

**PENNINGTON BOROUGH FIRE DISTRICT #1
LENGTH OF SERVICE AWARDS PROGRAM**

December 31, 2021

**PENNINGTON BOROUGH FIRE DISTRICT #1
LENGTH OF SERVICE AWARDS PROGRAM**

For the Year Ended December 31, 2021

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Certified Public Accountants, PC
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Independent Accountants' Review Report

To the Plan Administrators
Pennington Borough Fire District #1
Length of Service Awards Program
Pennington, New Jersey

We have reviewed the accompanying Financial Statements of Pennington Borough Fire District #1, Length of Service Awards Program (the Plan) which comprise the Statements of Net Assets Available for Benefits as of December 31, 2021 and 2020 and the related Statement of Changes in Net Assets Available for Benefits for the year ended December 31, 2021 and the related Notes to the Financial Statements. A review primarily includes applying analytical procedures to management's financial data and making inquiries of company management. A review is substantially less in scope than an audit, the objective of which is the expression on an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility for the Financial Statements

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

Accountant's Responsibility


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

We believe that the results of our procedures provide a reasonable basis for our conclusion.

We are required to be independent of Pennington Borough Fire District #1 Length of Services Awards Program and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our review.

Accountant's Conclusion

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

A handwritten signature in black ink that reads "BKC, CPAs, PC". The letters are cursive and somewhat stylized.

BKC, CPAs, PC

August 2, 2022
Flemington, New Jersey

**PENNINGTON BOROUGH FIRE DISTRICT #1
 LENGTH OF SERVICE AWARDS PROGRAM
 Statements of Net Assets Available for Benefits
 December 31,**

	2021	2020
Assets		
Investments, fair value	\$ 2,711,722	\$ 2,451,136
Investments, contract value	145,160	159,315
Fire District's contribution receivable	65,243	62,729
Total assets	\$ 2,922,125	\$ 2,673,180
Net assets available for benefits	\$ 2,922,125	\$ 2,673,180

See accompanying notes to the financial statements and independent accountants' review report.

PENNINGTON BOROUGH FIRE DISTRICT #1
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Statement of Changes in Net Assets Available for Benefits
For the Year Ended December 31, 2021

Additions	
Fire District's contribution	\$ 65,243
Interest on investments	4,095
Net realized/unrealized appreciation in fair value of investments	467,530
Total additions	536,868
Deductions	
Benefits paid	284,748
Administrative expenses	3,175
Total deductions	287,923
Net change in net assets available for benefits	248,945
Net assets available for benefits - beginning of year	2,673,180
Net assets available for benefits - end of year	\$ 2,922,125

See accompanying notes to the financial statements and independent accountants' review report.

**PENNINGTON BOROUGH FIRE DISTRICT #1
LENGTH OF SERVICE AWARDS PROGRAM
Notes to the Financial Statements**

Page 1 - Plan summary

Description of plan

The following description of the Pennington Borough Fire District #1 (the Fire District) Length of Service Awards Program (the Plan) provides only general information. Participants should refer to the Plan agreement for a more complete description of the Plan's provisions.

General

The Plan, a defined contribution plan, was created by a Fire District Resolution pursuant to Section 457(e)(11)(13) of the Internal Revenue Service Code of 1986, as amended, except for provisions added by reason of the Length of Service Awards Program as enacted into federal law in 1997. The voters of the Fire District approved the adoption of the Plan at the annual election held on September 9, 2002.

The tax deferred income benefits for emergency service volunteers, consisting of the volunteer fire department, come from contributions made solely by the governing body of the Fire District, on behalf of those volunteers who meet the criteria of a plan created by that governing body.

Contributions

If an active member meets the year of active service requirement, a Length of Service Awards Program must provide a benefit between the minimum contribution of \$100 and a maximum contribution of \$1,150 per year. While the maximum amount established by statute at the time of adoption was \$1,150, it is subject to periodic increases that are related to the consumer price index. The Division of Local Government Services of the State of New Jersey will issue the permitted maximum annually.

The Fire District elected to contribute between \$884.12 and \$1,768.23 per eligible volunteer, for the year ended December 31, 2021, depending on how many years the volunteer has served.

Participant accounts

Each participant's account is self-directed and credited with the Fire District's contribution and Plan earnings and charged with administrative expenses. The benefit, to which a participant is entitled, is the benefit that can be provided from the participant's vested account.

Lincoln National Life Insurance Company (the Plan Contractor), an approved Length of Service Awards Program provider, is the Administrator of the Plan. The Fire 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 Contractor.

PENNINGTON BOROUGH FIRE DISTRICT #1
LENGTH OF SERVICE AWARDS PROGRAM
Notes to the Financial Statements

Note 1 - Plan summary (continued)

Vesting

Benefits, plus actual earnings thereon, are one hundred percent (100%) vested after five (5) cumulative years of service. Any volunteer who has already successfully completed five (5) years or more of service as an active member in good standing became one hundred percent (100%) vested at the onset of the program.

Payment of benefits

Upon retirement or disability, participants may receive a lump-sum payout. In the case of death, with certain exceptions, any amount invested under the participant's account is paid to the beneficiary or the participant's estate.

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

For the year ended December 31, 2021, five accounts were withdrawn.

Forfeited accounts

According to the Plan, all forfeited account balances are to be returned to the Fire District. For the year ended December 31, 2021, no amounts were forfeited.

Note 2 - Summary of significant accounting policies

Basis of accounting

The financial statements of the Plan are prepared using the accrual method of accounting.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires the Plan Administrator to make estimates and assumptions that affect the reported amounts of assets and liabilities, and to disclose 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.

Investment valuation and income recognition

The Plan's investments, except for the fully benefit-responsive insurance contract, which is stated at contract value, are stated at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

PENNINGTON BOROUGH FIRE DISTRICT #1
LENGTH OF SERVICE AWARDS PROGRAM
Notes to the Financial Statements

Note 2 - Summary of significant accounting policies (continued)
Investment valuation and income recognition (continued)

The assets held in the group annuity contract are actuarially valued as reported by Lincoln Financial Group.

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

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

Note 3 - Investments

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

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

Note 4 - Investment contract with insurance companies

The Plan entered into an annuity investment contract with Lincoln Financial Group (Lincoln Financial). Lincoln Financial maintains the contributions in a general account. The account is credited with earnings on the underlying investments and charged for participant withdrawals and administrative expenses. The guaranteed investment contract issuer is contractually obligated to repay the principal and a specified interest rate that is guaranteed to the Plan.

The contract meets the fully benefit responsive investment criteria and therefore is reported at contract value. Contract value is the relevant measure for fully benefit responsive investment contracts because this is the amount received by participants if they were to initiate permitted transactions under the terms of the Plan. Contract value, as reported to the Plan by Lincoln Financial, represents contributions made under the contract, plus earnings, less participant withdrawals and administrative expenses. Participants may ordinarily direct the withdraw or transfer all or a portion of their investment at contract value.

Certain events, such as the premature termination of the contract by the Plan or the termination of the Plan, would limit the Plan's ability to transact at contract value for the general account with Lincoln Financial. The Plan Administrator believes the occurrence of such events that would also limit the Plan's ability to transact at contract value for the general account with the Plan participants, is not probable.

PENNINGTON BOROUGH FIRE DISTRICT #1
LENGTH OF SERVICE AWARDS PROGRAM
Notes to the Financial Statements

Note 4 - Investment contract with insurance companies (continued)

The contract value of the investment contract with Lincoln Financial at December 31, 2021 and December 31, 2020 was \$145,160 and \$159,315, respectively. At December 31, 2021 and December 31, 2012, the average yield and crediting interest rate for the general account was approximately 3.00% for both years. The crediting interest rate is based on the earning of the underlying assets compared to the minimum interest crediting rate, as stated in the contract, and prevailing market conditions. The interest crediting rate is reset quarterly.

Note 5 - Fair value

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 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.

**PENNINGTON BOROUGH FIRE DISTRICT #1
LENGTH OF SERVICE AWARDS PROGRAM
Notes to the Financial Statements**

Note 5 - Fair value (continued)

The following is a description of the valuation methodologies used for assets measured at fair value at December 31, 2021:

Level 2 investments are valued at fair value by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the creditworthiness of the issuer.

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 believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following 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	Total
Variable Annuity Funds	\$ -	\$ 2,711,722	\$ -	\$ 2,711,722
	2020			
	Level 1	Level 2	Level 3	Total
Variable Annuity Funds	\$ -	\$ 2,451,136	\$ -	\$ 2,451,136

Note 6 - Plan termination

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

Note 7 - Tax status

The LOSAP was established as a Deferred Compensation Plan pursuant to Section 457 of the Internal Revenue Code (IRC) of 1986, as amended, except for specific provisions added by reason of the LOSAP as enacted into federal law in 1997. Under the terms of an IRC Section 457, deferred compensation plan, all deferred compensation and income attributable to the investment of the deferred compensation amounts held by the financial institution, until paid or made available to the participants or beneficiaries, are the property of the Pennington Borough Fire District No. 1 subject only to the claims of the District's general creditors. The Plan Administrator and the management of the Fire District believe that the Plan is designed, and is currently being operated, in compliance with the applicable requirements of the Internal Revenue Code.

PENNINGTON BOROUGH FIRE DISTRICT #1
LENGTH OF SERVICE AWARDS PROGRAM
Notes to the Financial Statements

Note 8 - Risk and uncertainties

Investments

The Plan provides for various investment options in registered investment companies. Investment securities are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near-term would materially affect participant's account balances and the amounts reported in the Statements of Net Assets Available for Benefits and the Statement of Changes in Net Assets Available for Benefits.

COVID-19

The extent of the impact of the COVID-19 outbreak on the financial performance of a plan's investments will depend on future developments, including the duration and severity of the outbreak and its impact on the financial markets and the overall economy, all of which are highly uncertain and cannot be predicted. If the financial markets and/or the overall economy are impacted for an extended period, the plan's investment results may be materially adversely affected. Because the values of the Plan's individual investments have, and will fluctuate, in response to changing market conditions, the amount of losses that will be recognized in subsequent periods, if any, and related impact on the Plan's liquidity cannot be determined at this time.

A prolonged widespread epidemic could adversely impact global economies and financial markets resulting in an economic downturn that may adversely affect the ability to make required plan contributions.

Note 9 - Subsequent events

The Plan's management has determined that no material events or transactions occurred subsequent to December 31, 2021 and through August 2, 2022, the date of the Plan's financial statement issuance, which require additional disclosure in the Plan's financial statements.