

MUNICIPAL SERVICES COMMISSION

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORTS**

MARCH 31, 2006 AND 2005

B E L F I N T

L Y O N S &

S H U M A N

CERTIFIED PUBLIC ACCOUNTANTS

MUNICIPAL SERVICES COMMISSION
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MARCH 31, 2006 AND 2005

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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, as of and for the years ended March 31, 2006 and 2005, which collectively comprise the Municipal Services Commission's basic financial statements as listed in the table of contents. These component unit financial statements are the responsibility of the 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 component unit financial statements are free of material misstatement. The component unit financial statements of the Municipal Services Commission were not audited in accordance with Government Auditing Standards. 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 financial position of the Municipal Services Commission as of March 31, 2006, and the respective changes in financial position and cash flows for the years then ended in conformity with the accounting principles generally accepted in the United States of America.

Belfint, Lyons & Shuman, P.A.

June 26, 2006
Wilmington, Delaware

MUNICIPAL SERVICES COMMISSION
STATEMENTS OF NET ASSETS
MARCH 31, 2006 AND 2005

ASSETS

	<u>2006</u>	<u>2005</u>
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 1,060,424	\$ 1,377,829
Accounts Receivable	976,205	727,794
Inventory	351,878	347,410
Prepayments	<u>23,022</u>	<u>30,914</u>
TOTAL CURRENT ASSETS	<u>2,411,529</u>	<u>2,483,947</u>
NET INVESTMENTS	<u>487,229</u>	<u>1,110,162</u>
FIXED ASSETS		
Property, Plant and Equipment	13,185,029	12,329,504
Less: Accumulated Depreciation	<u>7,552,447</u>	<u>7,075,796</u>
NET FIXED ASSETS	<u>5,632,582</u>	<u>5,253,708</u>
TOTAL ASSETS	<u>\$ 8,531,340</u>	<u>\$ 8,847,817</u>

LIABILITIES AND NET ASSETS

	2006	2005
CURRENT LIABILITIES		
Accounts Payable	\$ 555,275	\$ 384,224
Utility Taxes Payable	18,097	21,596
Payroll Withholdings Payable	2,617	1,856
Accrued Wages	11,467	12,472
Accrued Pension	24,017	24,226
Developer Deposits	68,389	44,539
Accrued Compensated Absences	223,696	199,416
TOTAL CURRENT LIABILITIES	903,558	688,329
NON-CURRENT LIABILITY		
Customers' Meter Deposits	75,142	65,174
TOTAL LIABILITIES	978,700	753,503
NET ASSETS		
Contributed Capital		
Capital Grants	943,000	943,000
Less: Accumulated Amortization	499,790	480,930
Net Capital Grants	443,210	462,070
Private Developer Contributions	702,625	702,625
Total Contributed Capital	1,145,835	1,164,695
Unrestricted Net Assets	6,406,805	6,929,619
TOTAL NET ASSETS	7,552,640	8,094,314
TOTAL LIABILITIES AND NET ASSETS	\$ 8,531,340	\$ 8,847,817

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

MUNICIPAL SERVICES COMMISSION
STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED MARCH 31, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
OPERATING REVENUE		
User Charges	\$ 9,067,433	\$ 7,084,620
City Service Charges	89,191	79,893
Miscellaneous	35,952	42,942
	<u>9,192,576</u>	<u>7,207,455</u>
Less: Free Service	<u>13,319</u>	<u>20,499</u>
NET OPERATING REVENUE	9,179,257	7,186,956
PURCHASE OF POWER AND WATER	6,989,179	4,177,431
OPERATING EXPENSES	<u>1,286,002</u>	<u>1,153,938</u>
GENERAL AND ADMINISTRATIVE EXPENSES	<u>864,531</u>	<u>824,249</u>
OPERATING INCOME	<u>39,545</u>	<u>1,031,338</u>
NONOPERATING REVENUE (EXPENSES)		
Investment Income	66,982	63,799
Gain on Sale of Asset	3,300	0
Loss on Sale of Investments	(8,438)	(1,410)
Appropriations to the City of New Castle		
Ordinary	(475,000)	(400,000)
City Service	(139,192)	(74,918)
Special	(12,175)	(346,139)
Net Unrealized Loss on Noncurrent Investments	<u>(16,696)</u>	<u>(41,503)</u>
TOTAL NONOPERATING REVENUE (EXPENSES)	<u>(581,219)</u>	<u>(800,171)</u>
CHANGE IN NET ASSETS	<u>(541,674)</u>	<u>231,167</u>
TOTAL NET ASSETS		
Beginning of Year	8,094,314	7,863,147
Change in Net Assets	<u>(541,674)</u>	<u>231,167</u>
End of Year	<u>\$ 7,552,640</u>	<u>\$ 8,094,314</u>

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

MUNICIPAL SERVICES COMMISSION
STATEMENTS OF CASH FLOWS
YEARS ENDED MARCH 31, 2006 AND 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (541,674)	\$ 231,167
Adjustments to Reconcile Operating Income to Net Cash From Operating Activities		
Bad Debts	21,101	11,612
Depreciation	487,375	463,082
Loss on Sale of Investments	8,438	1,410
Reinvested Dividend Income	(48,661)	(21,520)
Net Unrealized Loss on Noncurrent Investments	16,696	41,503
Changes in		
Accounts Receivable	(269,512)	61,640
Inventory	(4,468)	(18,760)
Dividends Receivable	-	4,324
Prepayments	7,892	16,630
Accounts Payable	171,051	36,611
Utility Taxes Payable	(3,499)	10,851
Payroll Withholdings Payable	761	812
Accrued Wages	(1,005)	12,472
Accrued Pension	(209)	2,811
Developer Deposits	23,850	(50,796)
Liability for Compensated Absences	24,280	(15,476)
Customer Deposits	9,968	2,000
NET CASH FROM OPERATING ACTIVITIES	(97,616)	790,373
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and Construction of Assets	(866,248)	(329,540)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sale of Investments	646,459	-
NET CHANGE IN CASH AND CASH EQUIVALENTS	(317,405)	460,833
CASH AND CASH EQUIVALENTS - Beginning of Year	1,377,829	916,996
CASH AND CASH EQUIVALENTS - End of Year	\$ 1,060,424	\$ 1,377,829

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

MUNICIPAL SERVICES COMMISSION
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organized under a charter adopted on March 1, 1921, 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.

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. 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 – For purposes of the statement 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 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.

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, 2006 and 2005 was \$487,375 and \$463,082, respectively.

MUNICIPAL SERVICES COMMISSION
NOTES TO FINANCIAL STATEMENTS – CONTINUED
MARCH 31, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – 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, 2006 and 2005, 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, 2006 and 2005 was \$443,210 and \$462,070 respectively.

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 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.

MUNICIPAL SERVICES COMMISSION
NOTES TO FINANCIAL STATEMENTS – CONTINUED
MARCH 31, 2006

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,	
	2006	2005
Electric Rate Receivables	\$ 811,589	\$ 555,581
Water Rate Receivables	185,680	186,658
Total Receivables	997,269	742,239
Less: Allowance for Doubtful Accounts	21,064	14,445
Net Receivables	<u>\$ 976,205</u>	<u>\$ 727,794</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, 2006 and 2005:

	2006		2005	
	Cost	Market Value	Cost	Market Value
Mutual Funds	<u>\$ 509,475</u>	<u>\$ 487,229</u>	<u>\$ 1,115,712</u>	<u>\$ 1,110,162</u>

As of March 31, 2006 and 2005, the Commission had recorded an allowance for unrealized loss of \$22,246 and \$5,550, respectively.

MUNICIPAL SERVICES COMMISSION
NOTES TO FINANCIAL STATEMENTS – CONTINUED
MARCH 31, 2006

NOTE 4: FIXED ASSETS AND DEPRECIATION

A summary of fixed assets and related depreciation as of March 31, 2006 and 2005 is as follows:

Description	Fixed Assets			Fixed Assets			Balances 03/31/04
	Balances 03/31/06	Additions	Deletions	Balances 03/31/05	Additions	Deletions	
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	38,465	-	843,782	226,122	-	617,660
Water Department	3,471,366	-	-	3,471,366	7,744	-	3,463,622
Electric Department	7,541,427	657,398	-	6,884,029	20,553	-	6,863,476
Common Assets	1,242,107	170,386	10,724	1,082,445	75,121	-	1,007,324
	<u>13,137,147</u>	<u>866,249</u>	<u>10,724</u>	<u>12,281,622</u>	<u>329,540</u>	<u>-</u>	<u>11,952,082</u>
Totals	<u>\$ 13,185,029</u>	<u>\$ 866,249</u>	<u>\$ 10,724</u>	<u>\$ 12,329,504</u>	<u>\$ 329,540</u>	<u>\$ -</u>	<u>\$ 11,999,964</u>

Description	Accumulated Depreciation			Accumulated Depreciation			Balances 03/31/04
	Balances 03/31/06	Additions	Deletions	Balances 03/31/05	Additions	Deletions	
Depreciable Assets:							
Building Structures	\$ 486,807	\$ 17,070	\$ -	\$ 469,737	\$ 11,386	\$ -	\$ 458,351
Water Department	2,017,555	86,897	-	1,930,658	86,869	-	1,843,789
Electric Department	4,057,920	315,584	-	3,742,336	290,712	-	3,451,624
Common Assets	990,165	67,824	10,724	933,065	74,115	-	858,950
	<u>\$ 7,552,447</u>	<u>\$ 487,375</u>	<u>\$ 10,724</u>	<u>\$ 7,075,796</u>	<u>\$ 463,082</u>	<u>\$ -</u>	<u>\$ 6,612,714</u>
Totals	<u>\$ 7,552,447</u>	<u>\$ 487,375</u>	<u>\$ 10,724</u>	<u>\$ 7,075,796</u>	<u>\$ 463,082</u>	<u>\$ -</u>	<u>\$ 6,612,714</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, 2006 and 2005 was \$811,814 and \$753,025, respectively. Total payroll for the years ended March 31, 2006 and 2005 was \$851,009 and \$765,471, 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

MUNICIPAL SERVICES COMMISSION
NOTES TO FINANCIAL STATEMENTS – CONTINUED
MARCH 31, 2006

NOTE 5: PENSION PLAN – CONTINUED

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:

Description	January 1,	
	2006	2005
Vested Benefits - Active Participants	\$ 927,990	\$ 792,089
Vested Benefits - Terminated Participant	68,371	65,578
Disabled Participants	708,495	678,957
Non-Vested Benefits	18,464	25,031
 Total Pension Benefit Obligation	 <u>\$ 1,723,320</u>	 <u>\$ 1,561,655</u>
 Assets Available for Plan Benefits at Market Value	 <u>\$ 1,509,851</u>	 <u>\$ 1,391,902</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.

MUNICIPAL SERVICES COMMISSION
NOTES TO FINANCIAL STATEMENTS – CONTINUED
MARCH 31, 2006

NOTE 5: PENSION PLAN – CONTINUED

The pension benefit obligation was computed as part of an actuarial valuation performed as of January 1, 2006. 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, 2006 and 2005 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, 2006 and 2005 were made in accordance with actuarially determined requirements computed through actuarial valuations performed as of January 1, 2006 and 2005, respectively.

Description	January 1,	
	2006	2005
Normal Cost	\$ 90,438	\$ 92,112
Amortization Payment	-	-
Fees	4,790	4,790
Total Actuarially-Determined Contributions Required	<u>\$ 95,228</u>	<u>\$ 96,902</u>
Contributions Made to Cash Reserve for Pension Account	<u>\$ 95,228</u>	<u>\$ 96,902</u>
Contributions Made as a Percentage of Current Year Covered Payroll	11.7%	12.9%

MUNICIPAL SERVICES COMMISSION
NOTES TO FINANCIAL STATEMENTS – CONTINUED
MARCH 31, 2006

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, 2006 and 2005, the Commission appropriated \$475,000 and \$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 \$139,192 and \$74,918 for the years ended March 31, 2006 and 2005, respectively. Of this amount \$115,899 and \$55,634 represented electric usage and \$23,293 and \$19,284 represented water usage for the years ended March 31, 2006 and 2005, respectively.

Special

During the years ended March 31, 2006 and 2005, the Commission also approved special appropriations totaling \$12,175 and \$346,139, 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, 2006

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, 2006 are:

Year Ending March 31,	Amount
2007	\$ 50,000
2008	50,000
2009	50,000
2010	50,000
2011	50,000
2012 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 \$805,577 and \$1,396,914 as of March 31, 2006 and 2005, 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, 2006

NOTE 9: CONCENTRATION OF CREDIT RISK - CONTINUED

Description	Bank Balance Category			Carrying Totals	Amount
	1	2	3		
Cash and Cash Equivalents					
March 31, 2006	<u>\$ 143,615</u>	<u>\$ -</u>	<u>\$ 805,577</u>	<u>\$ 949,192</u>	<u>\$ 1,060,424</u>
March 31, 2005	<u>\$ 134,816</u>	<u>\$ -</u>	<u>\$ 1,396,914</u>	<u>\$ 1,531,730</u>	<u>\$ 1,377,829</u>

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



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To the Board of Commissioners
Municipal Services Commission

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.

June 26, 2006
Wilmington, Delaware

MUNICIPAL SERVICES COMMISSION
COMBINED SCHEDULES OF REVENUE AND EXPENSES BY DEPARTMENT
YEARS ENDED MARCH 31, 2006 AND 2005

	Totals		Water Department		Light Department	
	2006	2005	2006	2005	2006	2005
OPERATING REVENUE						
User Charges	\$ 9,067,433	\$ 7,084,620	\$ 816,348	\$ 786,926	\$ 8,251,085	\$ 6,297,694
Inter-Connection Charges	-	-	-	-	-	-
City Service Charges	89,191	79,893	16,292	19,284	72,899	60,609
Miscellaneous	35,952	42,942	16,445	7,178	19,507	35,764
	<u>9,192,576</u>	<u>7,207,455</u>	<u>849,085</u>	<u>813,388</u>	<u>8,343,491</u>	<u>6,394,067</u>
Less: Free Service	13,319	20,499	703	6,637	12,616	13,862
TOTAL REVENUE	<u>9,179,257</u>	<u>7,186,956</u>	<u>848,382</u>	<u>806,751</u>	<u>8,330,875</u>	<u>6,380,205</u>
PURCHASE OF POWER AND WATER	<u>6,989,179</u>	<u>4,177,431</u>	<u>8,530</u>	<u>11,618</u>	<u>6,980,649</u>	<u>4,165,813</u>
OPERATING EXPENSES	<u>1,286,002</u>	<u>1,153,938</u>	<u>462,078</u>	<u>441,574</u>	<u>823,924</u>	<u>712,364</u>
GROSS OPERATING EXPENSE	<u>904,076</u>	<u>1,855,587</u>	<u>377,774</u>	<u>353,559</u>	<u>526,302</u>	<u>1,502,028</u>
GENERAL AND ADMINISTRATIVE EXPENSES	<u>864,531</u>	<u>824,249</u>	<u>226,033</u>	<u>204,334</u>	<u>638,498</u>	<u>619,915</u>
OPERATING INCOME (LOSS)	<u>39,545</u>	<u>1,031,338</u>	<u>151,741</u>	<u>149,225</u>	<u>(112,196)</u>	<u>882,113</u>
NONOPERATING REVENUE (EXPENSES)						
Investment Income	66,982	63,799	-	5	66,982	63,794
Loss on Sale of Securities	(8,438)	(1,410)	(8,438)	(1,410)	-	-
Gain on Sale of Asset	3,300	-	-	-	3,300	-
Appropriations to the City of New Castle						
Ordinary	(475,000)	(400,000)	-	-	(475,000)	(400,000)
City Service	(139,192)	(74,918)	-	-	(139,192)	(74,918)
Special	(12,175)	(346,139)	-	-	(12,175)	(346,139)
Net Unrealized Loss on Noncurrent Investments	(16,696)	(41,503)	-	-	(16,696)	(41,503)
TOTAL NONOPERATING REVENUE (EXPENSES)	<u>(581,219)</u>	<u>(800,171)</u>	<u>(8,438)</u>	<u>(1,405)</u>	<u>(572,781)</u>	<u>(798,766)</u>
CHANGE IN NET ASSETS	<u>\$ (541,674)</u>	<u>\$ 231,167</u>	<u>\$ 143,303</u>	<u>\$ 147,820</u>	<u>\$ (684,977)</u>	<u>\$ 83,347</u>

MUNICIPAL SERVICES COMMISSION
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED MARCH 31, 2006 AND 2005

	Totals		Water Department		Light Department	
	2006	2005	2006	2005	2006	2005
CAD Mapping	\$ 436	\$ -	\$ -	\$ -	\$ 436	\$ -
Clothing Allowance	3,138	3,838	1,116	1,023	2,022	2,815
Depreciation						
Plant and Equipment	401,988	389,381	82,988	81,121	319,000	308,260
Sundry Equipment	7,003	6,729	909	942	6,094	5,787
Trucks and Autos	36,877	37,848	2,596	5,299	34,281	32,549
Electric Current	24,689	20,784	24,689	20,784	-	-
Equipment Rental	-	150	-	21	-	129
Fuel - Heating	3,609	3,659	505	512	3,104	3,147
Insurance	91,236	96,271	45,618	48,135	45,618	48,136
Plant Materials and Supplies	1,168	239	1,077	229	91	10
Repairs and Maintenance						
Buildings and Grounds	48,791	52,020	6,861	7,486	41,930	44,534
Hydrants, Mains and Valves	16,349	13,054	16,349	13,054	-	-
Lines and Poles	20,960	16,733	-	-	20,960	16,733
Meters and Services	51,061	39,352	10,776	11,894	40,285	27,458
Pumping Stations	51,238	8,665	51,238	8,665	-	-
Street Lights	8,221	7,819	-	-	8,221	7,819
Substations	37,918	6,674	-	-	37,918	6,674
Salaries and Wages						
Meter Reading and Collections	34,782	35,440	5,903	4,931	28,879	30,509
Plant and General	154,500	139,414	70,597	102,398	83,903	37,016
Superintendent and Operations	151,276	148,006	84,881	85,704	66,395	62,302
Compensated Absences	73,244	56,984	29,673	25,532	43,571	31,452
Sampling and Testing	2,622	1,337	2,622	1,337	-	-
Seminars	5,974	5,437	3,404	4,240	2,570	1,197
Supplies	12,595	23,607	4,912	6,555	7,683	17,052
Truck Expense	46,327	40,497	15,364	11,712	30,963	28,785
TOTAL OPERATING EXPENSES	\$ 1,286,002	\$ 1,153,938	\$ 462,078	\$ 441,574	\$ 823,924	\$ 712,364

MUNICIPAL SERVICES COMMISSION
SCHEDULES OF GENERAL AND ADMINISTRATIVE EXPENSES
YEARS ENDED MARCH 31, 2006 AND 2005

	Totals		Water Department		Light Department	
	2006	2005	2006	2005	2006	2005
Administrative	\$ 24,597	\$ 23,361	\$ 2,146	\$ 3,514	\$ 22,451	\$ 19,847
Bad Debts	21,101	11,612	-	-	21,101	11,612
Depreciation - Furniture and Fixtures	41,507	29,126	7,663	4,078	33,844	25,048
Dues and Subscriptions	2,207	2,766	1,219	1,551	988	1,215
Employee Benefits	121,171	112,244	50,473	51,744	70,698	60,500
Fees and Permits	3,831	4,179	295	1,531	3,536	2,648
Insurance	45,678	39,986	22,839	19,989	22,839	19,997
Office Salaries	256,488	230,995	32,620	28,682	223,868	202,313
Office Supplies	36,065	45,766	5,676	6,415	30,389	39,351
Payroll Taxes	68,302	62,549	24,905	25,830	43,397	36,719
Pension Expense	108,057	99,226	54,028	32,745	54,029	66,481
Professional Fees	50,502	66,414	12,849	14,077	37,653	52,337
Rent	50,663	50,639	7,000	6,875	43,663	43,764
Repairs and Maintenance - Equipment	2,888	6,466	437	1,286	2,451	5,180
Security System	1,790	1,765	251	247	1,539	1,518
Telephone	23,567	33,281	3,284	5,427	20,283	27,854
Training - Administrative	2,248	1,187	212	101	2,036	1,086
Utilities	3,869	2,687	136	242	3,733	2,445
TOTAL GENERAL AND ADMINISTRATIVE EXPENSES	\$ 864,531	\$ 824,249	\$ 226,033	\$ 204,334	\$ 638,498	\$ 619,915