



Certified Public Accountants, PC

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

We have audited the financial statements of Pennington Borough Fire District No. 1 for the year ended December 31, 2021. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and governmental auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated April 5, 2022. Professional standards also require that we communicate to you the following information related to our audit.

### Significant Audit Findings

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Pennington Fire District No. 1 are described in Note 1 to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during 2021. We noted no transactions entered into by Pennington Borough Fire District No. 1 during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The financial statement disclosures are neutral, consistent, and clear.

#### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

### *Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated August 16, 2022.

### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a second opinion on certain situations. If a consultation involves application of an accounting principle to Pennington Borough Fire District No. 1's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Pennington Borough Fire District No. 1's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention. The following issues were noted during the audit. The issues were not determined to be of significance to warrant an audit recommendation, however, we felt it appropriate to bring to the governing body's attention:

- 1) A fixed asset inventory update should be considered.

### Other Matters

We applied certain limited procedures to Management's Discussion and Analysis, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the Budget Comparison Schedule which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of

management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

This information is intended solely for the use of Pennington Borough Fire District No. 1 and management of Pennington Borough Fire District No. 1 and is not intended to be, and should not be, used by anyone other than these specified parties.



**BKC, CPAs, PC**

August 16, 2022  
Flemington, New Jersey

**PENNINGTON BOROUGH  
FIRE DISTRICT NO. 1**

**December 31, 2021**

# PENNINGTON BOROUGH FIRE DISTRICT NO. 1

For the Year Ended December 31, 2021

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## Independent Auditors' Report

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

### Report on the Audit of the Financial Statements

#### Opinions

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, 2021 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.

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, 2021, 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.

#### Basis for Opinions

We conducted our audit in accordance with accounting 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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Pennington Borough Fire District No. 1 and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### Responsibilities of Management 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; and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Pennington Borough Fire District No. 1's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements that are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Pennington Borough Fire District No. 1's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Pennington Borough Fire District No. 1's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the 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 is the responsibility of management and, 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

Management is responsible for the other information included in the annual report. The other information comprises the Schedule of Officials and Surety bond. Our opinions on the basic financial statements do not cover the other information and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

### Other Reporting Required by Government Auditing Standards

In accordance with the *Government Auditing Standards*, we have also issued our report dated August 16, 2022, on our consideration of the Pennington Borough Fire District No. 1's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Pennington Borough Fire District No. 1's internal controls over financial reporting and compliance.



**BKC, CPAs, PC**

August 16, 2022  
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, 2021**

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, 2021. Please review it in conjunction with the District's basic financial statements which begin on page 7.

**Financial Highlights**

Total net position increased \$140,737 which represents a 6.0 percent increase from 2020. The excess of revenue over expenditures in the general fund was \$57,181, plus an increase in accrued interest on notes receivable of \$2,048, plus a decrease in accrued interest on debt totaling \$2,587 accounting for the increase in unrestricted net position of \$61,816. The increase in net position reserved for capital projects was \$67,000 and the increase in net position invested in capital assets was \$11,921.

The amount raised by taxation was \$274,375 or 36.3 percent of all revenue and other funding sources. Funds from an adjoining municipality, other income and interest totaled \$481,388 or 63.7 percent of all revenue and other funding sources.

Total expenditures have increased \$135,808 or 28.3 percent. Expenditures for capital projects were \$5,675 and \$535,834 in 2021 and 2020, 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, 2021**

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 10. 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 \$140,737 to \$2,501,449 or 6.0 percent. Details of the changes are reflected on page 9.

**Original versus Final Budget**

Pages 23 and 24 reflect the variances between the original and final budgeted amounts.

**Final Budget versus Actual Results**

As reflected on pages 23 and 24, the District operated within budgetary constraints. Actual revenues were over the final budget by \$14,402 while actual expenses were under the final budget by \$42,779. The increase in other income, primarily from the sale of capital assets, resulted in the increase of revenue over the budgeted amount. The decrease in expenditures is primarily due to length of service award program expenses coming in under budgeted amounts.

**Capital Assets**

At year-end, the District had \$3,787,968 at cost in total capital assets representing a decrease of \$1,069,124 from 2020. The decrease is primarily attributable to the disposition of an engine and apparatus.

**BOARD OF FIRE COMMISSIONERS  
DISTRICT NO. 1  
BOROUGH OF PENNINGTON  
Management's Discussion and Analysis  
For the Year Ended December 31, 2021**

**Condensed Comparative Information**

	2021	2020	Increase (Decrease)
Net position			
Current and other assets	\$ 3,072,065	\$ 2,427,549	\$ 644,516
Investment in LOSAP	2,856,882	2,610,451	246,431
Capital assets	1,829,936	1,968,070	(138,134)
Total assets	<u>\$ 7,758,883</u>	<u>\$ 7,006,070</u>	<u>\$ 752,813</u>
Liabilities and deferred inflows of resources	<u>\$ 5,257,434</u>	<u>\$ 4,645,358</u>	<u>\$ 612,076</u>
Unreserved	\$ 1,004,225	\$ 942,409	\$ 61,816
Reserved for capital purchases	585,021	518,021	67,000
Investment in capital assets	912,203	900,282	11,921
	<u>\$ 2,501,449</u>	<u>\$ 2,360,712</u>	<u>\$ 140,737</u>
Revenue and expenditures			
Revenue	\$ 755,763	\$ 616,796	\$ 138,967
Expenditures net of amounts deferred to budgets of succeeding years	615,026	401,525	213,501
Change in net position	<u>\$ 140,737</u>	<u>\$ 215,271</u>	<u>\$ (74,534)</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 2022 budget and tax rates including the economy, rate of inflation, and planned future capital projects. The tax rate will be \$.0595 per \$100 of assessed valuation in 2022. The increase in the tax rate ensures that debt service requirements are funded and that future capital needs are addressed.

**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 on information that was available as of August 16, 2022.

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, 2021**

**ASSETS**

Assets

Current assets

Cash and cash equivalents	\$ 906,460
Due from municipalities	274,375
Due from neighboring fire district	120,636
Notes receivable from neighboring fire district - current	117,166
Accrued interest receivable	23,601
Cash and cash equivalents - restricted	422,628
Length of Service Awards Program receivable	65,243
Total current assets	<u>1,930,109</u>

Non-current assets

Notes receivable from neighboring fire district - non-current	1,141,956
Capital assets, net of accumulated depreciation	1,829,936
Investments for Length of Service Award Program	2,856,882
Total non-current assets	<u>5,828,774</u>

Total assets	<u><u>\$ 7,758,883</u></u>
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**LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION**

Liabilities

Current liabilities

Accrued expenses	\$ 141,768
Accrued interest on debt	16,686
Total current liabilities	<u>158,454</u>

Long-term liabilities

Lease payable - current	154,367
Lease payable - non-current	763,366
Reserve for Length of Service Award Program (LOSAP)	2,922,125
Total long-term liabilities	<u>3,839,858</u>

Deferred inflows of resources

Unearned revenue	<u>1,259,122</u>
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Total liabilities and deferred inflows of resources	<u><u>5,257,434</u></u>
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See accompanying notes to the financial statements.

**PENNINGTON BOROUGH FIRE DISTRICT NO. 1**  
**Statement of Net Position**  
**December 31, 2021**

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

Net position	
Unrestricted	\$ 1,004,225
Restricted for capital asset purchases	585,021
Net investment in capital assets	<u>912,203</u>
Total net position	<u>2,501,449</u>
 Total liabilities, deferred inflows of resources and net position	 <u><u>\$ 7,758,883</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, 2021**

Revenue	
District taxes	\$ 274,375
Adjoining municipality taxes	287,817
Interest	52,010
Other income	141,561
Total revenue	755,763
Expenses	
Operating and maintenance	445,763
Depreciation	140,752
Interest	28,511
Total expenses	615,026
Change in net position	140,737
Net position - beginning of year	2,360,712
Net position - end of year	\$ 2,501,449

See accompanying notes to the financial statements.

**PENNINGTON BOROUGH FIRE DISTRICT NO. 1**  
**Balance Sheet - Governmental Funds**  
**December 31, 2021**

	General Fund	Capital Fund	Eliminations	Total
<b>Assets</b>				
Cash and cash equivalents	\$ 906,460	\$ -	\$ -	\$ 906,460
Due from municipalities	274,375	-	-	274,375
Due from neighboring fire district	120,636			120,636
Due from general fund	-	162,393	(162,393)	-
Notes receivable from neighboring fire district	1,259,122	-	-	1,259,122
Cash and cash equivalents - restricted	-	422,628	-	422,628
Total assets	<u>\$ 2,560,593</u>	<u>\$ 585,021</u>	<u>\$ (162,393)</u>	<u>\$ 2,983,221</u>
<b>Liabilities</b>				
Accrued expenses	\$ 141,768	\$ -	\$ -	\$ 141,768
Due to capital fund	162,393	-	(162,393)	-
Total liabilities	<u>304,161</u>	<u>-</u>	<u>(162,393)</u>	<u>141,768</u>
<b>Deferred inflows of resources</b>				
Unearned revenue	<u>1,259,122</u>	<u>-</u>	<u>-</u>	<u>1,259,122</u>
Total liabilities and deferred inflow of resources	1,563,283	-	(162,393)	1,400,890
<b>Fund balances</b>				
Unrestricted	997,310	-	-	997,310
Restricted for capital asset purchases	-	585,021	-	585,021
Total fund balances	<u>997,310</u>	<u>585,021</u>	<u>-</u>	<u>1,582,331</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 2,560,593</u>	<u>\$ 585,021</u>	<u>\$ (162,393)</u>	<u>\$ 2,983,221</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, 2021**

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

District-wide, government fund, fund balance	\$ 1,582,331
Capital assets used in government activities are not financial resources and therefore are not reported in the funds. The cost of the assets are \$3,787,968 and the accumulated depreciation is \$1,958,032.	1,829,936
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.	(917,733)
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.	23,601
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>(16,686)</u>
Total net position	<u><u>\$ 2,501,449</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, 2021**

	General Fund	Capital Fund	Eliminations	Total
Revenue				
District taxes	\$ 274,375	\$ -	\$ -	\$ 274,375
Adjoining municipality	287,817	-	-	287,817
Interest	49,961	-	-	49,961
Other income	141,561	-	-	141,561
Transferred to (from) general fund	-	67,000	(67,000)	-
Total revenue	<u>753,714</u>	<u>67,000</u>	<u>(67,000)</u>	<u>753,714</u>
Expenses				
Operating and maintenance	442,705	-	-	442,705
Transfer to (from) capital fund	67,000	-	(67,000)	-
Capital outlay	5,675	-	-	5,675
Lease payable				
Principal	150,055	-	-	150,055
Interest	31,098	-	-	31,098
Total expenses	<u>696,533</u>	<u>-</u>	<u>(67,000)</u>	<u>629,533</u>
Excess (deficiency) of revenues over (under) expenses	<u>57,181</u>	<u>67,000</u>	<u>-</u>	<u>124,181</u>
Fund balance - beginning of year	<u>940,129</u>	<u>518,021</u>	<u>-</u>	<u>1,458,150</u>
Fund balance - end of year	<u>\$ 997,310</u>	<u>\$ 585,021</u>	<u>\$ -</u>	<u>\$ 1,582,331</u>

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, 2021**

Total changes in fund balances - governmental fund	\$ 124,181
<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 disposal of capital assets and depreciation expense exceed capital outlays:</p>	
Capital outlays	5,675
Disposal of capital assets	(3,057)
Depreciation expense	(140,752)
<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	150,055
<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	23,601
Prior year accrued interest receivable	(21,553)
<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	(16,686)
Prior year accrued interest payable	19,273
Change in net position of governmental activities	\$ 140,737

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.

Restricted assets

Certain assets are classified as restricted assets because their use is restricted for use of capital acquisitions.

Note 2 - Deposits and cash equivalents

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

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

Note 2 - Deposits and cash equivalents (continued)

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.

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, 2021, the District's bank balances were exposed to custodial credit risk as follows:

Deposit insured by the FDIC	\$ 250,020
Deposits insured by the GUDPA	1,109,249
Total bank balances	\$ 1,359,269

The District's carrying (Statement of Net Position) cash balances include \$906,460 in unrestricted cash and \$422,628 in restricted cash totaling \$1,329,088.

**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, 2021 is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Ending Balance</u>
Capital assets				
Fire apparatus	\$ 1,144,931	\$ -	\$ 1,071,742	\$ 73,189
Fire-fighting equipment	850,561	-	-	850,561
Other equipment	253,093	5,675	3,057	255,711
Truck	2,608,507	-	-	2,608,507
Total	<u>4,857,092</u>	<u>5,675</u>	<u>1,074,799</u>	<u>3,787,968</u>
Accumulated depreciation				
Fire apparatus	1,144,931	-	1,071,742	73,189
Fire-fighting equipment	793,728	16,277	-	810,005
Other equipment	123,210	13,749	-	136,959
Truck	827,153	110,726	-	937,879
Total	<u>2,889,022</u>	<u>140,752</u>	<u>1,071,742</u>	<u>1,958,032</u>
Capital assets, net	<u>\$ 1,968,070</u>	<u>\$ (135,077)</u>	<u>\$ 3,057</u>	<u>\$ 1,829,936</u>

Depreciation expense was \$140,752 for the year ended December 31, 2021.

Note 4 - Capital lease obligations

On December 31, 2021, capital lease obligations 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, 2027. The lease is collateralized by the truck.

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

Note 4 - Capital lease obligations (continued)

On October 15, 2019, the District entered into a lease agreement bearing interest at 2.41% with Municipal Asset Management Inc. for \$495,000 to finance the purchase of a new truck costing \$793,130. The District will pay 7 annual installments of approximately \$77,693 including interest through September 5, 2026. The lease is collateralized by the truck.

The debt service requirements as of December 31, 2021 including interest, are as follows:

	Principal	Interest	Total
2022	\$ 154,367	\$ 26,786	\$ 181,153
2023	158,803	22,349	181,152
2024	163,372	17,781	181,153
2025	168,074	13,079	181,153
2026	172,914	8,239	181,153
2027	100,203	3,257	103,460
	<u>\$ 917,733</u>	<u>\$ 91,491</u>	<u>\$ 1,009,224</u>

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 January 14, 2021 was issued for \$599,359 and is due to the District over a period of ten years at an interest rate of 3.97 percent.

The notes receivable as of December 31, 2021, including interest, are as follows:

	Principal	Interest	Total
2022	\$ 117,166	\$ 45,892	\$ 163,058
2023	109,211	41,726	150,937
2024	113,238	37,700	150,938
2025	117,414	33,523	150,937
2026	121,745	29,193	150,938
2027 - 2031	605,740	75,160	680,900
2032	74,608	2,544	77,152
	<u>\$ 1,259,122</u>	<u>\$ 265,738</u>	<u>\$ 1,524,860</u>

Note 6 - Levied taxes

The total tax levied by the Borough of Pennington to fund the operations of the District was \$274,735. The tax rate per \$100 of assessed valuation is \$.054, based on the assessed valuation of \$514,221,200.



**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, 2021 is as follows:

	Receivable	Payable
General fund	\$ -	\$ 162,393
Capital fund	162,393	-
Total	\$ 162,393	\$ 162,393

The balance due from the general fund to the capital 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

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 Enrique Rodriquez. The Lincoln Financial Group maintains the funds of the Plan and is 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 Lincoln Financial Group. 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.

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

Note 10 - Length of service award program (continued)

Plan description (continued)

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.

For qualified participants, the District contributed \$65,243 for the year ended December 31, 2021.

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, 2021 was \$145,160. At December 31, 2021, the average yield and crediting interest rate for the annuity investment contract was approximately 3.00%.

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

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

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.

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, 2021.

	Level 1	Level 2	Level 3
Variable Annuity Funds	\$ -	\$ 2,711,722	\$ -

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

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, 2021 were \$58,500.

Note 12 - Risk and uncertainties

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 District’s financial condition, liquidity, and future results of operations.

Note 13 - Subsequent events

The District has determined that no material events or transactions have occurred subsequent to December 31, 2021 and through August 16, 2022, 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, 2021**

	Unaudited Original Budget	Unaudited Final Budget	Actual	Under (Over) Final Budget
<b>Revenues</b>				
Operating revenues				
District taxes	\$ 274,375	\$ 274,375	\$ 274,375	\$ -
Adjoining municipality	302,833	302,833	287,817	(15,016)
Interest	49,891	49,891	49,961	70
Other income	112,213	112,213	141,561	29,348
<b>Total revenues</b>	<b>739,312</b>	<b>739,312</b>	<b>753,714</b>	<b>14,402</b>
<b>Expenditures</b>				
Fire-fighting equipment	35,275	37,348	37,348	-
Turnout Gear	16,250	18,114	18,114	-
Radio Equipment	11,550	11,950	11,950	-
Rent	58,500	58,500	58,500	-
Insurance	80,000	68,576	59,857	8,719
Professional services	40,000	40,500	40,500	-
Subscriptions & Advertising	5,139	5,139	3,997	1,142
Office	5,500	5,561	5,561	-
Elections	7,500	2,200	1,941	259
Training and education	8,500	8,500	5,047	3,453
Diesel and gas	12,000	9,527	7,245	2,282
Operating supplies	2,250	1,725	689	1,036
Deferred charge	77,694	77,694	77,693	1
Equipment and repairs	10,000	20,649	20,649	-
Vehicle repairs	20,000	25,825	25,825	-
Medical	1,000	1,000	-	1,000
Contingency	4,500	4,500	-	4,500
LOSAP	85,000	85,000	65,243	19,757
Awards	2,500	2,500	1,881	619
Telephone	8,000	6,350	6,340	10
Reserve for capital outlays	67,000	67,000	67,000	-

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, 2021**

	Unaudited Original Budget	Unaudited Final Budget	Actual	Under (Over) Final Budget
Debt service				
Principal	\$ 150,056	\$ 150,056	\$ 150,055	\$ 1
Interest	31,098	31,098	31,098	-
Total expenditures	<u>739,312</u>	<u>739,312</u>	<u>696,533</u>	<u>42,779</u>
Excess of revenue over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 57,181</u>	<u>\$ 57,181</u>

See independent auditors' report

## **OTHER INFORMATION**



**PENNINGTON BOROUGH FIRE DISTRICT NO. 1**  
**Schedule of Officials and Surety Bond**  
**December 31, 2021**

NAMES OF BOARD  
OF COMMISSIONERS

AMOUNT OF SURETY BOND

Mark Blackwell	}	
Robert M. Di Falco	}	\$250,000 - Employee dishonesty per employee
Ryan Fraser	}	\$750,000 - Employee dishonesty per loss
Bryan Hofacker	}	\$1,000,000 - Treasurer
Robert Ingram	}	

See independent auditors' report



Certified Public Accountants, PC

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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, 2021, 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 August 16, 2022.

Report on Internal Control Over Financial Reporting

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

Report on 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 financial statements. 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**

August 16, 2022  
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.

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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 during the course of the examination.

Respectfully submitted,

*BKC, CPAs, PC*

**BKC, CPAs, PC**