

**MUNICIPAL SERVICES COMMISSION**

**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT**

**MARCH 31, 2005 AND 2004**

**B E L F I N T**

**L Y O N S &**

**S H U M A N**

**CERTIFIED PUBLIC ACCOUNTANTS**

**MUNICIPAL SERVICES COMMISSION**  
**TABLE OF CONTENTS**  
**MARCH 31, 2005 AND 2004**

	<u>Page No.</u>
<b>Independent Auditors' Report</b>	1
<b>Financial Statements</b>	
Balance Sheets	2
Statements of Revenue, Expenses and Retained Earnings	3
Statements of Cash Flows	4
Notes to Financial Statements	5
<b>Independent Auditors' Report on Supplementary Information</b>	14
Combined Statements of Revenue and Expenses	15
Schedules of Operating Expenses	16
Schedules of General and Administrative Expenses	17



## Independent Auditors' Report

To the Board of Commissioners  
Municipal Services Commission

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We have audited the accompanying financial statements of the Municipal Services Commission, a component unit of the City of New Castle, Delaware, for the year ended March 31, 2005, which collectively comprise the Commission's basic financial statements as listed in the table of contents. These component unit financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these component unit financial statements based on our audits. The component unit financial statements as of March 31, 2004, were audited by Truitt, Sarnecki & Associates, P.A., who merged with Belfint, Lyons & Shuman, P.A. as of November 1, 2004, and whose report dated June 25, 2004, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the component unit 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.

In our opinion, the component unit financial statements referred to above present fairly, in all material respects, the respective changes in the financial position of the Municipal Services Commission as of March 31, 2005, and the results of its operations and cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

*Belfint, Lyons & Shuman, P.A.*

July 6, 2005  
Wilmington, Delaware

**MUNICIPAL SERVICES COMMISSION  
BALANCE SHEETS  
MARCH 31, 2005 AND 2004**

**ASSETS**

	<u>2005</u>	<u>2004</u>
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 1,377,829	\$ 916,996
Accounts Receivable	727,794	801,046
Inventory	347,410	328,650
Dividends Receivable	-	4,324
Prepayments	30,914	47,544
	<u>2,483,947</u>	<u>2,098,560</u>
<b>TOTAL CURRENT ASSETS</b>		
	<u>1,110,162</u>	<u>1,131,555</u>
<b>NET INVESTMENTS</b>		
<b>FIXED ASSETS</b>		
Property, Plant and Equipment	12,329,504	11,999,964
Less: Accumulated Depreciation	<u>7,075,796</u>	<u>6,612,714</u>
	<u>5,253,708</u>	<u>5,387,250</u>
<b>NET FIXED ASSETS</b>		
<b>TOTAL ASSETS</b>	<u>\$ 8,847,817</u>	<u>\$ 8,617,365</u>

**LIABILITIES AND FUND EQUITY**

	<b>2005</b>	<b>2004</b>
<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$ 384,224	\$ 347,613
Utility Taxes Payable	21,596	10,745
Payroll Withholdings Payable	1,856	1,044
Accrued Wages	12,472	-
Accrued Pension	24,226	21,415
Developer Deposits	44,539	95,335
Liability for Compensated Absences	199,416	214,892
<b>TOTAL CURRENT LIABILITIES</b>	688,329	691,044
<b>LONG-TERM LIABILITY</b>		
Customers' Meter Deposits	65,174	63,174
<b>TOTAL LIABILITIES</b>	753,503	754,218
<b>FUND EQUITY</b>		
<b>Contributed Capital</b>		
Capital Grants	943,000	943,000
Less: Accumulated Amortization	480,930	462,070
<b>Net Capital Grants</b>	462,070	480,930
Private Developer Contributions	702,625	702,625
<b>Total Contributed Capital</b>	1,164,695	1,183,555
<b>Retained Earnings</b>	6,929,619	6,679,592
<b>TOTAL FUND EQUITY</b>	8,094,314	7,863,147
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	\$ 8,847,817	\$ 8,617,365

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

**MUNICIPAL SERVICES COMMISSION**  
**STATEMENTS OF REVENUE, EXPENSES AND RETAINED EARNINGS**  
**YEARS ENDED MARCH 31, 2005 AND 2004**

	<b>2005</b>	<b>2004</b>
<b>OPERATING REVENUE</b>		
User Charges	\$ 7,084,620	\$ 6,754,167
Inter-Connection Charges	-	-
City Service Charges	79,893	75,710
Miscellaneous	42,942	42,369
	7,207,455	6,872,246
Less: Free Service	20,499	22,568
<b>NET OPERATING REVENUE</b>	7,186,956	6,849,678
<b>PURCHASE OF POWER AND WATER</b>	4,177,431	4,288,600
<b>OPERATING EXPENSES</b>	1,153,938	1,363,462
<b>GROSS OPERATING INCOME</b>	1,855,587	1,197,616
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>	824,249	856,331
<b>OPERATING INCOME</b>	1,031,338	341,285
<b>NONOPERATING REVENUE</b>		
Investment Income	63,799	56,743
Loss on Sale of Investments	(1,410)	-
	62,389	56,743
<b>NET INCOME</b>	1,093,727	398,028
<b>RETAINED EARNINGS</b>		
<b>Beginning of Year</b>	6,679,592	6,808,304
Amortization of Contributed Capital	18,860	18,860
Appropriations to the City of New Castle:		
Ordinary	(400,000)	(400,000)
City Service	(74,918)	(75,710)
Special	(346,139)	(57,574)
Net Unrealized Gain (Loss) on Noncurrent Investments	(41,503)	(12,316)
	5,835,892	6,281,564
<b>End of Year</b>	\$ 6,929,619	\$ 6,679,592

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

**MUNICIPAL SERVICES COMMISSION**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED MARCH 31, 2005 AND 2004**

	<b>2005</b>	<b>2004</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Operating Income	\$ 1,031,338	\$ 341,285
Adjustments to Reconcile Operating Income to Net Cash From Operating Activities:		
Depreciation	463,082	458,000
Changes in:		
Accounts Receivable	73,252	(93,916)
Inventory, at Average Cost	(18,760)	29,304
Dividends Receivable	4,324	5,457
Prepayments	16,630	(7,208)
Accounts Payable	36,611	(64,954)
Payroll Withholdings Payable	812	289
Utility Taxes Payable	10,851	1,561
Accrued Wages	12,472	-
Accrued Pension	2,811	(26,566)
Developer Deposits	(50,796)	8,369
Liability for Compensated Absences	(15,476)	(46,570)
Customer Deposits	2,000	3,500
	<b>1,569,151</b>	<b>608,551</b>
<b>NET CASH FROM OPERATING ACTIVITIES</b>		
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Appropriations to the City of New Castle:		
Ordinary	(400,000)	(400,000)
City Service	(74,918)	(75,710)
Special	(346,139)	(57,574)
	<b>(821,057)</b>	<b>(533,284)</b>
<b>NET CASH FROM NONCAPITAL FINANCING ACTIVITIES</b>		
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Private Developer Contributions	-	-
Acquisition and Construction of Assets	(329,540)	(289,291)
	<b>(329,540)</b>	<b>(289,291)</b>
<b>NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Income Received	42,279	56,743
	<b>42,279</b>	<b>56,743</b>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>460,833</b>	<b>(157,281)</b>
<b>CASH AND CASH EQUIVALENTS - Beginning of Year</b>	<b>916,996</b>	<b>1,074,277</b>
<b>CASH AND CASH EQUIVALENTS - End of Year</b>	<b>\$ 1,377,829</b>	<b>\$ 916,996</b>
<b>SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITIES:</b>		
Investment Income Reinvested	<b>\$ 21,520</b>	<b>\$ -</b>

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

**MUNICIPAL SERVICES COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
**MARCH 31, 2005**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Organized under a charter adopted on March 1, 1921, the Municipal Services Commission of the City of New Castle, Delaware, operates under a Board of Commissioners and provides water and electric as authorized by its charter.

The accounting policies of the Municipal Services Commission conform to U.S. generally accepted accounting principles as applicable to governments. The following is a summary of such significant 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. Although the Commission is legally separate from the City of New Castle, it is a component unit of the City.

*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* – Cash and cash equivalents consist of cash, savings, checking and money market accounts.

*Estimates* – The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires the use of management's estimates. Actual results could differ from those estimates.

*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 does accrue interest on any outstanding balance and may eventually write off a doubtful account as uncollectible when collections efforts fail over a period of time.

*Inventory* – Inventory is carried at average cost and is determined using the first-in, first-out (FIFO) method.

*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**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**MARCH 31, 2005**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

*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, 2005 and 2004 was \$463,082 and \$458,000, respectively.

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, 2005 and 2004, the Commission incurred no such interest costs.

*Liability for Compensated Absences* – A ceiling of 120 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 2080 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, 2005 and 2004 was \$462,070 and \$480,930, respectively.

**MUNICIPAL SERVICES COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**MARCH 31, 2005**

**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:

Description	March 31,	
	2005	2004
Electric Rate Receivables	\$ 555,581	\$ 634,386
Water Rate Receivables	186,658	183,154
Total Receivables	742,239	817,540
Less: Allowance for Doubtful Accounts	14,445	16,494
Net Receivables	<u>\$ 727,794</u>	<u>\$ 801,046</u>

**NOTE 3: INVESTMENTS**

The Commission's investments consist of mutual funds. 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 identification or average cost methods. Following is a summary of the cost and market value of the Commission's investments as of March 31, 2005 and 2004:

	2005		2004	
	Cost	Market Value	Cost	Market Value
Mutual Funds	<u>\$1,115,712</u>	<u>\$1,110,162</u>	<u>\$1,095,601</u>	<u>\$1,131,555</u>

As of March 31, 2005 and 2004, the Commission had recorded an allowance for unrealized gain/(loss) of \$(5,550) and \$35,954, respectively. Retained earnings were adjusted by a corresponding amount.

**NOTE 4: FIXED ASSETS AND DEPRECIATION**

A summary of fixed assets and related depreciation as of March 31, 2005 and 2004 is as follows:

**MUNICIPAL SERVICES COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**MARCH 31, 2005**

**NOTE 4: FIXED ASSETS AND DEPRECIATION - CONTINUED**

Description	Fixed Assets						Balances 03/31/03
	Balances 03/31/05	Additions	Deletions	Balances 03/31/04	Additions	Deletions	
<b>Nondepreciable Assets:</b>							
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>
<b>Depreciable Assets:</b>							
Building Structures	843,782	226,122	-	617,660	119,290	-	498,370
Water Department	3,471,366	7,744	-	3,463,622	66,166	-	3,397,456
Electric Department	6,884,029	20,553	-	6,863,476	83,672	-	6,779,804
Common Assets	1,082,445	75,121	-	1,007,324	20,164	-	987,160
	<u>12,281,622</u>	<u>329,540</u>	<u>-</u>	<u>11,952,082</u>	<u>289,292</u>	<u>-</u>	<u>11,662,790</u>
<b>Totals</b>	<u>\$ 12,329,504</u>	<u>\$ 329,540</u>	<u>\$ -</u>	<u>\$ 11,999,964</u>	<u>\$ 289,292</u>	<u>\$ -</u>	<u>\$ 11,710,672</u>

Description	Accumulated Depreciation						Balances 03/31/03
	Balances 03/31/05	Additions	Deletions	Balances 03/31/04	Additions	Deletions	
<b>Depreciable Assets:</b>							
Building Structures	\$ 469,737	\$ 11,386	\$ -	\$ 458,351	\$ 9,320	\$ -	\$ 449,031
Water Department	1,930,658	86,869	-	1,843,789	82,786	-	1,761,003
Electric Department	3,742,336	290,712	-	3,451,624	321,402	-	3,130,222
Common Assets	933,065	74,115	-	858,950	44,492	-	814,458
	<u>\$ 7,075,796</u>	<u>\$ 463,082</u>	<u>\$ -</u>	<u>\$ 6,612,714</u>	<u>\$ 458,000</u>	<u>\$ -</u>	<u>\$ 6,154,714</u>

**NOTE 5: 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, 2005 and 2004 was \$753,025 and \$814,774, respectively. Total payroll for the years ended March 31, 2005 and 2004 was \$765,471 and \$938,258, 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:

**MUNICIPAL SERVICES COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**MARCH 31, 2005**

**NOTE 5: PENSION PLAN - CONTINUED**

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:

Description	January 1,	
	2005	2004
Vested Benefits - Active Participants	\$ 792,089	\$ 979,997
Vested Benefits - Terminated Participant	65,578	51,864
Disabled Participants	678,957	316,255
Non-Vested Benefits	25,031	10,967
<b>Total Pension Benefit Obligation</b>	<b><u>\$ 1,561,655</u></b>	<b><u>\$ 1,359,083</u></b>
<b>Assets Available for Plan Benefits at Market Value</b>	<b><u>\$ 1,391,902</u></b>	<b><u>\$ 1,236,527</u></b>

**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.

**MUNICIPAL SERVICES COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**MARCH 31, 2005**

**NOTE 5: PENSION PLAN - CONTINUED**

The pension benefit obligation was computed as part of an actuarial valuation performed as of January 1, 2005. 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, 2005 and 2004 was \$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 uses the Frozen Entry Age Actuarial Cost Method to amortize the unfounded 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, 2005 and 2004 were made in accordance with actuarially determined requirements computed through actuarial valuations performed as of January 1, 2005 and 2004, respectively.

Description	January 1,	
	2005	2004
Normal Cost	\$ 92,112	\$ 80,899
Amortization Payment	-	-
Fees	4,790	4,760
<b>Total Actuarially-Determined Contributions Required</b>	<b>\$ 96,902</b>	<b>\$ 85,659</b>
Contributions Made to Cash Reserve for Pension Account	\$ 96,902	\$ 85,659
Contributions Made as a Percentage of Current Year Covered Payroll	12.9%	10.5%

**MUNICIPAL SERVICES COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**MARCH 31, 2005**

**NOTE 5: PENSION PLAN - CONTINUED**

**Trend Information**

The Commission issues a separate report containing such information.

**NOTE 6: APPROPRIATIONS TO MAYOR AND CITY COUNCIL**

**Ordinary**

During the years ended March 31, 2005 and 2004, the Commission appropriated \$400,000 in each year, to the Mayor and Council of New Castle.

**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 \$74,918 and \$75,710 for the years ended March 31, 2005 and 2004, respectively. Of this amount \$55,634 and \$55,006 represented electric usage and \$19,284 and \$20,704 represented water usage for the years ended March 31, 2005 and 2004, respectively.

**Special**

During the years ended March 31, 2005 and 2004, the Commission also approved special appropriations totaling \$346,139 and \$57,574, respectively, to the City of New Castle.

**NOTE 7: 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.

**MUNICIPAL SERVICES COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**MARCH 31, 2005**

**NOTE 7: LEASE COMMITMENTS - CONTINUED**

Future minimum rental payments under the noncancellable operating lease and having remaining terms in excess of one year as of March 31, 2005 are:

Year Ending March 31,	Amount
2006	\$ 50,000
2007	50,000
2008	50,000
2009	50,000
2010	50,000
2011 and Thereafter	200,000
Total	\$ 450,000

**NOTE 8: LITIGATION**

The Commission, as a member of the Delaware Municipal Electric Corporation, Inc. (DEMEC), is involved in certain regulatory matters before the Federal Energy Regulatory Commission, in which it is one of several interveners participating in order to fully articulate its interests concerning the restructuring of the electric utility industry at the federal level. There is no identifiable monetary amount at stake for New Castle in these proceedings, which could, in the future, have an indirect impact on the wholesale power transmission rates paid by New Castle.

**NOTE 9: CONCENTRATION OF CREDIT RISK**

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 \$1,396,914 and \$846,246 as of March 31, 2005 and 2004, 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.

**MUNICIPAL SERVICES COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**MARCH 31, 2005**

**NOTE 9: CONCENTRATION OF CREDIT RISK - CONTINUED**

Description	Bank Balance Category			Carrying Totals	Amount
	1	2	3		
Cash and Cash Equivalents					
March 31, 2005	\$ 134,816	\$ -	\$ 1,396,914	\$ 1,531,730	\$ 1,377,829
March 31, 2004	\$ 135,372	\$ -	\$ 846,246	\$ 981,618	\$ 916,996

The Commission also maintains balances in mutual funds which are not insured.

**NOTE 10: 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 11: 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.



## Independent Auditors' Report on Supplementary Information



CERTIFIED  
PUBLIC  
ACCOUNTANTS  
& CONSULTANTS

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Municipal Services Commission

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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.*

July 6, 2005  
Wilmington, Delaware

**MUNICIPAL SERVICES COMMISSION**  
**COMBINED STATEMENTS OF REVENUE AND EXPENSES**  
**YEARS ENDED MARCH 31, 2005 AND 2004**

	Totals		Water Department		Light Department	
	2005	2004	2005	2004	2005	2004
<b>OPERATING REVENUE</b>						
User Charges	\$ 7,084,620	\$ 6,754,167	\$ 786,926	\$ 776,802	\$ 6,297,694	\$ 5,977,365
Inter-Connection Charges	-	-	-	-	-	-
City Service Charges	79,893	75,710	19,284	20,704	60,609	55,006
Miscellaneous	42,942	42,369	7,178	21,838	35,764	20,531
	<u>7,207,455</u>	<u>6,872,246</u>	<u>813,388</u>	<u>819,344</u>	<u>6,394,067</u>	<u>6,052,902</u>
Less: Free Service	20,499	22,568	6,637	1,329	13,862	21,239
	<u>7,186,956</u>	<u>6,849,678</u>	<u>806,751</u>	<u>818,015</u>	<u>6,380,205</u>	<u>6,031,663</u>
<b>TOTAL REVENUE</b>						
PURCHASE OF POWER AND WATER	4,177,431	4,288,600	11,618	8,273	4,165,813	4,280,327
<b>OPERATING EXPENSES</b>	<u>1,153,938</u>	<u>1,363,462</u>	<u>441,574</u>	<u>504,060</u>	<u>712,364</u>	<u>859,402</u>
<b>GROSS OPERATING EXPENSE</b>	1,855,587	1,197,616	353,559	305,682	1,502,028	891,934
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>	<u>824,249</u>	<u>856,331</u>	<u>204,334</u>	<u>320,337</u>	<u>619,915</u>	<u>535,994</u>
<b>OPERATING INCOME (LOSS)</b>	1,031,338	341,285	149,225	(14,655)	882,113	355,940
<b>NONOPERATING REVENUE</b>						
Investment Income	63,799	56,743	5	-	63,794	56,743
Loss on Sale of Securities	(1,410)	-	(1,410)	-	-	-
<b>NET INCOME (LOSS)</b>	<u>\$ 1,093,727</u>	<u>\$ 398,028</u>	<u>\$ 147,820</u>	<u>\$ (14,655)</u>	<u>\$ 945,907</u>	<u>\$ 412,683</u>

**MUNICIPAL SERVICES COMMISSION**  
**SCHEDULES OF OPERATING EXPENSES**  
**YEARS ENDED MARCH 31, 2005 AND 2004**

	Totals		Water Department		Light Department	
	2005	2004	2005	2004	2005	2004
CAD Mapping	\$ -	\$ 1,467	\$ -	\$ -	\$ -	\$ 1,467
Clothing Allowance	3,838	2,581	1,023	1,020	2,815	1,561
Depreciation:						
Plant and Equipment	389,381	383,611	81,121	79,972	308,260	303,639
Sundry Equipment	6,729	6,729	942	1,682	5,787	5,047
Trucks and Autos	37,848	44,492	5,299	11,123	32,549	33,369
Electric Current	20,784	21,196	20,784	21,196	-	-
Equipment Rental	150	-	21	-	129	-
Fuel - Heating	3,659	8,505	512	2,126	3,147	6,379
Insurance	96,270	80,649	48,135	40,324	48,135	40,325
Plant Materials and Supplies	239	495	229	495	10	-
Repairs and Maintenance:						
Buildings and Grounds	52,020	53,482	7,487	12,724	44,533	40,758
Hydrants, Mains and Valves	13,054	29,861	13,054	29,861	-	-
Lines and Poles	16,733	25,867	-	-	16,733	25,867
Meters and Services	39,352	111,685	11,894	18,838	27,458	92,847
Pumping Stations	8,665	16,340	8,665	16,340	-	-
Street Lights	7,819	11,196	-	-	7,819	11,196
Substations	6,674	34,625	-	-	6,674	34,625
Salaries and Wages:						
Meter Reading and Collections	35,440	29,495	4,931	7,377	30,509	22,118
Plant and General	139,414	151,109	102,397	122,904	37,017	28,205
Superintendent and Operations	148,006	209,021	85,704	89,029	62,302	119,992
Compensated Absences	56,985	87,085	25,532	34,366	31,453	52,719
Sampling and Testing	1,337	1,941	1,337	1,941	-	-
Seminars	5,437	3,486	4,240	2,107	1,197	1,379
Supplies	23,607	13,326	6,555	3,997	17,052	9,329
Truck Expense	40,497	35,218	11,712	6,638	28,785	28,580
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 1,153,938</b>	<b>\$ 1,363,462</b>	<b>\$ 441,574</b>	<b>\$ 504,060</b>	<b>\$ 712,364</b>	<b>\$ 859,402</b>

**MUNICIPAL SERVICES COMMISSION**  
**SCHEDULES OF GENERAL AND ADMINISTRATIVE EXPENSES**  
**YEARS ENDED MARCH 31, 2005 AND 2004**

	Totals		Water Department		Light Department	
	2005	2004	2005	2004	2005	2004
Administrative	\$ 23,361	\$ 32,643	\$ 3,514	\$ 7,178	\$ 19,847	\$ 25,465
Bad Debts	11,612	12,641	-	-	11,612	12,641
Depreciation - Furniture and Fixtures	29,126	23,168	4,078	5,792	25,048	17,376
Dues and Subscriptions	2,766	2,886	1,551	2,182	1,215	704
Employee Benefits	112,244	122,364	51,744	62,046	60,500	60,318
Fees and Permits	4,179	1,000	1,531	1,000	2,648	-
Insurance	39,986	39,992	19,989	19,996	19,997	19,996
Office Salaries	230,995	220,389	28,682	55,170	202,313	165,219
Office Supplies	45,766	69,781	6,415	19,742	39,351	50,039
Payroll Taxes	62,549	74,461	25,830	32,236	36,719	42,225
Pension Expense	99,226	165,358	32,745	82,679	66,481	82,679
Professional Fees	66,414	44,204	14,077	21,205	52,337	22,999
Rent	50,639	4,787	6,875	-	43,764	4,787
Repairs and Maintenance - Equipment	6,466	3,630	1,286	1,044	5,180	2,586
Security System	1,765	485	247	224	1,518	261
Telephone	33,281	34,786	5,427	8,927	27,854	25,859
Training - Administrative	1,187	675	101	657	1,086	18
Utilities	2,687	3,081	242	259	2,445	2,822
<b>TOTAL GENERAL AND ADMINISTRATIVE EXPENSES</b>	<b>\$ 824,249</b>	<b>\$ 856,331</b>	<b>\$ 204,334</b>	<b>\$ 320,337</b>	<b>\$ 619,915</b>	<b>\$ 535,994</b>