activities

The Pennington Borough Fire District No. 1 (the District) is a political subdivision of the Borough of Pennington, New Jersey. A five-member Board governs the District. Members are elected annually on a rotating basis to three-year terms. The District provides fire protection, prevention, safety and education services to the Borough of Pennington and to surrounding local communities.

Financial reporting/principles of accounting

The accompanying financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to Governmental Units. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The implementation of GASB has created additional statements, schedules, reports and notes disclosures as follows:

- Financial statements are prepared using full accrual accounting methods, including recording of depreciation on capital assets and recording those assets net of accumulated depreciation.
- The basic financial statements include District-wide Statements and Fund Financial Statements, as explained in the following note disclosures:

District-wide Statements: The Statement of Net Position and the Statement of Activities and Change in Net Position display information about the District. The District activities are financed through taxes and funds from an adjoining District. The government-wide financial statements are reported using the accrual basis of accounting. Revenue is recorded when earned and expenses recorded at the time liabilities are incurred, regardless of when the cash flows take place.

Fund Financial Statements: The fund financial statements provide information about the District's activities, which are reported in the general fund and the capital fund. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenue is recognized when measurable and available. Expenditures are recorded when the related fund liabilities are incurred. General capital asset acquisitions are reported as expenditures in governmental funds.

General Fund: This is the District's operating fund. It accounts for all financial resources of the District except those required to be accounted for in other funds.

Capital Fund: This fund accounts for expenditures for capital assets.

PENNINGTON BOROUGH FIRE DISTRICT NO. 1
Notes to the Financial Statements

Note 1 - Summary of significant accounting policies (continued)

Budget and budgetary accounting

The District adopts an annual budget for the general fund. The budget is approved by the Division of Local Government Services, Department of Community Affairs, and the State of New Jersey. The budget is then voted upon by the public. Budget amendments are passed on an as-needed basis, and a balanced budget is required. Appropriations lapse at the end of the year, unless encumbered.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Capital assets

Capital assets are recorded as expenditures at the time of purchase and the related assets are capitalized at cost. It is the District's policy to capitalize assets with costs in excess of \$1,000 and an estimated useful life in excess of one year. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets as follows:

Fire apparatus	10 years
Fire-fighting equipment	5 - 10 years
Other equipment	3 - 10 years
Trucks	10 - 20 years

Income taxes

The District is a subdivision of the Borough of Pennington and is not required to file tax returns. Accordingly, no provision for income taxes has been made in the financial statements.

Note 2 - Deposits and cash equivalents

Cash and cash equivalents consist of cash in the bank and money market funds.

New Jersey Governmental Units are required by N.J.S.A. 40A:5-14 to deposit public funds in a bank or trust company having its place of business in the State of New Jersey and organized under the laws of the United States or of the State of New Jersey or in the New Jersey Cash Management Fund. N.J.S.A. 40A:5-15.1 provides a list of investments which may be purchased by New Jersey Governmental Units. In addition, other state statutes permit investments in obligations issued by local authorities and other state agencies. The State of New Jersey does not place any limit on the amount that the District may invest with any one issuer.

PENNINGTON BOROUGH FIRE DISTRICT NO. 1
Notes to the Financial Statements

Note 2 - Deposits and cash equivalents (continued)

New Jersey Governmental Units are limited as to the types of investments and types of financial institutions they may invest in. New Jersey Statute 18A:20-37 provides a list of permissible investments that may be purchased by New Jersey Governmental Units.

N.J.S.A. 17:9-41 et. seq. establishes the requirements for the security of deposits of Governmental Units. The statute requires that no Governmental Unit shall deposit public funds in a public depository unless such funds are secured in accordance with the Act. Public depositories include savings and loan institutions, banks (both state and national banks) and saving banks the deposits of which are federally insured.

Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits might not be recovered. The District does not have a policy for custodial credit risk. New Jersey statutes require cash be deposited only in New Jersey based banking institutions that participate in the New Jersey Governmental Unit Deposit Protection Act (GUDPA) or in qualified investments established in New Jersey Statutes 40A:5-15.1(a) that are treated as cash equivalents. Under the act, the first \$250,000 of governmental deposits in each insured depository is protected by the Federal Deposit Insurance Corporation (FDIC). Public funds owned by the Authority in excess of FDIC insured amounts are protected by GUDPA. However, GUDPA does not protect intermingled trust funds, employee salary withholdings, or funds that may pass to the Authority relative to the happening of a future condition

As of December 31, 2019, the District's bank balances were exposed to custodial credit risk as follows:

Deposit insured by the FDIC	\$ 250,000
Deposits insured by the GUDPA	1,068,264
Total bank balances	<u>\$ 1,318,264</u>

The District's carrying (Statement of Net Position) cash balances include \$882,110 in unrestricted cash and \$419,130 in restricted cash totaling \$1,301,240.

PENNINGTON BOROUGH FIRE DISTRICT NO. 1
Notes to the Financial Statements

Note 3 - Capital assets

A summary of changes in capital assets and accumulated depreciation on December 31, 2019 is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Ending Balance</u>
Capital assets				
Fire apparatus	\$ 1,144,931	\$ -	\$ -	\$ 1,144,931
Fire-fighting equipment	828,271	-	-	828,271
Other equipment	215,679	17,000	-	232,679
Leasehold improvements	70,993	-	70,993	-
Deposit on truck	-	300,000	-	300,000
Truck	<u>1,815,377</u>	<u>-</u>	<u>-</u>	<u>1,815,377</u>
Total	4,075,251	317,000	70,993	4,321,258
Accumulated depreciation				
Fire apparatus	1,144,931	-	-	1,144,931
Fire-fighting equipment	750,984	25,336	-	776,320
Other equipment	104,857	8,608	-	113,465
Truck	<u>665,186</u>	<u>71,069</u>	<u>-</u>	<u>736,255</u>
Total	<u>2,665,958</u>	<u>105,013</u>	<u>-</u>	<u>2,770,971</u>
Capital assets, net	<u>\$ 1,409,293</u>	<u>\$ 211,987</u>	<u>\$ 70,993</u>	<u>\$ 1,550,287</u>

Depreciation expense was \$105,013 for the year ended December 31, 2019.

Note 4 - Capital lease obligation

On December 31, 2019, the capital lease obligation consisted of the following:

On March 1, 2017, the District entered into a lease agreement bearing interest at 3.25% with KS StateBank to finance the purchase of a new truck totaling \$871,377. The District will pay 10 annual installments of approximately \$103,460 including interest through March 24, 2032. The lease is collateralized by the truck.

PENNINGTON BOROUGH FIRE DISTRICT NO. 1
Notes to the Financial Statements

Note 4 - Capital lease obligation (continued)

The debt service requirements as of December 31, 2019 including interest, are as follows:

	Principal	Interest	Total
2020	\$ 80,103	\$ 23,357	\$ 103,460
2021	82,707	20,753	103,460
2022	85,394	18,066	103,460
2023	88,170	15,290	103,460
2024	91,035	12,425	103,460
2025 - 2027	291,246	19,129	310,375
	\$ 718,655	\$ 109,020	\$ 827,675

Note 5 - Notes receivable

The District has three outstanding note receivables with the Hopewell Township Fire District No. 1 to provide funding for equipment. The first note dated July 11, 2013 was issued for \$99,934 and is due to the District over a period of ten years at an interest rate of 2.396 percent. The second note dated August 24, 2017 was issued for \$894,306 and is due to the District over a period of fifteen years at an interest rate of 3.410 percent. The third note dated November 20, 2018 was issued for \$51,680 and is due to the District over a period of three years at an interest rate of 3.380 percent. The note balances are offset by deferred outflows of resources-unearned revenue.

The notes receivable as of December 31, 2019, including interest, are as follows:

	Principal	Interest	Total
2020	\$ 78,070	\$ 28,653	\$ 106,723
2021	62,223	26,097	88,320
2022	65,191	24,083	89,274
2023	55,172	21,980	77,152
2024	57,054	20,098	77,152
2025 - 2029	315,813	80,361	396,174
2030 - 2032	216,524	24,616	241,140
	\$ 850,047	\$ 225,888	\$ 1,075,935

Note 6 - Levied taxes

The total tax levied by the Borough of Pennington to fund the operations of the District was \$212,670. The tax rate per \$100 of assessed valuation is \$.043, based on the assessed valuation of \$503,872,757.

PENNINGTON BOROUGH FIRE DISTRICT NO. 1
Notes to the Financial Statements

Note 7 - Interfund receivable and payable

The composition of interfund balances as of December 31, 2019 is as follows:

	Receivable	Payable
General fund	\$ 13,218	\$ -
Capital fund	-	13,218
Total	\$ 13,218	\$ 13,218

The balance due from the capital fund to the general fund represents the net budgeted appropriations that were not transferred by year-end.

All interfund balances are expected to be liquidated within one year.

Note 8 - Risk management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

Note 9 - Economic dependency

The District receives substantial support from an adjoining District in addition to the amount received from the Borough of Pennington annual tax levy. A significant reduction in the level of support, if this were to occur, may have an effect on the District's operations.

Note 10 - Length of service award program (unaudited)

Plan description

The voters of the District approved the establishment of a Length of Service Award Program (LOSAP) Deferred Compensation Plan on September 9, 2002. The establishment of this LOSAP complies with New Jersey Public Law 1997, Chapter 388.

The LOSAP Plan (the Plan) provides tax deferred income benefits to active volunteer firefighters and is administered by the Lincoln Financial Group ("Plan Administrator"), a State of New Jersey approved length of service awards program provider. The District'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. The tax deferred income benefits for volunteers come from contributions made solely by the governing body of the Fire District, on behalf of those volunteers who meet the criteria of the Plan created by that governing body.

The contributions from the Fire District to the Plan, and the related earnings, are not irrevocable, and such funds are not legally protected from the creditors of the Fire District. These funds, however, are not available for funding the operations of the Fire District. Participants should refer to the Plan agreement for a more complete description of the Plan's provisions.

PENNINGTON BOROUGH FIRE DISTRICT NO. 1
Notes to the Financial Statements

Note 10 - Length of service award program (unaudited) (continued)

Plan description (continued)

For qualified participants, the District contributed \$76,225 for the year ended December 31, 2019.

Investments in LOSAP

Participants in the Plan direct the investment of their contributions into various investment options of the Plan. The investment options consist of an annuity investment contract and various annuity funds.

The Financial Accounting Standards Board (FASB) in its Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurement*, establishes a 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 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 annuity investment contract meets the fully benefit responsive investment criteria and therefore is reported at contract value. The contract value of the investment contract with Lincoln Financial at December 31, 2019 was \$157,870. At December 31, 2019, the average yield and crediting interest rate for the annuity investment contract was approximately 3.00%.

The three levels of the fair value hierarchy are described below:

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 inputs 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.

PENNINGTON BOROUGH FIRE DISTRICT NO. 1
Notes to the Financial Statements

Note 10 - Length of service award program (unaudited) (continued)
Investments in LOSAP (continued)

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.

The valuation methodologies used for the annuity funds are based on the current market value of the underlying assets of the funds.

The methods described above may produce a fair value calculation that may not be indicative of new realizable value or reflective of future fair values. Furthermore, while the Plan's Administrator and management believes their 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 table sets forth by level, within fair value hierarchy, the Plan's assets at fair value as of December 31, 2019.

	Level 1	Level 2	Level 3
Variable Annuity Funds	\$ -	\$ 1,824,527	\$ -

Note 11- Rental charges

The District contracts with the Pennington Fire Company on an annual basis for rental of building space. The total charges for the year ended December 31, 2019 were \$55,872.

Note 12 - Recent accounting pronouncements not yet effective

The following is of recent accounting pronouncements which are not yet effective as of the date of this report:

In June 2017, the Governmental Accounting Standards Board (GASB) issued Statement No. 87, *Leases*. This statement, which is effective for reporting periods beginning after December 15, 2019, is not expected to have a material impact on the District's financial reporting.

PENNINGTON BOROUGH FIRE DISTRICT NO. 1
Notes to the Financial Statements

Note 13 - Subsequent events

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (The “COVID-19 outbreak”) and the risks to the international community as a virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the Plan’s financial condition, liquidity, and future results of operations. The Plan’s management has evaluated subsequent events through May 19, 2020, the date the financial statements were available to be issued. The spread of the COVID-19 Coronavirus has resulted in stay-at-home orders issued by the State of New Jersey and the duration of the impact may be only temporary. However, the related financial impact and duration cannot be reasonably estimated at this time.

The District is in the process of acquiring a Class A pumper fire apparatus costing approximately \$795,000. The District paid a deposit of \$300,000 during the year and expects to finance the balance through the issuance of a capital lease.

The District has determined that no other material events or transactions have occurred subsequent to December 31, 2019 and through May 19, 2020, the date of the District’s financial statement issuance, which requires additional disclosure in the District’s financial statements.

REQUIRED SUPPLEMENTARY INFORMATION - PART II

PENNINGTON BOROUGH FIRE DISTRICT NO. 1
Schedule of Budget vs. Actual Revenues and Expenses - General Fund
For the Year Ended December 31, 2019

	Unaudited Original Budget	Unaudited Final Budget	Actual	Under (over) Final Budget
Revenues				
Fund balance utilized				
Restricted fund balance anticipated	\$ 300,000	\$ 300,000	\$ 300,000	\$ -
Total fund balance utilized	<u>300,000</u>	<u>300,000</u>	<u>300,000</u>	<u>-</u>
Operating revenues				
District taxes	212,670	212,670	212,670	-
Adjoining municipality	314,357	314,357	286,629	(27,728)
Interest	30,088	30,088	33,425	3,337
Other income	66,462	66,462	82,704	16,242
Total operating revenues	<u>623,577</u>	<u>623,577</u>	<u>615,428</u>	<u>(8,149)</u>
Total revenues	923,577	923,577	915,428	(8,149)
Expenditures				
Fire-fighting equipment	51,890	50,712	50,712	-
Rent	55,872	55,872	55,872	-
Insurance	75,000	68,406	58,240	10,166
Professional services	33,500	33,500	31,219	2,281
Office	8,169	9,500	9,500	-
Elections	500	554	554	-
Training and education	13,400	9,819	9,818	1
Diesel and gas	12,000	12,000	7,271	4,729
Operating supplies	2,000	677	405	272
Hazardous material disposal	-	475	475	-
Equipment and repairs	12,731	20,360	20,360	-
Vehicle repairs	20,066	23,253	23,253	-
Medical	1,000	1,000	-	1,000
Contingency	2,000	2,000	-	2,000
LOSAP	115,000	115,000	76,225	38,775
Awards	2,500	2,500	2,500	-
Telephone	8,000	8,000	4,582	3,418
Reserve for capital outlays	106,489	106,489	35,496	70,993
Deposit on pumper	300,000	300,000	300,000	-

See independent auditors' report

PENNINGTON BOROUGH FIRE DISTRICT NO. 1
Schedule of Budget vs. Actual Revenues and Expenses - General Fund
For the Year Ended December 31, 2019

	Unaudited Original Budget	Unaudited Final Budget	Actual	Under (over) Final Budget
Debt service				
Principal	\$ 77,582	\$ 77,582	\$ 77,582	\$ -
Interest	25,878	25,878	25,878	-
Total expenditures	<u>923,577</u>	<u>923,577</u>	<u>789,942</u>	<u>133,635</u>
Excess of revenue over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 125,486</u>	<u>\$ 125,486</u>

See independent auditors' report

OTHER INFORMATION

PENNINGTON BOROUGH FIRE DISTRICT NO. 1
Schedule of Officials and Surety Bond
December 31, 2019

NAMES OF BOARD
OF COMMISSIONERS

AMOUNT OF SURETY BOND

Mark Blackwell	}	
William B. Meytrott, Jr.	}	\$250,000 - Employee dishonesty per employee
Brian Hofacker	}	\$750,000 - Employee dishonesty per loss
Robert M. Di Falco	}	\$1,000,000 - Treasurer
Wayne Blauth	}	

See independent auditors' report



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**Independent Auditors' 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**

Board of Fire Commissioners
Pennington Borough Fire District No. 1
Pennington, New Jersey

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities of the Pennington Borough Fire District No. 1, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise Pennington Borough Fire District No. 1's basic financial statements, and have issued our report thereon dated May 19, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Pennington Borough Fire District No. 1's internal control over financial reporting (internal control) to determine audit procedures that are appropriate in the circumstance for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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. 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.

Our consideration of internal control 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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Pennington Borough Fire District No. 1's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, 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 that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or compliance. The report is an integral part of any audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


BKC, CPAs, PC

May 19, 2020
Flemington, New Jersey

PENNINGTON BOROUGH FIRE DISTRICT NO. 1
Schedule of Findings and Responses

General Comments and Recommendations

No findings or recommendations have been developed as a result of this audit.

Status of Prior Year's Audit Findings/Recommendations

There were no prior year findings or recommendations.

We would be pleased to confer on questions that might arise with respect to any matters in this report.

We wish to express our appreciation for the assistance and courtesies rendered by the District officials and employees during the course of the examination.

Respectfully submitted,

BKC, CPAs, PC

BKC, CPAs, PC