

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

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORTS**

MARCH 31, 2008 AND 2007

**B E L F I N T
L Y O N S &
S H U M A N**

CERTIFIED PUBLIC ACCOUNTANTS

MUNICIPAL SERVICES COMMISSION
(A COMPONENT UNIT OF THE CITY OF NEW CASTLE, DELAWARE)
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MARCH 31, 2008 AND 2007

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Independent Auditors' Report

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

CERTIFIED
PUBLIC
ACCOUNTANTS
& CONSULTANTS

1011 CENTRE ROAD
SUITE 310
WILMINGTON,
DE 19805
T: 302.225.0600
F: 302.225.0625
WWW.BELFINT.COM

We have audited the accompanying financial statements of Municipal Services Commission, a component unit of the City of New Castle, Delaware, as of and for the years ended March 31, 2008 and 2007, as listed in the table of contents. These component unit financial statements are the responsibility of Municipal Services Commission's management. Our responsibility is to express an opinion on these component unit financial statements based on our audits.

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 component unit 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 opinions.

As discussed in Note 13 to the financial statements, certain errors resulting in restatement of previously reported financial results as of March 31, 2007, were discovered during the year ended March 31, 2008. Accordingly, the 2007 financial statements have been restated and an adjustment has been made to net assets as of April 1, 2007 to correct the errors.

In our opinion, the component unit financial statements referred to above present fairly, in all material respects, the respective financial position of the Municipal Services Commission as of March 31, 2008 and 2007, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Belfint, Lyons & Shuman, P.A.

August 11, 2008
Wilmington, Delaware

MUNICIPAL SERVICES COMMISSION
(A COMPONENT UNIT OF THE CITY OF NEW CASTLE, DELAWARE)
STATEMENTS OF NET ASSETS
MARCH 31, 2008 AND 2007

ASSETS

	2008	2007*
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 2,548,435	\$ 2,140,609
Accounts Receivable	1,012,710	1,203,364
Inventory	494,133	502,852
Construction in Progress	93,177	-
Prepayments	51,177	37,152
TOTAL CURRENT ASSETS	4,199,632	3,883,977
NET INVESTMENTS	1,036,061	489,871
FIXED ASSETS		
Property, Plant and Equipment	14,131,212	13,699,410
Less: Accumulated Depreciation	8,539,892	8,093,944
NET FIXED ASSETS	5,591,320	5,605,466
 TOTAL ASSETS	 \$ 10,827,013	 \$ 9,979,314

LIABILITIES AND NET ASSETS

	2008	2007*
CURRENT LIABILITIES		
Accounts Payable	\$ 607,703	\$ 818,262
Utility Taxes Payable	38,805	14,626
Payroll Withholdings Payable	3,419	1,994
Accrued Wages	25,076	17,213
Accrued Pension	-	17,360
Developer Deposits	91,731	183,143
Accrued Compensated Absences	224,762	240,988
TOTAL CURRENT LIABILITIES	991,496	1,293,586
NON-CURRENT LIABILITY		
Customer Deposits	61,875	52,041
TOTAL LIABILITIES	1,053,371	1,345,627
NET ASSETS		
Contributed Capital		
Capital Grants	943,000	943,000
Less: Accumulated Amortization	537,510	518,650
Net Capital Grants	405,490	424,350
Private Developer Contributions	1,125,802	1,081,714
Total Contributed Capital	1,531,292	1,506,064
Unrestricted Net Assets	8,242,350	7,127,623
TOTAL NET ASSETS	9,773,642	8,633,687
TOTAL LIABILITIES AND NET ASSETS	\$ 10,827,013	\$ 9,979,314

*Restated - Refer to Note 13

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 REVENUE, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED MARCH 31, 2008 AND 2007

	<u>2008</u>	<u>2007*</u>
OPERATING REVENUE		
User Charges	\$ 10,840,474	\$ 10,293,964
City Service Charges	80,539	70,847
Miscellaneous	114,896	13,451
	<u>11,035,909</u>	<u>10,378,262</u>
Less: Free Service	44,015	16,841
	<u>10,991,894</u>	<u>10,361,421</u>
NET OPERATING REVENUE	10,991,894	10,361,421
PURCHASE OF POWER AND WATER	7,049,482	6,785,489
OPERATING EXPENSES	1,492,966	1,433,767
GENERAL AND ADMINISTRATIVE EXPENSES	<u>975,027</u>	<u>937,429</u>
OPERATING INCOME	<u>1,474,419</u>	<u>1,204,736</u>
NONOPERATING REVENUE (EXPENSES)		
Investment Income	105,446	80,192
Gain on Sale of Equipment	6,000	-
Loss on Sale of Investments	-	(16,258)
Private Developer Contributions	44,088	87,755
Environmental Remediation Costs	(40,000)	-
Appropriations to the City of New Castle		
Ordinary	(400,000)	(375,000)
City Service	(80,539)	(70,847)
Special	(14,775)	(41,718)
Net Unrealized Gain on Noncurrent Investments	45,316	18,900
	<u>(334,464)</u>	<u>(316,976)</u>
TOTAL NONOPERATING REVENUE (EXPENSES)	<u>(334,464)</u>	<u>(316,976)</u>
CHANGE IN NET ASSETS	1,139,955	887,760
NET ASSETS - Beginning of Year	<u>8,633,687</u>	<u>7,745,927</u>
NET ASSETS - End of Year	<u>\$ 9,773,642</u>	<u>\$ 8,633,687</u>

*Restated - Refer to Note 13

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
YEARS ENDED MARCH 31, 2008 AND 2007

	2008	2007*
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 1,139,955	\$ 887,760
Adjustments to Reconcile Change in Net Assets to Net Cash From Operating Activities		
Bad Debts	21,829	13,453
Depreciation	484,198	538,584
Gain on Sale of Equipment	(6,000)	-
Loss on Sale of Investments	-	16,258
Net Unrealized Noncurrent Investments	(45,316)	(18,900)
Private Developer Contributions	(44,088)	(87,755)
Changes in		
Accounts Receivable	186,668	(220,998)
Inventory	8,719	(150,974)
Prepayments	(14,025)	(14,130)
Accounts Payable	(210,559)	137,372
Utility Taxes Payable	24,179	(3,471)
Payroll Withholdings Payable	1,425	(623)
Accrued Wages	7,863	5,746
Accrued Pension	(17,360)	(6,657)
Developer Deposits	(91,412)	114,754
Accrued Compensated Absences	(16,226)	17,292
Customer Deposits	9,834	7,380
	1,439,684	1,235,091
NET CASH FROM OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition and Construction of Assets	(419,962)	(135,292)
Construction in Progress	(93,177)	-
Purchases of Investments	(500,000)	(234,305)
Reinvestment of Dividend Income	(24,719)	(19,614)
Proceeds from Sale of Equipment	6,000	-
Proceeds from Sale of Investments	-	234,305
	(1,031,858)	(154,906)
NET CASH FROM INVESTING ACTIVITIES		
NET CHANGE IN CASH AND CASH EQUIVALENTS	407,826	1,080,185
CASH AND CASH EQUIVALENTS - Beginning of Year	2,140,609	1,060,424
CASH AND CASH EQUIVALENTS - End of Year	\$ 2,548,435	\$ 2,140,609

*Restated - Refer to Note 13

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

MUNICIPAL SERVICES COMMISSION
(A COMPONENT UNIT OF THE CITY OF NEW CASTLE, DELAWARE)
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008

NOTE 1: NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organized under a charter adopted on March 1, 1921 and amended July 1, 1999, 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 following is a summary of significant accounting policies:

Principles Determining Scope of Reporting Entity - 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

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 and Cash Equivalents - 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 cost 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 lower of average cost or market and is determined using the first-in, first-out (FIFO) method.

Fixed Assets - 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 fixed assets is similarly capitalized.

Depreciation of all exhaustible property, plant and equipment is charged as an expense against operations. Depreciation has been provided over the estimated useful lives using the straight-line method. Depreciation expense for the years ended March 31, 2008 and 2007 was \$484,011 and \$538,584, respectively.

MUNICIPAL SERVICES COMMISSION
(A COMPONENT UNIT OF THE CITY OF NEW CASTLE, DELAWARE)
NOTES TO FINANCIAL STATEMENTS - CONTINUED
MARCH 31, 2008

NOTE 1: NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Fixed Assets - continued - 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 years ended March 31, 2008 and 2007, 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.

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, 2008 and 2007 was \$405,490 and \$424,350, 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 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 years ended March 31, 2008 and 2007 the Commission received \$44,088 and \$87,755, respectively, of contributed infrastructure. The Commission depreciates these fixed assets over a life of 50 years.

Use of Estimates in the Preparation of Financial Statements - The preparation of financial statements in conformity with generally accepted accounting principles 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

MUNICIPAL SERVICES COMMISSION
(A COMPONENT UNIT OF THE CITY OF NEW CASTLE, DELAWARE)
NOTES TO FINANCIAL STATEMENTS - CONTINUED
MARCH 31, 2008

NOTE 1: NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Use of Estimates in the Preparation of Financial Statements - continued - 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 2: ACCOUNTS RECEIVABLE

The Commission's policy is to maintain an allowance for bad debts equal to 2.6% of the outstanding electric receivables at the end of the year. The net trade receivables consisted of the following as of March 31:

Description	2008	2007
Electric Rate Receivables	\$ 961,841	\$ 1,130,004
Water Rate Receivables	74,235	102,740
Contractor Receivables	1,639	-
Total Receivables	1,037,715	1,232,744
Less: Allowance for Doubtful Accounts	25,005	29,380
Net Receivables	\$ 1,012,710	\$ 1,203,364

NOTE 3: INVENTORY

The Commission's inventory consists of two major categories: electric and water inventory. As of March 31, 2008 and 2007, the balances in inventory for electric and water were \$403,538 and \$90,595, and \$411,511 and \$91,341, respectively.

NOTE 4: INVESTMENTS

The Commission's investments consist of mutual funds and fixed income securities. Investments are presented in the financial statements at fair value. Realized gains and losses on the disposition of investments are determined by comparing net proceeds to the carrying value of the disposed investments, which is determined using the specific

MUNICIPAL SERVICES COMMISSION
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NOTES TO FINANCIAL STATEMENTS - CONTINUED
MARCH 31, 2008

NOTE 4: INVESTMENTS - CONTINUED

identification or average cost methods. Following is a summary of the cost and market value of the Commission's investments as of March 31, 2008 and 2007:

	2008		2007	
	Cost	Market Value	Cost	Market Value
Mutual Funds	\$ 493,217	\$ 535,188	\$ 493,217	\$ 489,871
Fixed Income Securities	500,873	500,873	-	-
Total	<u>\$ 994,090</u>	<u>\$ 1,036,061</u>	<u>\$ 493,217</u>	<u>\$ 489,871</u>

As of March 31, 2008 and 2007, the Commission recognized an increase in unrealized gain (loss) on investments of \$45,316 and \$18,900, respectively.

NOTE 5: FIXED ASSETS AND DEPRECIATION

A summary of fixed assets and related depreciation as of March 31, 2008 and 2007 is as follows:

Description	Fixed Assets						
	Balances 03/31/08	Additions	Deletions	Balances 03/31/07	Additions	Deletions	Balances 03/31/06
Nondepreciable Assets:							
Land	\$ 45,386	\$ -	\$ -	\$ 45,386	\$ -	\$ -	\$ 45,386
Small Tools	2,496	-	-	2,496	-	-	2,496
	<u>47,882</u>	<u>-</u>	<u>-</u>	<u>47,882</u>	<u>-</u>	<u>-</u>	<u>47,882</u>
Depreciable Assets:							
Building Structures	882,247	-	-	882,247	-	-	882,247
Water Department	3,957,835	152,077	-	3,805,758	67,258	-	3,738,500
Electric Department	7,858,376	157,008	-	7,701,368	135,741	-	7,565,627
Common Assets	1,384,872	160,964	38,248	1,262,155	20,048	-	1,242,107
	<u>14,083,330</u>	<u>470,049</u>	<u>38,248</u>	<u>13,651,528</u>	<u>223,047</u>	<u>-</u>	<u>13,428,481</u>
Totals	<u>\$ 14,131,212</u>	<u>\$ 470,049</u>	<u>\$ 38,248</u>	<u>\$ 13,699,410</u>	<u>\$ 223,047</u>	<u>\$ -</u>	<u>\$ 13,476,363</u>
Accumulated Depreciation							
Description	Balances 03/31/08	Additions	Deletions	Balances 03/31/07	Additions	Deletions	Balances 03/31/06
Depreciable Assets:							
Building Structures	\$ 542,315	\$ 27,754	\$ -	\$ 514,561	\$ 27,754	\$ -	\$ 486,807
Water Department	2,169,206	85,172	25,964	2,109,998	89,770	-	2,020,228
Electric Department	4,710,708	302,968	-	4,407,740	349,578	-	4,058,162
Common Assets	1,117,662	68,303	12,286	1,061,645	71,481	-	990,165
Totals	<u>\$ 8,539,892</u>	<u>\$ 484,197</u>	<u>\$ 38,250</u>	<u>\$ 8,093,945</u>	<u>\$ 538,583</u>	<u>\$ -</u>	<u>\$ 7,555,362</u>

MUNICIPAL SERVICES COMMISSION
(A COMPONENT UNIT OF THE CITY OF NEW CASTLE, DELAWARE)
NOTES TO FINANCIAL STATEMENTS - CONTINUED
MARCH 31, 2008

NOTE 6: PENSION PLAN

Plan Description - The Commission has a Defined Benefit Pension 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 years ended March 31, 2008 and 2007 was \$989,142 and \$869,275, respectively. Total payroll for the years ended March 31, 2008 and 2007 was \$1,137,188 and \$918,842, respectively.

All full-time Commission employees are eligible to participate in the plan. Benefits vest 100% after five years of service. 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 option as follows:

- A: 2.0% of Average Monthly Earnings times the number of years of credited service, with a maximum monthly benefit of \$1,400.
- B: 1.67% of Average Monthly Earnings times the number of years of credited service. The maximum monthly benefit is 75% of Average Monthly Earnings minus 100% Primary Social Security at age 62, multiplied by years of credited service (30 year maximum) divided by 30.

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 pension benefit obligation and the assets available to provide benefits, based on a valuation performed on January 1, were as follows:

MUNICIPAL SERVICES COMMISSION
(A COMPONENT UNIT OF THE CITY OF NEW CASTLE, DELAWARE)
NOTES TO FINANCIAL STATEMENTS - CONTINUED
MARCH 31, 2008

NOTE 6: PENSION PLAN - CONTINUED

Plan Description -continued -

Description	January 1,	
	2008	2007
Vested Benefits - Active Participants	\$ 1,177,496	\$ 1,003,033
Vested Benefits - Terminated Participant	88,101	73,385
Disabled Participants	531,842	542,793
Non-Vested Benefits	<u>32,464</u>	<u>21,573</u>
 Total Pension Benefit Obligation	 <u>\$ 1,829,903</u>	 <u>\$ 1,640,784</u>
 Assets Available for Plan Benefits at Market Value	 <u>\$ 1,879,542</u>	 <u>\$ 1,734,423</u>

Funding Status and Progress - The amount shown as the “pension benefit obligation” 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 measure is independent of the actuarial funding method used to determine contributions to the plan.

The pension benefit obligation was computed as part of an actuarial valuation performed as of January 1, 2008. 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 second plan to the valuation date as of January 1, 2008 and 2007 was \$0 and \$27,750, respectively. As of March 31, 2008 the overfunded accrued asset was \$9,491.

MUNICIPAL SERVICES COMMISSION
(A COMPONENT UNIT OF THE CITY OF NEW CASTLE, DELAWARE)
NOTES TO FINANCIAL STATEMENTS - CONTINUED
MARCH 31, 2008

NOTE 6: 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 Frozen Entry Age Actuarial Cost Method. The plan uses 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 years ended March 31, 2008 and 2007 were made in accordance with actuarially determined requirements computed through actuarial valuations performed as of January 1, 2008 and 2007, respectively.

Description	January 1,	
	2008	2007
Normal Cost	\$ 60,840	\$ 61,100
Amortization Payment	-	2,090
Fees	4,880	4,850
 Total Actuarially Determined Contributions Required	 <u>\$ 65,720</u>	 <u>\$ 68,040</u>
 Contributions Made to Cash Reserve for Pension Account	 <u>\$ 98,865</u>	 <u>\$ 68,040</u>
 Contributions Made as a Percentage of Current Year Covered Payroll	 10%	 7.8%

Trend Information - The Commission issues a separate report containing such information.

NOTE 7: APPROPRIATIONS TO MAYOR AND CITY COUNCIL

Ordinary - During the years ended March 31, 2008 and 2007, the Commission appropriated \$400,000 and \$375,000, respectively, to the Mayor and Council of New Castle.

MUNICIPAL SERVICES COMMISSION
(A COMPONENT UNIT OF THE CITY OF NEW CASTLE, DELAWARE)
NOTES TO FINANCIAL STATEMENTS - CONTINUED
MARCH 31, 2008

NOTE 7: APPROPRIATIONS TO MAYOR AND CITY COUNCIL - CONTINUED

City Service - The Commission reflects the cost of city electric and water usage as a City Service appropriation on its financial statements. The City Service appropriation totaled \$80,539 and \$70,847 for the years ended March 31, 2008 and 2007, respectively. Of this amount \$61,180 and \$60,928 represented electric usage and \$19,359 and \$9,919 represented water usage for the years ended March 31, 2008 and 2007, respectively.

Special - During the years ended March 31, 2008 and 2007, the Commission also approved special appropriations totaling \$14,775 and \$41,718, respectively, to the City of New Castle.

NOTE 8: LEASE COMMITMENTS

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 the buildings located at One Municipal Boulevard and 100 Municipal Boulevard, New Castle, Delaware.

The terms of the lease with regard to the Commission's participation relate only to the building located at 100 Municipal Boulevard. 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 remaining terms in excess of one year as of March 31, 2008 are:

<u>Year Ending March 31,</u>	<u>Amount</u>
2009	\$ 50,000
2010	50,000
2011	50,000
2012	50,000
2013	<u>50,000</u>
Total	<u>\$ 250,000</u>

NOTE 9: REGULATORY ISSUES

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

MUNICIPAL SERVICES COMMISSION
(A COMPONENT UNIT OF THE CITY OF NEW CASTLE, DELAWARE)
NOTES TO FINANCIAL STATEMENTS - CONTINUED
MARCH 31, 2008

NOTE 9: REGULATORY ISSUES - CONTINUED

Delmarva provides Transmission service to MSC through an interconnection agreement which controls the tap of Delmarva Power's 138,000-volt transmission line by the MSC. When/if they (Delmarva) want to change their Tariff or the interconnection agreement they must get approval from FERC. DEMEC represents MSC's interest when changes are presented to FERC.

NOTE 10: CONCENTRATIONS

Uninsured Balances in Cash and Investments - The Commission maintains cash deposits and certificates of deposit at various local financial institutions. The amount of cash held by the banks exceeded federally insured limits by \$2,416,750 and \$1,901,754 as of March 31, 2008 and 2007, respectively. These uninsured deposits are not collateralized by the financial institutions.

Following is a summary of bank balances classified in the three categories of credit risk. Category 1 includes deposits that are fully insured or collateralized with securities held by the entity or by its agent in the entity's name. Category 2 represents deposits collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name. Category 3 includes uncollateralized deposits.

Description	Bank Balance Category			Bank Totals	Book Amount
	1	2	3		
Cash and Cash Equivalents					
March 31, 2008	\$ 145,273	\$ -	\$ 2,416,750	\$ 2,562,023	\$ 2,548,435
March 31, 2007	\$ 247,157	\$ -	\$ 1,901,754	\$ 2,148,911	\$ 2,140,609
Investments in Securities					
March 31, 2008	\$ 500,000	\$ -	\$ 536,061	\$ 1,036,061	\$ 1,036,061
March 31, 2007	\$ -	\$ -	\$ 489,871	\$ 489,871	\$ 489,871

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 43% of the Commission's workforce. The current agreement is set to expire on March 31, 2010.

MUNICIPAL SERVICES COMMISSION
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NOTES TO FINANCIAL STATEMENTS - CONTINUED
MARCH 31, 2008

NOTE 11: 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.

NOTE 12: COMMITMENTS

The Commission has entered into an agreement with the Delaware Municipal Electric Corporation, Inc. 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 on 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. Deregulation has created volatility in the marketplace. Specifically, 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, Inc. to purchase 8.9% capacity of a 45-megawatt electric power plant owned by DEMEC.

NOTE 13: PRIOR PERIOD ADJUSTMENTS

Private Developer Contributions - In the normal course of business the Commission recognizes contributions for infrastructure that was built by private developers and then gifted to the Commission. The Commission did not record this activity during the years ended March 31, 2007 and 2006. A prior period adjustment was made to recognize the contributions and the resulting additions to property, plant & equipment. These contributed fixed assets are to be depreciated over a life of 50 years.

<u>Year</u>	<u>Fair Market Value at Date of Contribution</u>	<u>Depreciation</u>	<u>Net Assets</u>
2007	\$ 87,755	\$ (6,704)	\$ 81,051
2006	291,334	(2,913)	288,421

MUNICIPAL SERVICES COMMISSION
(A COMPONENT UNIT OF THE CITY OF NEW CASTLE, DELAWARE)
NOTES TO FINANCIAL STATEMENTS - CONTINUED
MARCH 31, 2008

NOTE 13: PRIOR PERIOD ADJUSTMENTS - CONTINUED

Customer Deposits - In the normal course of business the Commission receives deposits from some of its new customers. These deposits serve to provide assurance that the customer's account will be paid at the time service is discontinued. The deposit is either refunded (if the customer's account is paid off) or retained to pay the customer's balance. A prior period adjustment was made to correct the balance as of March 31, 2007.

<u>Year</u>	<u>Customer Deposits</u>	<u>Net Assets</u>
2007	\$ 30,481	\$ 30,481

Accounts Receivable - A prior period adjustment was made to correct the balance in accounts receivable as of March 31, 2007. In addition, the related allowance for doubtful accounts and bad debt expense has been restated.

<u>Year</u>	<u>Accounts Receivable</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Assets</u>
2007	\$ (237,637)	\$ 6,161	\$ (231,476)

NOTE 14: SUBSEQUENT EVENTS

At the January 8, 2008 Commissioner's meeting, the Commissioners unanimously voted to pursue the building of a second substation in order to meet the future electric needs of the City of New Castle. The project is expected to proceed in two phases. One phase is estimated to cost \$2,000,000 and will be funded through the MSC's reserves. The second phase is estimated to cost \$5,000,000 and financing discussions have taken place with DEMEC (Delaware Municipal Electric Corporation) regarding the possibility of financing the project with the issuance of bonds through DEMEC. DEMEC's board has approved the forming of such an agreement. Currently, legal counsel for both MSC and DEMEC are working to draft a contract regarding the financing and building of the substation. The estimated completion of the substation is May 2010.



Independent Auditors' Report on Supplementary Information

CERTIFIED
PUBLIC
ACCOUNTANTS
& CONSULTANTS

1011 CENTRE ROAD
SUITE 310
WILMINGTON,
DE 19805
T: 302.225.0600
F: 302.225.0625
WWW.BELFINT.COM

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

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information contained in the accompanying schedules 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.

Belfint, Lyons & Shuman, P.A.

August 11, 2008
Wilmington, Delaware

MUNICIPAL SERVICES COMMISSION
(A COMPONENT UNIT OF THE CITY OF NEW CASTLE, DELAWARE)
COMBINED SCHEDULES OF REVENUE AND EXPENSES BY DEPARTMENT
YEARS ENDED MARCH 31, 2008 AND 2007

	Totals		Water Department		Light Department	
	2008	2007	2008	2007	2008	2007
OPERATING REVENUE						
User Charges	\$ 10,840,474	\$ 10,293,964	\$ 976,467	\$ 911,677	\$ 9,864,007	\$ 9,382,287
City Service Charges	80,539	70,847	19,359	21,147	61,180	49,700
Miscellaneous	114,896	13,451	49,361	3,259	65,535	10,192
	<u>11,035,909</u>	<u>10,378,262</u>	<u>1,045,187</u>	<u>936,083</u>	<u>9,990,722</u>	<u>9,442,179</u>
Less: Free Service	44,015	16,841	26,524	1,506	17,491	15,335
TOTAL REVENUE	10,991,894	10,361,421	1,018,663	934,577	9,973,231	9,426,844
PURCHASE OF POWER AND WATER	7,049,482	6,785,489	11,222	15,525	7,038,260	6,769,964
OPERATING EXPENSES	1,492,966	1,433,767	588,293	524,336	904,673	909,431
GENERAL AND ADMINISTRATIVE EXPENSES	975,027	937,429	229,356	242,744	745,671	694,685
OPERATING INCOME	<u>1,474,419</u>	<u>1,204,736</u>	<u>189,792</u>	<u>151,972</u>	<u>1,284,627</u>	<u>1,052,764</u>
NONOPERATING REVENUE (EXPENSES)						
Investment Income	105,446	80,192	14,762	-	90,684	80,192
Gain on Sale of Asset	6,000	-	-	-	6,000	-
Loss on Sale of Securities	-	(16,258)	-	(16,258)	-	-
Private Developer Contributions	44,088	87,755	6,172	57,090	37,916	30,665
Environmental Remediation Obligation	(40,000)	-	(5,600)	-	(34,400)	-
Appropriations to the City of New Castle						
Ordinary	(400,000)	(375,000)	-	-	(400,000)	(375,000)
City Service	(80,539)	(70,847)	-	-	(80,539)	(70,847)
Special	(14,775)	(41,718)	-	-	(14,775)	(41,718)
Net Unrealized Loss on Noncurrent Investments	45,316	18,900	-	-	45,316	18,900
TOTAL NONOPERATING REVENUE (EXPENSES)	<u>(334,464)</u>	<u>(316,976)</u>	<u>15,335</u>	<u>40,832</u>	<u>(349,799)</u>	<u>(357,808)</u>
CHANGE IN NET ASSETS	<u>\$ 1,139,955</u>	<u>\$ 887,760</u>	<u>\$ 205,127</u>	<u>\$ 192,804</u>	<u>\$ 934,828</u>	<u>\$ 694,956</u>

MUNICIPAL SERVICES COMMISSION
(A COMPONENT UNIT OF THE CITY OF NEW CASTLE, DELAWARE)
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED MARCH 31, 2008 AND 2007

	Totals		Water Department		Light Department	
	2008	2007	2008	2007	2008	2007
OPERATING EXPENSES						
CAD Mapping	\$ -	\$ 476	\$ -	\$ 67	\$ -	\$ 409
Clothing Allowance	7,360	3,882	1,908	1,399	5,452	2,483
Depreciation						
Plant and Equipment	403,048	443,140	84,556	99,254	318,492	343,886
Sundry Equipment	6,095	14,709	853	1,030	5,242	13,679
Trucks and Autos	38,576	35,713	12,719	2,500	25,857	33,213
Electric Current	32,949	35,090	32,949	35,090	-	-
Equipment Rental	4,594	-	4,056	-	538	-
Fuel - Heating	2,775	3,335	389	467	2,386	2,868
Insurance	99,146	93,132	49,573	46,566	49,573	46,566
Plant Materials and Supplies	7,085	-	6,328	6	757	(6)
Repairs and Maintenance						
Buildings and Grounds	33,286	34,239	5,524	4,885	27,762	29,354
Hydrants, Mains and Valves	54,499	7,232	54,499	7,232	-	-
Lines and Poles	67,977	46,012	-	-	67,977	46,012
Meters and Services	44,707	58,069	9,228	17,551	35,479	40,518
Pumping Stations	37,071	45,645	37,071	45,645	-	-
Storm Damage	-	8,554	-	8,554	-	-
Street Lights	10,945	9,789	-	-	10,945	9,789
Substations	18,013	50,934	-	-	18,013	50,934
Salaries and Wages						
Meter Reading and Collections	34,987	35,408	4,766	4,957	30,221	30,451
Plant and General	157,152	148,888	86,584	80,167	70,568	68,721
Superintendent and Operations	221,938	192,978	115,110	109,174	106,828	83,804
Compensated Absences	91,186	68,564	40,562	34,861	50,624	33,703
Sampling and Testing	2,556	3,371	2,556	3,371	-	-
Seminars	23,523	10,373	12,220	3,613	11,303	6,760
Supplies	18,392	26,875	5,460	4,767	12,932	22,108
Truck Expense	75,106	57,359	21,382	13,180	53,724	44,179
TOTAL OPERATING EXPENSES	\$ 1,492,966	\$ 1,433,767	\$ 588,293	\$ 524,336	\$ 904,673	\$ 909,431

MUNICIPAL SERVICES COMMISSION
(A COMPONENT UNIT OF THE CITY OF NEW CASTLE, DELAWARE)
SCHEDULES OF GENERAL AND ADMINISTRATIVE EXPENSES
YEARS ENDED MARCH 31, 2008 AND 2007

	Totals		Water Department		Light Department	
	2008	2007	2008	2007	2008	2007
GENERAL AND ADMINISTRATIVE EXPENSES						
Administrative	\$ 18,768	\$ 21,838	\$ 3,599	\$ 2,454	\$ 15,169	\$ 19,384
Bad Debts	21,829	13,453	-	-	21,829	13,453
Depreciation - Furniture and Fixtures	36,479	45,022	5,107	8,104	31,372	36,918
Dues and Subscriptions	4,188	2,906	2,879	1,471	1,309	1,435
Employee Benefits	146,913	126,052	59,445	53,068	87,468	72,984
Fees and Permits	999	160	84	-	915	160
Insurance	49,414	46,566	24,707	22,903	24,707	23,663
Office Salaries	327,181	286,254	49,658	37,989	277,523	248,265
Office Supplies	55,483	61,835	8,825	10,010	46,658	51,825
Payroll Taxes	91,633	73,017	32,934	24,549	58,699	48,468
Pension Expense	72,364	122,809	11,460	54,028	60,904	68,781
Professional Fees	47,136	42,339	5,033	14,850	42,103	27,489
Rent	50,704	50,683	7,000	7,000	43,704	43,683
Repairs and Maintenance - Equipment	7,035	3,464	534	641	6,501	2,823
Security System	1,892	1,863	437	261	1,455	1,602
Telephone	23,872	23,168	3,232	3,489	20,640	19,679
Training - Administrative	3,961	11,601	694	1,755	3,267	9,846
Utilities	1,553	4,399	105	172	1,448	4,227
CFL Bulb Program	13,623	-	13,623	-	-	-
TOTAL GENERAL AND ADMINISTRATIVE EXPENSES	\$ 975,027	\$ 937,429	\$ 229,356	\$ 242,744	\$ 745,671	\$ 694,685