

MUNICIPAL SERVICES COMMISSION
(A COMPONENT UNIT OF THE CITY OF
NEW CASTLE, DELAWARE)

FINANCIAL STATEMENTS
SUPPLEMENTARY INFORMATION
AND
INDEPENDENT AUDITOR'S REPORT

MARCH 31, 2011 AND 2010

MUNICIPAL SERVICES COMMISSION
(A COMPONENT UNIT OF THE CITY OF NEW CASTLE, DELAWARE)

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MARCH 31, 2011 AND 2010

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Board of Commissioners
Municipal Services Commission
(A Component Unit of the City
of New Castle, Delaware)
New Castle, Delaware

Independent Auditor's Report

We have audited the accompanying statements of net assets of Municipal Services Commission (a Component Unit of the City of New Castle, Delaware) as of March 31, 2011 and 2010, and the related statements of changes in net assets, revenues and expenses and cash flows for the years then ended. These financial statements are the responsibility of the management of Municipal Services Commission. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Municipal Services Commission as of March 31, 2011 and 2010 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Municipal Services Commission presents its financial statements in accordance with Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. The Municipal Services Commission has not presented the Management's Discussion and Analysis that the Government Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary information contained in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole and should be read in conjunction with those financial statements and related notes.

Horty & Healy, P.A.

Wilmington, Delaware
July 27, 2011

MUNICIPAL SERVICES COMMISSION
(A COMPONENT UNIT OF THE CITY OF NEW CASTLE, DELAWARE)

STATEMENTS OF NET ASSETS

ASSETS

	March 31,	
	2011	2010
<u>Current Assets:</u>		
Cash	\$ 2,085,568	\$ 3,221,959
Investments	508,904	674,727
Accounts Receivable (Net of Allowance for Doubtful Accounts of \$23,933 and \$24,035 at March 31, 2011 and 2010, Respectively)	999,534	998,151
Inventory	493,292	522,065
Dividends Receivable	984	3,551
Prepayments	32,879	47,814
Other Receivables	113,315	33,713
<u>Total Current Assets</u>	4,234,476	5,501,980
<u>Property and Equipment:</u>		
Property, Plant and Equipment	16,312,517	14,641,060
Construction in Progress	1,430,557	616,526
	17,743,074	15,257,586
<u>Less: Accumulated Depreciation</u>	9,855,298	9,393,016
<u>Net Property and Equipment</u>	7,887,776	5,864,570
 <u>Total Assets</u>	 \$ 12,122,252	 \$ 11,366,550

The accompanying notes are an integral part of these financial statements.

LIABILITIES AND NET ASSETS

	<u>March 31,</u>	
	<u>2011</u>	<u>2010</u>
<u>Current Liabilities:</u>		
Accounts Payable	\$ 683,311	\$ 704,098
Utility Taxes Payable	23,140	22,241
Payroll Withholdings Payable	11,368	10,217
Accrued Wages	44,613	39,151
Developer Deposits	34,604	24,920
Other Liabilities	8,027	
Accrued Compensated Absences	<u>289,663</u>	<u>268,816</u>
<u>Total Current Liabilities</u>	1,094,726	1,069,443
<u>Long-Term Liability:</u>		
Customer Deposits	<u>123,455</u>	<u>104,455</u>
<u>Total Liabilities</u>	<u>1,218,181</u>	<u>1,173,898</u>
<u>Net Assets:</u>		
Contributed Capital:		
Capital Grant	943,000	943,000
<u>Less: Accumulated Amortization</u>	<u>594,090</u>	<u>575,230</u>
<u>Net Capital Grant</u>	348,910	367,770
Private Developer Contributions	<u>1,342,456</u>	<u>1,247,377</u>
<u>Total Contributed Capital</u>	1,691,366	1,615,147
Unrestricted Net Assets	<u>9,212,705</u>	<u>8,577,505</u>
<u>Total Net Assets</u>	<u>10,904,071</u>	<u>10,192,652</u>
<u>Total Liabilities and Net Assets</u>	<u>\$ 12,122,252</u>	<u>\$ 11,366,550</u>

MUNICIPAL SERVICES COMMISSION
(A COMPONENT UNIT OF THE CITY OF NEW CASTLE, DELAWARE)

STATEMENTS OF CHANGES IN NET ASSETS

YEAR ENDED MARCH 31, 2011 AND 2010

	<u>Contributed Capital</u>				<u>Total Contributed Capital</u>	<u>Unrestricted Net Assets</u>	<u>Total Net Assets</u>
	<u>Capital Grant</u>	<u>Capital Grant Accumulated Amortization</u>	<u>Net Capital Grant</u>	<u>Private Developer Contributions</u>			
<u>Balance - March 31, 2009</u>	\$ 943,000	(\$ 556,370)	\$ 386,630	\$ 1,199,050	\$ 1,585,680	\$ 8,702,495	\$ 10,288,175
<u>Amortization of Capital Grant</u>		(18,860)	(18,860)		(18,860)	18,860	-0-
<u>Change in Net Assets</u>				48,327	48,327	(143,850)	(95,523)
<u>Balance - March 31, 2010</u>	943,000	(575,230)	367,770	1,247,377	1,615,147	8,577,505	10,192,652
<u>Amortization of Capital Grant</u>		(18,860)	(18,860)		(18,860)	18,860	-0-
<u>Change in Net Assets</u>				95,079	95,079	616,340	711,419
<u>Balance - March 31, 2011</u>	<u>\$ 943,000</u>	<u>(\$ 594,090)</u>	<u>\$ 348,910</u>	<u>\$ 1,342,456</u>	<u>\$ 1,691,366</u>	<u>\$ 9,212,705</u>	<u>\$ 10,904,071</u>

The accompanying notes are an integral part of these financial statements.

MUNICIPAL SERVICES COMMISSION
(A COMPONENT UNIT OF THE CITY OF NEW CASTLE, DELAWARE)

STATEMENTS OF REVENUES AND EXPENSES

	<u>Year Ended March 31,</u>	
	<u>2011</u>	<u>2010</u>
<u>Operating Revenues:</u>		
User Charges	\$ 12,079,317	\$ 10,686,904
City Service Charges	92,309	84,275
Miscellaneous	<u>121,701</u>	<u>105,026</u>
<u>Total Operating Revenues</u>	12,293,327	10,876,205
<u>Less: Free Service</u>	<u>26,742</u>	<u>30,125</u>
<u>Net Operating Revenues</u>	12,266,585	10,846,080
<u>Purchase of Power and Water</u>	8,646,874	7,739,585
<u>Operating Expenses</u>	1,575,461	1,689,756
<u>General and Administrative Expenses</u>	<u>896,921</u>	<u>994,567</u>
<u>Operating Income</u>	<u>1,147,329</u>	<u>422,172</u>
<u>Nonoperating Revenues (Expenses):</u>		
Investment Income	30,402	45,241
Gain on Sale of Property and Equipment		10,377
Private Developer Contributions	95,079	48,327
Appropriations to the City of New Castle:		
Ordinary	(462,500)	(487,500)
City Services	(92,309)	(84,275)
Special	(10,707)	(14,347)
Net Increase (Decrease) in the Fair Value of Investments	<u>4,125</u>	<u>(35,518)</u>
<u>Total Nonoperating Revenues (Expenses)</u>	<u>(435,910)</u>	<u>(517,695)</u>
<u>Change in Net Assets</u>	<u>\$ 711,419</u>	<u>(\$ 95,523)</u>

The accompanying notes are an integral part of these financial statements.

MUNICIPAL SERVICES COMMISSION
(A COMPONENT UNIT OF THE CITY OF NEW CASTLE, DELAWARE)

STATEMENTS OF CASH FLOWS

	<u>Year Ended March 31,</u>	
	<u>2011</u>	<u>2010</u>
<u>Cash Flows From Operating Activities:</u>		
Change in Net Assets	\$ 711,419	(\$ 95,523)
<u>Adjustments to Reconcile Change in Net Assets to</u>		
<u>Net Cash Provided By Operating Activities:</u>		
Bad Debts	15,205	31,907
Depreciation	462,282	435,990
Gain on Sale of Property and Equipment		(10,377)
Net (Increase) Decrease in the Fair Value of		
Investments	(4,125)	35,518
Private Developer Contributions	(95,079)	(48,327)
Appropriations to the City of New Castle	473,207	501,847
(Increase) Decrease in:		
Accounts Receivable	(16,588)	(92,575)
Inventory	28,773	(65,671)
Dividends Receivable	2,567	3,018
Prepayments	14,935	(4,863)
Other Receivables	(79,602)	(13,910)
Increase (Decrease) in:		
Accounts Payable	(20,787)	46,196
Utility Taxes Payable	899	3,907
Payroll Withholdings Payable	1,151	1,098
Accrued Wages	5,462	7,660
Accrued Pension		(18,824)
Developer Deposits	9,684	10,310
Accrued Compensated Absences	20,847	(6,922)
Customer Deposits	19,000	23,047
Other Liabilities	8,027	
<u>Net Cash Provided By Operating Activities</u>	<u>1,557,277</u>	<u>743,506</u>
<u>Cash Flows From Noncapital Financing Activities:</u>		
Appropriations to the City of New Castle	(473,207)	(501,847)

The accompanying notes are an integral part of these financial statements.

	<u>Year Ended March 31,</u>	
	<u>2011</u>	<u>2010</u>
<u>Cash Flows From Capital and Related Financing</u>		
<u>Activities:</u>		
Acquisition and Construction of Property and Equipment	(\$ 1,576,378)	(\$ 209,809)
Construction in Progress	(814,031)	(270,394)
Proceeds from Sale of Property and Equipment	<u>11,000</u>	<u>11,000</u>
<u>Net Cash Used For Capital and Related Financing Activities</u>	<u>(2,390,409)</u>	<u>(469,203)</u>
<u>Cash Flows From Investing Activities:</u>		
Purchases of Investments		(1,880)
Proceeds from Redemption of Investments	<u>169,948</u>	<u>332,000</u>
<u>Net Cash Provided By Investing Activities</u>	<u>169,948</u>	<u>330,120</u>
<u>Net Change in Cash</u>	(1,136,391)	102,576
<u>Cash:</u>		
Beginning of year	<u>3,221,959</u>	<u>3,119,383</u>
End of year	<u>\$ 2,085,568</u>	<u>\$ 3,221,959</u>

Supplemental Disclosure of Noncash Noncapital Financing Activities

During the years ended March 31, 2011 and 2010, the Commission earned revenue from electric and water services in the amount of \$92,309 and \$84,275, respectively, from the City of New Castle. This amount was appropriated to the City of New Castle.

Supplemental Disclosure of Noncash Capital and Related Financing Activities

During the years ended March 31, 2011 and 2010, the Commission received contributions of infrastructure from third parties in the amount of \$95,079 and \$48,327, respectively.

MUNICIPAL SERVICES COMMISSION
(A COMPONENT UNIT OF THE CITY OF NEW CASTLE, DELAWARE)

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2011 AND 2010

Note 1 - Nature of Activities

Organized under a charter adopted on March 1, 1921 and amended July 1, 1999, the Municipal Services Commission (the Commission) of the City of New Castle, Delaware, operates under a Board of Commissioners and provides water and electric as authorized by its charter. Although the Commission is legally separate from the City of New Castle, it is a component unit of the City.

The Municipal Services Commission is governed by a three-member board, appointed one each by the City Council of the City of New Castle, the Mayor of the City of New Castle and the Trustees of New Castle Common.

Note 2 - Summary of Significant Accounting Policies

Basis of Accounting

The Commission's policy is to prepare its financial statements on the accrual basis of accounting; consequently, revenue is recognized when earned and expenses when incurred. As permitted by accounting principles generally accepted in the United States of America, the Commission has elected to apply only applicable FASB Statements and Interpretations issued before November 30, 1989 in accordance with Governmental Accounting Standards Board Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use proprietary fund accounting.

Cash

For purposes of the statements of cash flows, the Commission considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Accounts Receivable

The Commission carries its accounts receivable at gross realizable value less an allowance for doubtful accounts. On a periodic basis, the Commission evaluates its electric accounts receivable and establishes an allowance for doubtful accounts, when deemed necessary, based on its analysis of the aged receivables. The Commission does not provide an allowance for doubtful accounts on its water accounts receivable because of its ability to file a lien on the property. The Commission may eventually write off a doubtful account as uncollectible when collections efforts fail over a period of time.

MUNICIPAL SERVICES COMMISSION
(A COMPONENT UNIT OF THE CITY OF NEW CASTLE, DELAWARE)

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2011 AND 2010

Note 2 - Summary of Significant Accounting Policies (Continued)

Inventory

Inventory consists of materials, parts and supplies used by the Commission to provide water and electric to its customers. Inventory is carried at the lower of cost or market, with cost being determined on the first-in, first-out (FIFO) basis.

Property and Equipment

Property, plant and equipment is valued at historical cost or estimated historical cost, if actual historical cost is not available.

The Commission follows the practice of capitalizing costs for property, plant and equipment in excess of \$500; the fair value of donated property and equipment is similarly capitalized.

Depreciation of all exhaustible property, plant and equipment is charged as an expense against operations. Depreciation has been provided for using the straight-line method over the estimated useful lives, which range from three to seventy-seven years. Depreciation expense is \$462,282 and \$435,990 for the years ended March 31, 2011 and 2010, respectively.

Impairment of Long-Lived Assets

The Commission evaluates impairment of its long-lived assets other than goodwill, as required by authoritative guidance. The carrying value of long-lived assets held-and-used is evaluated when events or changes in circumstances indicate the carrying-value may not be recoverable. The carrying value of a long-lived asset is considered impaired when the total projected undiscounted cash flows from such asset is separately identifiable and is less than the carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair value of the long-lived asset. Fair value is determined primarily using the projected cash flows from the asset discounted at a rate commensurate with the risk involved. No impairment loss was recognized during the years ended March 31, 2011 and 2010.

MUNICIPAL SERVICES COMMISSION
(A COMPONENT UNIT OF THE CITY OF NEW CASTLE, DELAWARE)

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2011 AND 2010

Note 2 - Summary of Significant Accounting Policies (Continued)

Liability for Compensated Absences

A ceiling of 280 hours has been established regarding the maximum number of hours of vacation that may be accumulated by each employee. Sick leave may be accumulated up to 2,080 hours by each employee. The Commission follows a policy which indicates all accumulated hours of sick leave are forfeited upon the resignation or termination of each employee. Any employee entering retirement, however, will be paid for all accumulated hours of sick leave up to a maximum of 720 hours. Accumulated hours of vacation are paid regardless of whether the employee resigns, is terminated or retires. The Commission accrues a liability for compensated absences which meet the following criteria:

- The Commission's obligation relating to employees' rights to receive compensation for future absences is attributable to employees' services already rendered.
- The obligation relates to rights that vest or accumulate.
- Payment of the compensation amount is probable.
- The amount can be reasonably estimated.

Contributed Capital

The Commission received a \$943,000 grant in 1978 from the Economic Development Administration for the improvement of the Commission's water distribution system. The contributed capital portion of the constructed water tower is being amortized using the straight-line method over 50 years. The unamortized portion of the water tower for the years ended March 31, 2011 and 2010 is \$348,910 and \$367,770, respectively.

Private Developer Contributions

From time to time, the Commission receives contributions of infrastructure from third parties. The Commission takes possession of the infrastructure received. These contributions are recorded at fair value at the date of contribution. If the fair value of the contributed asset is not known, then the Commission will estimate the fair value. For the years ended March 31, 2011 and 2010, the Commission received contributed infrastructure of \$95,079 and \$48,327, respectively. The Commission depreciates these assets over their useful life.

MUNICIPAL SERVICES COMMISSION
(A COMPONENT UNIT OF THE CITY OF NEW CASTLE, DELAWARE)

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2011 AND 2010

Note 2 - Summary of Significant Accounting Policies (Continued)

Revenue Recognition

The Commission recognizes revenue from its customers when billed. Charges for electric and water services are billed monthly. All charges are based on actual usage of electric and water determined from meter readings.

Use of Estimates in the Preparation of Financial Statements

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 as of the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions included the estimation of net realization of accounts receivable, long-lived asset impairment and depreciation and amortization.

Fair Value of Financial Instruments

Unless otherwise indicated, the fair values of all reported assets and liabilities which represent financial instruments (none of which are held for trading purposes) approximate the carrying values of such amounts.

Note 3 - Accounts Receivable

The Commission's policy is to maintain an allowance for doubtful accounts equal to 2.6% of the outstanding electric receivables at the end of the year. The net trade receivable consists of the following:

	<u>March 31,</u>	
	<u>2011</u>	<u>2010</u>
Electric Receivables	\$ 920,509	\$ 924,407
Water Receivables	<u>102,958</u>	<u>97,779</u>
	1,023,467	1,022,186
<u>Less: Allowance for Doubtful Accounts</u>	<u>23,933</u>	<u>24,035</u>
<u>Total</u>	<u>\$ 999,534</u>	<u>\$ 998,151</u>

MUNICIPAL SERVICES COMMISSION
(A COMPONENT UNIT OF THE CITY OF NEW CASTLE, DELAWARE)

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2011 AND 2010

Note 4 - Inventory

The Commission's inventory consists of the following two major categories:

	March 31,	
	2011	2010
Electric Inventory	\$382,079	\$399,788
Water Inventory	111,213	122,277
<u>Total</u>	<u>\$493,292</u>	<u>\$522,065</u>

Note 5 - Investments

The Commission's investments consisted of one mutual fund and one marketable certificate of deposit held at separate banks. The certificate of deposit was redeemed during the year ended March 31, 2011. Investments are presented in the financial statements at fair value. Realized gains and losses on the disposition of investments are determined by comparing the net proceeds to the carrying value of the disposed investments, which is determined using the specific identification or average cost methods. The following is a summary of the cost and fair value of the Commission's investments:

	March 31, 2011		March 31, 2010	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Mutual Fund	\$493,217	\$508,904	\$493,217	\$503,919
Certificate of Deposit	- 0 -	- 0 -	169,950	170,808
<u>Total</u>	<u>\$493,217</u>	<u>\$508,904</u>	<u>\$663,167</u>	<u>\$674,727</u>

During the years ended March 31, 2011 and 2010, the Commission recognized an unrealized gain (loss) on investments of \$4,125 and (\$35,518), respectively.

MUNICIPAL SERVICES COMMISSION
(A COMPONENT UNIT OF THE CITY OF NEW CASTLE, DELAWARE)

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2011 AND 2010

Note 5 - Investments (Continued)

Custodial credit risk for an investment is the risk that in the event of the failure of the counterparty, the Commission will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Commission does not have an investment policy for managing custodial credit risk. As of March 31, 2010 \$-0- of the Commission's investment in a certificate of deposit with a balance of \$170,808 was exposed to custodial credit risk. The Commission's investment in a mutual fund is exempt from risk categorization because the Commission does not own any identifiable securities, but is a shareholder of a percentage of the mutual fund. There are no amounts held in uninsured and unregistered investments for which the securities are held by the counterparty, or by its safekeeping department or agent.

Note 6 - Property, Plant and Equipment and Accumulated Depreciation

A summary of property, plant and equipment and accumulated depreciation during the year ended March 31, 2011 is as follows:

	<u>Property, Plant and Equipment</u>			
	<u>March</u>		<u>Deletions</u>	<u>March</u>
	<u>31, 2010</u>	<u>Additions</u>		<u>31, 2011</u>
<u>Nondepreciable Asset:</u>				
Land	\$ 45,386			\$ 45,386
<u>Depreciable Assets:</u>				
Building Structures	787,579			787,579
Water Department	4,054,015	\$1,338,351		5,392,366
Electric Department	8,031,709	326,403		8,358,112
Common Assets	<u>1,722,371</u>	<u>6,703</u>		<u>1,729,074</u>
	<u>14,595,674</u>	<u>1,671,457</u>		<u>16,267,131</u>
<u>Total</u>	<u>\$14,641,060</u>	<u>\$1,671,457</u>	<u>\$ - 0 -</u>	<u>\$16,312,517</u>

MUNICIPAL SERVICES COMMISSION
(A COMPONENT UNIT OF THE CITY OF NEW CASTLE, DELAWARE)

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2011 AND 2010

Note 6 - Property, Plant and Equipment and Accumulated Depreciation (Continued)

	Accumulated Depreciation			March 31, 2011
	March 31, 2010	Additions	Deletions	
<u>Depreciable Assets:</u>				
Building Structures	\$ 534,449	\$ 8,397		\$ 542,846
Water Department	2,276,348	97,510		2,373,858
Electric Department	5,207,808	257,111		5,464,919
Common Assets	<u>1,374,411</u>	<u>99,264</u>		<u>1,473,675</u>
<u>Total</u>	<u>\$9,393,016</u>	<u>\$462,282</u>	<u>\$ - 0 -</u>	<u>\$9,855,298</u>

A summary of property, plant and equipment and accumulated depreciation during the year ended March 31, 2010 is as follows:

	Property, Plant and Equipment			March 31, 2010
	March 31, 2009	Additions	Deletions	
<u>Nondepreciable Asset:</u>				
Land	<u>\$ 45,386</u>			<u>\$ 45,386</u>
<u>Depreciable Assets:</u>				
Building Structures	787,579			787,579
Water Department	3,967,575	\$ 86,440		4,054,015
Electric Department	7,982,695	49,014		8,031,709
Common Assets	<u>1,656,133</u>	<u>122,682</u>	<u>\$56,444</u>	<u>1,722,371</u>
	<u>14,393,982</u>	<u>258,136</u>	<u>56,444</u>	<u>14,595,674</u>
<u>Total</u>	<u>\$14,439,368</u>	<u>\$258,136</u>	<u>\$56,444</u>	<u>\$14,641,060</u>

MUNICIPAL SERVICES COMMISSION
(A COMPONENT UNIT OF THE CITY OF NEW CASTLE, DELAWARE)

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2011 AND 2010

Note 6 - Property, Plant and Equipment and Accumulated Depreciation (Continued)

	Accumulated Depreciation			March 31, 2010
	March 31, 2009	Additions	Deletions	
<u>Depreciable Assets:</u>				
Building Structures	\$ 525,747	\$ 8,702		\$ 534,449
Water Department	2,202,697	73,651		2,276,348
Electric Department	4,954,851	252,957		5,207,808
Common Assets	<u>1,329,552</u>	<u>100,680</u>	<u>\$55,821</u>	<u>1,374,411</u>
<u>Total</u>	<u>\$9,012,847</u>	<u>\$435,990</u>	<u>\$55,821</u>	<u>\$9,393,016</u>

Note 7 - Pension Plan

The Commission has a defined benefit pension plan (the Plan) which covers all of its employees.

The Commission contributes to a separate account in a multi-employer pension plan entitled "Mayor and Council of New Castle, Delaware". The Plan is administered by independent administrators, and the Commission's account is funded entirely through a contribution by the Commission. For the years ended December 31, 2010 and 2009, the dollar amount of current payroll used in the determination of the minimal contribution at the beginning of the year is \$ 1,095,864 and \$1,019,076, respectively. Total payroll for the years ended March 31, 2011 and 2010 is \$ 1,315,952 and \$1,271,611, respectively.

All full-time Commission employees are eligible to participate in the Plan upon employment. Benefits do not vest until the completion of five years of service, at which time, the employee is 100% vested. The Commission amended the Normal Retirement Benefit effective July 1, 2000. Non-union participants hired prior to July 1, 2000 are entitled to the benefit computation resulting in the greater benefit calculated under option A or B. Non-union participants hired after July 1, 2000 are entitled to the benefit computed under option B. For union employees, benefits are calculated under option A only. The full-time Commission employees who retire at or after age 65 with five years of credited service are entitled to benefits calculated under the applicable formula as follows:

- A. 2.0% of final average compensation (average of 60 months) multiplied by years of service with a maximum monthly benefit of \$2,000. Subsequent to March 31, 2010, the Plan was amended to increase the maximum monthly benefit to \$2,400.

MUNICIPAL SERVICES COMMISSION
(A COMPONENT UNIT OF THE CITY OF NEW CASTLE, DELAWARE)

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2011 AND 2010

Note 7 - Pension Plan (Continued)

- B. 1.67% of final average compensation multiplied by years of service to the nearest twelfth of a year but not more than 75% of final average compensation minus Social Security benefits payable at age 62, the result multiplied by years of service (maximum 30) divided by 30.

The Plan has an early retirement provision for option A, age 55 and 10 years of service and for option B, age 55 and 15 years of service.

Upon the death of an active member who is eligible for retirement or of an active or terminated vested member, the surviving spouse is entitled to 50% of the benefit the member was receiving or would have been receiving had he retired at the date of death. The benefits are computed as life annuities.

The actuarially-determined Present Value of Accrued Benefits, based on valuations performed on January 1, 2011 and 2010 are as follows:

	<u>January 1, 2011</u>	<u>January 1, 2010</u>
Vested Benefits - Active Participants	\$1,251,667	\$1,298,215
- Terminated Participant	128,161	110,854
- Retired Participants	1,085,983	767,274
Non-vested Benefits	<u>27,302</u>	<u>19,337</u>
 <u>Total Accrued Benefits</u>	 <u>\$2,493,113</u>	 <u>\$2,195,680</u>
 <u>Market Value of Assets</u>	 <u>\$1,938,564</u>	 <u>\$1,657,740</u>
 <u>Accrued Benefit Ratio</u>	 <u>78%</u>	 <u>76%</u>

Funding Status and Progress – The amount shown as the “accrued benefits” is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding status of the Plan on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among employers.

MUNICIPAL SERVICES COMMISSION
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NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2011 AND 2010

Note 7 - Pension Plan (Continued)

The Present Value of Accrued Benefits was computed as part of an actuarial valuation performed as of January 1, 2011 and 2010. Significant actuarial assumptions used in the valuation include:

- A rate of return on the investment of present and future assets of 7.0 percent a year compounded annually;
- Projected salary increases of 5.5 percent annually;
- No additional projected salary increases attributable to seniority/merit, and
- No postretirement benefit increases.

There was no unfunded accrued liability for the portion of the present value of benefits allocated to service rendered by plan participants in the Plan to the valuation date as of January 1, 2011 and 2010.

Actuarially Determined Contributions Requirements and Contributions Made – The Plan's funding policy provides for actuarially determined periodic contributions, at rates that, for individual employees, increase gradually so that sufficient assets will be available to pay benefits when due. The rate for the Commission's employee group as a whole has tended to remain level as a percentage of annual covered payroll. The contribution rate for normal cost is determined using the Aggregate Funding method. The Plan used the Aggregate Funding method to amortize the unfunded liability over a period of ten years. The significant actuarial assumptions used to compute the actuarially determined contributions requirements are the same as those used to compute the pension benefit obligation as described in the funding status and progress.

The contributions to the Plan for the years ended March 31, 2011 and 2010 are made in accordance with actuarially determined requirements computed through the actuarial valuation performed as of January 1, 2010 and 2009, respectively. Contributions for the year ended March 31, 2012 will be made in accordance with the actuarially determined requirements computed through the actuarial valuation performed as of January 1, 2011.

	<u>January 1, 2011</u>	<u>January 1, 2010</u>	<u>January 1, 2009</u>
Normal Cost	\$144,352	\$132,754	\$142,589
Fees	- 0 -	5,000	4,940
Interest to End of Year	<u>10,105</u>	<u>9,643</u>	<u>10,327</u>
<u>Total Actuarially Determined Contributions Required</u>	<u>\$154,457</u>	<u>\$147,397</u>	<u>\$157,856</u>

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NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2011 AND 2010

Note 7 - Pension Plan (Continued)

	<u>January 1, 2011</u>	<u>January 1, 2010</u>	<u>January 1, 2009</u>
<u>Contributions Made</u>			
Fiscal Year Ended March 31, 2011	\$38,614	\$ 98,191	
Fiscal Year Ended March 31, 2010		49,206	\$137,216
Fiscal Year Ended March 31, 2009	<u> </u>	<u> </u>	<u>20,640</u>
	<u>\$38,614</u>	<u>\$147,397</u>	<u>\$157,856</u>
Contributions Made as a Percentage of			
Current Calendar Year Covered Payroll	<u>3.5%</u>	<u>14.5%</u>	<u>14.1%</u>

Note 8 - Appropriations To Mayor and City Council

Ordinary – During the years ended March 31, 2011 and 2010, the Commission appropriated \$462,500 and \$487,500, respectively, to the Mayor and Council of New Castle.

City Services – The Commission reflects the cost of city electric and water usage as a City Services appropriation on its financial statements. The City Services appropriation totaled \$92,309 and \$84,275 for the years ended March 31, 2011 and 2010, respectively. Of this amount, \$20,204 and \$18,101 represented water usage and \$72,105 and \$66,174 represented electric usage for the years ended March 31, 2011 and 2010, respectively.

Special – During the years ended March 31, 2011 and 2010, the Commission also approved special appropriations totaling \$10,707 and \$14,347, respectively, to the City of New Castle.

Note 9 - Commitments

Leases – On April 7, 2003, the Commission, the Trustees of New Castle Common (Trustees) and the Mayor and Council of New Castle entered into a ten-year lease for various buildings in New Castle, Delaware. The Commission's portion of the lease only relates to the building located at 100 Municipal Boulevard, New Castle, Delaware.

MUNICIPAL SERVICES COMMISSION
(A COMPONENT UNIT OF THE CITY OF NEW CASTLE, DELAWARE)

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2011 AND 2010

Note 9 - Commitments (Continued)

The Commission's annual rental payment is due to the Trustees of New Castle Common and is \$50,000 per year for the period April 1, 2003 through March 31, 2013. The building and other leasehold improvements on the land located at 100 Municipal Boulevard shall be owned by the Trustees until the termination date of this lease. Upon termination, the Trustees shall sign a bill of sale to convey the building to the Mayor and Council of New Castle for no additional costs.

Future minimum rental payments under the noncancellable operating lease and having a remaining term in excess of one year as of March 31, 2011 are:

Year Ending March 31,

2012	\$ 50,000
2013	<u>50,000</u>
<u>Total</u>	<u>\$100,000</u>

Other Commitments – The Commission has entered into an agreement with the Delaware Municipal Electric Corporation, Inc. (DEMEC) to act as its agent for the purchase of electric capacity and energy. This agreement was effective January 1, 2000 through December 31, 2003 and is automatically extended for succeeding periods of one year, except that it may be terminated at any time during any of the succeeding periods upon 60 days written notice by either party.

Under the agreement DEMEC is authorized to act as agent for the Commission in all matters relating to the acquisition and delivery of its wholesale power supply. DEMEC may enter into power supply management agreements with other entities for the purpose of efficiently managing energy cost risk.

The Commission has a separate power sales contract with DEMEC to purchase capacity from an electric power plant owned by DEMEC. On May 1, 2011, the Commission entered into another power sales contract with DEMEC to purchase additional capacity from a new electric power plant that DEMEC will build and own. The Commission is contractually bound to pay debt service and other costs through the contracts. The Commission's share, in the projects, corresponds to its share of load, which is the amount of debt service for which they are responsible. The power sales contracts run as long as there are bonds outstanding on the projects. If the Commission or any other participant defaults on their payment obligation, the remaining participants must pay their respective pro rata share of the defaulted amounts, not to exceed 125% of their initial pro rata share.

MUNICIPAL SERVICES COMMISSION
(A COMPONENT UNIT OF THE CITY OF NEW CASTLE, DELAWARE)

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2011 AND 2010

Note 9 - Commitments (Continued)

In January 2008 the Commissioners unanimously voted to build a second substation on the south westerly side of the city to meet current and future electric demands. The Commissioners amended their full power purchase agreement with DEMEC to allow DEMEC to build the substation and sell to the Commission transformation services from the new substation. The Commission is required to purchase these services until the bonds DEMEC issued to finance the project are retired. The bonds, which were issued in December 2008, are in the amount of \$7 million, they have a term of ten years and at the end of the bond term, there is a balloon payment of \$2,728,825 of principal and interest which can be refinanced or paid. Upon retirement of the bonds, the substation will be turned over to the City of New Castle. During the fiscal years ending March 31, 2011 and 2010, the Commission has incurred \$634,644 and \$479,349, respectively, in operational costs related to the substation which is recorded in purchase of power and water on the statements of revenues and expenses. The monthly payment is currently \$52,887 through May 2019 with a final balloon payment of \$2,728,825 due June 2019. Construction on the substation, named the Dobbinsville Substation, began in the spring of 2010 and was completed and placed in service on February 8, 2011. The Commission continues to do modifications on the Wilmington Road substation which was also financed through the bond issuance.

Future minimum payments under the amended full power purchase agreement as it relates to the new substation are as follows:

Year Ending March 31,

2012	\$ 634,642
2013	634,642
2014	634,642
2015	634,642
2016	634,642
Thereafter	<u>4,738,523</u>
<u>Total</u>	<u>\$7,911,733</u>

During the years ended March 31, 2011 and 2010, the expense related to the purchase of power under the full power purchase agreement with DEMEC is \$7,826,584 and \$7,250,421, respectively. The amount payable as of March 31, 2011 and 2010 is \$661,359 and \$649,597, respectively. At times the Commission may be required to provide advances to DEMEC to cover cash collateral calls as a result of forward power purchase positions. There were no such advances for the years ended March 31, 2011 and 2010.

MUNICIPAL SERVICES COMMISSION
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NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2011 AND 2010

Note 9 - Commitments (Continued)

Assessment of additional amounts payable by the Commission to DEMEC may be required by virtue of the Commission's various agreements with DEMEC.

In May 2010, the Commission contracted for renovations and improvements of the School Lane Water Treatment Facility (Project) which includes system wide electrical improvements with a bid amount of \$719,962. The estimated cost to complete the entire Project, excluding internal labor, is approximately \$1,500,000. The Project consists of major renovations and improvements to the Commission's existing water treatment facility located along School Lane which includes electrical improvements and introductions of a SCADA system at all the Commission's water storage, production and treatment facilities. These improvements will allow the Commission to monitor and regulate the water supply and better serve their customers. Work began in the summer of 2010 and portions of the project were completed and placed in service on January 20, 2011 which amounted to \$901,454. The remaining portions of the project are expected to be completed during the summer of 2011.

In June 2010, the Commission contracted for rehabilitation of the Gray Street Tank and Million Gallon Tank, which consists of interior and exterior cleaning and painting of the tanks at a cost of \$853,400. In addition, the Commission contracted to have the painting work inspected by a third party at a cost of \$47,500. Work began in July 2010. The Gray Street Tank was completed and placed back in service on October 6, 2010 at a cost of \$383,984. The rehabilitation of the Million Gallon Tank began the end of calendar year 2010 and is expected to be completed during the summer of 2011.

Note 10 - Regulatory Issues

This note relates to transmission which is regulated by the Federal Energy Regulatory Commission (FERC).

Delmarva provides transmission services to the Commission through an interconnection agreement which controls the tap of Delmarva's 138,000-volt transmission line by the Commission. When/if Delmarva wants to change its tariff or the interconnection agreement it must get approval from FERC. DEMEC represents the Commission's interest when changes are presented to FERC.

MUNICIPAL SERVICES COMMISSION
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NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2011 AND 2010

Note 11 - Concentrations

Uninsured Balances in Cash – Custodial credit risk is the risk that, in the event of a bank failure, the Commission’s deposits may not be returned to it. The Commission does not have a deposit policy for managing custodial credit risk. As of March 31, 2011 and 2010, the Commission’s deposits with financial institutions had a bank balance of \$2,226,196 and \$3,228,335, respectively. Of the bank balances, \$500,000 and \$500,000, respectively, were covered by Federal Depository Insurance. As of March 31, 2011 and 2010, \$1,726,196 and \$2,728,335 of the Commission’s bank balances were exposed to custodial credit risk as follows:

	<u>March 31,</u>	
	<u>2011</u>	<u>2010</u>
Uninsured and uncollateralized	\$1,262,080	\$2,593,240
Uninsured and collateralized with securities held by the pledging bank’s trust department or agent but not in the Commission's name	464,116	135,095
<u>Total</u>	<u>\$1,726,196</u>	<u>\$2,728,335</u>

Labor Force – The Commission’s labor force is comprised of a portion of union employees, who are employed under the terms of a collectively bargained compensation agreement which lasts for three years. The collective bargaining agreement covers approximately 39% and 42% of the Commission’s workforce for the years ended March 31, 2011 and 2010, respectively. The current agreement is set to expire on March 31, 2013.

Note 12 - Environmental Issues

The Commission is subject to laws and regulations relating to the protection of the environment. The Commission’s policy is to accrue environmental and cleanup related costs of a non-capital nature when it is both probable that a liability has been incurred and when the amount can be reasonably estimated. Although it is not possible to quantify with any degree of certainty the potential financial impact of the Commission’s continuing compliance efforts, management believes any future remediation or other compliance related costs will not have a material adverse effect on the financial condition or reported results or operations of the Commission. Based on the Commission’s analysis of its current operations, it believes there are no pending environmental issues as of March 31, 2011 and 2010.

MUNICIPAL SERVICES COMMISSION
(A COMPONENT UNIT OF THE CITY OF NEW CASTLE, DELAWARE)

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2011 AND 2010

Note 13 - Deferred Compensation Plan

The Commission offers its employees a deferred compensation plan (Plan) in accordance with Internal Revenue Code (IRC) Section 457. The Plan is administered by the National Association of Counties (NACO), with Public Employees Benefit Services Corporation (PEBSCO.) acting as its agent in fulfilling certain of the administrative and marketing requirements. The Plan, available to all permanent employees of the Commission, permits them to defer a portion of their salary until future years. The deferred compensation, including related income, is not available to employees until termination, retirement, death or unforeseeable emergency. In accordance with the provisions of IRC Section 457, the Commission does not own the amounts deferred by employees, including the related income on those amounts.

Note 14 - Contingencies

The Commission is the subject of a matter which has arisen in the normal course of business. In the opinion of management, after consultation with legal counsel, the outcome of this matter will not have a significant effect on the Commission's financial position or results of operations.

Note 15 - Reclassification

Certain amounts in the 2010 financial statements have been reclassified to conform to the 2011 presentation.

SUPPLEMENTARY INFORMATION

MUNICIPAL SERVICES COMMISSION
(A COMPONENT UNIT OF THE CITY OF NEW CASTLE, DELAWARE)

COMBINED SCHEDULES OF REVENUES AND EXPENSES BY DEPARTMENT

YEAR ENDED MARCH 31, 2011 AND 2010

	<u>Water Department</u>		<u>Electric Department</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
<u>Operating Revenues:</u>						
User Charges	\$ 1,186,884	\$ 1,073,267	\$ 10,892,433	\$ 9,613,637	\$ 12,079,317	\$ 10,686,904
City Service Charges	20,204	18,101	72,105	66,174	92,309	84,275
Miscellaneous	<u>35,691</u>	<u>23,093</u>	<u>86,010</u>	<u>81,933</u>	<u>121,701</u>	<u>105,026</u>
<u>Total Operating Revenues</u>	1,242,779	1,114,461	11,050,548	9,761,744	12,293,327	10,876,205
<u>Less: Free Service</u>	<u>1,578</u>	<u>1,175</u>	<u>25,164</u>	<u>28,950</u>	<u>26,742</u>	<u>30,125</u>
<u>Net Operating Revenues</u>	1,241,201	1,113,286	11,025,384	9,732,794	12,266,585	10,846,080
<u>Purchase of Power and Water</u>	185,646	9,815	8,461,228	7,729,770	8,646,874	7,739,585
<u>Operating Expenses</u>	686,383	725,990	889,078	963,766	1,575,461	1,689,756
<u>General and Administrative Expenses</u>	<u>272,549</u>	<u>281,966</u>	<u>624,372</u>	<u>712,601</u>	<u>896,921</u>	<u>994,567</u>
<u>Operating Income</u>	<u>96,623</u>	<u>95,515</u>	<u>1,050,706</u>	<u>326,657</u>	<u>1,147,329</u>	<u>422,172</u>
<u>Nonoperating Revenues (Expenses):</u>						
Investment Income	3,035	4,673	27,367	40,568	30,402	45,241
Gain on Sale of Property and Equipment		4,670		5,707		10,377
Private Developer Contributions	48,785	48,327	46,294		95,079	48,327
Appropriations to the City of New Castle:						
Ordinary			(462,500)	(487,500)	(462,500)	(487,500)
City Services	(20,204)	(18,101)	(72,105)	(66,174)	(92,309)	(84,275)
Special	(2,943)	(7,880)	(7,764)	(6,467)	(10,707)	(14,347)
Net Increase (Decrease) in the Fair Value of Investments	<u>413</u>	<u>(3,552)</u>	<u>3,712</u>	<u>(31,966)</u>	<u>4,125</u>	<u>(35,518)</u>
<u>Total Nonoperating Revenues (Expenses)</u>	29,086	28,137	(464,996)	(545,832)	(435,910)	(517,695)
<u>Change in Net Assets</u>	<u>\$ 125,709</u>	<u>\$ 123,652</u>	<u>\$ 585,710</u>	<u>(\$ 219,175)</u>	<u>\$ 711,419</u>	<u>(\$ 95,523)</u>

MUNICIPAL SERVICES COMMISSION
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SCHEDULES OF OPERATING EXPENSES

YEAR ENDED MARCH 31, 2011 AND 2010

	<u>Water Department</u>		<u>Electric Department</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Clothing Allowance	\$ 2,448	\$ 3,192	\$ 5,395	\$ 4,152	\$ 7,843	\$ 7,344
Depreciation:						
Plant and Equipment	127,504	103,999	250,313	246,683	377,817	350,682
Trucks and Autos	21,455	18,535	30,237	34,350	51,692	52,885
Electric Current	18,812	37,922			18,812	37,922
Employee Benefits	38,182	37,142	35,248	34,352	73,430	71,494
Fuel - Heating	1,679	1,749	2,052	2,137	3,731	3,886
Insurance	42,064	58,983	38,677	51,132	80,741	110,115
Payroll Taxes	24,501	28,065	30,059	31,243	54,560	59,308
Pension Expense	46,390	43,179	56,279	52,384	102,669	95,563
Plant Materials and Supplies	31	1,382	38	1,759	69	3,141
Repairs and Maintenance:						
Buildings and Grounds	5,480	5,548	6,566	7,108	12,046	12,656
Hydrants, Mains and Valves		4,312				4,312
Lines and Poles			852	5,023	852	5,023
Meters and Services	10,159	3,399	4,951	8,458	15,110	11,857
Pumping Stations	11,675	7,532			11,675	7,532
Storm Damage			27	846	27	846
Street Lights			3,638	4,210	3,638	4,210
Substations			4,789	2,241	4,789	2,241
Salaries and Wages	311,078	353,689	386,113	399,064	697,191	752,753
Sampling and Testing	2,593	2,694	146	72	2,739	2,766
Seminars/Training	3,239	541	5,867	2,069	9,106	2,610
Supplies	4,418	3,984	6,194	54,722	10,612	58,706
Truck Expense	14,675	10,143	21,637	21,761	36,312	31,904
<u>Total Operating Expenses</u>	<u>\$ 686,383</u>	<u>\$ 725,990</u>	<u>\$ 889,078</u>	<u>\$ 963,766</u>	<u>\$ 1,575,461</u>	<u>\$ 1,689,756</u>

MUNICIPAL SERVICES COMMISSION
(A COMPONENT UNIT OF THE CITY OF NEW CASTLE, DELAWARE)

SCHEDULES OF GENERAL AND ADMINISTRATIVE EXPENSES

YEAR ENDED MARCH 31, 2011 AND 2010

	<u>Water Department</u>		<u>Electric Department</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Administrative	\$ 9,898	\$ 11,498	\$ 13,040	\$ 14,996	\$ 22,938	\$ 26,494
Bad Debts		401	15,205	31,506	15,205	31,907
Depreciation - Furniture and Fixtures	14,748	14,632	18,025	17,791	32,773	32,423
Dues and Subscriptions	2,299	2,230	987	1,309	3,286	3,539
Employee Benefits	24,723	24,050	64,286	62,652	89,009	86,702
Insurance	13,125	15,730	15,476	18,770	28,601	34,500
New Castle Cares Fund			5,000	5,000	5,000	5,000
Office Salaries	95,155	90,356	313,465	305,364	408,620	395,720
Office Supplies	19,543	15,643	25,577	20,300	45,120	35,943
Payroll Taxes	7,517	7,208	26,289	26,387	33,806	33,595
Pension Expense	10,859	17,489	35,635	42,190	46,494	59,679
Professional Fees	31,751	39,702	38,849	113,184	70,600	152,886
Rent	22,500	22,500	28,238	28,228	50,738	50,728
Repairs and Maintenance - Equipment	5,473	6,456	6,591	7,309	12,064	13,765
Security System	1,374	1,099	1,680	1,343	3,054	2,442
Telephone	9,991	11,188	12,178	13,489	22,169	24,677
Training - Administrative	3,393	1,554	3,606	2,502	6,999	4,056
Utilities	200	230	245	281	445	511
	<u>200</u>	<u>230</u>	<u>245</u>	<u>281</u>	<u>445</u>	<u>511</u>
<u>Total General and Administrative Expenses</u>	<u>\$ 272,549</u>	<u>\$ 281,966</u>	<u>\$ 624,372</u>	<u>\$ 712,601</u>	<u>\$ 896,921</u>	<u>\$ 994,567</u>