

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

FINANCIAL STATEMENTS
SUPPLEMENTARY INFORMATION
AND
INDEPENDENT AUDITOR'S REPORT

MARCH 31, 2014 AND 2013

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

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MARCH 31, 2014 AND 2013

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

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of Municipal Services Commission (a Component Unit of the City of New Castle, Delaware) which comprises the statements of net position as of March 31, 2014 and 2013, and the related statements of changes in net position, revenue and expenses and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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 from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Municipal Services Commission as of March 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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 conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Horty, Horty PA

Wilmington, Delaware
July 22, 2014

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

STATEMENTS OF NET POSITION

ASSETS

	<u>March 31,</u>	
	<u>2014</u>	<u>2013</u>
<u>Current Assets:</u>		
Cash	\$ 2,827,763	\$ 1,371,984
Investments	998,472	1,022,471
Accounts Receivable (Net of Allowance for Doubtful Accounts of \$15,622 and \$23,218 at March 31, 2014 and 2013, Respectively)	692,319	1,010,198
Inventory	574,165	611,303
Dividends Receivable	383	1,038
Prepayments	59,436	50,159
Other Receivables	<u>34,738</u>	<u>358,225</u>
<u>Total Current Assets</u>	<u>5,187,276</u>	<u>4,425,378</u>
<u>Property, Plant and Equipment:</u>		
Property, Plant and Equipment	19,365,847	18,478,755
Construction in Progress	<u>594,541</u>	<u>622,063</u>
	19,960,388	19,100,818
<u>Less: Accumulated Depreciation</u>	<u>10,839,200</u>	<u>10,352,008</u>
<u>Net Property and Equipment</u>	<u>9,121,188</u>	<u>8,748,810</u>
<u>Total Assets</u>	<u>\$ 14,308,464</u>	<u>\$ 13,174,188</u>

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

LIABILITIES AND NET POSITION

	<u>March 31,</u>	
	<u>2014</u>	<u>2013</u>
<u>Current Liabilities:</u>		
Accounts Payable	\$ 655,989	\$ 838,298
Utility Taxes Payable	16,596	17,115
Payroll Withholdings Payable	5,212	4,584
Accrued Wages	30,520	26,230
Developer Deposits	11,587	5,175
Other Liabilities	4,353	30,934
Accrued Compensated Absences	<u>272,013</u>	<u>249,825</u>
<u>Total Current Liabilities</u>	996,270	1,172,161
<u>Long-Term Liability:</u>		
Customer Deposits	<u>296,275</u>	<u>149,058</u>
<u>Total Liabilities</u>	<u>1,292,545</u>	<u>1,321,219</u>
<u>Net Position:</u>		
Contributed Capital:		
Capital Grant	943,000	943,000
<u>Less: Accumulated Amortization</u>	<u>650,670</u>	<u>631,810</u>
<u>Net Capital Grant</u>	292,330	311,190
Private Developer Contributions	<u>1,854,736</u>	<u>1,414,346</u>
<u>Total Contributed Capital</u>	2,147,066	1,725,536
Unrestricted Net Position	<u>10,868,853</u>	<u>10,127,433</u>
<u>Total Net Position</u>	<u>13,015,919</u>	<u>11,852,969</u>
<u>Total Liabilities and Net Position</u>	<u>\$ 14,308,464</u>	<u>\$ 13,174,188</u>

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

STATEMENTS OF CHANGES IN NET POSITION

YEAR ENDED MARCH 31, 2014 AND 2013

	<u>Contributed Capital</u>				<u>Total Contributed Capital</u>	<u>Unrestricted Net Position</u>	<u>Total Net Position</u>
	<u>Capital Grant</u>	<u>Capital Grant Accumulated Amortization</u>	<u>Net Capital Grant</u>	<u>Private Developer Contributions</u>			
<u>Balance</u> - March 31, 2012	\$ 943,000	(\$ 612,950)	\$ 330,050	\$ 1,399,067	\$ 1,729,117	\$ 9,827,048	\$ 11,556,165
<u>Amortization of Capital Grant</u>		(18,860)	(18,860)		(18,860)	18,860	-0-
<u>Change in Net Position</u>				15,279	15,279	281,525	296,804
<u>Balance</u> - March 31, 2013	943,000	(631,810)	311,190	1,414,346	1,725,536	10,127,433	11,852,969
<u>Amortization of Capital Grant</u>		(18,860)	(18,860)		(18,860)	18,860	-0-
<u>Change in Net Position</u>				440,390	440,390	722,560	1,162,950
<u>Balance</u> - March 31, 2014	\$ 943,000	(\$ 650,670)	\$ 292,330	\$ 1,854,736	\$ 2,147,066	\$ 10,868,853	\$ 13,015,919

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>2014</u>	<u>2013</u>
<u>Operating Revenues:</u>		
User Charges	\$ 11,090,282	\$ 11,231,425
City Service Charges	105,513	84,438
Miscellaneous	<u>331,041</u>	<u>91,268</u>
<u>Total Operating Revenues</u>	11,526,836	11,407,131
<u>Less: Free Service</u>	<u>28,021</u>	<u>18,361</u>
<u>Net Operating Revenues</u>	11,498,815	11,388,770
<u>Purchase of Power and Water</u>	7,169,926	7,667,749
<u>Operating Expenses</u>	2,139,022	1,808,442
<u>General and Administrative Expenses</u>	<u>853,348</u>	<u>1,048,470</u>
<u>Operating Income</u>	<u>1,336,519</u>	<u>864,109</u>
<u>Nonoperating Revenues (Expenses):</u>		
Investment Income	24,238	20,776
Gain on Sale of Assets	18,119	7,700
Private Developer Contributions	440,390	15,279
Appropriations to the Mayor and Council of New Castle:		
Ordinary	(500,000)	(500,000)
City Services	(105,513)	(84,438)
Special	(7,539)	(20,900)
Net Decrease in the Fair Value of Investments	<u>(43,264)</u>	<u>(5,722)</u>
<u>Total Nonoperating Revenues (Expenses)</u>	<u>(173,569)</u>	<u>(567,305)</u>
<u>Change in Net Position</u>	<u>\$ 1,162,950</u>	<u>\$ 296,804</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>2014</u>	<u>2013</u>
<u>Cash Flows From Operating Activities:</u>		
Change in Net Position	\$ 1,162,950	\$ 296,804
<u>Adjustments to Reconcile Change in Net Position to</u>		
<u>Net Cash Provided By Operating Activities:</u>		
Bad Debts	20,724	87,681
Depreciation	612,686	601,252
Gain on Sale of Assets	(18,119)	(7,700)
Net Increase in the Fair Value of Investments	43,264	5,722
Private Developer Contributions	(440,390)	(15,279)
Appropriations to the Mayor and Council of New Castle	507,539	520,900
(Increase) Decrease in:		
Accounts Receivable	297,155	(164,626)
Inventory	37,138	(147,053)
Dividends Receivable	655	2,962
Prepayments	(9,277)	(10,554)
Other Receivables	323,487	45,439
Increase (Decrease) in:		
Accounts Payable	(182,309)	23,155
Utility Taxes Payable	(519)	141
Payroll Withholdings Payable	628	229
Accrued Wages	4,290	1,672
Developer Deposits	6,412	4,875
Accrued Compensated Absences	22,188	(28,306)
Customer Deposits	147,217	(4,350)
Other Liabilities	(26,581)	(14,881)
 <u>Net Cash Provided By Operating Activities</u>	 <u>2,509,138</u>	 <u>1,198,083</u>
 <u>Cash Flows From Noncapital Financing Activities:</u>		
Appropriations to the Mayor and Council of New Castle	(507,539)	(520,900)

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

	<u>Year Ended March 31,</u>	
	<u>2014</u>	<u>2013</u>
<u>Cash Flows From Capital and Related Financing</u>		
<u>Activities:</u>		
Acquisition and Construction of Property, Plant and Equipment	(\$ 572,745)	(\$ 577,354)
Construction in Progress - Net	27,522	(532,655)
Proceeds from Sale of Property, Plant and Equipment	<u>2,236</u>	<u>7,700</u>
<u>Net Cash Used For Capital and Related Financing Activities</u>	<u>(542,987)</u>	<u>(1,102,309)</u>
<u>Cash Flows From Investing Activities:</u>		
Proceeds from Sale of Investments	413,238	
Purchase of Investments	<u>(416,071)</u>	<u>(506,600)</u>
<u>Net Cash Used for Investing Activities</u>	<u>(2,833)</u>	<u>(506,600)</u>
<u>Net Change in Cash</u>	1,455,779	(931,726)
<u>Cash:</u>		
Beginning of year	<u>1,371,984</u>	<u>2,303,710</u>
End of year	<u>\$ 2,827,763</u>	<u>\$ 1,371,984</u>

Supplemental Disclosure of Noncash Noncapital Financing Activities:

During the years ended March 31, 2014 and 2013, the Commission earned revenue from electric and water services in the amount of \$105,513 and \$84,438, respectively, from the Mayor and Council of New Castle. These amounts were appropriated to the Mayor and Council of New Castle.

Supplemental Disclosure of Noncash Capital and Related Financing Activities:

During the years ended March 31, 2014 and 2013, the Commission received contributions of infrastructure from third parties in the amount of \$440,390 and \$15,279, respectively.

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

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2014 AND 2013

Note 1 - Nature of Activities

Organized under a charter adopted on March 1, 1921 and amended throughout the years, the Municipal Services Commission (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.

The Commission follows the pronouncements of the Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which requires the Commission to follow the pronouncements of the GASB in its accounting and financial reporting. GASB Statement No. 62 superseded previous guidance contained in GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Funds 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.

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

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2014 AND 2013

Note 2 - Summary of Significant Accounting Policies (Continued)

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.

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, Plant 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 \$1,000; 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 of the assets, which range from three to one hundred years. Depreciation expense is \$612,686 and \$601,252 for the years ended March 31, 2014 and 2013, respectively.

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

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2014 AND 2013

Note 2 - Summary of Significant Accounting Policies (Continued)

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, 2014 and 2013.

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, 2014 and 2013 is \$292,330 and \$311,190, respectively.

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

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2014 AND 2013

Note 2 - Summary of Significant Accounting Policies (Continued)

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, 2014 and 2013, the Commission received contributed infrastructure of \$440,390 and \$15,279, respectively. The Commission depreciates these assets over their useful life.

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.

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

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2014 AND 2013

Note 2 - Summary of Significant Accounting Policies (Continued)

Recent Accounting Pronouncements

In June 2012, GASB issued statement No. 67, *Financial Reporting for Pension Plans-an amendment of GASB Statement No. 25* (GASB No. 67) and Statement No. 68, *Financial Reporting for Pension Plans-an amendment of GASB Statement No. 27* (GASB No. 68). GASB No. 67 and No. 68 change how governments calculate and report the costs and obligations associated with pensions and improve the decision-usefulness of reported pension information and increase the transparency, consistency, and comparability of pension information. GASB No. 67 will take effect for periods beginning after June 15, 2013. GASB No. 68 will take effect for periods beginning after June 15, 2014. The Commission is in the process of examining the impact of these statements on the financial statements.

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>2014</u>	<u>2013</u>
Electric Receivables	\$600,853	\$ 893,003
Water Receivables	<u>107,088</u>	<u>140,413</u>
	707,941	1,033,416
<u>Less: Allowance for Doubtful Accounts</u>	<u>15,622</u>	<u>23,218</u>
<u>Total</u>	<u>\$692,319</u>	<u>\$1,010,198</u>

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

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2014 AND 2013

Note 4 - Inventory

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

	March 31,	
	2014	2013
Electric Inventory	\$467,826	\$449,608
Water Inventory	106,339	161,695
<u>Total</u>	<u>\$574,165</u>	<u>\$611,303</u>

Note 5 - Investments

At March 31, 2014 and 2013, the Commission's investments consist of five mutual funds and three mutual funds, respectively. 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, 2014		March 31, 2013	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Mutual Funds	<u>\$1,019,083</u>	<u>\$998,472</u>	<u>\$999,817</u>	<u>\$1,022,471</u>

During the years ended March 31, 2014 and 2013, the Commission recognized an unrealized loss on investments of \$43,264 and \$5,722, respectively.

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. The Commission's investment in mutual funds is exempt from risk categorization because the Commission does not own any identifiable securities, but is a shareholder of a percentage of the mutual funds. 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.

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

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2014 AND 2013

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, 2014 is as follows:

	Property, Plant and Equipment			
	March 31, 2013	Additions	Deletions	March 31, 2014
<u>Nondepreciable Asset:</u>				
Land	\$ 45,386			\$ 45,386
<u>Depreciable Assets:</u>				
Building Structures	799,053	\$ 35,026		834,079
Water Department	7,571,640	490,756		8,062,396
Electric Department	8,067,257	453,254		8,520,511
Common Assets	<u>1,995,419</u>	<u>34,099</u>	<u>\$126,043</u>	<u>1,903,475</u>
	<u>18,433,369</u>	<u>1,013,135</u>	<u>126,043</u>	<u>19,320,461</u>
<u>Total</u>	<u>\$18,478,755</u>	<u>\$1,013,135</u>	<u>\$126,043</u>	<u>\$19,365,847</u>
	Accumulated Depreciation			
	March 31, 2013	Additions	Deletions	March 31, 2014
<u>Depreciable Assets:</u>				
Building Structures	\$ 559,959	\$ 10,594		\$ 570,553
Water Department	2,860,458	268,620		3,129,078
Electric Department	5,461,274	245,104		5,706,378
Common Assets	<u>1,470,317</u>	<u>88,368</u>	<u>\$125,494</u>	<u>1,433,191</u>
<u>Total</u>	<u>\$10,352,008</u>	<u>\$612,686</u>	<u>\$125,494</u>	<u>\$10,839,200</u>

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

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2014 AND 2013

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

A summary of property, plant and equipment and accumulated depreciation during the year ended March 31, 2013 is as follows:

	Property, Plant and Equipment			
	March 31, 2012	<u>Additions</u>	<u>Deletions</u>	March 31, 2013
<u>Nondepreciable Asset:</u>				
Land	\$ 45,386			\$ 45,386
<u>Depreciable Assets:</u>				
Building Structures	794,729	\$ 4,324		799,053
Water Department	7,510,504	61,136		7,571,640
Electric Department	7,921,535	145,722		8,067,257
Common Assets	<u>1,672,589</u>	<u>381,451</u>	<u>\$58,621</u>	<u>1,995,419</u>
	<u>17,899,357</u>	<u>592,633</u>	<u>58,621</u>	<u>18,433,369</u>
<u>Total</u>	<u>\$17,944,743</u>	<u>\$592,633</u>	<u>\$58,621</u>	<u>\$18,478,755</u>
	Accumulated Depreciation			
	March 31, 2012	<u>Additions</u>	<u>Deletions</u>	March 31, 2013
<u>Depreciable Assets:</u>				
Building Structures	\$ 551,272	\$ 8,687		\$ 559,959
Water Department	2,592,071	268,387		2,860,458
Electric Department	5,220,562	240,712		5,461,274
Common Assets	<u>1,445,472</u>	<u>83,466</u>	<u>\$58,621</u>	<u>1,470,317</u>
<u>Total</u>	<u>\$9,809,377</u>	<u>\$601,252</u>	<u>\$58,621</u>	<u>\$10,352,008</u>

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

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2014 AND 2013

Note 7 - Pension Plan

The Commission has a defined benefit pension plan (Plan) which covers all of its employees. 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 March 31, 2014 and 2013, the dollar amount of current payroll used in the determination of the minimal contribution utilized the calendar year payroll of \$1,416,746 and \$1,307,432, respectively. Total payroll for the years ended March 31, 2014 and 2013 is \$1,338,099 and \$1,425,723, 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 continuous years of service with a maximum monthly benefit of \$2,400. As of April 1, 2013, the maximum monthly benefit has been increased to \$3,200.
- B. 1.67% of final average compensation multiplied by years of service taken 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 with a reduction in the retirement benefit. As of April 1, 2013, a participant age 55 with 30 years of service will have an early retirement provision with no reduction in the retirement benefit.

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.

MUNICIPAL SERVICES COMMISSION
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NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2014 AND 2013

Note 7 - Pension Plan (Continued)

The actuarially-determined Present Value of Accrued Benefits, based on valuations performed on April 1, 2014 and 2013 are as follows:

	<u>April 1, 2014</u>	<u>April 1, 2013</u>
Vested Benefits - Active Participants	\$1,200,720	\$1,402,004
- Terminated Participants	93,135	148,976
- Retired Participants	2,114,913	1,731,355
Non-vested Benefits	<u>33,992</u>	<u>21,513</u>
 <u>Total Accrued Benefits</u>	 <u>\$3,442,760</u>	 <u>\$3,303,848</u>
 <u>Market Value of Assets</u>	 <u>\$2,567,923</u>	 <u>\$2,308,675</u>
 <u>Accrued Benefit Ratio</u>	 <u>75%</u>	 <u>70%</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.

The Present Value of Accrued Benefits was computed as part of an actuarial valuation performed as of April 1, 2014 and 2013. 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;
- Projected Social Security wage base/CPI increase of 3.5%;
- 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 April 1, 2014 and 2013.

MUNICIPAL SERVICES COMMISSION
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NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2014 AND 2013

Note 7 - Pension Plan (Continued)

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, 2014 and 2013 are made in accordance with actuarially determined requirements computed through the actuarial valuation performed as of April 1, 2013 and 2012, respectively. Contributions for the year ended March 31, 2015 will be made in accordance with the actuarially determined requirements computed through the actuarial valuation performed as of April 1, 2014.

	<u>April 1, 2014</u>	<u>April 1, 2013</u>
Normal Cost	\$196,311	\$189,885
Fees	- 0 -	- 0 -
Interest to End of Year	<u>13,742</u>	<u>13,292</u>
 <u>Total Actuarially Determined Contributions Required</u>	 <u>\$210,053</u>	 <u>\$203,177</u>
 <u>Contributions Made:</u>		
Fiscal Year Ended March 31, 2014		<u>\$203,177</u>
 Contributions Made as a Percentage of Current Calendar Year Covered Payroll		 <u>15.5%</u>

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

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2014 AND 2013

Note 8 - Appropriations to the Mayor and Council of New Castle

Ordinary – During the years ended March 31, 2014 and 2013, the Commission appropriated \$500,000 and \$500,000, 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 \$105,513 and \$84,438 for the years ended March 31, 2014 and 2013, respectively. Of this amount, \$21,203 and \$20,412 represented water usage and \$84,310 and \$64,026 represented electric usage for the years ended March 31, 2014 and 2013, respectively.

Special – During the years ended March 31, 2014 and 2013, the Commission also approved special appropriations totaling \$7,539 and \$20,900 respectively, to the Mayor and Council 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.

The Commission's annual rental payments were payable to the Trustees of New Castle Common and were \$50,000 per year for the period April 1, 2003 through March 31, 2013. The first payment was delayed due to a delay in receipt of the certificate of occupancy, therefore, payments began March 1, 2004 and ended February 28, 2014. The building and other leasehold improvements on the land located at 100 Municipal Boulevard were owned by the Trustees until the termination date of this lease. On February 12, 2014 the Trustees signed a bill of sale and conveyed the building to the Mayor and Council of New Castle for no additional costs. At March 31, 2014, there is no requirement by the Commission to remit rental payments with respect to the building and other leasehold improvements.

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

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2014 AND 2013

Note 9 - Commitments (Continued)

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.

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, 2014 and 2013, the Commission has incurred \$634,644 and \$634,644, 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 completed modifications on the Wilmington Road substation in early 2014 which was also financed through the bond issuance.

MUNICIPAL SERVICES COMMISSION
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NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2014 AND 2013

Note 9 - Commitments (Continued)

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

<u>Year Ending March 31,</u>	
2015	\$ 634,642
2016	634,642
2017	634,642
2018	634,642
2019	634,642
Thereafter	<u>2,834,597</u>
<u>Total</u>	<u>\$6,007,807</u>

During the years ended March 31, 2014 and 2013, the expense related to the purchase of power under the full power purchase agreement with DEMEC is \$6,595,195 and \$7,179,833, respectively. The amount payable as of March 31, 2014 and 2013 is \$564,908 and \$589,728 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, 2014 and 2013.

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

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, Delmarva must get approval from FERC. DEMEC represents the Commission's interest when changes are presented to FERC.

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

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2014 AND 2013

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, 2014 and 2013, the Commission’s cash deposits with financial institutions had a bank balance of \$2,833,415 and \$1,465,626, respectively. Of the bank balances, \$500,000 and \$500,000, respectively, were covered by Federal Depository Insurance. As of March 31, 2014 and 2013, \$2,333,415 and \$965,626 of the Commission’s bank balances were exposed to custodial credit risk as follows:

	March 31,	
	2014	2013
Uninsured and Uncollateralized	\$ 280,193	\$605,186
Uninsured and Collateralized with Securities Held by the Pledging Bank’s Trust Department or Agent but not in the Commission's Name	2,053,222	360,440
<u>Total</u>	<u>\$2,333,415</u>	<u>\$965,626</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 46% and 42% of the Commission’s workforce for the years ended March 31, 2014 and 2013, respectively. The current agreement is set to expire on March 31, 2016.

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, 2014 and 2013.

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

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2014 AND 2013

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 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.

SUPPLEMENTARY INFORMATION

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

COMBINING SCHEDULES OF REVENUES AND EXPENSES BY DEPARTMENT

YEAR ENDED MARCH 31, 2014 AND 2013

	<u>Water Department</u>		<u>Electric Department</u>		<u>Total</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
<u>Operating Revenues:</u>						
User Charges	\$ 1,592,716	\$ 1,587,617	\$ 9,497,566	\$ 9,643,808	\$ 11,090,282	\$ 11,231,425
City Service Charges	21,203	20,412	84,310	64,026	105,513	84,438
Miscellaneous	<u>81,886</u>	<u>22,390</u>	<u>249,155</u>	<u>68,878</u>	<u>331,041</u>	<u>91,268</u>
<u>Total Operating Revenues</u>	1,695,805	1,630,419	9,831,031	9,776,712	11,526,836	11,407,131
<u>Less: Free Service</u>	<u>2,368</u>	<u>2,016</u>	<u>25,653</u>	<u>16,345</u>	<u>28,021</u>	<u>18,361</u>
<u>Net Operating Revenues</u>	1,693,437	1,628,403	9,805,378	9,760,367	11,498,815	11,388,770
<u>Purchase of Power and Water</u>	20,442	21,169	7,149,484	7,646,580	7,169,926	7,667,749
<u>Operating Expenses</u>	1,042,494	885,858	1,096,528	922,584	2,139,022	1,808,442
<u>General and Administrative Expenses</u>	<u>291,963</u>	<u>295,999</u>	<u>561,385</u>	<u>752,471</u>	<u>853,348</u>	<u>1,048,470</u>
<u>Operating Income</u>	<u>338,538</u>	<u>425,377</u>	<u>997,981</u>	<u>438,732</u>	<u>1,336,519</u>	<u>864,109</u>
<u>Nonoperating Revenues (Expenses):</u>						
Investment Income	2,657	2,711	21,581	18,065	24,238	20,776
Gain on Sale of Assets	1,663	3,465	16,456	4,235	18,119	7,700
Private Developer Contributions	226,109		214,281	15,279	440,390	15,279
Appropriations to the Mayor and Council of New Castle:						
Ordinary	(70,000)	(70,000)	(430,000)	(430,000)	(500,000)	(500,000)
City Services	(21,203)	(20,412)	(84,310)	(64,026)	(105,513)	(84,438)
Special	(1,952)	(11,558)	(5,587)	(9,342)	(7,539)	(20,900)
Net Decrease in the Fair Value of Investments	<u>(4,326)</u>	<u>(1,067)</u>	<u>(38,938)</u>	<u>(4,655)</u>	<u>(43,264)</u>	<u>(5,722)</u>
<u>Total Nonoperating Revenues (Expenses)</u>	132,948	(96,861)	(306,517)	(470,444)	(173,569)	(567,305)
<u>Change in Net Position</u>	<u>\$ 471,486</u>	<u>\$ 328,516</u>	<u>\$ 691,464</u>	<u>(\$ 31,712)</u>	<u>\$ 1,162,950</u>	<u>\$ 296,804</u>

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

COMBINING SCHEDULES OF OPERATING EXPENSES BY DEPARTMENT

YEAR ENDED MARCH 31, 2014 AND 2013

	<u>Water Department</u>		<u>Electric Department</u>		<u>Total</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
CAD Mapping	\$ 1,629		\$ 2,645		\$ 4,274	
Clothing Allowance	3,655	\$ 2,426	6,675	\$ 4,188	10,330	\$ 6,614
Computer Expense	6,693		8,978		15,671	
Depreciation:						
Plant and Equipment	300,730	298,759	237,890	233,375	538,620	532,134
Trucks and Autos	15,056	19,877	37,359	25,068	52,415	44,945
Electric Current	8,805	11,202			8,805	11,202
Employee Benefits	81,093	53,787	95,297	73,473	176,390	127,260
Equipment Rental	722	81	1,876	1,929	2,598	2,010
Fuel - Heating	1,653	1,130	2,020	1,378	3,673	2,508
Insurance	38,268	38,608	34,995	33,525	73,263	72,133
Payroll Taxes	30,756	26,737	36,124	30,587	66,880	57,324
Pension Expense	63,188	47,131	76,659	57,178	139,847	104,309
Plant Materials and Supplies	212	162	516	100	728	262
Professional Fees				1,891		1,891
Repairs and Maintenance:						
Buildings and Grounds	8,516	6,898	7,608	8,912	16,124	15,810
Hydrants, Mains and Valves	5,845	6,185			5,845	6,185
Lines and Poles	7,909		5,488	1,059	13,397	1,059
Meters and Services	4,639	5,926	1,353	7,701	5,992	13,627
Pumping Stations	23,417	22,251			23,417	22,251
Storm Damage				2,793		2,793
Street Lights			5,224	7,549	5,224	7,549
Substations			437	2,629	437	2,629
Salaries and Wages	400,132	294,022	472,174	358,357	872,306	652,379
Safety Expense	2,480		3,031		5,511	
Sampling and Testing	2,026	2,456	8,748	2,124	10,774	4,580
Security			1,721		1,721	
Seminars/Training	2,625	5,322	7,188	13,770	9,813	19,092
Supplies	11,350	11,813	17,669	19,151	29,019	30,964
Truck Expense	21,095	31,085	24,853	35,847	45,948	66,932
Total Operating Expenses	\$ 1,042,494	\$ 885,858	\$ 1,096,528	\$ 922,584	\$ 2,139,022	\$ 1,808,442

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

COMBINING SCHEDULES OF GENERAL AND ADMINISTRATIVE EXPENSES BY DEPARTMENT

YEAR ENDED MARCH 31, 2014 AND 2013

	<u>Water Department</u>		<u>Electric Department</u>		<u>Total</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Administrative	\$ 9,463	\$ 15,634	\$ 14,843	\$ 21,517	\$ 24,306	\$ 37,151
Bad Debts	1,677	4,290	19,047	83,391	20,724	87,681
Depreciation - Furniture and Fixtures	9,743	10,878	11,908	13,295	21,651	24,173
Dues and Subscriptions	3,019	2,358	1,462	1,246	4,481	3,604
Employee Benefits	27,269	22,539	62,082	71,665	89,351	94,204
Insurance	11,630	10,982	13,462	12,550	25,092	23,532
New Castle Cares Fund				5,000		5,000
Office Salaries	116,211	107,142	257,051	345,295	373,262	452,437
Office Supplies	17,807	18,709	23,264	24,567	41,071	43,276
Payroll Taxes	12,327	12,766	24,264	35,210	36,591	47,976
Pension Expense	14,791	11,033	48,539	36,204	63,330	47,237
Professional Fees	25,177	34,763	31,323	42,654	56,500	77,417
Rent	20,681	22,554	26,068	28,347	46,749	50,901
Repairs and Maintenance - Equipment	5,072	6,651	6,201	9,316	11,273	15,967
Security System	1,520	1,564	1,863	4,508	3,383	6,072
Telephone	11,283	11,816	13,795	14,567	25,078	26,383
Training - Administrative	4,015	2,218	4,870	3,014	8,885	5,232
Utilities & Other Expenses	278	102	1,343	125	1,621	227
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<u>Total General and Administrative Expenses</u>	<u>\$ 291,963</u>	<u>\$ 295,999</u>	<u>\$ 561,385</u>	<u>\$ 752,471</u>	<u>\$ 853,348</u>	<u>\$ 1,048,470</u>