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

FINANCIAL STATEMENTS
SUPPLEMENTARY INFORMATION
AND
INDEPENDENT AUDITOR'S REPORT

MARCH 31, 2009

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

CONTENTS

MARCH 31, 2009

HORTY & HORTY
A PROFESSIONAL CORPORATION
Certified Public Accountants And Consultants

29 HILL ROAD
BANCROFT MILLS
P.O. BOX 1077
WILMINGTON, DELAWARE 19899-9559
302-652-4194
TOLL FREE 1-888-968-7168
FAX 302-656-9846

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 statement of net assets of Municipal Services Commission (a Component Unit of the City of New Castle, Delaware) as of March 31, 2009, and the related statements of changes in net assets, revenues and expenses and cash flows for the year 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 audit.

We conducted our audit 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 audit provides 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, 2009 and the results of its operations and its cash flows for the year 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 Statements 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 audit was 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 audit 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 + Horty, P.A.

Wilmington, Delaware
August 17, 2009

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

STATEMENT OF NET ASSETS

MARCH 31, 2009

ASSETS

Current Assets:	
Cash	$ 3,119,383
Investments	871,787
Accounts Receivable (Net of $23,611 Allowance for Doubtful Accounts)	937,483
Inventory	456,394
Dividends Receivable	6,569
Prepayments	42,951
Other Receivables	19,803
Total Current Assets	5,454,370
Property and Equipment:	
Property, Plant and Equipment	14,439,368
Construction in Progress	346,132
	14,785,500
Less: Accumulated Depreciation	9,012,847
Net Property and Equipment	5,772,653
Other Asset:	
Investments	168,578
Total Assets	$ 11,395,601

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

LIABILITIES AND NET ASSETS

Current Liabilities:	
Accounts Payable	$ 657,902
Utility Taxes Payable	18,334
Payroll Withholdings Payable	9,119
Accrued Wages	31,491
Accrued Pension	18,824
Developer Deposits	14,610
Accrued Compensated Absences	275,738
Total Current Liabilities	1,026,018
Long-Term Liability:	
Customer Deposits	81,408
Total Liabilities	1,107,426
Net Assets:	
Contributed Capital:	
Capital Grants	943,000
Less: Accumulated Amortization	556,370
Net Capital Grants	386,630
Private Developer Contributions	1,199,050
Total Contributed Capital	1,585,680
Unrestricted Net Assets	8,702,495
Total Net Assets	10,288,175
Total Liabilities and Net Assets	$ 11,395,601

Exhibit B

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

STATEMENT OF CHANGES IN NET ASSETS

YEAR ENDED MARCH 31, 2009

	Contributed Capital						
	Capital Grants						
	Capital Grants	Accumulated Amortization	Net Capital Grants	Private Developer Contributions	Total Contributed Capital	Unrestricted Net Assets	Total Net Assets
Balance - March 31, 2008	$ 943,000	($ 537,510)	$ 405,490	$ 1,125,802	$ 1,531,292	$ 8,242,350	$ 9,773,642
Amortization of Capital Grants		(18,860)	(18,860)		(18,860)	18,860	-0-
Change in Net Assets				73,248	73,248	441,285	514,533
Balance - March 31, 2009	$ 943,000	($ 556,370)	$ 386,630	$ 1,199,050	$ 1,585,680	$ 8,702,495	$ 10,288,175

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

Exhibit C

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

STATEMENT OF REVENUES AND EXPENSES

YEAR ENDED MARCH 31, 2009

Operating Revenues:	
User Charges	$ 11,109,278
City Service Charges	84,292
Miscellaneous	134,872
Total Operating Revenues	11,328,442
Less: Free Service	29,464
Net Operating Revenues	11,298,978
Purchase of Power and Water	7,823,461
Operating Expenses	1,546,176
General and Administrative Expenses	1,032,741
Operating Income	896,600
Nonoperating Revenues (Expenses):	
Investment Income	70,687
Investment Expenses	(28)
Gain on Sale of Equipment	110
Private Developer Contributions	73,248
Appropriations to the City of New Castle:	
Ordinary	(437,500)
City services	(84,292)
Special	(9,402)
Net Increase in the Fair Value of Investments	5,110
Total Nonoperating Revenues (Expenses)	(382,067)
Change in Net Assets	$ 514,533

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

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

STATEMENT OF CASH FLOWS

YEAR ENDED MARCH 31, 2009

Cash Flows From Operating Activities:	
Change in Net Assets	$ 514,533
Adjustments to Reconcile Change in Net Assets to Net Cash Provided By Operating Activities:	
Bad Debts	105,024
Depreciation	474,338
Gain on Sale of Property and Equipment	(110)
Net Increase in the Fair Value of Investments	(5,110)
Private Developer Contributions	(73,248)
Appropriations to the City of New Castle	446,902
(Increase) Decrease in:	
Accounts Receivable	(29,797)
Inventory	37,739
Dividends Receivable	(6,569)
Prepayments	8,226
Other Receivables	(19,803)
Increase (Decrease) in:	
Accounts Payable	50,199
Utility Taxes Payable	(20,471)
Payroll Withholdings Payable	5,700
Accrued Wages	6,415
Accrued Pension	18,824
Developer Deposits	(77,121)
Accrued Compensated Absences	50,976
Customer Deposits	19,533
Net Cash Provided By Operating Activities	1,506,180
Cash Flows From Noncapital Financing Activities:	
Appropriations to the City of New Castle	(446,902)

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

Cash Flows From Capital And Related Financing Activities:	
Acquisition and Construction of Property and Equipment	($ 236,291)
Construction in Progress	(252,955)
Proceeds from Sale of Property and Equipment	110
Net Cash Used For Capital and Related Financing Activities	(489,136)
Cash Flows From Investing Activities:	
Purchases of Investments	(500,000)
Proceeds from Redemption of Investments	500,806
Net Cash Provided By Investing Activities	806
Net Change in Cash	570,948
Cash:	
Beginning of year	2,548,435
End of year	$ 3,119,383

Supplemental Disclosure of Noncash Noncapital Financing Activities

During the year ended March 31, 2009, the Commission earned revenue from electric and water services in the amount of $84,292 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 year ended March 31, 2009, the Commission received contributions of infrastructure from third parties in the amount of $73,248.

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

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2009

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.

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 may eventually write off a doubtful account as uncollectible when collections efforts fail over a period of time.

Inventory

Inventory is carried at the lower of cost or market, with cost being determined on the first-in, first-out (FIFO) basis.

Note 2 - Summary of Significant Accounting Policies (Continued)

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 expenses 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 for the year ended March 31, 2009 is $474,338.

The Commission follows the policy of capitalizing interest costs as a component of the cost of property, plant and equipment constructed for its own use. During the fiscal year ended March 31, 2009, the Commission incurred no such interest costs.

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.

Note 2 - Summary of Significant Accounting Policies (Continued)

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 year ended March 31, 2009 is $386,630.

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 market value at the date of contribution. If the fair market value of the contributed asset is not known, then the Commission will estimate the fair market value. For the year ended March 31, 2009 the Commission received $73,248 of contributed infrastructure. 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.

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 as of March 31, 2009:

Electric Receivables	$903,473
Water Receivables	52,595
Other Receivables	5,026
	961,094
Less: Allowance for Doubtful Accounts	23,611
Total	$937,483

Note 4 - Inventory

The Commission's inventory consists of two major categories: electric and water inventory. As of March 31, 2009, the balances in inventory for electric and water are $363,984 and $92,410, respectively.

Note 5 - Investments

The Commission's investments consist of one mutual fund and three certificates of deposits held at separate banks. 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 as of March 31, 2009:

	Cost	Fair Value
Mutual Fund	$493,217	$ 539,719
Certificates of Deposits	500,070	500,646
Total	$993,287	$1,040,365

Note 5 - Investments (Continued)

During the year ended March 31, 2009, the Commission recognized an unrealized gain on investments of $5,110.

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, 2009, $646 of the Commission's investments in certificates of deposits with a balance of $500,646 are 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, 2009 is as follows:

	Property, Plant and Equipment			
	March 31, 2008	Additions	Deletions	March 31, 2009
Nondepreciable Assets:				
Land	$ 45,386			$ 45,386
Depreciable Assets:				
Building Structures	787,579			787,579
Water Department	3,914,773	$ 52,802		3,967,575
Electric Department	7,842,306	140,389		7,982,695
Common Assets	1,541,168	116,348	$1,383	1,656,133
	14,085,826	309,539	1,383	14,393,982
Total	$14,131,212	$309,539	$1,383	$14,439,368

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

	Accumulated Depreciation			
	March 31, 2008	Additions	Deletions	March 31, 2009
Depreciable Assets:				
Building Structures	$ 513,606	$ 12,141		$ 525,747
Water Department	2,119,584	83,113		2,202,697
Electric Department	4,683,777	271,074		4,954,851
Common Assets	1,222,925	108,010	$1,383	1,329,552
Total	$8,539,892	$474,338	$1,383	$9,012,847

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. The Commission's payroll for employees covered by the pension plan for the year ended December 31, 2008 is $1,116,936. Total payroll for the year ended March 31, 2009 is $1,148,438.

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 Average Monthly Earnings multiplied by years of continuous service with a maximum monthly benefit of $2,000.

Note 7 - Pension Plan (Continued)

B. 1.67% of Average Monthly Earnings multiplied by years of service. The maximum monthly benefit is 75% of Average Monthly Earnings minus 100% of Primary Social Security at age 62, the result multiplied by years of continuous service (maximum 30) divided by 30.

The Plan has an early retirement provision for option A, age 55 and 10 years of continuous service and for option B, age 55 and 15 years of continuous 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 a valuation performed on January 1, 2009 are as follows:

Vested Benefits - Active Participants	$1,102,253
- Terminated Participant	94,614
- Retired Participants	784,717
Non-vested Benefits	65,544
Total Accrued Benefits	$2,047,128
Market Value of Assets	$1,306,346
Accrued Benefit Ratio	64%

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.

Note 7 - Pension Plan (Continued)

The Present Value of Accrued Benefits was computed as part of an actuarial valuation performed as of January 1, 2009. 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 a year attributable to seniority/merit, and
- No postretirement benefit increases.

The 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, 2009 is $-0-.

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 Frozen Entry Age Actuarial Cost method. The Plan used the Frozen Entry Age Actuarial Cost 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 year ended March 31, 2009 is made in accordance with actuarially determined requirements computed through actuarial valuation performed as of January 1, 2009.

Normal Cost	$142,589
Fees	4,940
Total Actuarially Determined Contributions Required	$147,529
Contributions Made	$ 93,354
Contributions Made as a Percentage of Current Year Covered Payroll	8.4%

Note 8 - Appropriations To Mayor and City Council

Ordinary – During the year ended March 31, 2009, the Commission appropriated $437,500 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 $84,292 for the year ended March 31, 2009. Of this amount $19,604 represented water usage and $64,688 represented electric usage for the year ended March 31, 2009.

Special – During the year ended March 31, 2009, the Commission also approved special appropriations totaling $9,402 to the City of New Castle.

Note 9 - Commitments

Leases – On April 7, 2003, the Commission, the Trustees of the New Castle Common 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 payment is due to the Trustees of the 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, 2009 are:

Year Ending March 31,	
2010	$ 50,000
2011	50,000
2012	50,000
2013	50,000
Total	$200,000

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 of 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 entered into a separate power sales contract with DEMEC to purchase 8.9% of the capacity from a 45-megawatt electric power plant owned by DEMEC. The Commission is contractually bound to pay debt service and other costs through the contract. The Commission's share in the project corresponds to its share of load, which is the amount of debt service for which they are responsible. The power sales contract runs as long as there are bonds outstanding on this project. If the Commission or any other participant defaults in 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 and operate 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 dollars, 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 year ending March 31, 2009, the Commission has incurred $106,794 in operational costs related to the substation which is recorded in purchase of power and water on the statement of revenues and expenses. The monthly payment is currently $35,632 through December 2009 and then increases to $52,887 through the end of the bonds' term. The substation is scheduled to be commissioned no later than the spring of 2010.

Note 9 - Commitments (Continued)

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

Year Ending March 31,	
2010	$ 532,653
2011	634,642
2012	634,642
2013	634,642
2014	634,642
Thereafter	6,007,807
Total	$9,079,028

During the year ended March 31, 2009, the expense related to the purchase of power under the full power purchase agreement with DEMEC is $7,706,271. The amount payable as of March 31, 2009 is $617,305. Advances to DEMEC to cover cash collateral calls as a result of forward power purchase positions were made during the month of January 2009 in the amount of $625,220 and were paid back to the Commission in February 2009.

Assessment of additional amounts payable by the Commission to DEMEC may be required by virtue of the Commission's various agreements with DEMEC. On June 5, 2009, Standard & Poor's raised its long-term rating on DEMEC's series 2001 electric revenue bonds from "A-" to "A".

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.

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, 2009, $2,841,835 of the Commission's bank balance of $3,116,589 is exposed to custodial credit risk.

Labor Force – The Commission's labor force is comprised mostly 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 42% of the Commission's workforce. The current agreement is set to expire on March 31, 2010.

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, 2009.

Note 13 - Deferred Compensation Plan

The Commission offers its employees a deferred compensation 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.

SUPPLEMENTARY INFORMATION

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

COMBINED SCHEDULE OF REVENUES AND EXPENSES BY DEPARTMENT

YEAR ENDED MARCH 31, 2009

	Water Department	Light Department	Total
Operating Revenues:			
User Charges	$ 980,485	$ 10,128,793	$ 11,109,278
City Service Charges	19,604	64,688	84,292
Miscellaneous	24,242	110,630	134,872
Total Operating Revenues	1,024,331	10,304,111	11,328,442
Less: Free Service	843	28,621	29,464
Net Operating Revenues	1,023,488	10,275,490	11,298,978
Purchase of Power and Water	10,396	7,813,065	7,823,461
Operating Expenses	734,202	811,974	1,546,176
General and Administrative Expenses	346,355	686,386	1,032,741
Operating Income (Loss)	(67,465)	964,065	896,600
Nonoperating Revenues (Expenses):			
Investment Income	7,069	63,618	70,687
Investment Expenses	(4)	(24)	(28)
Gain on Sale of Equipment	49	61	110
Private Developer Contributions	25,248	48,000	73,248
Appropriations to the City of New Castle:			
Ordinary		(437,500)	(437,500)
City Services	(19,604)	(64,688)	(84,292)
Special	(2,166)	(7,236)	(9,402)
Net Increase in the Fair Value of Investments	511	4,599	5,110
Total Nonoperating Revenues (Expenses)	11,103	(393,170)	(382,067)
Change in Net Assets	($ 56,362)	$ 570,895	$ 514,533

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

SCHEDULE OF OPERATING EXPENSES

YEAR ENDED MARCH 31, 2009

	Water Department	Light Department	Total
Clothing Allowance	$ 2,018	$ 2,400	$ 4,418
Depreciation:			
Plant and Equipment	117,153	267,537	384,690
Trucks and Autos	18,659	34,407	53,066
Electric Current	40,086		40,086
Equipment Rental	231		231
Fuel - Heating	1,944	2,716	4,660
Insurance	63,725	43,901	107,626
Payroll Taxes	34,135	27,106	61,241
Plant Materials and Supplies	356	1,340	1,696
Repairs and Maintenance:			
Buildings and Grounds	3,716	7,963	11,679
Hydrants, Mains and Valves	9,616		9,616
Lines and Poles		2,638	2,638
Meters and Services	3,785	284	4,069
Pumping Stations	13,033		13,033
Street Lights		2,893	2,893
Substations		4,788	4,788
Salaries and Wages	411,343	364,511	775,854
Sampling and Testing	3,947	171	4,118
Seminars	528	1,845	2,373
Supplies	2,724	15,304	18,028
Truck Expense	7,203	32,170	39,373
Total Operating Expenses	$ 734,202	$ 811,974	$1,546,176

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

SCHEDULE OF GENERAL AND ADMINISTRATIVE EXPENSES

YEAR ENDED MARCH 31, 2009

	Water Department	Light Department	Total
Administrative	$ 7,011	$ 8,494	$ 15,505
Bad Debts	13,013	92,011	105,024
Depreciation - Furniture and Fixtures	16,462	20,120	36,582
Dues and Subscriptions	2,590	1,983	4,573
Employee Benefits	64,258	85,800	150,058
Insurance	23,967	27,026	50,993
Office Salaries	82,589	281,745	364,334
Office Supplies	19,341	20,800	40,141
Payroll Taxes	6,608	21,553	28,161
Pension Expense	47,180	46,174	93,354
Professional Fees	25,913	32,039	57,952
Rent	22,542	28,282	50,824
Repairs and Maintenance - Equipment	5,279	10,233	15,512
Security System	843	927	1,770
Telephone	5,682	5,732	11,414
Training - Administrative	2,641	2,934	5,575
Utilities	436	533	969
Total General and Administrative Expenses	$ 346,355	$ 686,386	$ 1,032,741