



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

**BASIC FINANCIAL STATEMENTS,
REQUIRED SUPPLEMENTARY INFORMATION, AND
SUPPLEMENTARY INFORMATION**

MARCH 31, 2021 AND 2020

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

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INDEPENDENT AUDITOR'S REPORT

July 26, 2021

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, 2021 and 2020, 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 solely 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 Municipal Services Commission as of March 31, 2021 and 2020, 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 through 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, 2021 AND 2020

	2021	2020
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 2,440,199	\$ 2,420,596
Investments	1,257,690	1,176,475
Accounts receivable, net	524,760	679,148
Grants receivable	4,916	33,586
Dividends receivable	263	168
Other receivables	4,831	23,754
Inventory	692,180	707,160
Prepaid expenses	128,902	116,958
Total Current Assets	5,053,741	5,157,845
Restricted Assets:		
Cash and cash equivalents - restricted	698,934	748,777
Noncurrent Assets:		
Land	45,386	45,386
Construction-in-progress	916,508	381,566
Property, plant, and equipment	25,446,102	24,786,808
Less: Accumulated depreciation	(14,379,029)	(13,625,106)
Total Noncurrent Assets	12,028,967	11,588,654
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows - pension	164,836	536,237
Deferred outflows - DEMEC	3,124,345	2,818,853
Total Deferred Outflows	3,289,181	3,355,090
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 21,070,823	\$ 20,850,366
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION		
LIABILITIES		
Current Liabilities:		
Accounts payable	\$ 554,397	\$ 583,495
Payroll withholdings payable	37,198	32,307
Accrued wages	58,460	51,535
Developer deposits	-	12,426
Other liabilities	410	858
Total Current Liabilities	650,465	680,621
Noncurrent Liabilities:		
Escrow deposits	4,494	4,492
Customer deposits	694,440	744,285
Accrued compensated absences	443,134	396,693
Net pension liability	474,757	1,498,337
Total Noncurrent Liabilities	1,616,825	2,643,807
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows - pension	659,474	128,335
NET POSITION		
Investment in capital assets	12,028,967	11,588,654
Unrestricted	6,115,092	5,808,949
TOTAL NET POSITION	18,144,059	17,397,603
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	\$ 21,070,823	\$ 20,850,366

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, 2021 AND 2020

	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, 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
Amortization of capital grant	-	(18,860)	(18,860)	-	-	(18,860)	18,860	-
Change in Net Position	-	-	-	39,929	419,244	459,173	287,283	746,456
Balance - March 31, 2021	\$ 943,000	\$ (782,690)	\$ 160,310	\$ 2,482,608	\$ 9,386,049	\$ 12,028,967	\$ 6,115,092	\$ 18,144,059

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, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
OPERATING REVENUES:		
User charges	\$ 10,867,431	\$ 11,028,105
City service charges	69,176	65,368
Free service	46,028	53,327
Miscellaneous	77,813	68,730
TOTAL OPERATING REVENUES	<u>11,060,448</u>	<u>11,215,530</u>
Less: Free service	(7,408)	(8,777)
NET OPERATING REVENUES	<u>11,053,040</u>	<u>11,206,753</u>
PURCHASE OF POWER AND WATER	5,975,443	6,049,183
OPERATING EXPENSES	2,640,286	2,742,491
GENERAL AND ADMINISTRATIVE EXPENSES	<u>1,087,964</u>	<u>1,154,814</u>
OPERATING INCOME	<u>1,349,347</u>	<u>1,260,265</u>
NONOPERATING REVENUES (EXPENSES):		
Net investment income	45,717	55,118
Loss on sale of assets	-	(6,294)
Grant income	31,397	33,586
Grant expense	(23,333)	(34,201)
Other expenses	(4,670)	(5,252)
Appropriations to the Mayor and Council of New Castle:		
Ordinary	(661,687)	(673,353)
City services	(26,131)	(25,917)
Special	(34,171)	(6,002)
Realized gain (loss) on investments	24,459	(15,178)
Unrealized gain on investments	5,599	26,835
TOTAL NONOPERATING EXPENSES	<u>(642,820)</u>	<u>(650,658)</u>
CAPITAL CONTRIBUTIONS		
Private developer contributions	<u>39,929</u>	<u>-</u>
CHANGE IN NET POSITION	746,456	609,607
NET POSITION, BEGINNING OF YEAR	<u>17,397,603</u>	<u>16,787,996</u>
NET POSITION, END OF YEAR	<u>\$ 18,144,059</u>	<u>\$ 17,397,603</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, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 11,125,462	\$ 11,081,026
Payments to suppliers for goods and services	(6,961,593)	(6,986,096)
Payments to employees for services	(2,374,299)	(2,242,117)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,789,570</u>	<u>1,852,813</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Appropriations to the Mayor and Council of New Castle	<u>(695,858)</u>	<u>(679,355)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchases of property, plant and equipment	(1,154,307)	(1,238,360)
Proceeds from sale of equipment	-	3,300
Capital grants	36,734	(34,201)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(1,117,573)</u>	<u>(1,269,261)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net purchase of investments	(52,500)	(39,743)
Investment income	46,121	55,171
NET CASH (USED) PROVIDED BY INVESTING ACTIVITIES	<u>(6,379)</u>	<u>15,428</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(30,240)	(80,375)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>3,169,373</u>	<u>3,249,748</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 3,139,133</u>	<u>\$ 3,169,373</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 1,349,347	\$ 1,260,265
Adjustments:		
Depreciation	753,923	745,126
Bad debt	8,663	15,367
Free service	(38,620)	(44,550)
(Increase) Decrease in:		
Accounts receivable	154,388	(93,342)
Other receivables	18,923	(6,406)
Inventory	14,980	(33,934)
Prepaid expenses	(11,944)	17,824
Deferred outflows - pension	371,401	(335,359)
Deferred outflows - DEMEC	(305,492)	(298,818)
Increase (Decrease) in:		
Accounts payable	(29,098)	21,500
Payroll withholdings payable	4,891	18,733
Accrued wages	6,925	30,895
Developer deposits	(12,426)	2,922
Other liabilities	(448)	(208)
Escrow deposits	2	43
Customer deposits	(49,845)	15,606
Accrued compensated absences	46,441	29,216
Net pension liability	(1,023,580)	516,515
Deferred inflows - pension	531,139	(8,582)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 1,789,570</u>	<u>\$ 1,852,813</u>
CASH AND CASH EQUIVALENTS:		
Cash and cash equivalents	\$ 2,440,199	\$ 2,420,596
Restricted cash	698,934	748,777
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 3,139,133</u>	<u>\$ 3,169,373</u>
NONCASH NONCAPITAL FINANCING ACTIVITIES:		
Appropriation to the Mayor and Council of New Castle	<u>\$ 26,131</u>	<u>\$ 25,917</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:		
Contributions of infrastructure	<u>\$ 39,929</u>	<u>\$ -</u>
NONCASH INVESTING ACTIVITIES:		
Unrealized gain on investments	<u>\$ 5,599</u>	<u>\$ 26,835</u>

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, 2021 and 2020 of \$698,934 and \$748,777, 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 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.

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.

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)

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, 2021 and 2020.

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.

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

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)

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, 2021 and 2020 is \$160,310 and \$179,170, 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, 2021 and 2020, the Commission received contributed infrastructure of \$39,929 and \$0, 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.

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

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)

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, 2021 and 2020, the carrying amount of the Commission's deposits was \$3,139,133 and \$3,169,373, respectively, and the bank balance was \$3,123,346 and \$3,175,613, respectively. Of the bank balance, \$250,000 and \$250,000 was covered by federal depository insurance at March 31, 2021 and 2020, respectively. The remaining balances of \$2,873,346 and \$2,925,613 at March 31, 2021 and 2020, respectively, were uninsured and subject to custodial credit risk.

Investments

As of March 31, 2021 and 2020, the Commission had the following investments:

<u>Investment Type</u>	<u>March 31, 2021</u>		<u>March 31, 2020</u>	
	<u>Fair Value</u>	<u>Level 1</u>	<u>Fair Value</u>	<u>Level 1</u>
U.S. Agency Bond Fund	\$ 100,542	\$ 100,542	\$ 106,743	\$ 106,743
Total Return Bond Fund	454,183	454,183	428,518	428,518
Total Bond Fund	389,614	389,614	363,860	363,860
Emerging Markets Fund	56,295	56,295	48,315	48,315
Global Multi Sector Bond Fund	115,454	115,454	97,836	97,836
1-3 Year Treasury Bond ETF	141,602	141,602	131,203	131,203
TOTAL	\$ 1,257,690	\$ 1,257,690	\$ 1,176,475	\$ 1,176,475

During the years ended March 31, 2021 and 2020, the Commission recognized an unrealized gain on investments of \$5,599 and \$26,835, respectively. In addition, the Commission recognized gain on the sales of 1 Shares of \$24,459 and loss on the sale of the Senior Floating Rate Bond Fund of (\$15,178) during the years ended March 31, 2021 and 2020, respectively.

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

NOTE 3 DEPOSITS AND INVESTMENTS (cont'd)

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,	
	2021	2020
Electric receivables	\$ 405,322	\$ 551,173
Water receivables	124,713	135,182
Customer deposit receivable	5,255	7,124
	535,290	693,479
Less: Allowance for doubtful accounts	10,530	14,331
Total Accounts Receivable	\$ 524,760	\$ 679,148

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,	
	2021	2020
Electric inventory	\$ 603,624	\$ 610,955
Water inventory	88,556	96,205
Total Inventory	\$ 692,180	\$ 707,160

NOTE 6 PROPERTY, PLANT, AND EQUIPMENT

A summary of property, plant, and equipment and accumulated depreciation for the years ended March 31, 2021 and 2020 is as follows:

	April 1, 2020	Additions	Deletions	March 31, 2021
Nondepreciable Assets:				
Land	\$ 45,386	\$ -	\$ -	\$ 45,386
Construction-in-progress	381,566	1,180,092	645,150	916,508
Total Nondepreciable Assets	426,952	1,180,092	645,150	961,894
Depreciable Assets:				
Building structures	641,884	13,442	-	655,326
Water department	12,499,561	51,626	-	12,551,187
Electric department	9,265,986	441,930	-	9,707,916
Common assets	2,379,377	152,296	-	2,531,673
Total Depreciable Assets	24,786,808	659,294	-	25,446,102
Less Accumulated Depreciation:				
Building structures	330,719	24,420	-	355,139
Water department	4,851,528	352,448	-	5,203,976
Electric department	6,855,037	206,239	-	7,061,276
Common assets	1,587,822	170,816	-	1,758,638
Total Accumulated Depreciation	13,625,106	753,923	-	14,379,029
Total Property, Plant, and Equipment, Net	\$ 11,588,654	\$ 1,085,463	\$ 645,150	\$ 12,028,967

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

	<u>April 1, 2019</u>	<u>Additions</u>	<u>Deletions</u>	<u>March 31, 2020</u>
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

Depreciation expense for the years ended March 31, 2021 and 2020 was \$753,923 and \$745,126, 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, 2021 and 2020, the dollar amount of current payroll used in the determination of the minimal contribution utilized the calendar year payroll of \$1,402,180 and \$1,424,474, respectively. Total payroll for the years ended March 31, 2021 and 2020 is \$1,790,080 and \$1,801,098, respectively.

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NOTES TO FINANCIAL STATEMENTS

NOTE 7 DEFINED BENEFIT PENSION PLAN (cont'd)

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 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 aged 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, 2021 and 2020, the Plan reported a net pension liability of \$474,757 and \$1,498,337, respectively. The net pension liability was measured as of March 31, 2021 and 2020, and the total pension liability used to calculate the net pension liability was determined

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NOTES TO FINANCIAL STATEMENTS

NOTE 7 DEFINED BENEFIT PENSION PLAN (cont'd)

by an actuarial valuation as of March 31, 2021 and 2020. For the years ended March 31, 2021 and 2020, the Plan recognized pension expense in the amount of \$140,038 and \$360,787, respectively.

Net Pension Liability

The components of the net pension liability of the Commission at March 31, 2021 and 2020 were as follows:

	<u>2021</u>	<u>2020</u>
Total pension liability	\$4,299,230	\$4,316,382
Plan fiduciary net position	<u>3,824,473</u>	<u>2,818,045</u>
Commission's net pension liability	<u>\$ 474,757</u>	<u>\$1,498,337</u>
Plan fiduciary net position as a percentage of the total pension liability	88.96%	65.29%

The Commission's changes in total pension liability, plan fiduciary net position, and net pension liability for the years ended March 31, 2021 and 2020 were as follows:

	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability</u>
Balance at March 31, 2020	<u>\$4,316,382</u>	<u>\$2,818,045</u>	<u>\$1,498,337</u>
Changes for the year:			
Service cost	142,685	-	142,685
Interest	292,452	-	292,452
Experience gain	(170,924)	-	(170,924)
Changes in assumptions	(13,451)	-	(13,451)
Benefit payments	(267,914)	(267,914)	-
Employer contributions	-	261,078	(261,078)
Net investment income	-	1,013,264	(1,013,264)
Net Changes	<u>(17,152)</u>	<u>1,006,428</u>	<u>(1,023,580)</u>
Balance at March 31, 2021	<u>\$4,299,230</u>	<u>\$3,824,473</u>	<u>\$ 474,757</u>

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NOTE 7 DEFINED BENEFIT PENSION PLAN (cont'd)

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
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 gain	-	(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>

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.

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

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NOTE 7 DEFINED BENEFIT PENSION PLAN (cont'd)

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, 2021 and 2020, five percent or more of plan assets were held in the following individual funds:

<u>Investment Fund</u>	<u>March 31, 2021</u>	<u>March 31, 2020</u>
Vanguard Mid-Cap Index	13.0%	11.7%
Nationwide Fixed Fund	25.0%	28.4%
American Funds AMCAP	6.0%	*
Vanguard Equity 500 Index	5.1%	9.6%
American Funds EuroPacific Growth	5.8%	5.7%
American Funds American Mutual	7.3%	*
MFS Growth Fund	5.9%	*

*Under 5%

Discount Rate and Liability Disclosures

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

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.

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NOTE 7 DEFINED BENEFIT PENSION PLAN (cont'd)

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 9.16 percent of annual covered payroll.

The most recent actuarial valuation of the Plan is as of March 31, 2021. 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 32 participants including 14 active plan members, 13 retirees and beneficiaries receiving benefits from the Plan, and 5 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, 2021 and 2020, 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, 2021	\$ 1,027,169	\$ 474,757	\$ 21,822
As of March 31, 2020	\$ 2,039,167	\$ 1,498,337	\$ 1,054,119

Deferred Amounts and Plan Change Disclosures

As of March 31, 2021, 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.

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Liability experience	\$ 47,696	\$ (279,358)
Assumption changes	117,140	(12,560)
Investment experience	-	(367,556)
Total	<u>\$ 164,836</u>	<u>\$ (659,474)</u>

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NOTES TO FINANCIAL STATEMENTS

NOTE 7 DEFINED BENEFIT PENSION PLAN (cont'd)

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 and are detailed in the schedule of deferred gains and losses.

	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)

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

Year Ended March 31,	
2022	\$ (78,790)
2023	(66,359)
2024	(87,482)
2025	(172,773)
2026	(9,462)
Thereafter	(79,772)
Total	\$ (494,638)

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

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.

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NOTES TO FINANCIAL STATEMENTS

NOTE 7 DEFINED BENEFIT PENSION PLAN (cont'd)

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, 2021 and 2020 were \$20,663 and \$21,249, respectively.

NOTE 9 APPROPRIATIONS TO THE MAYOR AND COUNCIL OF NEW CASTLE

Ordinary – During the years ended March 31, 2021 and 2020, the Commission appropriated \$661,687 and \$673,353, 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 \$26,131 and \$25,917 for the years ended March 31, 2021 and 2020, respectively. Of this amount, \$26,131 and \$25,917 represented water usage, and \$0 and \$0 represented electric usage for the years ended March 31, 2021 and 2020, respectively.

Special – During the years ended March 31, 2021 and 2020, the Commission also approved special appropriations totaling \$34,171 and \$6,002, 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.

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NOTE 10 COMMITMENTS (cont'd)

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 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, 2021 and 2020, the Commission has incurred \$335,826 and \$342,239, respectively,

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NOTES TO FINANCIAL STATEMENTS

NOTE 10 COMMITMENTS (cont'd)

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:

<u>Year Ending March 31,</u>	<u>Payment</u>
2022	\$ 322,423
2023	289,693
	\$ 612,116

During the years ended March 31, 2021 and 2020, the expense related to the purchase of power under the full power purchase agreement with DEMEC is \$5,975,443 and \$6,049,183, respectively. The amount payable as of March 31, 2021 and 2020 is \$448,243 and \$418,481, 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, 2021 and 2020.

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").

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.

MUNICIPAL SERVICES COMMISSION
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NOTES TO FINANCIAL STATEMENTS

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, 2021 and 2020, respectively. The current agreement will expire on March 31, 2024.

Significant Customer – Approximately ten percent and nine percent of the Commission's net operating revenues are from one customer for the years ended March 31, 2021 and 2020, respectively.

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, 2021 and 2020.

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.

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

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NOTES TO FINANCIAL STATEMENTS

NOTE 15 CONTINGENCY (cont'd)

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

The Commission has evaluated all subsequent events through July 26, 2021, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

MUNICIPAL SERVICES COMMISSION
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REQUIRED SUPPLEMENTARY INFORMATION

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

	2021	2020	2019	2018
TOTAL PENSION LIABILITY				
Service cost	\$ 142,685	\$ 171,999	\$ 84,928	\$ 121,509
Interest on total pension liability	292,452	274,195	262,991	248,860
Experience (gain) or loss	(170,924)	40,015	15,067	(17,745)
Effect of assumption changes or inputs	(13,451)	2,158	10,139	119,169
Plan benefit changes	-	51,203	64,550	-
Benefit payments	(267,914)	(278,863)	(273,734)	(272,991)
Net change in total pension liability	(17,152)	260,707	163,941	198,802
Total pension liability, beginning	4,316,382	4,055,675	3,891,734	3,692,932
Total pension liability, ending (a)	<u>\$ 4,299,230</u>	<u>\$ 4,316,382</u>	<u>\$ 4,055,675</u>	<u>\$ 3,891,734</u>
FIDUCIARY NET POSITION				
Employer contributions	\$ 261,078	\$ 235,233	\$ 201,749	\$ 254,642
Investment income (loss) net of investment expenses	1,013,264	(212,719)	104,910	257,584
Benefit payments	(267,914)	(278,863)	(273,734)	(272,991)
Net change in fiduciary net position	1,006,428	(256,349)	32,925	239,235
Fiduciary net position, beginning	2,818,045	3,074,394	3,041,469	2,802,234
Fiduciary net position, ending (b)	<u>\$ 3,824,473</u>	<u>\$ 2,818,045</u>	<u>\$ 3,074,394</u>	<u>\$ 3,041,469</u>
Net pension liability [(a) - (b)]	<u>\$ 474,757</u>	<u>\$ 1,498,337</u>	<u>\$ 981,281</u>	<u>\$ 850,265</u>
Plan fiduciary net position as a percentage of the total pension liability	88.96%	65.29%	75.80%	78.15%
Covered payroll	\$ 1,402,180	\$ 1,424,474	\$ 1,306,758	\$ 1,327,758
Net pension liability as a percentage of covered payroll	33.86%	105.19%	75.09%	64.04%
Annual money-weighted return, net of investment expenses	36.00%	-6.97%	3.49%	9.22%

MUNICIPAL SERVICES COMMISSION
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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
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%
2021	261,078	261,078	-	1,402,180	18.62%

Notes to Schedule of Employer Contributions

Valuation date: April 1, 2020
Actuarial cost method: Aggregate Funding Method
Amortization method: Level Dollar Amortization
Remaining amortization period: 13 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, 2021 AND 2020

	Water Department		Electric Department		Total	
	2021	2020	2021	2020	2021	2020
OPERATING REVENUES:						
User charges	\$ 1,965,254	\$ 1,966,425	\$ 8,902,177	\$ 9,061,680	\$ 10,867,431	\$ 11,028,105
City service charges	26,125	19,141	43,051	46,227	69,176	65,368
Free service	3,061	6,963	42,967	46,344	46,028	53,327
Miscellaneous	20,983	15,139	56,830	53,591	77,813	68,730
TOTAL OPERATING REVENUES	2,015,423	2,007,668	9,045,025	9,207,842	11,060,448	11,215,530
Less: Free service	(2,853)	(3,457)	(4,555)	(5,320)	(7,408)	(8,777)
NET OPERATING REVENUES	2,012,570	2,004,231	9,040,470	9,202,522	11,053,040	11,206,753
PURCHASE OF POWER AND WATER	25,240	22,632	5,950,203	6,026,551	5,975,443	6,049,183
OPERATING EXPENSES	1,459,297	1,448,541	1,180,989	1,293,950	2,640,286	2,742,491
GENERAL AND ADMINISTRATIVE EXPENSES	415,001	433,484	672,963	721,330	1,087,964	1,154,814
OPERATING INCOME	113,032	99,574	1,236,315	1,160,691	1,349,347	1,260,265
NONOPERATING REVENUES (EXPENSES):						
Net investment income	6,686	8,034	39,031	47,084	45,717	55,118
Gain (loss) on sale of assets	-	(7,944)	-	1,650	-	(6,294)
Grant income	14,075	33,586	17,322	-	31,397	33,586
Grant expense	(6,348)	(33,863)	(16,985)	(338)	(23,333)	(34,201)
Other expenses	(3,019)	(4,329)	(1,651)	(923)	(4,670)	(5,252)
Appropriations to the Mayor and Council of New Castle:						
Ordinary	(117,986)	(104,859)	(543,701)	(568,494)	(661,687)	(673,353)
City services	(26,131)	(25,917)	-	-	(26,131)	(25,917)
Special	(8,924)	(560)	(25,247)	(5,442)	(34,171)	(6,002)
Realized gain (loss) on investments	3,669	(2,277)	20,790	(12,901)	24,459	(15,178)
Unrealized gain on investments	840	4,025	4,759	22,810	5,599	26,835
TOTAL NONOPERATING EXPENSES	(137,138)	(134,104)	(505,682)	(516,554)	(642,820)	(650,658)
CAPITAL CONTRIBUTIONS						
Private developer contributions	39,929	-	-	-	39,929	-
CHANGE IN NET POSITION	\$ 15,823	\$ (34,530)	\$ 730,633	\$ 644,137	\$ 746,456	\$ 609,607

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, 2021 AND 2020

	Water Department		Electric Department		Total	
	2021	2020	2021	2020	2021	2020
OPERATING EXPENSES:						
Clothing allowance	\$ 3,550	\$ 4,555	\$ 9,083	\$ 8,441	\$ 12,633	\$ 12,996
Computer expense	16,047	12,786	14,449	11,380	30,496	24,166
Depreciation:						
Plant and equipment	397,813	397,960	210,959	203,178	608,772	601,138
Trucks and autos	21,801	23,158	78,607	74,442	100,408	97,600
Employee benefits	121,091	109,137	114,747	117,640	235,838	226,777
Equipment rental	375	396	458	483	833	879
Insurance	53,965	43,498	16,663	37,978	70,628	81,476
Payroll taxes	45,346	40,519	41,357	42,136	86,703	82,655
Pension expense	56,576	144,864	51,114	151,147	107,690	296,011
Plant materials and supplies	6,407	3,691	7,818	6,282	14,225	9,973
Repairs and maintenance:						
Buildings and grounds	6,750	9,712	3,356	6,086	10,106	15,798
Hydrants, mains, and valves	12,855	15,539	-	-	12,855	15,539
Lines and poles	-	-	33,381	13,264	33,381	13,264
Meters and services	11,340	4,071	-	-	11,340	4,071
Pumping stations	26,508	26,031	-	-	26,508	26,031
Storm damage	-	-	37	199	37	199
Street lights	-	-	6,954	5,177	6,954	5,177
Substations	-	-	3,737	2,789	3,737	2,789
System maintenance	-	6,068	-	-	-	6,068
Salaries and wages	600,235	528,376	542,121	549,711	1,142,356	1,078,087
Safety expense	2,827	578	4,050	1,568	6,877	2,146
Sampling and testing	10,155	6,793	12,580	10,463	22,735	17,256
Security	456	-	1,066	1,715	1,522	1,715
Seminars/training	3,414	2,270	2,727	3,818	6,141	6,088
Supplies	14,067	16,383	10,112	21,004	24,179	37,387
Truck expense	8,820	8,449	6,022	15,182	14,842	23,631
Utilities	26,272	29,027	9,591	9,867	35,863	38,894
Water treatment supplies	12,627	14,680	-	-	12,627	14,680
TOTAL OPERATING EXPENSES	\$ 1,459,297	\$ 1,448,541	\$ 1,180,989	\$ 1,293,950	\$ 2,640,286	\$ 2,742,491

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, 2021 AND 2020

	Water Department		Electric Department		Total
	2021	2020	2021	2020	
GENERAL AND ADMINISTRATIVE EXPENSES:					
Administrative	\$ 30,998	\$ 23,682	\$ 60,336	\$ 35,522	\$ 91,334
Bad debts	410	1,674	8,253	13,693	8,663
Computer expense	19,918	20,654	24,345	25,243	44,263
Depreciation - furniture and fixtures	17,052	17,052	27,691	29,336	44,743
Dues and subscriptions	3,684	3,732	2,038	2,263	5,722
Employee benefits	34,359	36,544	52,068	54,694	86,427
Insurance	15,366	15,014	17,164	16,662	32,530
Office salaries	206,273	199,889	351,619	344,477	557,892
Office supplies	15,774	20,725	23,208	30,184	38,982
Payroll taxes	15,585	15,248	26,781	26,275	42,366
Pension expense	18,259	39,304	33,985	93,575	52,244
Professional fees	16,167	19,183	19,618	24,003	35,785
Repairs and maintenance - equipment	7,080	6,771	8,653	8,276	15,733
Security system	2,439	2,144	2,980	2,620	5,419
Telephone	7,663	7,115	9,367	8,697	17,030
Training - administrative	2,558	3,420	3,127	4,180	5,685
Utilities and other expenses	1,416	1,333	1,730	1,630	3,146
TOTAL GENERAL AND ADMINISTRATIVE EXPENSES	\$ 415,001	\$ 433,484	\$ 672,963	\$ 721,330	\$ 1,087,964
					\$ 1,154,814