

## *2000 Annual Report*

*The numbers don't tell the whole story. Water quality data, financial statements, capital improvements, rates – these numbers are just part of the CWA story. Behind the numbers are the people, planning, and processes that make CWA an award-winning water utility committed to*

**Quality**  
**Service**  
**Value**

# A SYSTEMATIC APPROACH to Quality, Service, and Value

## Report to Our Bondholders

Throughout 2000, the people of Chester Water Authority effectively put our resources to work to achieve our mission ...

*“to deliver high-quality water at the most reasonable value to best meet customer needs, while contributing to public health and welfare;*

*“to develop a financially sound operating plan and to maintain the diligence to pursue those successful practices that have positioned us in a leadership role in the water utility industry; and*

*“to promote those activities that best support continued growth and perpetuate the value of the Authority.”*

Our accomplishments in 2000 were a direct outcome of our focus on these goals.

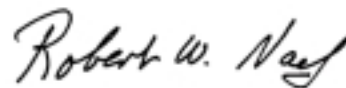
Chester Water Authority's 2000 operating income of \$7,291,005 represents sound fiscal management and provides a strong economic foundation for the future, while our \$9.6 million in capital spending for the year reflects our commitment to the proactive maintenance and development of our infrastructure.

Yet the numbers alone do not tell the whole story, so we invite you to read further. In this annual report you will read about the projects that added redundancy to Chester Water Authority's water treatment and distribution system; increased our capacity to smoothly assimilate new customers; proactively maintained and replaced older components of our infrastructure to ensure reliable service; and incorporated the latest technological advances into our information systems to enhance our operational effectiveness and service to customers.

This year, as always, the words of Chester Water Authority's mission are translated into effective actions by the commitment and excellence of our people – the men and women in every area of our operations – working together to meet our common goals.



Donald F. Tonge  
Chairman of the Board



Robert W. Naef  
Executive Manager and Chief Engineer

# NOTEWORTHY Accomplishments

**Rates:** The Authority's rates remain highly favorable and competitive to surrounding private utilities, while allowing the Authority to reinvest in its infrastructure, and provide excellent value in our recognized water quality and service.

**Recognition:** The Authority's water was recognized as the Delaware Valley's *best-tasting* drinking water in the "2000 Greater Philadelphia Drinking Water Taste Challenge" sponsored by the United States Environmental Protection Agency (U.S. EPA). Our water scored highest for taste, color, clarity, and odor as rated against eight other area water utilities by taste experts from Philadelphia's top restaurants.

For the fifth consecutive year, the Pennsylvania Department of Environmental Protection (PA DEP) awarded the Authority a Certificate of Recognition for meeting its 1999 Safe Drinking Water Program performance requirements for monitoring, reporting, and treatment technique – one of only 1,500 local community water systems so recognized. The certificate is tangible evidence that the Authority is doing its job right 365 days a year.

**Strategic Planning:** To better align each department's priorities with the Authority's overall vision and mission and gain the greatest impact from every capital project, we began a process to refine our decision-making approach for 2001. Guided by a strategic-planning facilitator, the Authority has employed a decision-based model to evaluate and rank all proposed projects according to criteria such as complexity, impact on organization, community impact, level of innovation, and return on investment.

To assist in the ranking process, the Authority purchased a proven software tool used by Fortune 500 companies in a wide range of industries, and tailored it to water-utility criteria. This comprehensive, structured approach will result in the funding of a select list of projects that best meet our goals.

**New Developments:** Laying the groundwork for new customers, during the year 2000 the Authority extended a total of 44,860 feet of water main with a total value of \$1.9 million into new residential and business developments in southwestern Delaware and southern Chester Counties.

**Public Information:** Reflecting our integrated approach to public information, the Authority used various programs and methods to reach a broad cross-section of the community. Live educational presentations and facility tours reached a total audience of 1,667 children and adults from schools, civic organizations, and churches. We provided educational programs about our water resources and treatment processes and the Authority's role in our society. Our Web site was redesigned and updated with new features, making it more informative and easier to use. The customer and employee newsletters continued to educate and inform about the Authority's capital projects, water use and conservation, and other important issues. Our 1999 Water Quality Report was recognized by a consumer group as a high-quality, easy-to-read document – surpassing the EPA's content requirements. Our news releases on important developments, including DEP and EPA recognition, were published by local media, as were an increased number of paid ads about current events, such as Drinking Water Week.

**Bond Issue:** On December 13, 2000, the Authority settled a \$3.4 million bond to fund capital projects, including water main rehabilitation.

# CAPITAL PROGRAM:

## building on a firm foundation



### Automated Meter Reading: fast, efficient, accurate

**I**n 1997, Chester Water Authority initiated an Automated Meter Reading (AMR) program to enhance customer service and operational efficiency. With AMR, a meter reader uses a hand-held electronic device to activate a radio-controlled device on the water meter and record the current reading. AMR is fast, efficient, accurate, and – best of all, from the customer’s viewpoint – performed without having a meter reader enter the building. By eliminating estimated readings, AMR also improves billing accuracy.

Almost 5,000 new AMR meters were installed in 2000 as part of this ongoing program, bringing the total number in service to over 9,000 – approximately one-quarter of our metered customers. The Authority is continuing to expand this program system-wide, with priority on retrofitting the most easily accessible meters and converting all meters within a given area. Once an area is converted to AMR, the Authority will be able to deploy a driver using a vehicle-mounted device to record readings even more efficiently. Cost: \$1.3 million.

*Our Automated Meter Reading (AMR) system is convenient for our customers, and increases the efficiency of our service staff.*

### State-of-the-art SCADA

When the Authority’s Supervisory Control and Data Acquisition (SCADA) system was installed in 1981, it was a major advance in remote monitoring and management of the vital components that distribute water to our customers. SCADA technology alerts the Authority to changing conditions at the facility’s pumping stations, storage tanks, and distribution piping, enabling us to respond promptly to changing conditions.

The first SCADA system for the Authority was constructed in 1981. The existing system was upgraded in 1990. In 2000, the Authority completed design, development, and testing to replace our system with the latest SCADA technol-

ogy – a new system that provides enhanced control, greater flexibility, and broader information-sharing capability.

When fully implemented in 2001, the new computers, communications equipment, and software that make up the SCADA system will allow access from any Authority computer station, allowing distribution personnel greater flexibility in remote monitoring of changing conditions at pumping stations, tanks, and system pressure zones, thereby enabling a faster response. Among the advances of the new system are programmable logic controllers on field equipment, which enhance control of booster stations, improving customer service. Cost: \$800,000.

*Our capital program is both prudent and progressive: maintaining a solid infrastructure and adapting to change.*



### **Expansion of the Customer Service area ...**

in 2000 provided greater privacy for customers discussing business with our customer service representatives, a convenient new entrance directly from the parking lot, and two additional desks to facilitate service expansion. The cost-effective expansion used existing space within the lobby without sacrificing its welcoming, professional atmosphere. Cost: \$450,000.

### **Permanent electric generators ...**

and automatic transfer switches were installed at the Kennett Square and Chadds Ford Reserve booster stations and a portable generator was strategically placed at the Village Green Operations Center, enhancing emergency response time, customer service, employee safety, and flexibility during power outages. Cost: \$75,000.

### **Jennersville tank and booster station ...**

designs are under way and construction is planned for 2001. The new facility comprises a 450,000-gallon water storage tank and a pumping station operating two pumps, each capable of 550 gallons per minute (gpm). It will enhance service reliability and water storage capability in East Nottingham, New London, Penn, and Lower and Upper Oxford Townships in southern Chester County. Projected cost: \$1.1 million.

### **Broadmeadows tank and booster station ...**

is the site of a project to replace an older 125,000-gallon tank and booster station to ensure reliability and respond to increased demand. Completed in 2000, the booster station increases pumping capacity from 800 gpm to 1,000 gpm. The new 300,000-gallon storage tank will be installed in 2001. Cost: \$1.1 million.

## **Susquehanna Pumping Station: a dependable source**

Since 1970, the Susquehanna Pumping Station has been the Authority's secondary source of supply for raw water for the Octoraro Treatment Plant. Operated remotely from the treatment plant, the Susquehanna Pumping Station can pump water from the Susquehanna River either into the reservoir or directly into the treatment plant. Its reliable operation is essential in enabling the Authority to meet the varying demand for water, especially if there is a drought, when its pumps may be running 24 hours a day for weeks on end.

In 2000, the Authority completed installation of a third 15-million-gallons-per-day (mgd) pump driven by a new 1,500-horsepower motor. This pump will ensure the Susquehanna Pumping Station's day-to-day reliability, and will provide a needed back-up to its two original 15 mgd pumps. At the same time, the station underwent a complete electrical upgrade. The transformer and switchgear were replaced and new electronic controls were installed, improving the remote operation of the station. Cost: \$1.3 million.



Chester Water Authority

# INFORMATION SYSTEMS TECHNOLOGY:

## enhancing customer service, improving our operations



**I**n 2000, Chester Water Authority completed significant upgrades to our customer, financial, and infrastructure management systems designed to improve our ability to access, analyze, and share information – all to provide quality, service, and value to our customers.

### Customer Information System enhanced

The Customer Information System (CIS) is the center of our business operations. The Authority and our customers rely on this component of our information systems technology

to support timely and accurate customer service, billing, and collections.

In 2000, we made a number of changes in the CIS to enhance customer service capabilities:

- A streamlined method of entering customer payments to ensure timely credit to customer accounts
- The capability to process special payment arrangements for customers who cannot manage a quarterly bill
- Expansion of data reporting and auditing capabilities to improve analysis and decision-making
- An improved standard for entering billing and service addresses to provide more accurate information to service personnel
- Automatic transfer of billing and collection data to the Financial Information System (FIS) to facilitate data-sharing and efficiency

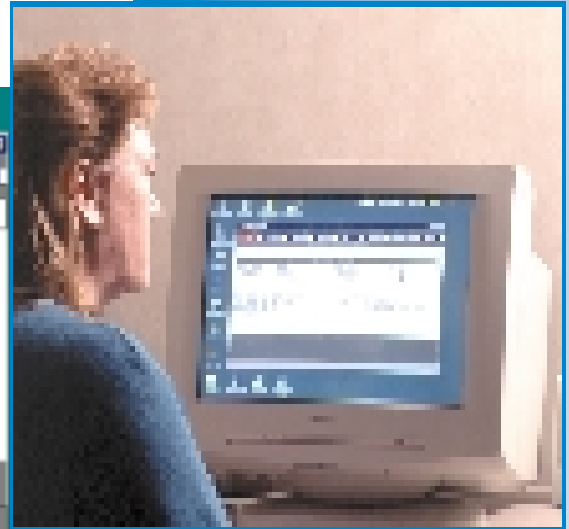
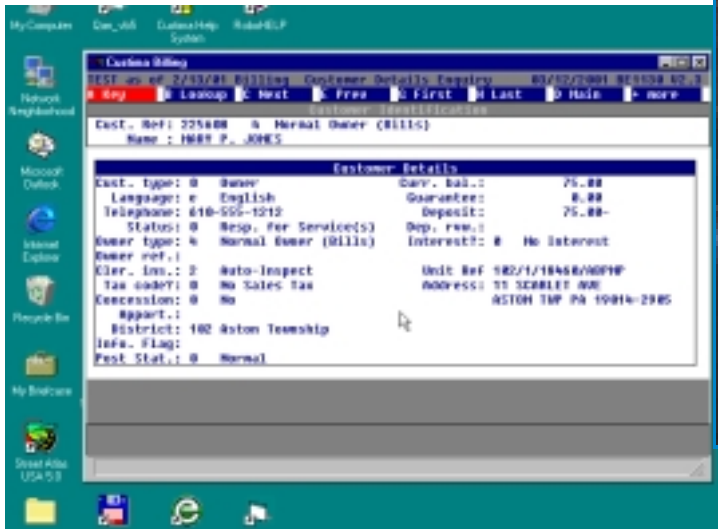
In addition, the FIS – which supports the Authority’s accounting, human resources, payroll, procurement, and inventory functions – was upgraded to a state-of-the-art graphical system, further improving our ability to share and analyze information.

### Upgrading the IMS and the GIS

During 2000, the Authority continued to upgrade our Infrastructure Management System (IMS) and Geographical Information System (GIS). Together, IMS and GIS help us prioritize our proactive maintenance and capital improvement projects.

IMS contains the information we use to maintain our water distribution infrastructure, including a maintenance history for each component, such as water mains, service

*Our commitment to quality, service, and value means we continuously look for new and better ways to communicate with our customers.*



*Our Customer Information System (CIS) is helping our Customer Service representatives meet customers' needs.*

## Further improvements under way

To keep pace with the evolution of information technology, in 2000 the Authority engaged a consultant to assess the CIS and the FIS and to assist in making further improvements. Work is under way in three specific areas:

- A review of our existing CIS to assess the completeness and accuracy of reported data, the accuracy and timeliness of water bills, control of billing and receipts, and the potential costs and benefits of a major system upgrade
- Computerization of our fixed-asset records to improve our financial reporting
- Implementation of the FIS features that will enable us to electronically manage the purchasing process online – from the request for proposal through accounts payable – and integrate our parts inventory

lines, valves, and hydrants. During 2000, the Authority implemented a major IMS software upgrade and began development of additional functions. These improvements are designed to provide new tools that will enable us to better manage the maintenance and expansion of our infrastructure. For example, we completed preliminary work on the transition from paper to electronic work orders, which will speed information access and maintenance performance.

The GIS is an important complement to the IMS. Implemented in 1998, the GIS provides detailed electronic maps of the Authority's service areas, including roads and water distribution infrastructure. In 2000, the Authority refined existing maps and data, added new information to the system, and expanded potential data sources – including aerial photos and U.S. Geological Survey topographic maps, which provide details on elevations. We are also on the way to putting every customer's location on these maps.

In addition to these major system upgrades, the Authority significantly improved its overall computer infrastructure to meet growing information requirements. These included a faster data link to the Octoraro Treatment Plant – a 1.5-megabit T1 line; a faster connection to the Internet, at 768 kilobits; and additional computer work stations.

All that, and a smooth transition to "Y2K" thanks to good planning and diligent testing in 1999!



Chester Water Authority

# PROACTIVE MAINTENANCE:

## preserving water quality, ensuring service reliability

**P**roactive maintenance projects – boiler and storage tank replacements, cleaning and repainting projects, and the like – may not inspire exciting headlines or

ribbon-cutting ceremonies. But at Chester Water Authority, we know proactive maintenance plays an enormous role in preserving water quality and ensuring service reliability. In 2000, we completed or initiated a number of

projects designed to maintain our facilities and infrastructure well into the 21st century.

### ONGOING TANK AND WATER MAIN REHABILITATION

In 2000, ongoing rehabilitation of the Authority's water tanks and water mains preserved water quality.

### REPAINTING OF VILLAGE GREEN TANK #8:

The complete cleaning and repainting of tank #8 is part of the proactive maintenance program at the Village Green Tank Farm,

where it was the third steel tank to undergo maintenance since 1998. At the same time, new vents were installed on its roof to prevent deterioration and extend the life of the tank. During the six months the tank was out of service, the remaining eight provided needed capacity. Cost: \$1.1 million.

### WATER MAIN REHABILITATION:

This proactive maintenance program rehabilitates water mains, valves, service lines, and hydrants to preserve water quality as well as increase fire flows and pressures. In the City of Chester, 0.85 miles of existing four- and six-inch-diameter cast-iron water mains were restored to new condition with cleaning and new cement linings, new six- and eight-inch-diameter water mains were installed in some areas, and non-copper service lines were replaced with copper. Water service was maintained with temporary above-ground piping. Cost: \$600,000.

Since the inception of this program, approximately 37.7 miles of water main have been rehabilitated. In 2001, the Authority plans to rehabilitate a 30-inch-diameter water main through Chester Creek behind Crozer Chester Medical Center in the Borough of Upland and the City of Chester.



*A view from above:  
The Chester Water  
Authority's Village  
Green Tank Farm  
provides 90 million  
gallons of water  
storage for our  
customers -  
24 hours a day,  
seven days a week.*

*The Chester Water Authority Octoraro Treatment Plant is continuously upgraded to ensure back-up readiness in the event of severe weather or other challenges.*



### **NEWARK ROAD TANK:**

This 250,000-gallon water storage tank will be repainted in 2001 as part of the Authority's proactive maintenance program. A capital improvement is planned for its nearby booster station, which will be retrofitted with a variable speed drive to enable the station to pump water according to demand. Projected cost: \$300,000.

### **OCTORARO TREATMENT PLANT**

The Octoraro Treatment Plant is the heart of our water treatment and distribution system, ensuring a reliable supply of the highest-quality water for our customers. Several projects completed in 2000 replaced aging systems with modern, more efficient systems that enhance plant safety and provide additional redundancy if needed.

### **STEAM BOILER REPLACEMENT:**

The plant's original oil-fired boilers, which provide steam heat for the plant and processes, were replaced with new, energy-efficient, cleaner-burning gas-fired steam boilers. The project included a gas main extension to the plant. Cost: \$260,000.

### **MAIN MOTOR #2 REPLACEMENT:**

A 1950 800-horsepower (hp) electric motor was replaced with a new, energy-efficient 700 hp electric motor to help ensure that the plant reliably meets pumping demand. Cost: \$115,500.

### **NEW AUXILIARY PUMPING STATION DIESEL FUEL STORAGE TANKS:**

The 1960 30,000-gallon single-walled diesel storage tank, which fuels the auxiliary pumping station in the event of a power outage, was replaced with two new 10,000-gallon diesel storage tanks. At the same time, a new 1,000-gallon diesel storage tank was installed to fuel CWA fleet vehicles. The new above-ground tanks meet current environmental safety standards, including double-wall construction and electronic monitoring. Cost: \$250,000.

## **Under way at the Octoraro Treatment Plant: commitment to the future**

Chester Water Authority also awarded contracts for two projects that will be completed in 2001.

**Replacement of the fluorosilicic acid tank:** The existing 32-year-old, 6,000-gallon fluorosilicic acid tank was taken out of service in 1999, and a temporary tanker truck was brought in to supply fluoride for the treatment process. The existing tank will be replaced with two 4,400-gallon double-walled fiberglass tanks, which will provide back-up and permit the Authority to take a tank out of service for periodic inspection. The new tanks will be installed in a concrete containment located closer to the treatment process and connected with above-ground piping. Projected cost: \$150,000.

**New 300-kilowatt (kW) generator:** An existing 1960 150 kW generator, which supplies power for the plant's lights, smaller motors, mixers, and other processes in the event of a power outage, will be replaced with a new and efficient, electronically controlled 300 kW generator. This also will provide a reliable back-up for the existing 300 kW generator. Projected cost: \$180,000.

## Board of Directors



**Donald F. Tonge**  
*Chairman*



**James A. Aldridge**  
*Chairman Emeritus*



**Leo S. Holmes**  
*Vice Chairman*



**Linda A. Cartisano, Esq.**  
*Treasurer*



**Arthur Levy, Esq.**  
*Solicitor*



**Mary Smith**  
*Secretary*

### In Memoriam



**James L. Sharp**, Chairman of the Board of Directors of Chester Water Authority, passed away on September 17, 2000. Mr. Sharp served as a member of the Board of Directors from his appointment in June 1983 until his death. He served as Secretary from 1983 to 1987; Vice Chairman from 1987 to 1997; and Chairman from 1997 to 2000. The Authority lost a friend who cared deeply about the well-being of all the CWA people and the customers we serve. Mr. Sharp was a great facilitator in always being ready to help build a bridge where the Authority needed one to accomplish its mission. Mr. Sharp was justifiably proud of CWA and of being its Chairman. Mr. Sharp will be sadly missed by all.

## Management Staff



**Robert W. Naef, P.E.**  
*Executive Manager and Chief Engineer*



**William A. Atlee, Jr.**  
*Controller/Assistant Executive Manager, Administration*



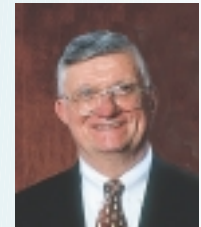
**Russell C. Williams, P.E.**  
*Director, Engineering/Assistant Executive Manager, Operations*



**Brian P. MacEwen, P.E.**  
*Director, Capital Programs*



**Patricia P. Stabler, P.E.**  
*Chief of Treatment and Pumping*



**Theodore J. Pawlik, S.P.H.R.**  
*Director, Human Resources/ Public Information*



**David J. Krupiak**  
*Chief of Distribution*



**William D. Miller, C.D.P., C.P.I.M.**  
*Director, Information Systems*



**Sandra Hunt**  
*Executive Administrator*

	1996	1997	1998	1999	2000
Average Daily Pumpage (gal.)	32,177,185	34,416,219	34,311,589	34,720,000	33,460,000
Total Customers	35,409	35,466	35,968	36,677	37,271
Distribution Main (miles)	480	496	502	522	539
Total Operating Revenue	\$19,260,803	\$22,046,234	\$21,347,459	\$22,061,003	\$24,378,043
Average Annual Domestic Bill	\$213.98	\$235.43	\$225.56	\$225.45	\$255.56
Total Assets	\$166,470,667	\$173,934,473	\$179,495,880	\$181,370,454	\$195,140,214
Funded Debt, net	\$40,345,148	\$38,392,582	\$36,292,986	\$34,551,536	\$35,537,324
Total Operating Expenses	\$13,502,787	\$14,523,529	\$15,698,338	\$16,925,361	\$17,087,038

**Chester Water Authority  
Financial Statements December 31, 2000 and 1999  
Report of Independent Accountants**

To the Board of Directors  
Chester Water Authority

We have audited the accompanying balance sheets of Chester Water Authority ("the Authority") as of December 31, 2000 and 1999, and the related statements of income and retained earnings and of cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 2, the financial statements are prepared in accordance with certain requirements of the Authority's bond resolutions and, therefore, do not include a provision for depreciation or the capitaliza-

tion of financing costs during construction as would be required under generally accepted accounting principles.

Also, as described in Note 7, the Authority accounts for pension cost in accordance with Pennsylvania Act 205 governing municipal pension plans. This method of accounting differs from methods prescribed under generally accepted accounting principles.

In our opinion, except for the effects of not providing depreciation or capitalization of financing costs during construction and the method of accounting for pension costs as described in the third and fourth paragraphs of this report, the financial statements audited by us present fairly, in all material respects, the financial position of the Authority at December 31, 2000 and 1999, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*PricewaterhouseCoopers LLP*

Philadelphia, PA  
February 2, 2001

**Chester Water Authority**  
**Statements of Income and Retained Earnings**  
**Years Ended December 31, 2000 and 1999**

	2000	1999
Operating revenues	\$ 24,378,043	\$ 22,061,003
Operating costs and expenses:		
Operating and maintenance	15,667,238	15,722,603
Provisions for renewals, replacements and extensions		
Renewals and replacements fund	619,800	602,758
Operating and maintenance fund	800,000	600,000
Total operating costs and expenses	<u>17,087,038</u>	<u>16,925,361</u>
Operating income	<u>7,291,005</u>	<u>5,135,642</u>
Non-operating income:		
Interest earned	989,306	1,005,828
Rents and sundry	138,270	35,810
Investment income	226,740	-
Gain on sale of land	55,295	-
Total non-operating income	<u>1,409,611</u>	<u>1,041,638</u>
Income before charges on funded debt	<u>8,700,616</u>	<u>6,177,280</u>
Charges on funded debt:		
Interest	1,553,285	1,561,951
Amortization of bond discounts and debt issue costs	29,477	50,717
Total charges on funded debt	<u>1,582,762</u>	<u>1,612,668</u>
Net income	<u>7,117,854</u>	<u>4,564,612</u>
Retained earnings at beginning of year	<u>119,017,867</u>	<u>114,453,255</u>
Retained earnings at end of year	<u>\$ 126,135,721</u>	<u>\$ 119,017,867</u>

**Chester Water Authority**  
**Statements of Cash Flow**  
**Years Ended December 31, 2000 and 1999**

	2000	1999
Cash flows from operating activities:		
Net income	\$ 7,117,854	\$ 4,564,612
Adjustments to reconcile operating income to net cash provided by operating activities:		
Provisions for renewals, replacements and extensions	1,419,800	1,202,758
Amortization of bond discounts and debt issue costs	29,477	50,717
Gain on sale of land	(55,295)	-
Increase in investment securities	(226,740)	-
Changes in assets and liabilities -		
(Increase) decrease in accounts receivable	(68,029)	303,488
Increase in unbilled revenues	(147,202)	(52,761)
Decrease (increase) in materials and supplies	126,453	(102,253)
Increase in other current assets	(109,304)	(4,615)
Increase (decrease) in accounts payable and accrued expenses	815,707	(340,429)
Increase (decrease) in accrued interest on funded debt	12,518	(61,324)
Increase in customer deposits	75,699	36,987
Net cash provided by operating activities	<u>8,990,938</u>	<u>5,597,180</u>
Cash flows from investing activities:		
Purchase of investment securities	(43,333,567)	(33,617,743)
Proceeds from sale and maturities of investment securities	42,076,974	35,320,358
Additions to property, plant and equipment - net	(9,634,430)	(6,815,288)
Proceeds from sale of land	69,720	-
Net cash used for investing activities	<u>(10,821,303)</u>	<u>(5,112,673)</u>
Cash flows from capital and related financing activities:		
Proceeds from sale of water revenue bonds	3,400,000	9,845,000
Repayment and repurchase of water revenue bonds	(2,395,000)	(11,515,000)
Discounts on water revenue bond issues	(39,786)	(103,099)
Bond issue costs	(86,524)	(79,705)
Advances for construction	457,534	151,108
Refunds of contractor advances	(88,221)	(121,683)
Contributions in aid of construction	307,291	433,022
Net cash provided (used) for capital and related financing activities	<u>1,555,294</u>	<u>(1,390,357)</u>
Net decrease in cash and cash equivalents	<u>(275,071)</u>	<u>(905,850)</u>
Cash and cash equivalents at beginning of year	<u>1,227,041</u>	<u>2,132,891</u>
Cash and cash equivalents at end of year	<u>\$ 951,970</u>	<u>\$ 1,227,041</u>
Supplemental schedule of noncash financing activities:		
Additions to property, plant and equipment provided by contractors	<u>\$ 4,170,488</u>	<u>\$ 739,417</u>
Cash paid during the year for interest	<u>\$ 1,540,767</u>	<u>\$ 1,623,275</u>

**Chester Water Authority**  
**Balance Sheets**  
**December 31, 2000 and 1999**

	2000	1999
<b>ASSETS</b>		
Fixed capital assets:		
Property, plant and equipment, including construction in progress	\$185,292,452	\$172,268,977
Less - Accumulated provision for renewals, replacements and extensions	<u>14,968,661</u>	<u>13,952,850</u>
	170,323,791	158,316,127
Fixed capital funds:		
Cash and cash equivalents	35,761	30,792
Restricted short-term investments	<u>13,951,858</u>	<u>12,473,494</u>
Total fixed capital	<u>184,311,410</u>	<u>170,820,413</u>
Debt service funds:		
Cash and cash equivalents	11,396	231,351
Restricted short-term investments	<u>4,217,358</u>	<u>4,160,998</u>
Total debt service fund	<u>4,228,754</u>	<u>4,392,349</u>
Current assets:		
Cash and cash equivalents	904,813	964,898
Accounts receivable, less allowance for uncollectible accounts of \$100,000 at December 31, 2000 and 1999	1,769,703	1,701,674
Unbilled revenues	2,260,491	2,113,289
Materials and supplies	<u>1,002,903</u>	<u>1,129,356</u>
Other current assets	<u>119,363</u>	<u>10,059</u>
Total current assets	<u>6,057,273</u>	<u>5,919,276</u>
Other assets:		
Deferred debt issue cost	316,037	238,416
Investment in securities	<u>226,740</u>	<u>-</u>
Total other assets	<u>542,777</u>	<u>238,416</u>
Total assets	<u>\$195,140,214</u>	<u>\$181,370,454</u>

**2000                      1999**

**CAPITALIZATION AND LIABILITIES**

Capitalization:		
Funded debt - water revenue bonds (including bonds maturing within one year of \$2,495,000 and \$2,395,000 at December 31, 2000 and 1999, respectively)	\$ 35,900,000	\$ 34,895,000
Less - Unamortized discounts	<u>362,676</u>	<u>343,464</u>
	35,537,324	34,551,536
Retained earnings	<u>126,135,721</u>	<u>119,017,867</u>
Total capitalization	<u>161,673,045</u>	<u>153,569,403</u>
Current liabilities (excluding bonds maturing within one year):		
Accounts payable and accrued expenses	1,581,421	765,714
Accrued interest on funded debt	141,390	128,872
Customer deposits	<u>462,143</u>	<u>386,444</u>
Total current liabilities	<u>2,184,954</u>	<u>1,281,030</u>
Long-term liabilities:		
Advances for construction	<u>11,023,324</u>	<u>8,788,885</u>
Total long-term liabilities	<u>11,023,324</u>	<u>8,788,885</u>
Contributions in aid of construction	<u>20,258,891</u>	<u>17,731,136</u>
Total capitalization and liabilities	<u>\$195,140,214</u>	<u>\$181,370,454</u>

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

## 1. The Authority

Chester Water Authority (the "Authority") was established as a public corporation and acquired the assets of the Chester Water Service Company pursuant to the provisions of the Municipality Authorities Act of 1935. The Authority provides water service to approximately 37,270 customers in Southeastern Pennsylvania between the Susquehanna River and the Delaware River. The Authority is directed by a five-member Board of Directors, who are appointed by the Chester City Council and serve five-year terms. The financial affairs of the Authority are governed in certain respects by its bond resolutions. Rates for water service are set by the Authority to provide funds sufficient for the operation, management and maintenance of the plant and properties, necessary renewals and replacements and debt service.

In accordance with the Authority's bond resolutions, the Authority is required to pay each year into the debt service fund an amount which, when calculated using an annual compound interest rate of 2-1/2%, is sufficient to amortize the principal amount of all bonds outstanding over the term of the bonds. If necessary, additional payments in excess of the minimum amount required must also be paid to ensure that the balance of the debt service fund is at least equal to the amount required to satisfy the interest and principal maturing in the current year. In addition, the bond resolutions require that the debt service fund include a debt service reserve account which equals the highest debt service requirement for any year during the life of all bonds currently outstanding. Debt service reserve fund assets are held by a fiscal agent solely for payment of bond interest and principal.

All revenue in excess of amounts required for operations and the debt service fund are allocated to the fixed capital funds. The fixed capital funds comprise the renewals and replacements fund, the plant expansion fund and the capital additions fund. The use of the fixed capital funds are restricted by provisions of the Authority's bond resolutions and contracts executed with outside parties.

## 2. Summary of Significant Accounting Policies

The accounting policies of the Authority conform to generally accepted accounting principles except for certain policies adopted by the Authority to conform to provisions of the Authority's bond resolutions (discussed below) and the determination of pension cost as required by Pennsylvania Act 205 governing municipal pension plans (see Note 7).

As required by its bond resolutions, the Authority charges to income an annual provision for renewals, replacements and

extensions, equivalent to at least 1/2 of 1% of the aggregate amount of bonds issued. Except as such provision may be considered to be in lieu of depreciation charges, no provision for depreciation is made on the basis of depreciation rules applied to the cost of depreciable assets over their estimated useful lives by applying a method under generally accepted accounting principles. It is estimated that depreciation expense would have been approximately \$4,300,000 and \$3,300,000 for the years ended December 31, 2000 and 1999, respectively.

The cost of additions to and replacements of property, plant and equipment is capitalized. Cost includes materials, direct labor and indirect charges for engineering and supervision. The Authority does not capitalize the cost of interest on funds borrowed during construction as required by generally accepted accounting principles. Rather, interest cost is expensed as incurred, because the Authority does not provide depreciation on the cost of property, plant and equipment and therefore, such costs would not be charged against future revenues. It is estimated that capitalized interest costs would have been approximately \$1,020,000 and \$1,530,000 for the years ended December 31, 2000 and 1999, respectively.

Repairs, maintenance and minor replacements of property are charged to expense as incurred. As property is retired in the ordinary course of business, the cost of the property plus removal cost less salvage, is charged to the accumulated provision for renewals, replacements and extensions.

Discounts on funded debt and debt issue costs are amortized over the lives of the related bonds.

Discounts on short-term investments are amortized, as an adjustment to interest income, over the life of the related investment.

Operating revenues include both amounts billed to customers and unbilled amounts based on estimated usage from the latest meter reading to the end of the accounting period.

Inventories consist primarily of materials and supplies and are stated at the lower of cost or market with cost being determined on the average cost basis.

The Authority intends to continue to qualify as a tax exempt organization under applicable sections of the Internal Revenue Code. Accordingly, no provision for federal or state income taxes is required.

Upon the expiration of the refund period of an advance for construction, the non-refundable amount is reclassified to contributions in aid of construction. Additionally, construction contributions not subject to refund are recorded as contributions in aid of construction when received.

The 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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. Actual results could differ from these estimates.

Substantially all of the Authority's cash is invested in interest bearing accounts. The Authority considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Long-lived assets and certain identifiable intangible assets held and used by the Authority are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. If the sum of the future cash flows expected to result from the use of the assets and their eventual disposition is less than the carrying amount of the assets, an impairment loss is recognized. Measurement of an impairment loss is based on the estimated fair value of the assets.

## 3. Cash and Investments

### Cash and Short-Term Investments

Cash includes demand deposits, unrestricted certificates of deposit and interest bearing money market funds, carried at cost plus accrued interest which approximates fair value. Short-term investments principally comprise securities issued by the United States government and restricted certificates of deposit and money market funds (see Note 5). In accordance with Statement No. 31 of the Governmental Accounting Standards Board, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," short-term investments are stated at cost adjusted for the amortization of discounts or premiums plus accrued interest, which approximates fair value.

	December 31,	
	2000	1999
Cash	\$ 675,012	\$ 194,415
Money market accounts	270,728	784,000
Certificates of deposit	6,230	248,626
Total cash and cash equivalents	\$ 951,970	\$ 1,227,041
U.S. Treasury Bills and Notes	\$ -	\$ 3,817,993
Restricted certificates of deposit	8,721,742	8,283,863
Restricted money market fund	9,447,474	4,532,636
Total short-term investments	\$ 18,169,216	\$ 16,634,492

The FDIC insures demand deposits up to \$100,000 per depository institution. Beyond the \$100,000 level, as required by Commonwealth of Pennsylvania Law No. 281 (Act 72), the Authority's deposits held by banks are collateralized by a pool of assets in the name of each bank. The pool of assets is invested in various obligations of the United States Treasury or of the Commonwealth of Pennsylvania. The SIPC insures the custody of the U.S. Treasury Bills held by a broker up to \$500,000.

### Investment in securities

Investment in securities is comprised of 4,058 shares of AXA Financial, Inc. with a fair value of \$226,740 as of December 31, 2000. Fair value of the investment securities are obtained from quoted market prices.

## 4. Fixed Capital Assets

Fixed capital assets including construction in progress of \$9,532,106 and \$36,322,726 in 2000 and 1999, respectively, is comprised of the following:

	December 31,	
	2000	1999
Land and improvements	\$ 5,150,887	\$ 5,116,318
Buildings	66,662,267	63,473,588
Mains, meters, hydrants and other equipment	107,422,849	98,087,639
Furniture, office equipment and vehicles	6,056,449	5,591,432
	<u>\$185,292,452</u>	<u>\$172,268,977</u>

## 5. Income Restrictions

In accordance with the Authority's bond resolutions, short-term investments held in fixed capital funds and interest earned thereon is restricted to making capital additions, renewals, replacements and extensions. Interest earned on such short-term investments was \$761,707 and \$693,544 in 2000 and 1999, respectively.

In accordance with the Authority's bond resolutions, short-term investments held in the debt service fund and interest earned thereon is restricted to retiring or paying the principal and interest on outstanding bonds. Interest earned on such short-term investments was \$300,721 and \$311,879 in 2000 and 1999, respectively.

## 6. Funded Debt

Funded debt is comprised of the following:

	December 31,	
	2000	1999
Series of 1966 - 4.15% to 4.25% - maturing annually to 2006 (callable)	\$ 900,000	\$ 1,055,000
Series of 1995 - 3.65% to 5.2% - maturing annually to 2013 (callable on or after December 1, 2000)	5,460,000	5,905,000
Series of 1996 - 4.00% to 5.50% - maturing annually to 2016 (callable on or after December 1, 2001)	8,860,000	9,215,000
Series of 1998 - 3.25% to 4.40% - maturing annually to 2016 (callable on or after December 1, 2003)	8,190,000	9,095,000
Series of 1999 - 3.10% to 4.45% - maturing annually to 2013 (callable on or after December 1, 2003)	9,090,000	9,625,000
Series of 2000 - 4.40% to 5.50% - maturing annually to 2021 (callable on or after December 1, 2005)	3,400,000	-
Total debt	35,900,000	34,895,000
Less unamortized discount	362,676	343,464
	<u>\$35,537,324</u>	<u>\$34,551,536</u>

Each bond is subject to redemption prior to maturity, at the option of the Authority, upon payment of a redemption price of 100% of the principal amount thereof plus accrued interest to the date fixed for redemption.

In January 1999, the Authority issued water revenue bonds with a stated principal amount of \$9,845,000. The proceeds from the issue were used to refund the series of 1993. Unamortized discount and issue costs related to the series of 1993, totaling \$19,857, were expensed in connection with this refinancing.

In December 2000, the Authority issued water revenue bonds with a stated principal amount of \$3,400,000.

The bonds are collateralized by a pledge of all revenues of the Authority derived from the operation of the water system. At December 31, 2000 and 1999, the value at which these financial instruments are recorded is not materially different than the estimated fair value. The aggregate amount of annual principal maturities of funded debt for each of the five years subsequent to December 31, 2000 and thereafter are as follows:

2001	\$ 2,495,000
2002	2,445,000
2003	2,785,000
2004	2,585,000
2005	2,635,000
Thereafter	22,955,000
	<u>\$ 35,900,000</u>

## 7. Pension Plans

The Authority has a noncontributory, defined benefit pension plan covering substantially all employees. The Authority's policy is to fund pension costs accrued.

Pension expense was \$65,524 in 2000 and 1999, respectively.

The Authority accounts for pension expense in accordance with Pennsylvania Act of 205 (the "Act") governing municipal pension plans. The Act specifies a method of accounting that differs from methods prescribed under generally accepted accounting principles which methods would have required the recognition of no pension expense in 2000 and 1999.

As permitted under the Act and in accordance with the Authority's policy, the actuarial valuation of the Authority's pension plan is determined on a biennial basis.

The Authority's accumulated plan benefits and plan net assets as of January 1, 1999, the date of the most recent actuarial study is as follows:

Actuarial present value of accumulated plan benefits:	
Vested	\$ 7,787,887
Nonvested	250,512
	<u>\$ 8,038,399</u>
Net assets available for benefits	<u>\$ 15,013,399</u>

A 7.5% interest rate assumption was used to determine the actuarial present value of accumulated plan benefits in 1999.

The Authority also sponsors a deferred compensation plan pursuant to Internal Revenue Code ("IRC") Section 457(b).

## 8. Postemployment Benefits

The Authority provides certain postemployment life and health insurance benefits to its employees. Substantially all of the Authority's employees may become eligible for these benefits if they retire while working for the Authority. In accordance with the provisions of Statement No. 12 of the Governmental Accounting Standards Board, "Disclosure of Information on Postemployment Benefits Other Than Pension Benefits by State and Local Governmental Employers," expenditures for postemployment life and health insurance benefits are recognized on a pay-as-you-go basis. Benefits were paid to approximately 36 participants in 2000 and 1999 for a total of \$132,361 and \$114,236, respectively, net of co-pay amounts charged to retirees.

## 9. Commitments

The Authority's construction program for 2001 is estimated to cost approximately \$5,900,000. Commitments have been made in connection with certain projects included in this program.

## 10. Rate Matters

As a result of a recent rate study of the Authority's current rate structure by an independent rate consultant, the Authority has submitted to and has received approval from the Authority's Board of Directors for an increase in the rates charged for service. The rate increase requested is based on the level of operating expenses and capital costs that are expected to be in effect when the rates become effective. During 2000, the Authority received approval from its Board of Directors to increase its rates for service by 15.2% effective January 1, 2000.

## 11. New Reporting Standards

In July 1999, Government Accounting Standards Board Statement 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments" ("GASB Statement 34") was issued. The provisions of this statement establish new financial reporting requirements for state and local governments throughout the United States. The Authority expects to adopt the provisions of GASB Statement 34 in 2003.

# The City of Chester: Growth and Progress



A major improvement for Chester was the recent renovation of the Chester Transportation Center. The Classic Revival building was designed by William Cookman, a noted architect with the Pennsylvania Railroad (PRR), which built the structure in 1903. The Transportation Center received a \$7.5 million facelift that included restoration of the historic building, the addition of elevators connecting the platforms and street level, new landscaping and lighting, a community meeting room, a security office for SEPTA police, and a new bus berth along 6th Street. The Chester Transportation Center is a SEPTA bus depot and a stop on the R2 regional rail line.

The first phase of the University Technology Park (UTP) is a newly constructed \$4 million, 30,000-square-foot facility designed to provide state-of-the-art space for technology-based companies.

The building offers tenants the advantages of a wide-band, fiber optic network with access to Widener University's and Crozer Chester Medical Centers' computer networks. The UTP has been so successful in attracting a variety of new companies to the City of Chester that plans are now in the final design stages to construct a second 40,000-square-foot building adjacent to the first.

