



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

**BASIC FINANCIAL STATEMENTS
REQUIRED SUPPLEMENTARY INFORMATION
SUPPLEMENTARY INFORMATION**

MARCH 31, 2020 AND 2019

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

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INDEPENDENT AUDITOR'S REPORT

August 25, 2020

Board of Commissioners
Municipal Services Commission
New Castle, Delaware

Report on the Financial Statements

We have audited the accompanying financial statements of the Municipal Services Commission ("the Commission"), a component unit of the City of New Castle, Delaware, as of and for the years ended March 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or

Board of Commissioners
Municipal Services Commission

error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Commission as of March 31, 2020 and 2019, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the schedule of the net pension liability, related ratios, and investment returns; schedule of employer contributions; and notes to schedule of employer contributions on pages 27 and 28 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Commission's basic financial statements. The combining schedules of revenues and expenses by department, combining schedules of operating expenses by department, and combining schedules of general and administrative expenses by department on pages 29, 30, and 31 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining schedules of revenues and expenses by department, combining schedules of operating expenses by department, and combining schedules of general and administrative expenses by department are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining schedules of revenues and expenses by department, combining schedules of operating expenses by department, and combining schedules of general and administrative expenses by department are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Barbacane, Thornton & Company LLP
BARBACANE, THORNTON & COMPANY LLP

MUNICIPAL SERVICES COMMISSION
(A Component Unit of the City of New Castle)
STATEMENTS OF NET POSITION
MARCH 31, 2020 AND 2019

	2020	2019
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 2,420,596	\$ 2,516,620
Investments	1,176,475	1,126,520
Accounts receivable, net	679,148	585,806
Grants receivable	33,586	-
Dividends receivable	168	221
Other receivables	23,754	17,348
Inventory	707,160	673,226
Prepaid expenses	116,958	134,782
Total Current Assets	5,157,845	5,054,523
Restricted Assets:		
Cash and cash equivalents - restricted	748,777	733,128
Noncurrent Assets:		
Land	45,386	45,386
Construction-in-progress	381,566	181,523
Property, plant, and equipment	24,786,808	23,820,549
Less: Accumulated depreciation	(13,625,106)	(12,942,444)
Total Noncurrent Assets	11,588,654	11,105,014
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows - pension	536,237	200,878
Deferred outflows - DEMEC	2,818,853	2,520,035
Total Deferred Outflows	3,355,090	2,720,913
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 20,850,366	\$ 19,613,578
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION		
LIABILITIES		
Current Liabilities:		
Accounts payable	\$ 583,495	\$ 561,995
Payroll withholdings payable	32,307	13,574
Accrued wages	51,535	20,640
Developer deposits	12,426	9,504
Other liabilities	858	1,066
Total Current Liabilities	680,621	606,779
Noncurrent Liabilities:		
Escrow deposits	4,492	4,449
Customer deposits	744,285	728,679
Accrued compensated absences	396,693	367,477
Net pension liability	1,498,337	981,281
Total Noncurrent Liabilities	2,643,807	2,081,886
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows - pension	128,335	136,917
NET POSITION		
Investment in capital assets	11,588,654	11,105,014
Unrestricted	5,808,949	5,682,982
TOTAL NET POSITION	17,397,603	16,787,996
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	\$ 20,850,366	\$ 19,613,578

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

MUNICIPAL SERVICES COMMISSION
(A Component Unit of the City of New Castle)
STATEMENTS OF CHANGES IN NET POSITION
FOR THE YEARS ENDED MARCH 31, 2020 AND 2019

	Investment in Capital Assets					Total Investment in Capital Assets	Unrestricted Net Position	Total Net Position
	Capital Grant	Capital Grant Accumulated Amortization	Net Capital Grant	Private Developer Contributions	Net Investment in Capital Assets			
Balance - March 31, 2018	\$ 943,000	\$ (726,110)	\$ 216,890	\$ 2,344,652	\$ 8,561,531	\$ 11,123,073	\$ 4,743,581	\$ 15,866,654
Amortization of capital grant	-	(18,860)	(18,860)	-	-	(18,860)	18,860	-
Change in Net Position	-	-	-	98,027	(97,226)	801	920,541	921,342
Balance - March 31, 2019	943,000	(744,970)	198,030	2,442,679	8,464,305	11,105,014	5,682,982	16,787,996
Amortization of capital grant	-	(18,860)	(18,860)	-	-	(18,860)	18,860	-
Change in Net Position	-	-	-	-	502,500	502,500	107,107	609,607
Balance - March 31, 2020	\$ 943,000	\$ (763,830)	\$ 179,170	\$ 2,442,679	\$ 8,966,805	\$ 11,588,654	\$ 5,808,949	\$ 17,397,603

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

MUNICIPAL SERVICES COMMISSION
(A Component Unit of the City of New Castle)
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED MARCH 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
OPERATING REVENUES:		
User charges	\$ 11,028,105	\$ 11,222,544
City service charges	65,368	68,351
Free service	53,327	53,218
Miscellaneous	68,730	82,548
TOTAL OPERATING REVENUES	<u>11,215,530</u>	<u>11,426,661</u>
Less: Free service	<u>(8,777)</u>	<u>(7,204)</u>
NET OPERATING REVENUES	<u>11,206,753</u>	<u>11,419,457</u>
PURCHASE OF POWER AND WATER	6,049,183	6,343,729
OPERATING EXPENSES	2,742,491	2,606,198
GENERAL AND ADMINISTRATIVE EXPENSES	<u>1,154,814</u>	<u>990,241</u>
OPERATING INCOME	<u>1,260,265</u>	<u>1,479,289</u>
NONOPERATING REVENUES (EXPENSES):		
Net investment income	55,118	37,985
Loss on sale of assets	(6,294)	-
Grant income	33,586	-
Grant expense	(34,201)	-
Other expenses	(5,252)	-
Appropriations to the Mayor and Council of New Castle:		
Ordinary	(673,353)	(657,634)
City services	(25,917)	(22,951)
Special	(6,002)	(7,612)
Realized loss on investments	(15,178)	(97)
Unrealized gain (loss) on investments	26,835	(5,665)
TOTAL NONOPERATING EXPENSES	<u>(650,658)</u>	<u>(655,974)</u>
CAPITAL CONTRIBUTIONS		
Private developer contributions	<u>-</u>	<u>98,027</u>
CHANGE IN NET POSITION	609,607	921,342
NET POSITION, BEGINNING OF YEAR	<u>16,787,996</u>	<u>15,866,654</u>
NET POSITION, END OF YEAR	<u>\$ 17,397,603</u>	<u>\$ 16,787,996</u>

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

MUNICIPAL SERVICES COMMISSION
(A Component Unit of the City of New Castle)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED MARCH 31, 2020 AND 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 11,081,026	\$ 11,232,220
Payments to suppliers for goods and services	(6,986,096)	(7,453,830)
Payments to employees for services	(2,242,117)	(2,154,975)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,852,813	1,623,415
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Appropriations to the Mayor and Council of New Castle	(679,355)	(665,246)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital improvements	(1,238,360)	(566,017)
Proceeds from sale of equipment	3,300	-
Capital grants	(34,201)	-
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(1,269,261)	(566,017)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(39,743)	(20,300)
Investment income	55,171	37,955
NET CASH PROVIDED BY INVESTING ACTIVITIES	15,428	17,655
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(80,375)	409,807
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,249,748	2,839,941
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 3,169,373	\$ 3,249,748
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 1,260,265	\$ 1,479,289
Adjustments:		
Depreciation	745,126	682,103
Bad debt	15,367	5,440
Free service	(44,550)	(46,014)
(Increase) Decrease in:		
Accounts receivable	(93,342)	24,852
Other receivables	(6,406)	(4,965)
Inventory	(33,934)	(52,797)
Prepaid expenses	17,824	(50,196)
Deferred outflows - pension	(335,359)	(71,970)
Deferred outflows - DEMEC	(298,818)	(292,405)
Increase (Decrease) in:		
Accounts payable	21,500	(25,888)
Payroll withholdings payable	18,733	2,974
Accrued wages	30,895	1,659
Developer deposits	2,922	(29,579)
Other liabilities	(208)	(610)
Escrow deposits	43	43
Customer deposits	15,606	(131,574)
Accrued compensated absences	29,216	24,083
Net pension liability	516,515	130,971
Deferred inflows - pension	(8,582)	(22,001)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 1,852,813	\$ 1,623,415
CASH AND CASH EQUIVALENTS:		
Cash and cash equivalents	\$ 2,420,596	\$ 2,516,620
Restricted cash	748,777	733,128
TOTAL CASH AND CASH EQUIVALENTS	\$ 3,169,373	\$ 3,249,748
NONCASH NONCAPITAL FINANCING ACTIVITIES:		
Appropriation to the Mayor and Council of New Castle	\$ 25,917	\$ 22,951
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:		
Contributions of infrastructure	\$ -	\$ 98,027
NONCASH INVESTING ACTIVITIES:		
Unrealized gain (loss) on investments	\$ 26,835	\$ (5,665)

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

MUNICIPAL SERVICES COMMISSION
(A Component Unit of the City of New Castle)
NOTES TO FINANCIAL STATEMENTS

NOTE 1 NATURE OF ACTIVITIES

Organized under a charter adopted on March 1, 1921 and amended throughout the years, 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. Although the Commission is legally separate from the City of New Castle, it is a component unit of the City.

The Municipal Services Commission ("the Commission") is governed by a three-member board, appointed one each by the City Council of the City of New Castle, the Mayor of the City of New Castle, and the Trustees of New Castle Common.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Commission are accounted for on the accrual basis of accounting. With this measurement focus, all assets and deferred outflows of resources, and all liabilities and deferred inflows of resources are included in the statement of net position.

The components of net position are as follows:

- **Investment in capital assets** – This component of net position consists of capital assets, net of accumulated depreciation.
- **Restricted** – This category presents external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted** – This component of net position consists of net position that does not meet the definition of "restricted" or "investment in capital assets."

When both restricted and unrestricted resources are available for use, it is the Commission's policy to use restricted resources first and then unrestricted resources as they are needed.

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.

Restricted Cash

The Commission has restricted cash at March 31, 2020 and 2019 of \$748,777 and \$733,128, respectively. The use of these funds is restricted for the refund of security deposits collected from customers.

MUNICIPAL SERVICES COMMISSION
(A Component Unit of the City of New Castle)
NOTES TO FINANCIAL STATEMENTS

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Investments

The Commission's investments consist of mutual funds. Investments are recorded at fair value. In establishing the fair value of investments, the Commission uses the following hierarchy. The lowest available level of valuation is used for all investments.

Level 1 – Valuations based on quoted market prices in active markets for identical assets or liabilities that the entity has the ability to access.

Level 2 – Valuations based on quoted prices of similar products in active markets or identical products in markets that are not active or for which all significant inputs are observable, directly or indirectly.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

Accounts Receivable

The Commission carries its accounts receivable at gross realizable value less an allowance for doubtful accounts. On a periodic basis, the Commission evaluates its electric accounts receivable and establishes an allowance for doubtful accounts, when deemed necessary, based on its analysis of the aged receivables. The Commission does not provide an allowance for doubtful accounts on its water accounts receivable because of its ability to file a lien on the property. The Commission may eventually write off a doubtful account as uncollectible when collection efforts fail over a period of time.

Inventory

Inventory consists of materials, parts, and supplies used by the Commission to provide water and electric to its customers. Inventory consists of materials, parts, and supplies used by the Commission to provide water and electric to its customers. Inventory is carried at average cost.

Property, Plant, and Equipment

Property, plant, and equipment is valued at historical cost or estimated historical cost if actual historical cost is not available.

The Commission follows the practice of capitalizing costs for property, plant, and equipment in excess of \$5,000; the fair value of donated property and equipment is similarly capitalized.

MUNICIPAL SERVICES COMMISSION
(A Component Unit of the City of New Castle)
NOTES TO FINANCIAL STATEMENTS

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Depreciation of all exhaustible property, plant, and equipment is charged as an expense against operations. Depreciation has been provided for using the straight-line method over the estimated useful lives of the assets, which range from three to one hundred years.

Impairment of Long-lived Assets

The Commission evaluates impairment of its long-lived assets as required by authoritative guidance. The carrying value of long-lived assets held-and-used is evaluated when events or changes in circumstances indicate the carrying value may not be recoverable. The carrying value of a long-lived asset is considered impaired when the total projected undiscounted cash flows from such asset is separately identifiable and is less than the carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair value of the long-lived asset. Fair value is determined primarily using the projected cash flows from the asset discounted at a rate commensurate with the risk involved. No impairment loss was recognized during the years ended March 31, 2020 and 2019.

Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenses/expenditures) until then. The Commission has two items that qualify for reporting in this category. Certain changes to the net pension liability are required to be amortized over a period of years; the unamortized portions of these changes are reflected as deferred outflows of resources in the statement of net position.

The Commission also has deferred outflows related to regulatory accounting for projects and assets financed for them. Annual payments for the purchase of power agreement with DEMEC in excess of the contracted terms have been recorded as a deferred outflow. The contract stipulates that the underlying assets or projects financed through DEMEC will be transferred to the Commission on December 4, 2022 for a fee of \$1. The capitalization cost of this property will be the total deferred outflows relating to the purchase of power agreement.

Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Certain changes to the net pension liability are required to be amortized over a period of years; the unamortized portions of these changes are reflected as deferred inflows of resources in the statement of net position.

MUNICIPAL SERVICES COMMISSION
(A Component Unit of the City of New Castle)
NOTES TO FINANCIAL STATEMENTS

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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, 2020 and 2019 is \$179,170 and \$198,030, 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 value at the date of contribution. If the fair value of the contributed asset is not known, then the Commission will estimate the fair value. For the years ended March 31, 2020 and 2019, the Commission received contributed infrastructure of \$0 and \$98,027, respectively. The Commission depreciates these assets over their estimated useful life.

Revenue Recognition

The Commission recognizes revenue from its customers when billed. Charges for electric and water services are billed monthly. All charges are based on actual usage of electric and water determined from meter readings.

MUNICIPAL SERVICES COMMISSION
(A Component Unit of the City of New Castle)
NOTES TO FINANCIAL STATEMENTS

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Use of Estimates in the Preparation of Financial Statements

Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 3 DEPOSITS AND INVESTMENTS

Deposits

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the Commission's deposits may not be returned. The Commission does not have a policy for custodial credit risk on deposits. At March 31, 2020 and 2019, the carrying amount of the Commission's deposits was \$3,169,373 and \$3,249,748, respectively, and the bank balance was \$3,175,613 and \$3,507,211, respectively. Of the bank balance, \$263,543 and \$251,824 was covered by federal depository insurance at March 31, 2020 and 2019, respectively. The remaining balances of \$2,912,070 and \$3,255,387 at March 31, 2020 and 2019, respectively, were uninsured and subject to custodial credit risk.

Investments

As of March 31, 2020 and 2019, the Commission had the following investments:

<u>Investment Type</u>	<u>March 31, 2020</u>		<u>March 31, 2019</u>	
	<u>Fair Value</u>	<u>Level 1</u>	<u>Fair Value</u>	<u>Level 1</u>
U.S. Agency Bond Fund	\$ 106,743	\$ 106,743	\$ 98,150	\$ 98,150
Total Return Bond Fund	428,518	428,518	414,306	414,306
Senior Floating Rate Bond Fund	-	-	205,503	205,503
Strategic Income Bond Fund	-	-	408,561	408,561
Total Bond	363,860	363,860	-	-
Emerging Markets	48,315	48,315	-	-
World Bond Global	97,836	97,836	-	-
Long-term Government Bond	131,203	131,203	-	-
TOTAL	\$ 1,176,475	\$ 1,176,475	\$ 1,126,520	\$ 1,126,520

During the years ended March 31, 2020 and 2019, the Commission recognized an unrealized gain (loss) on investments of \$26,835 and (\$5,665), respectively. In addition, the Commission

MUNICIPAL SERVICES COMMISSION
(A Component Unit of the City of New Castle)
NOTES TO FINANCIAL STATEMENTS

NOTE 3 DEPOSITS AND INVESTMENTS (cont'd)

recognized a loss on the sales of the Senior Floating Rate Bond Fund and the Strategic Income Bond Fund of \$15,178 and \$97 during the years ended March 31, 2020 and 2019, respectively.

Custodial Credit Risk

Custodial credit risk for an investment is the risk that in the event of the failure of the counterparty, the Commission will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Commission does not have an investment policy for managing custodial credit risk. The Commission's investment in mutual funds is exempt from risk categorization because the Commission does not own any identifiable securities but is a shareholder of a percentage of the mutual funds. There are no amounts held in uninsured and unregistered investments for which the securities are held by the counterparty, or by its safekeeping department or agent.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Commission does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Concentration of Credit Risk

The Commission has no investment policy that would limit the amount it may invest in any one issuer.

NOTE 4 ACCOUNTS RECEIVABLE

The Commission's policy is to maintain an allowance for doubtful accounts equal to approximately 2.6 percent of the outstanding electric receivables at the end of the year. The net trade receivable consists of the following:

	March 31,	
	2020	2019
Electric receivables	\$ 551,173	\$ 478,957
Water receivables	135,182	113,172
Customer deposit receivable	7,124	6,130
	693,479	598,259
Less: Allowance for doubtful accounts	14,331	12,453
Total Accounts Receivable	\$ 679,148	\$ 585,806

MUNICIPAL SERVICES COMMISSION
(A Component Unit of the City of New Castle)
NOTES TO FINANCIAL STATEMENTS

NOTE 5 INVENTORY

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

	March 31,	
	2020	2019
Electric inventory	\$ 610,955	\$ 548,391
Water inventory	96,205	124,835
Total Inventory	\$ 707,160	\$ 673,226

NOTE 6 PROPERTY, PLANT, AND EQUIPMENT

A summary of property, plant, and equipment and accumulated depreciation for the years ended March 31, 2020 and 2019 is as follows:

	April 1, 2019	Additions	Deletion	March 31, 2020
Nondepreciable Assets:				
Land	\$ 45,386	\$ -	\$ -	\$ 45,386
Construction-in-progress	181,523	1,234,846	1,034,803	381,566
Total Nondepreciable Assets	226,909	1,234,846	1,034,803	426,952
Depreciable Assets:				
Building structures	635,906	5,978	-	641,884
Water department	11,783,926	747,035	31,400	12,499,561
Electric department	9,195,456	70,530	-	9,265,986
Common assets	2,205,261	214,774	40,658	2,379,377
Total Depreciable Assets	23,820,549	1,038,317	72,058	24,786,808
Less Accumulated Depreciation:				
Building structures	307,195	23,524	-	330,719
Water department	4,520,314	353,020	21,806	4,851,528
Electric department	6,648,866	206,171	-	6,855,037
Common assets	1,466,069	162,411	40,658	1,587,822
Total Accumulated Depreciation	12,942,444	745,126	62,464	13,625,106
Total Property, Plant, and Equipment, Net	\$ 11,105,014	\$ 1,528,037	\$ 1,044,397	\$ 11,588,654

MUNICIPAL SERVICES COMMISSION
(A Component Unit of the City of New Castle)
NOTES TO FINANCIAL STATEMENTS

NOTE 6 PROPERTY, PLANT, AND EQUIPMENT (cont'd)

	<u>April 1, 2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>March 31, 2019</u>
Nondepreciable Assets:				
Land	\$ 5,386	\$ -	\$ -	\$ 45,386
Construction-in-progress	75,308	474,458	368,243	181,523
Total Nondepreciable Assets	<u>120,694</u>	<u>474,458</u>	<u>368,243</u>	<u>226,909</u>
Depreciable Assets:				
Building structures	539,207	96,699	-	635,906
Water department	11,561,987	221,939	-	11,783,926
Electric department	9,035,234	160,222	-	9,195,456
Common assets	2,128,183	78,969	1,891	2,205,261
Total Depreciable Assets	<u>23,264,611</u>	<u>557,829</u>	<u>1,891</u>	<u>23,820,549</u>
Less Accumulated Depreciation:				
Building structures	288,808	18,387	-	307,195
Water department	4,194,826	325,488	-	4,520,314
Electric department	6,447,610	201,256	-	6,648,866
Common assets	1,330,988	136,972	1,891	1,466,069
Total Accumulated Depreciation	<u>12,262,232</u>	<u>682,103</u>	<u>1,891</u>	<u>12,942,444</u>
Total Property, Plant, and Equipment, Net	<u>\$ 11,123,073</u>	<u>\$ 350,184</u>	<u>\$ 368,243</u>	<u>\$ 11,105,014</u>

Depreciation expense for the years ended March 31, 2020 and 2019 was \$745,126 and \$682,103, respectively.

NOTE 7 DEFINED BENEFIT PENSION PLAN

Plan Description and Provisions

The Commission has a defined benefit pension plan ("the Plan") which covers all of its employees hired before April 1, 2016. The Plan is administered by independent administrators, and the Commission's account is funded entirely through a contribution by the Commission. For the years ended March 31, 2020 and 2019, the dollar amount of current payroll used in the determination of the minimal contribution utilized the calendar year payroll of \$1,424,474 and \$1,306,758, respectively. Total payroll for the years ended March 31, 2020 and 2019 is \$1,801,098 and \$1,584,963, respectively.

All full-time Commission employees hired before April 1, 2016 are eligible to participate in the Plan upon employment. Benefits do not vest until the completion of five years of service, at

MUNICIPAL SERVICES COMMISSION
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NOTES TO FINANCIAL STATEMENTS

NOTE 7 DEFINED BENEFIT PENSION PLAN (cont'd)

which time the employee is 100 percent vested. The Commission amended the Normal Retirement Benefit effective July 1, 2000. Non-union participants hired prior to July 1, 2000 are entitled to the benefit computation resulting in the greater benefit calculated under Option A or B. Non-union participants hired after July 1, 2000 are entitled to the benefit computed under Option B. For union employees, benefits are calculated under Option A only. The full-time Commission employees who retire at or after age 65 with five years of credited service are entitled to benefits calculated under the applicable formula as follows:

- A. 2.0 percent of final average compensation (average of 60 months) multiplied by continuous years of service with a maximum monthly benefit of \$3,200. As of April 1, 2016, in no event will the monthly benefit under this paragraph (a) exceed \$3,600. The maximum monthly benefit was increased to \$4,000 effective April 1, 2019.
- B. 1.67 percent of final average compensation multiplied by years of service taken to the nearest twelfth of a year but not more than 75 percent of final average compensation minus Social Security benefits payable at age 62, the result multiplied by years of service (maximum 30) divided by 30.

The Plan has an early retirement provision for Option A, age 55 and 10 years of service and for Option B, age 55 and 15 years of service with a reduction in the retirement benefit. As of April 1, 2013, a participant age 55 with 30 years of service will have an early retirement provision with no reduction in the retirement benefit.

Upon the death of an active member who is eligible for retirement, or of an active or terminated vested member, the surviving spouse is entitled to 50 percent 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.

As of April 1, 2016, any newly hired employee will not be eligible to participate in the pension plan. All employees currently participating in the Plan will continue to be eligible to accrue additional pension benefits and vesting service. Any current eligible participant, who terminates employment with the employer after April 1, 2016 and is subsequently rehired, will not be eligible to reenter the Plan.

Pension Assets, Liabilities, Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions

As of March 31, 2020 and 2019, the Plan reported a net pension liability of \$1,498,337 and \$981,281, respectively. The net pension liability was measured as of March 31, 2020 and 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of March 31, 2020 and 2019. For the years ended March 31, 2020 and 2019, the Plan recognized pension expense in the amount of \$360,787 and \$238,794, respectively.

MUNICIPAL SERVICES COMMISSION
(A Component Unit of the City of New Castle)
NOTES TO FINANCIAL STATEMENTS

NOTE 7 DEFINED BENEFIT PENSION PLAN (cont'd)

Net Pension Liability

The components of the net pension liability of the Commission at March 31, 2020 and 2019 were as follows:

	<u>2020</u>	<u>2019</u>
Total pension liability	\$4,316,382	\$4,055,675
Plan fiduciary net position	<u>2,818,045</u>	<u>3,074,394</u>
Commission's net pension liability	<u>\$1,498,337</u>	<u>\$ 981,281</u>
Plan fiduciary net position as a percentage of the total pension liability	65.29%	75.80%

The Commission's changes in total pension liability, plan fiduciary net position, and net pension liability for the years ended March 31, 2020 and 2019 were as follows:

	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability</u>
Balance at March 31, 2019	<u>\$4,055,675</u>	<u>\$3,074,394</u>	<u>\$ 981,281</u>
Changes for the year:			
Service cost	171,999	-	171,999
Interest	274,195	-	274,195
Experience gain	40,015	-	40,015
Changes in assumptions	2,158	-	2,158
Changes in benefit provisions	51,203	-	51,203
Benefit payments	(278,863)	(278,863)	-
Employer contributions	-	235,233	(235,233)
Net investment loss	-	(212,719)	212,719
Net Changes	<u>260,707</u>	<u>(256,349)</u>	<u>517,056</u>
Balance at March 31, 2020	<u>\$4,316,382</u>	<u>\$2,818,045</u>	<u>\$1,498,337</u>

MUNICIPAL SERVICES COMMISSION
(A Component Unit of the City of New Castle)
NOTES TO FINANCIAL STATEMENTS

NOTE 7 DEFINED BENEFIT PENSION PLAN (cont'd)

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at March 31, 2018	<u>\$3,891,734</u>	<u>\$3,041,469</u>	<u>\$ 850,265</u>
Changes for the year:			
Service cost	84,928	-	84,928
Interest	262,991	-	262,991
Experience gain	15,067	-	15,067
Changes in assumptions	10,139	-	10,139
Changes in benefit provisions	64,550	-	64,550
Benefit payments	(273,734)	(273,734)	-
Employer contributions	-	201,749	(201,749)
Net investment gain	-	104,910	(104,910)
Net Changes	<u>163,941</u>	<u>32,925</u>	<u>131,016</u>
Balance at March 31, 2019	<u><u>\$4,055,675</u></u>	<u><u>\$3,074,394</u></u>	<u><u>\$ 981,281</u></u>

Contribution and Investment Disclosures

Minimum annual funding requirements for the Plan are determined under the aggregate cost funding method. This method determines annual cost by fully funding the Plan's present value of future benefits over the average future working lifetime of active Plan participants as a level percentage of expected future salaries. The Commissions' funding policy is to contribute an amount at least equal to the Plan's minimum funding requirement. Additional contributions may be made at the discretion of the Commission.

Once money is contributed to the Plan, the money is invested in accordance with the policy adopted by the Commission's Board. Generally speaking, the investment policy provides the fiduciaries who are responsible for plan investments with guidelines or general instruction concerning various types or categories of investment management decisions.

The Commission has defined acceptable allocation ranges and performance benchmarks by asset class within the investment policy. The portfolio should be invested with the care, skill, and diligence of a prudent man within the prescribed allocation ranges in order to limit potential underperformance and minimize the likelihood of low or negative returns. The investment objectives are long-term and designed to maximize return without undue exposure to risk.

MUNICIPAL SERVICES COMMISSION
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NOTES TO FINANCIAL STATEMENTS

NOTE 7 DEFINED BENEFIT PENSION PLAN (cont'd)

The long-term expected rate of return on plan investments is 7.00 percent. This rate is supported using a building-block method in which expected real rates of return (i.e. expected return net of inflation and investment expenses) are developed for each major asset class. These rates are combined by weighting the expected real rates by the target asset allocation and adding expected inflation. The target allocation and current estimates of the real rates of return for each major asset class are summarized below.

<u>Target Asset Class</u>	<u>Expected Real Allocation</u>	<u>Rate of Return</u>
Domestic equity	48%	5.00%
International equity	14%	5.25%
Fixed income	35%	2.75%
Real estate	3%	4.75%
Cash	0%	2.00%

Over the long-term, inflation is expected to add 2.0 percent to 2.5 percent in portfolio return.

All Plan investments are regularly traded and valued daily. Investments are reported based on the fair market value as of the measurement date.

As of March 31, 2020 and 2019, five percent or more of Plan assets were held in the following individual funds:

<u>Investment Fund</u>	<u>March 31, 2020</u>	<u>March 31, 2019</u>
Vanguard Mid-Cap Index	11.7%	13.0%
Nationwide Fixed Fund	28.4%	24.7%
Oppenheimer Developing Markets	-	5.0%
Vanguard Growth Index	-	5.1%
American Funds AMCAP	-	5.0%
Vanguard Equity 500 Index	9.6%	10.1%
American Funds EuroPacific Growth	5.7%	6.0%
Vanguard Value Index	-	5.0%
American Funds American Mutual	-	5.0%

Discount Rate and Liability Disclosures

The discount rate used to measure the total pension liability is 7.00 percent.

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NOTES TO FINANCIAL STATEMENTS

NOTE 7 DEFINED BENEFIT PENSION PLAN (cont'd)

Minimum annual funding requirements are calculated in accordance with the aggregate funding method. Required annual funding is an amount intended to increase Plan funding to 100 percent of total expected future benefit liability over active participants' average working lifetime. Annual funding can be no less than the amount required to make retiree benefit payments in the current year.

Based on the level of expected annual funding, the Plan's fiduciary net position is projected to be available to make all projected future benefit payments to current active and inactive Plan members. Therefore, the long-term expected rate of return on pension investments is used to determine the total pension liability.

Normal funding method was determined to be 8.87 percent of annual covered payroll.

The most recent actuarial valuation of the Plan is as of March 31, 2020. The Commission's current normal cost rate (value of benefits being earned in the current fiscal year) is under the entry age.

As of April 1, 2020, the Plan covered a total of 33 participants including 15 active plan members, 14 retirees and beneficiaries receiving benefits from the Plan, and 4 terminated members who are entitled to future benefits.

The total pension liability of the Plan is sensitive to changes in the liability discount rate. An increase in the discount rate would reduce total pension liability (and vice versa) as well as the Plan's net pension liability. The chart below shows the Plan's estimated net pension liability as of March 31, 2020 and 2019, as well as the impact of a one percent increase or decrease in discount rate.

<u>Net Pension Liability</u>	<u>1% Decrease (6.0%)</u>	<u>Current Discount Rate (7.0%)</u>	<u>1% Increase (8.0%)</u>
As of March 31, 2020	\$ 2,039,167	\$ 1,493,337	\$ 1,054,119
As of March 31, 2019	1,477,087	981,281	573,146

Deferred Amounts and Plan Change Disclosures

As of March 31, 2020, the Commission reported deferred outflows and inflows of resources related to the Plan as summarized below. These deferred items will be recognized in future pension expense.

MUNICIPAL SERVICES COMMISSION
(A Component Unit of the City of New Castle)
NOTES TO FINANCIAL STATEMENTS

NOTE 7 DEFINED BENEFIT PENSION PLAN (cont'd)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Liability experience	\$ 50,961	\$ (128,335)
Assumption changes	125,205	-
Investment experience	360,071	-
Total	\$ 536,237	\$ (128,335)

As of March 31, 2019, the Commission reported deferred outflows and inflows of resources related to the Plan as summarized below. These deferred items will be recognized in future pension expense and are detailed in the schedule of deferred gains and losses.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Liability experience	\$ 14,211	\$ (136,917)
Assumption changes	131,112	-
Investment experience	55,555	-
Total	\$ 200,878	\$ (136,917)

The amounts shown above will be recognized in pension expense as follows:

Year Ended March 31,	March 31, 2020
2021	\$ 77,129
2022	96,732
2023	109,164
2024	88,040
2025	2,748
After 2025	34,089
Total	\$ 407,902

During the period of plan history shown in this report, the following changes in valuation assumptions and/or benefit terms have occurred:

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NOTE 7 DEFINED BENEFIT PENSION PLAN (cont'd)

Assumed mortality was updated from the Male UP-94 Table projected to 2001 to the Sex-distinct IRS Static Tables as of January 1, 2011 and updated to the most recent table each year thereafter.

Part (a) maximum monthly benefits were increased from \$1,800 to \$2,000 on April 1, 2008, \$2,400 on April 1, 2010, \$3,200 on April 1, 2013, \$3,600 on April 1, 2016, and \$4,400 on April 1, 2019.

An unreduced early retirement benefit with 30 or more years of service was added to the Plan on April 1, 2013. As a result, an assumed retirement age of 60 with 30 or more years of service was added to the valuation of April 1, 2013.

Benefits for non-union employees hired on or after July 1, 2000 will be greater of the part (a) or part (b) benefit effective July 1, 2019.

Pension Plan Fiduciary Net Position – Detailed information about the pension plan's fiduciary net position is available in a separately issued report.

NOTE 8 DEFINED CONTRIBUTION PLAN

All employees hired after April 1, 2016 will be eligible to participate in a Defined Contribution Plan after completion of one full year of service. The Commission established a Defined Contribution Plan in accordance with Internal Revenue Code ("IRC") Section 401(a) on April 1, 2017. The Plan is administered by Nationwide Retirement Solutions, Inc. The Commission contributes four percent of each eligible employee's base wages, excluding overtime and stand by pay. The Commission will also match employee contributions to the Commission's Deferred Compensation Plan ("457 Plan") up to three percent of the employee's base wages, excluding overtime and stand by pay, for a maximum employer contribution of seven percent. The employee will be fully vested in the employer contributions. Contributions to the plan for the years ended March 31, 2020 and 2019 were \$21,249 and \$14,182, respectively.

NOTE 9 APPROPRIATIONS TO THE MAYOR AND COUNCIL OF NEW CASTLE

Ordinary – During the years ended March 31, 2020 and 2019, the Commission appropriated \$673,353 and \$657,634, respectively, to the Mayor and Council of New Castle.

City Services – The Commission reflects the cost of city electric and water usage as a City Services appropriation on its financial statements. The City Services appropriation totaled \$25,917 and \$22,951 for the years ended March 31, 2020 and 2019, respectively. Of this amount, \$25,917 and \$22,951 represented water usage, and \$0 and \$0 represented electric usage for the years ended March 31, 2020 and 2019, respectively.

MUNICIPAL SERVICES COMMISSION
(A Component Unit of the City of New Castle)
NOTES TO FINANCIAL STATEMENTS

NOTE 9 APPROPRIATIONS TO THE MAYOR AND COUNCIL OF NEW CASTLE (cont'd)

Special – During the years ended March 31, 2020 and 2019, the Commission also approved special appropriations totaling \$6,002 and \$7,612, respectively, to the Mayor and Council of New Castle.

NOTE 10 COMMITMENTS

The Commission routinely contracts with third parties related to additions or repairs to the Commission's infrastructure.

Other Commitments – The Commission has entered into an agreement with the Delaware Municipal Electric Corporation, Inc. ("DEMEC") to act as its agent for the purchase of electric capacity and energy. This agreement was effective January 1, 2000 through December 31, 2003 and is automatically extended for succeeding periods of one year, except that it may be terminated at any time during any of the succeeding periods upon 60 days written notice by either party.

Under the agreement, DEMEC is authorized to act as an agent for the Commission in all matters relating to the acquisition and delivery of its wholesale power supply. DEMEC may enter into power supply management agreements with other entities for the purpose of efficiently managing energy cost risk.

The Commission has a separate power sales contract with DEMEC to purchase capacity from an electric power plant owned by DEMEC. On May 1, 2011, the Commission entered into another power sales contract with DEMEC to purchase additional capacity from a new electric power plant that DEMEC will build and own. The Commission is contractually bound to pay debt service and other costs through the contracts. The Commission's share, in the projects, corresponds to its share of load, which is the amount of debt service for which they are responsible. The power sales contracts run as long as there are bonds outstanding on the projects. If the Commission or any other participant defaults on their payment obligation, the remaining participants must pay their respective pro rata share of the defaulted amounts, not to exceed 125 percent of their initial pro rata share.

In January 2008, the Commissioners unanimously voted to build a second substation on the southwesterly side of the City to meet current and future electric demands. The Commissioners amended their full power purchase agreement with DEMEC to allow DEMEC to build the substation and sell to the Commission transformation services from the new substation. The Commission is required to purchase these services until the bonds DEMEC issued to finance the project are retired. The bonds, which were issued in December 2008, were in the amount of \$7 million, had a term of ten years and at the end of the bond term, there was a balloon payment of \$2,728,825 of principal and interest which could be refinanced or paid. On November 23, 2015, the Commission, through DEMEC, approved Resolution 2015-1, which authorized the refunding of the 2008 Bond through the issuance of a refunding bond and entry into a new loan

MUNICIPAL SERVICES COMMISSION
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NOTES TO FINANCIAL STATEMENTS

NOTE 10 COMMITMENTS (cont'd)

agreement with PNC Bank. On December 4, 2015, DEMEC and PNC Bank executed an Electric Revenue Refunding Bond, Series of 2015 in the amount of \$4,216,387. The proceeds were utilized to refund the 2008 Bond, pay the prepayment fee associated with the 2008 Bond, and pay the costs of issuance. The refunding transaction allowed the Commission to achieve a lower interest rate as well as an extension of the final maturity of the obligation from June 1, 2019 to December 4, 2022. Upon retirement of the bonds, the substation will be turned over to the Municipal Services Commission of the City of New Castle. During the fiscal years ended March 31, 2020 and 2019, the Commission has incurred \$335,826 and \$342,239, respectively, in operational costs related to the substation which is recorded in purchase of power and water on the statements of revenues, expenses, and changes in net position. The monthly payment is currently \$52,887 and will remain this amount through December 2022 with a final balloon payment of \$537,154 due December 2022. Construction on the substation, named the Dobbinsville Substation, began in the spring of 2010 and was completed and placed in service on February 8, 2011. The Commission completed modifications on the Wilmington Road substation in early 2014, which was also financed through the bond issuance.

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

Year Ending March 31,	Payment
2021	\$ 329,152
2022	322,423
2023	289,693
	\$ 941,268

During the years ended March 31, 2020 and 2019, the expense related to the purchase of power under the full power purchase agreement with DEMEC is \$6,049,183 and \$6,343,729, respectively. The amount payable as of March 31, 2020 and 2019 is \$418,481 and \$454,509, respectively. At times, the Commission may be required to provide advances to DEMEC to cover cash collateral calls as a result of forward power purchase positions. There were no such advances for the years ended March 31, 2020 and 2019.

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

NOTE 11 REGULATORY ISSUES

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

MUNICIPAL SERVICES COMMISSION
(A Component Unit of the City of New Castle)
NOTES TO FINANCIAL STATEMENTS

NOTE 11 REGULATORY ISSUES (cont'd)

Delmarva provides transmission services to the Commission through an interconnection agreement which controls the tap of Delmarva's 138,000-volt transmission line by the Commission. When/if Delmarva wants to change its tariff or the interconnection agreement, Delmarva must get approval from FERC. DEMEC represents the Commission's interest when changes are presented to FERC.

NOTE 12 CONCENTRATIONS

Labor Force – A portion of the Commission's labor force is comprised 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 45 percent and 55 percent of the Commission's workforce for the years ended March 31, 2020 and 2019, respectively. The current agreement will expire March 31, 2024.

Significant Customer – Approximately nine percent of the Commission's net operating revenues are from one customer for the years ended March 31, 2020 and 2019.

NOTE 13 ENVIRONMENTAL ISSUES

The Commission is subject to laws and regulations relating to the protection of the environment. The Commission's policy is to accrue environmental and cleanup-related costs of a non-capital nature when it is both probable that a liability has been incurred and when the amount can be reasonably estimated. Although it is not possible to quantify with any degree of certainty the potential financial impact of the Commission's continuing compliance efforts, management believes any future remediation or other compliance-related costs will not have a material adverse effect on the financial condition or reported results or operations of the Commission. Based on the Commission's analysis of its current operations, it believes there are no pending environmental issues as of March 31, 2020 and 2019.

NOTE 14 DEFERRED COMPENSATION PLAN

The Commission offers its employees a deferred compensation plan ("the Plan") in accordance with Internal Revenue Code ("IRC") Section 457. The Plan is administered by the National Association of Counties ("NACO"), with the Public Employees Benefit Services Corporation ("PEBSCo.") acting as its agent in fulfilling certain of the administrative and marketing requirements. The Plan, available to all employees of the Commission, permits them to defer a portion of their salary until future years. The deferred compensation, including related income, is not available to employees until termination, retirement, death, or unforeseeable emergency. In accordance with the provisions of IRC Section 457, the Commission does not own the amounts deferred by employees, including the related income on those amounts.

MUNICIPAL SERVICES COMMISSION
(A Component Unit of the City of New Castle)
NOTES TO FINANCIAL STATEMENTS

NOTE 15 CONTINGENCY

In August 2014, the Commission was ordered to shut down its wells by the Delaware Division of Public Health Office of Drinking Water because two unregulated contaminants were found by the Commission to be above provisional guidelines established by the Environmental Protection Agency ("EPA"). The Commission had budgeted approximately \$1.2 million in expenditures in connection with the above. During the year ended March 31, 2015, the Commission incurred approximately \$306,000 of the expenditures. These charges were for the purchase of water from a third party while the wells were shut down, rental of the temporary filtration system, and other expenses. During the year ended March 31, 2016, the Commission incurred approximately \$453,000 of expenditures. Approximately \$47,000 of the remaining expenditures were incurred in the year ended March 31, 2017.

The Commission was approved for an emergency grant from the United States Department of Agriculture in the amount of \$500,000 to defray a portion of the expenditures. The full \$500,000 of the emergency grant funding approved has been received by the Commission.

The EPA is conducting an investigation to determine the source of the contamination. The investigation is not complete and, therefore, the outcome is not yet known. Management anticipates that the outcome will not have a significant negative effect on the Commission's financial position or results of operations.

NOTE 16 SUBSEQUENT EVENTS

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which are likely to negatively impact the Commission's income in 2020. Other financial impact could occur though such potential impact is unknown at this time.

The Commission has evaluated all subsequent events through August 25, 2020, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

MUNICIPAL SERVICES COMMISSION
(A Component Unit of the City of New Castle)
REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE NET PENSION LIABILITY, RELATED RATIOS, AND INVESTMENT RETURNS

	2020	2019	2018
TOTAL PENSION LIABILITY			
Service cost	\$ 171,999	\$ 84,928	\$ 121,509
Interest on total pension liability	274,195	262,991	248,860
Experience (gain) or loss	40,015	15,067	(17,745)
Effect of assumption changes or inputs	2,158	10,139	119,169
Plan benefit changes	51,203	64,550	-
Benefit payments	(278,863)	(273,734)	(272,991)
Net change in total pension liability	260,707	163,941	198,802
Total pension liability, beginning	4,055,675	3,891,734	3,692,932
Total pension liability, ending (a)	\$ 4,316,382	\$ 4,055,675	\$ 3,891,734
FIDUCIARY NET POSITION			
Employer contributions	\$ 235,233	\$ 201,749	\$ 254,642
Investment income (loss) net of investment expenses	(212,719)	104,910	257,584
Benefit payments	(278,863)	(273,734)	(272,991)
Net change in fiduciary net position	(256,349)	32,925	239,235
Fiduciary net position, beginning	3,074,394	3,041,469	2,802,234
Fiduciary net position, ending (b)	\$ 2,818,045	\$ 3,074,394	\$ 3,041,469
Net pension liability [(a) - (b)]	\$ 1,498,337	\$ 981,281	\$ 850,265
Plan fiduciary net position as a percentage of the total pension liability	65.29%	75.80%	78.15%
Covered payroll	\$ 1,424,474	\$ 1,306,758	\$ 1,327,758
Net pension liability as a percentage of covered payroll	105.19%	75.09%	64.04%
Annual money-weighted return, net of investment expenses	-6.97%	3.49%	9.22%

MUNICIPAL SERVICES COMMISSION
(A Component Unit of the City of New Castle)
REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Fiscal Year Ended March 31,	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contribution as a Percentage of Covered Payroll
2011	\$ 147,397	\$ 147,397	-	\$ 1,244,468	11.84%
2012	154,457	154,457	-	1,272,957	12.13%
2013	152,340	177,554	(25,214)	1,260,942	14.08%
2014	203,177	215,784	(12,607)	1,307,399	16.50%
2015	210,053	210,053	-	1,140,106	18.42%
2016	175,827	200,000	(24,173)	1,303,130	15.35%
2017	212,736	212,736	-	1,366,918	15.56%
2018	204,642	254,642	(50,000)	1,327,758	19.18%
2019	201,749	201,749	-	1,306,758	15.44%
2020	235,233	235,233	-	1,424,474	16.51%

Notes to Schedule of Employer Contributions

Valuation date	March 31, 2019
Actuarial cost method	Aggregate Funding Method
Amortization method	Level Dollar Amortization
Remaining amortization period	11 years
Amortization period	Closed
Asset valuation method	Market value of assets as of the valuation date including receivable contributions, as applicable.
Actuarial assumptions:	
Investment rate of return	7.00%
Discount rate	7.00%
Projected salary increases	Based on years of service
Cost of living adjustments	N/A
Mortality	Mortality rates are assumed in accordance with the sex distinct IRS 2019 Static Mortality Table for Annuitants and Non-annuitants.

SUPPLEMENTARY INFORMATION

MUNICIPAL SERVICES COMMISSION
(A Component Unit of the City of New Castle)
COMBINING SCHEDULES OF REVENUES AND EXPENSES BY DEPARTMENT
FOR THE YEARS ENDED MARCH 31, 2020 AND 2019

	Water Department		Electric Department		Total	
	2020	2019	2020	2019	2020	2019
OPERATING REVENUES:						
User charges	\$ 1,966,425	\$ 1,747,640	\$ 9,061,680	\$ 9,474,904	\$ 11,028,105	\$ 11,222,544
City service charges	19,141	19,141	46,227	49,210	65,368	68,351
Free service	6,983	4,134	46,344	49,084	53,327	53,218
Miscellaneous	15,139	33,511	53,591	49,037	68,730	82,548
TOTAL OPERATING REVENUES	2,007,688	1,804,426	9,207,842	9,622,235	11,215,530	11,426,661
Less: Free service	(3,457)	(1,376)	(5,320)	(5,828)	(8,777)	(7,204)
NET OPERATING REVENUES	2,004,231	1,803,050	9,202,522	9,616,407	11,206,753	11,419,457
PURCHASE OF POWER AND WATER	22,632	25,770	6,026,551	6,317,959	6,049,183	6,343,729
OPERATING EXPENSES	1,448,541	1,324,182	1,293,950	1,282,016	2,742,491	2,606,198
GENERAL AND ADMINISTRATIVE EXPENSES	433,484	376,436	721,330	613,805	1,154,814	990,241
OPERATING INCOME	99,574	76,662	1,160,691	1,402,627	1,260,265	1,479,289
NONOPERATING REVENUES (EXPENSES):						
Net investment income	8,034	6,192	47,084	31,793	55,118	37,985
Gain (loss) on sale of assets	(7,944)	-	1,650	-	(6,294)	-
Grant income	33,586	-	-	-	33,586	-
Grant expense	(33,863)	-	(338)	-	(34,201)	-
Other expenses	(4,329)	-	(923)	-	(5,252)	-
Appropriations to the Mayor and Council of New Castle:						
Ordinary	(104,859)	(95,647)	(568,494)	(561,987)	(673,353)	(657,634)
City services	(25,917)	(22,951)	-	-	(25,917)	(22,951)
Special	(560)	(4,412)	(5,442)	(3,200)	(6,002)	(7,612)
Realized loss on investments	(2,277)	(15)	(12,901)	(82)	(15,178)	(97)
Unrealized gain (loss) on investments	4,025	(850)	22,810	(4,815)	26,835	(5,665)
TOTAL NONOPERATING REVENUES (EXPENSES)	(134,104)	(117,683)	(516,554)	(538,291)	(650,658)	(655,974)
CAPITAL CONTRIBUTIONS						
Private developer contributions	-	16,060	-	81,967	-	98,027
CHANGE IN NET POSITION	\$ (34,530)	\$ (24,961)	\$ 644,137	\$ 946,303	\$ 609,607	\$ 921,342

MUNICIPAL SERVICES COMMISSION
(A Component Unit of the City of New Castle)
COMBINING SCHEDULES OF OPERATING EXPENSES BY DEPARTMENT
FOR THE YEARS ENDED MARCH 31, 2020 AND 2019

	Water Department		Electric Department		Total	
	2020	2019	2020	2019	2020	2019
OPERATING EXPENSES:						
Clothing allowance	\$ 4,555	\$ 3,910	\$ 8,441	\$ 7,579	\$ 12,996	\$ 11,489
Computer expense	12,786	11,557	11,380	13,188	24,166	24,745
Depreciation:						
Plant and equipment	397,960	365,681	203,178	192,114	601,138	557,795
Trucks and autos	23,158	16,268	74,442	63,792	97,600	80,060
Employee benefits	109,137	111,942	117,640	137,839	226,777	249,781
Equipment rental	396	390	483	631	879	1,021
Insurance	43,498	58,079	37,978	46,837	81,476	104,916
Payroll taxes	40,519	36,541	42,136	43,244	82,655	79,785
Pension expense	144,864	89,204	151,147	87,615	296,011	176,819
Plant materials and supplies	3,691	3,257	6,282	3,966	9,973	7,223
Repairs and maintenance:						
Buildings and grounds	9,712	5,608	6,086	2,264	15,798	7,872
Hydrants, mains, and valves	15,539	20,303	-	-	15,539	20,303
Lines and poles	-	-	13,264	8,331	13,264	8,331
Meters and services	4,071	6,298	-	1,099	4,071	7,397
Pumping stations	26,031	30,161	-	-	26,031	30,161
Storm damage	-	-	199	-	199	-
Street lights	-	-	5,177	4,279	5,177	4,279
Substations	-	-	2,789	5,013	2,789	5,013
System maintenance	6,068	-	-	-	6,068	-
Salaries and wages	528,376	475,083	549,711	563,143	1,078,087	1,038,226
Safety expense	578	1,481	1,568	5,209	2,146	6,690
Sampling and testing	6,793	11,561	10,463	21,011	17,256	32,572
Security	-	-	1,715	288	1,715	288
Seminars/training	2,270	9,241	3,818	9,546	6,088	18,787
Supplies	16,383	17,866	21,004	25,092	37,387	42,958
Truck expense	8,449	19,444	15,182	29,555	23,631	48,999
Utilities	29,027	30,307	9,867	10,381	38,894	40,688
Water treatment supplies	14,680	-	-	-	14,680	-
TOTAL OPERATING EXPENSES	\$ 1,448,541	\$ 1,324,182	\$ 1,293,950	\$ 1,282,016	\$ 2,742,491	\$ 2,606,198

MUNICIPAL SERVICES COMMISSION
(A Component Unit of the City of New Castle)
COMBINING SCHEDULES OF GENERAL AND ADMINISTRATIVE EXPENSES BY DEPARTMENT
FOR THE YEARS ENDED MARCH 31, 2020 AND 2019

	Water Department		Electric Department		Total	
	2020	2019	2020	2019	2020	2019
GENERAL AND ADMINISTRATIVE EXPENSES:						
Administrative	\$ 23,682	\$ 19,249	\$ 35,522	\$ 25,358	\$ 59,204	\$ 44,607
Bad debts	1,674	875	13,693	4,565	15,367	5,440
Computer expense	20,654	16,960	25,243	20,729	45,897	37,689
Depreciation - furniture and fixtures	17,052	15,113	29,336	29,135	46,388	44,248
Dues and subscriptions	3,732	3,488	2,263	1,999	5,995	5,487
Employee benefits	36,544	30,360	54,694	51,134	91,238	81,494
Insurance	15,014	14,428	16,662	16,081	31,676	30,509
Office salaries	199,889	173,850	344,477	306,379	544,366	480,229
Office supplies	20,725	15,666	30,184	22,216	50,909	37,882
Payroll taxes	15,248	13,761	26,275	24,140	41,523	37,901
Pension expense	39,304	24,340	93,575	52,115	132,879	76,455
Professional fees	19,183	21,909	24,003	27,679	43,186	49,588
Repairs and maintenance - equipment	6,771	5,796	8,276	7,085	15,047	12,881
Security system	2,144	2,147	2,620	2,624	4,764	4,771
Telephone	7,115	13,679	8,697	16,716	15,812	30,395
Training - administrative	3,420	3,352	4,180	4,061	7,600	7,413
Utilities and other expenses	1,333	1,463	1,630	1,789	2,963	3,252
TOTAL GENERAL AND ADMINISTRATIVE EXPENSES	\$ 433,484	\$ 376,436	\$ 721,330	\$ 613,805	\$ 1,154,814	\$ 990,241