

**PENNINGTON BOROUGH
FIRE DISTRICT NO. 1**

December 31, 2022



PENNINGTON BOROUGH FIRE DISTRICT NO. 1

For the Year Ended December 31, 2022

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Certified Public Accountants, PC

www.bkc-cpa.com

Independent Auditors' Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the governmental activities of Pennington Fire District No. 1, in the County of Mercer, State of New Jersey, as of and for the year ended December 31, 2022 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, 2022, and the respective changes in financial position thereof and for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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 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 opinion.

Change in Accounting Principle

As described in Note 12 of the Notes to the Financial Statements, the District adopted new accounting guidance as promulgated by GASB Statement No. 87, *Leases*. Our opinion is not modified with respect to this matter.

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; 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.

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 opinion. 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 opinion 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 July 18, 2023, 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

July 18, 2023
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, 2022**

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, 2022. Please review it in conjunction with the District's basic financial statements which begin on page 7.

Financial Highlights

Total net position increased \$150,175 which represents a 7.1% increase from 2021. The excess of revenue over expenditures in the general fund was \$47,527, less a decrease in accrued interest on notes receivable of \$1,994, plus a decrease in accrued interest on debt totaling \$2,666 accounting for the increase in unrestricted net position of \$48,199. The increase in net position reserved for capital projects was \$195,425 and the decrease in net position invested in capital assets was \$93,449.

The amount raised by taxation was \$314,958 or 39.8% of all revenue and other funding sources. Funds from an adjoining municipality, other income and interest totaled \$476,853 or 60.2% of all revenue and other funding sources.

Total expenditures have increased \$26,610 or 4.3%. Expenditures for capital projects were \$27,592 and \$5,675 in 2022 and 2021, 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 pages 7 to 9) provide information about the activities of the District as a whole. Fund financial statements start on page 10. 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, 2022**

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 \$150,175 to \$2,277,595 or 7.1%. 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 under the final budget by \$1,614 while actual expenses were under the final budget by \$49,141. Decreases in amount due from adjoining municipality for lesser than anticipated LOSAP contributions were offset by increases in other income. The decrease in expenditures is primarily due to LOSAP, turn out gear, and insurance coming in under budgeted amounts.

Capital Assets

At year-end, the District had \$4,141,488 at cost in total capital assets representing an increase of \$27,592 from 2021. The increase is primarily attributable to the acquisition of firefighting equipment.

**BOARD OF FIRE COMMISSIONERS
DISTRICT NO. 1
BOROUGH OF PENNINGTON
Management's Discussion and Analysis
For the Year Ended December 31, 2022**

Condensed Comparative Information

	2022	Restated 2021	Increase (Decrease)
Assets			
Current and other assets	\$ 3,165,574	\$ 3,072,065	\$ 93,509
Investment in LOSAP	2,172,800	2,856,882	(684,082)
Capital assets	1,324,949	1,628,742	(303,793)
Total assets	<u>\$ 6,663,323</u>	<u>\$ 7,557,689</u>	<u>\$ (894,366)</u>
Liabilities and deferred inflows of resources	<u>\$ 4,385,728</u>	<u>\$ 5,430,269</u>	<u>\$ (1,044,541)</u>
Net position			
Unreserved	\$ 1,052,424	\$ 1,004,225	\$ 48,199
Reserved for capital purchases	780,446	585,021	195,425
Investment in capital assets	444,725	538,174	(93,449)
Total net position	<u>\$ 2,277,595</u>	<u>\$ 2,127,420</u>	<u>\$ 150,175</u>
Change in net position			
Revenue	\$ 791,811	\$ 755,763	\$ 36,048
Expenditures	641,636	615,026	26,610
Change in net position	<u>\$ 150,175</u>	<u>\$ 140,737</u>	<u>\$ 9,438</u>

The prior-year financial information has been adjusted for comparative purposes to reflect changes resulting from the implementation of GASB Statement No. 87.

Economic Factors and Next Year's Budget and Rates

The District's governing body considers many factors when setting the 2023 budget and tax rates including the economy, rate of inflation, and planned future capital projects. The 2023 tax rate will be \$0.0484 per \$100 of assessed valuation.

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 July 18, 2023.

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, 2022

ASSETS

Assets

Current assets

Cash and cash equivalents	\$ 982,656
Due from municipalities	314,958
Due from neighboring fire district	51,549
Notes receivable from neighboring fire district - current	109,211
Accrued interest receivable	21,607
Cash and cash equivalents - restricted	585,021
Length of Service Awards Program (LOSAP) receivable	67,827
Total current assets	<u>2,132,829</u>

Non-current assets

Notes receivable from neighboring fire district - non-current	1,032,745
Capital assets, net of accumulated depreciation and amortization	1,324,949
Investments for Length of Service Award Program (LOSAP)	2,172,800
Total non-current assets	<u>4,530,494</u>

Total assets

\$ 6,663,323

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

Liabilities

Current liabilities

Accrued expenses	\$ 108,901
Accrued interest on debt	14,020
Total current liabilities	<u>122,921</u>

Long-term liabilities

Lease payable - current	216,485
Lease payable - non-current	663,739
Reserve for Length of Service Award Program (LOSAP)	2,240,627
Total long-term liabilities	<u>3,120,851</u>

Deferred inflows of resources

Unearned revenue	<u>1,141,956</u>
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Total liabilities and deferred inflows of resources

4,385,728

See accompanying notes to the financial statements.

PENNINGTON BOROUGH FIRE DISTRICT NO. 1
Statement of Net Position (continued)
December 31, 2022

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

Net position	
Unrestricted	\$ 1,052,424
Restricted for capital asset purchases	780,446
Net investment in capital assets	444,725
Total net position	<u>2,277,595</u>
 Total liabilities, deferred inflows of resources and net position	 <u><u>\$ 6,663,323</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, 2022

Revenue	
District taxes	\$ 314,958
Adjoining municipality taxes	310,207
Interest	44,027
Other income	122,619
Total revenue	<u>791,811</u>
Expenses	
Operating and maintenance	282,360
Depreciation and amortization	331,385
Interest	27,891
Total expenses	<u>641,636</u>
Change in net position	150,175
Net position - beginning of year (restated)	<u>2,127,420</u>
Net position - end of year	<u><u>\$ 2,277,595</u></u>

See accompanying notes to the financial statements.

PENNINGTON BOROUGH FIRE DISTRICT NO. 1
Balance Sheet - Governmental Funds
December 31, 2022

	General Fund	Capital Fund	Eliminations	Total
Assets				
Cash and cash equivalents	\$ 982,656	\$ -	\$ -	\$ 982,656
Due from municipalities	314,958	-	-	314,958
Due from neighboring fire district	51,549			51,549
Due from general fund	-	195,425	(195,425)	-
Notes receivable from neighboring fire district	1,141,956	-	-	1,141,956
Cash and cash equivalents - restricted	-	585,021	-	585,021
Total assets	\$ 2,491,119	\$ 780,446	\$ (195,425)	\$ 3,076,140
Liabilities				
Accrued expenses	\$ 108,901	\$ -	\$ -	\$ 108,901
Due to capital fund	195,425	-	(195,425)	-
Total liabilities	304,326	-	(195,425)	108,901
Deferred inflows of resources				
Unearned revenue	1,141,956	-	-	1,141,956
Total liabilities and deferred inflow of resources	1,446,282	-	(195,425)	1,250,857
Fund balances				
Unrestricted	1,044,837	-	-	1,044,837
Restricted for capital asset purchases	-	780,446	-	780,446
Total fund balances	1,044,837	780,446	-	1,825,283
Total liabilities, deferred inflows of resources and fund balances	\$ 2,491,119	\$ 780,446	\$ (195,425)	\$ 3,076,140

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

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

District-wide, government fund, fund balance	\$ 1,825,283
Capital assets used in government activities are not financial resources and therefore are not reported in the funds. The cost of the assets are \$4,141,048 and the accumulated depreciation and amortization is \$2,816,099.	1,324,949
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.	(880,224)
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.	21,607
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>(14,020)</u>
Total net position	<u><u>\$ 2,277,595</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, 2022

	General Fund	Capital Fund	Eliminations	Total
Revenue				
District taxes	\$ 314,958	\$ -	\$ -	\$ 314,958
Adjoining municipality	310,207	-	-	310,207
Interest	46,021	-	-	46,021
Other income	122,619	-	-	122,619
Transferred to (from) general fund	-	195,425	(195,425)	-
Total revenue	<u>793,805</u>	<u>195,425</u>	<u>(195,425)</u>	<u>793,805</u>
Expenses				
Operating and maintenance	342,108	-	-	342,108
Transfer to (from) capital fund	195,425	-	(195,425)	-
Capital outlay	27,592	-	-	27,592
Debt service				
Principal	154,367	-	-	154,367
Interest	26,786	-	-	26,786
Total expenses	<u>746,278</u>	<u>-</u>	<u>(195,425)</u>	<u>550,853</u>
Excess (deficiency) of revenues over (under) expenses	<u>47,527</u>	<u>195,425</u>	<u>-</u>	<u>242,952</u>
Fund balance - beginning of year	<u>997,310</u>	<u>585,021</u>	<u>-</u>	<u>1,582,331</u>
Fund balance - end of year	<u>\$ 1,044,837</u>	<u>\$ 780,446</u>	<u>\$ -</u>	<u>\$ 1,825,283</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, 2022

Total changes in fund balances - governmental fund	\$ 242,952
<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 and amortization expenses. This is the amount by which disposal of capital assets and depreciation and amortization expense exceed capital outlays:</p>	
Capital outlays	27,592
Depreciation and amortization expense	(331,385)
<p>Repayment of debt principal and 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	
Trucks	154,367
Facility rental	55,977
<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	21,607
Prior year accrued interest receivable	(23,601)
<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	(14,020)
Prior year accrued interest payable	16,686
Change in net position of governmental activities	\$ 150,175

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 and amortization on capital assets and recording those assets net of accumulated depreciation and amortization.
- 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 and amortization 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	7 - 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, 2022, 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		1,354,385
Total bank balances	\$	1,604,385

The District's carrying (Statement of Net Position) cash balances include \$982,656 in unrestricted cash and \$585,021 in restricted cash totaling \$1,567,677.

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 and amortization on December 31, 2022 is as follows:

	Beginning Balance (Restated)	Additions	Dispositions	Ending Balance
Capital assets				
Fire apparatus	\$ 73,189	\$ -	\$ -	\$ 73,189
Firefighting equipment	850,561	23,442	-	874,003
Other equipment	255,711	4,150	-	259,861
Trucks	2,608,507	-	-	2,608,507
Right-to-use	325,488	-	-	325,488
Total	<u>4,113,456</u>	<u>27,592</u>	<u>-</u>	<u>4,141,048</u>
Accumulated depreciation & amortization				
Fire apparatus	73,189	-	-	73,189
Firefighting equipment	810,005	17,734	-	827,739
Other equipment	136,959	14,732	-	151,691
Trucks	1,311,909	242,942	-	1,554,851
Right-to-use	152,652	55,977	-	208,629
Total	<u>2,484,714</u>	<u>331,385</u>	<u>-</u>	<u>2,816,099</u>
Capital assets, net	<u>\$ 1,628,742</u>	<u>\$ (303,793)</u>	<u>\$ -</u>	<u>\$ 1,324,949</u>

Depreciation and amortization expense was \$331,385 for the year ended December 31, 2022.

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

Note 4 - Long-term debt

On December 31, 2022, long term debt consisted of the following:

On March 1, 2017, the District entered into a lease agreement bearing interest at 3.25% with KS State Bank 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.

On September 17, 2019, the District entered into a lease agreement bearing an estimated interest rate of 2.52% with Pennington Fire Company for facility rental totaling \$325,488. The District will pay 72 monthly installments ranging from \$4,656 to \$5,000 including interest through December 31, 2024.

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, 2022 including interest, are as follows:

	Principal	Interest	Total
2023	\$ 216,485	\$ 24,667	\$ 241,152
2024	222,548	18,605	241,153
2025	168,074	13,079	181,153
2026	172,914	8,239	181,153
2027	100,203	3,257	103,460
	\$ 880,224	\$ 67,847	\$ 948,071

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%. 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%. 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%.

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

Note 5 - Notes receivable (continued)

The notes receivable as of December 31, 2022, including interest, are as follows:

	Principal	Interest	Total
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	126,236	24,701	150,937
2028 - 2032	554,112	53,003	607,115
	<u>\$ 1,141,956</u>	<u>\$ 219,846</u>	<u>\$ 1,361,802</u>

Note 6 - Levied taxes

The total tax levied by the Borough of Pennington to fund the operations of the District was \$314,958. The tax rate per \$100 of assessed valuation is \$0.060, based on the assessed valuation of \$527,649,691.

Note 7 - Interfund receivable and payable

The composition of interfund balances as of December 31, 2022 is as follows:

	Receivable	Payable
General fund	\$ -	\$ 195,425
Capital fund	195,425	-
Total	<u>\$ 195,425</u>	<u>\$ 195,425</u>

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.

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

Note 10 - Recent accounting pronouncements not yet effective

The following is of recent accounting pronouncements which are not yet effective as of the year-end date of this report and which are expected to have a material impact on the District's financial reporting.

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This statement is effective for reporting periods beginning after June 15, 2022. The District is evaluating the effect of the pronouncement on financial reporting.

Note 11 - 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.

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 \$67,827 for the year ended December 31, 2022.

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.

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

Note 11 - Length of service award program (continued)

Investments in LOSAP (continued)

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, 2022 was \$158,206. At December 31, 2022, 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.

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.

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

Note 11 - Length of service award program (continued)
Investments in LOSAP (continued)

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, 2022.

	Level 1	Level 2	Level 3
Variable Annuity Funds	\$ -	\$ 2,014,594	\$ -

Note 12 - Restatement of prior year net position

During the fiscal year ended December 31, 2022, the District has determined a restatement of the prior year net position is necessary. Due to implementation of GASB Statement No. 87, *Leases*, adjustments to the inventory report value and useful lives are necessary. The following is a summary of the District's restatement of net position as of December 31, 2021.

	Governmental Activities
Net position, December 31, 2021	\$ 2,501,449
Change in capital assets	(201,194)
Facility use lease payable	(172,835)
Net position, December 31, 2021, as restated	\$ 2,127,420

Note 13 - Subsequent events

The District has determined that one material event occurred subsequent to December 31, 2022 and through July 18, 2023, the date of the District's financial statement issuance, which requires additional disclosure in the District's financial statements. The District had an emergency appropriation of \$17,380 for pumper repairs that will need to be raised in the December 31, 2024 budget.

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, 2022

	Unaudited Original Budget	Unaudited Final Budget	Actual	Under (Over) Final Budget
Revenues				
Operating revenues				
District taxes	\$ 314,043	\$ 314,043	\$ 314,958	\$ 915
Adjoining municipality	318,318	318,318	310,207	(8,111)
Interest	45,892	45,892	46,021	129
Other income	117,166	117,166	122,619	5,453
Total revenues	795,419	795,419	793,805	(1,614)
Expenditures				
Fire-fighting equipment	34,825	34,825	35,079	(254)
Turnout gear	16,800	16,800	770	16,030
Radio equipment	5,100	5,100	8,444	(3,344)
Rent	59,748	59,748	59,748	-
Insurance	80,000	80,000	69,260	10,740
Professional services	42,500	42,500	42,500	-
Subscriptions & advertising	5,139	5,139	6,849	(1,710)
Office	5,500	5,500	4,800	700
Elections	1,500	1,500	-	1,500
Training and education	15,300	15,300	7,683	7,617
Diesel and gas	12,000	12,000	10,044	1,956
Operating supplies	2,250	2,250	1,547	703
Equipment and repairs	17,178	17,178	24,717	(7,539)
Vehicle repairs	20,000	20,000	22,470	(2,470)
Medical	1,000	1,000	-	1,000
Contingency	4,500	4,500	-	4,500
LOSAP	85,000	85,000	67,827	17,173
Awards	2,500	2,500	3,529	(1,029)
Telephone	8,000	8,000	4,433	3,567
Reserve for capital outlays	195,425	195,425	195,425	-

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, 2022

	Unaudited Original Budget	Unaudited Final Budget	Actual	Under (Over) Final Budget
Debt service				
Principal	\$ 154,367	\$ 154,367	\$ 154,367	\$ -
Interest	26,787	26,787	26,786	1
Total expenditures	<u>795,419</u>	<u>795,419</u>	<u>746,278</u>	<u>49,141</u>
Excess of revenue over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 47,527</u>	<u>\$ 47,527</u>

See independent auditors' report

OTHER INFORMATION

PENNINGTON BOROUGH FIRE DISTRICT NO. 1
Schedule of Officials and Surety Bond
December 31, 2022

NAMES OF BOARD
OF COMMISSIONERS

AMOUNT OF SURETY BOND

Mark Blackwell (to 11/15/2022)	}	
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



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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, 2022, 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 July 18, 2023.

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

July 18, 2023
Flemington, New Jersey

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

General Comments and Recommendations

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 during the course of the examination.

Respectfully submitted,



BKC, CPAs, PC