

The Equation for Excellence: Quality + Service + Value = Excellence

Our ongoing investment in our infrastructure, information systems, and people enables us to deliver *Quality, Service, and Value – in a word, Excellence – earning customer satisfaction and bondholder confidence. You'll accept no less; neither will we.*

Board of Directors



Donald F. Tonge
Chairman



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Vice Chairman



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Secretary



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Treasurer



Arthur Levy, Esq.
Solicitor

Report to Bondholders

The year 2002 brought several major events in the continued growth of Chester Water Authority:

- **\$10 million bond issue in May**
- **Passage of a rate increase**
- **Drought of record for Southeastern Pennsylvania**

The Authority issued a \$10 million bond issue to help support our continuing capital program, which provides for new facility construction and system expansion, as well as refurbishment of our infrastructure on an ongoing basis. During the past ten years, from 1993 to 2002 inclusive, Chester Water Authority has spent \$77,652,000 on our capital spending program, a very significant amount for an authority of our scope and size.

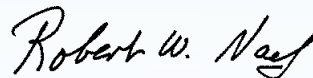
In August 2002, Chester Water Authority passed a rate increase to take effect January 1, 2003, which is predicted to increase our revenues in 2003 to \$28,317,000. This level of revenue will allow Chester Water Authority to continue with our high level of preventive and proactive maintenance. It also supports our operational philosophy of optimizing efficiencies through the use of technologies and supports a very active capital construction program for the years 2002, 2003, 2004, and 2005. Even with the latest increase, Chester Water Authority's rates are approximately 65 percent of those of large neighboring private, for-profit utilities, validating the value of the Authority's concept of providing quality service at rates that are lower than those of private companies.

The drought of 2002, which is being called the drought of record for Southeastern Pennsylvania, had a major impact on Chester Water Authority, from both a supply and a revenue standpoint. In response to the drought emergency declared by the Commonwealth of Pennsylvania, Chester Water Authority was forced to require all customers to reduce water usage. This condition lasted into November, at which time our supply conditions returned to normal. The lasting effect of this demand reduction is a corresponding reduction in revenue, from which, past experience has shown, the Authority will need a period of time to recover. As with all challenges, this drought event has been met by management and staff with the view that we will learn and improve from this experience.

All of the above is part of the fabric woven at Chester Water Authority since its inception in 1939 by a work force dedicated to performing at the highest level of expectation and a management and Board of Directors that are committed to supporting this goal of excellence.



Donald F. Tonge
Chairman of the Board



Robert W. Naef
*Executive Manager
and Chief Engineer*

*Continuing our
Commitment to
Quality, Service,
and Value*

The Equation for Excellence: Quality + Service + Value = Excellence



New high-security fencing provides additional protection for our facilities.

Ensuring the Flow of Safe, Quality Water

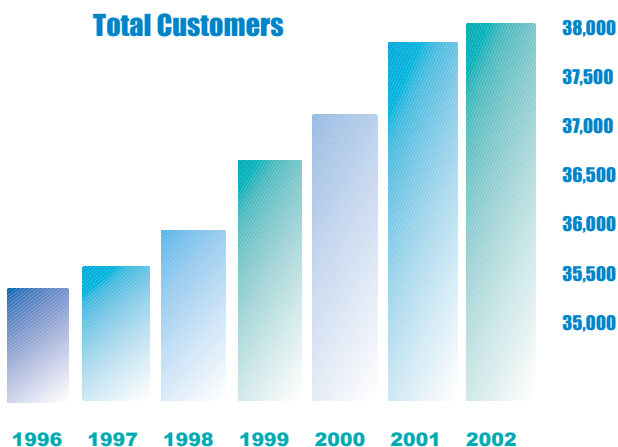
Ensuring the vital flow of safe, quality water to our customers has always been Chester Water Authority's highest priority.

Security Continues to Be Top Priority

The tragic events of September 11, 2001, underscored the critical significance of our security efforts. In response, the Authority has enhanced security at our headquarters and treatment plant, and throughout our distribution network. In the process, we have further restricted access to and increased electronic monitoring of our facilities, implemented an additional barrier (firewall) against unauthorized access to our information systems, and raised security awareness among our staff.

Vulnerability Assessment Completed

The Authority applied for and received a \$115,000 grant from the Environmental Protection Agency (EPA) to perform a security-vulnerability assessment of our operations, engineering, and crime-prevention efforts. As a public water utility serving more than 100,000 people, Chester Water Authority was required to perform this assessment and report our findings to the EPA by March 31, 2003. We will use the results of the vulnerability assessment to help us focus on areas that offer the greatest opportunities for enhanced security. The grant covered consultant fees for the assessment (\$79,000); the balance (\$36,000) will be used for emergency-response planning.



Treatment Plant Improvements

Automation of Filter #1 to Be a “Blueprint”

Filtering is a crucial step in the water treatment process. In 2002, substantial progress was made on the design for the automation of water filter #1, which will serve as the blueprint for retrofitting all 12 filters at the Octoraro Treatment Plant. Existing manually operated hydraulic valves on the filters will be converted to electrically operated valves with electronic controls to improve operational efficiency, control, and monitoring capabilities. Individual flow control of each of the two filter bays will further improve control of the filtering process. An additional flow-control unit on the final step of the filter cleaning process (called filtering to waste) will optimize filter performance. At the same time, piping improvements will be made to modernize the filter piping in accordance with current Pennsylvania Department of Environmental Protection (PA DEP) regulations. Plans call for bidding and construction in 2003.

Washwater Tank Optimizes Operations and Provides Backup

Regular back-washing with finished water also is essential to the performance of the filter operation. The Authority completed the replacement of a 50-year-old concrete washwater tank with a new 250,000-gallon steel washwater tank. We now have two steel tanks in which to store finished water that is used to clean the filters, with a total storage capacity of 500,000 gallons. Placing both tanks online optimizes operational efficiency; the second tank also provides a backup when one tank is taken offline for maintenance. The existing steel tank was power-washed as part of this project.

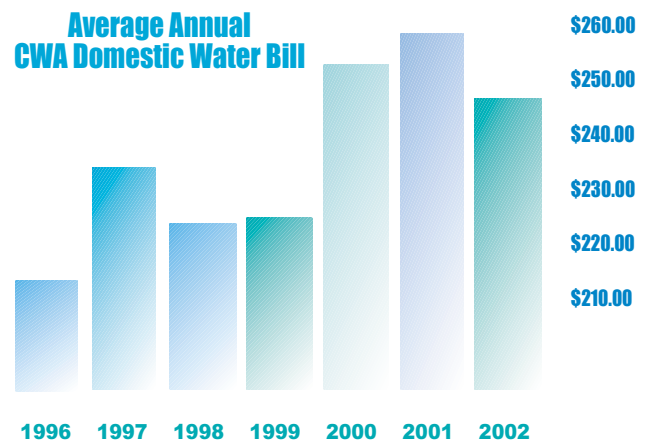
Stream and Rain Gauge Automation Speeds Information Flow

Water treatment plant operators rely on timely, accurate data on stream flows and rainfall. In 2002, the Authority completed automation of the stream- and rain-gauging stations throughout our 140-square-mile watershed. The new system eliminates the need for routine visits by employees to each



Optimizing the Water Treatment Process at the Octoraro Treatment Plant

The Octoraro Treatment Plant is the heart of Chester Water Authority's water treatment and distribution system. Improvements in our water treatment processes and information management systems, as well as a commitment to professional training and certification of our plant operators, ensure that we maintain our high standard of quality.



gauging station to collect and replace a paper chart that recorded the level of flow or rainfall – a process that took a half-day each week and additional time to key the data into a computer spreadsheet program at the Octoraro Treatment Plant. This data is automatically downloaded into the plant's computer system once daily or more often if needed, yielding real-time data. During flood events, the system will provide up-to-the-minute information about upstream conditions, enabling plant personnel to better control dam operations.

Modifications to Carbon Feed Permit Improved Control of Downstream Flow Release

The Authority is required to release approximately 18 million gallons of water per day (mgd) from the Octoraro Reservoir to downstream users. This flow release is best made and best controlled by lines and valves fed from the reservoir's intake tower. However, the carbon needed for taste and odor control is fed into the intake tower, and water containing carbon cannot be released downstream. To solve this dilemma, in 2002 the carbon feed point was relocated from the intake tower to two 42-inch-diameter raw water lines located beyond the downstream flow-release valves. New taps were made, carbon slurry piping was connected to the new taps, and the existing carbon feed controls were reworked. These new carbon feed points permit better control of the downstream flow release while simultaneously permitting carbon to be used in the treatment process for taste and odor control.

State-of-the-Art Surge Facility to Better Protect Transmission Mains

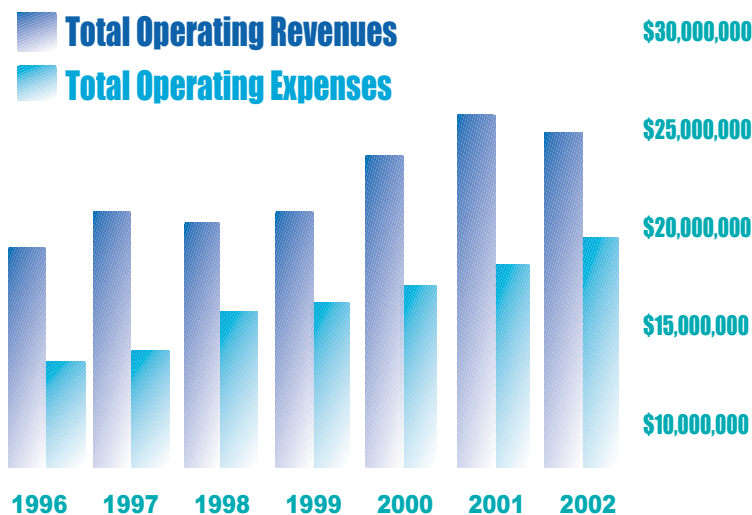
Hydraulic pressure surges associated with unexpected power outages create a "water hammer" effect that can severely damage water transmission mains. In 2002, design was completed for a state-of-the-art surge valve facility, which will more reliably protect the Authority's transmission mains from such damage. The consolidated facility will contain five new, electronically controlled surge valves, replacing three existing separate surge facilities. In compliance with current PA DEP regulations, the new facility also will dechlorinate water before release.

Disinfection By-products Study Prompts Process Improvements

Chlorination is essential to achieve good disinfection of finished water; however, the treatment process produces by-products. EPA regulations set the maximum allowable levels of chlorination by-products in finished water at 80 parts per billion (ppb) for total trihalomethanes (TTHM) and 60 ppb for haloacetic acids (HAA). In 2002, the Authority completed a study of the water treatment process to evaluate the nature and source of these chlorination by-products and develop cost-effective ways to minimize their production. Based on the results, we are proceeding with changes in operations and chlorination-system design to achieve optimum disinfection while minimizing the amount of disinfection by-products formed in the treatment process. These process improvements will ensure our continued compliance with EPA regulations.

Tainter Gate Study Progressed

The Federal Energy Regulatory Commission (FERC) requires all owners of dams with Tainter gates in the United States to assess the gates' structural soundness and correct any weaknesses by the end of 2004. Tainter gates control the amount of water that can be released from our Octoraro Reservoir. In 2002, the Authority completed the first step of our study of the Tainter gates on the dam at the Octoraro Reservoir, assessing the condition of accessible elements, including the pivot points and downstream face of the gates. The initial assessment also will result in the development, in 2003, of a plan to install a bulkhead or cofferdam in the upstream area around the Tainter



The Tainter gates at our Octoraro Reservoir will be inspected, rehabilitated, and painted.



gates, enabling engineers to pump out the water to create a temporary dry condition. This will allow the Authority to complete inspection of the chains, lower seals, and upstream face of the gates and to perform maintenance, including painting. Design of a rehabilitation plan will be completed in 2003 and carried out by the end of 2004.

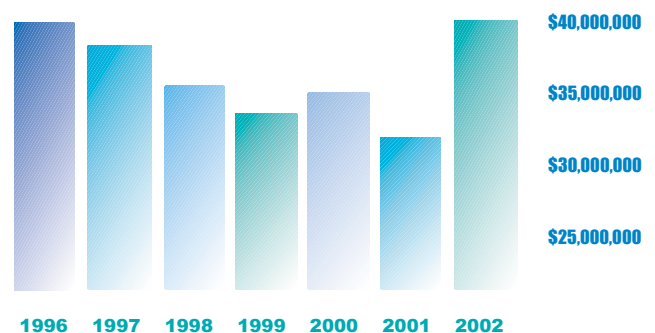
LIMS Installation Completed; Phase-in Progressed

Laboratory and operations personnel perform more than 20,000 water-quality analyses and numerous quality-control checks each year from our in-house certified laboratory at the Octoraro Treatment Plant. In 2002, the Authority completed installation and began phase-in of a computerized Laboratory Information Management System (LIMS). This will enable the development of a water-quality database and will enhance our ability to collect, analyze, and use our laboratory data. LIMS replaces the older method of collecting data on paper forms and entering summaries in a spreadsheet program. The new system makes this data more accessible and easier to analyze and use in daily operations at the Octoraro Treatment Plant, while increasing the efficiency of compliance checking and reporting of the data to regulatory agencies. Phase-in of the system will continue to progress from use in routine testing to handling of all laboratory data. Future plans include input of data from hand-held electronic field devices and the Octoraro Treatment Plant's process instruments.

Operator Cross-training and Certification Increases Professionalism

Operator training, knowledge, and professionalism are vital to an effective water treatment operation. In 2002, the Authority completed cross-training of our 10 water treatment plant operators, enabling them to perform either pumping or treatment duties. Formerly, one of the two operators on each shift had been trained specifically to maintain high-service pumping, and the other operator was trained to maintain the treatment process. Cross-training increases our operators' knowledge and professionalism, while providing additional flexibility in plant personnel scheduling. Moreover, cross-training will enable the Authority to comply with a new PA DEP operator certification law, which requires that all process-control decisions be made by a certified operator. Our goal is to staff every shift with a certified operator, and for every operator to become certified. The cooperation and attitude of our operators has substantially helped to make this process extremely successful.

Funded Debt, net



Upgrading Our Water Distribution Facilities

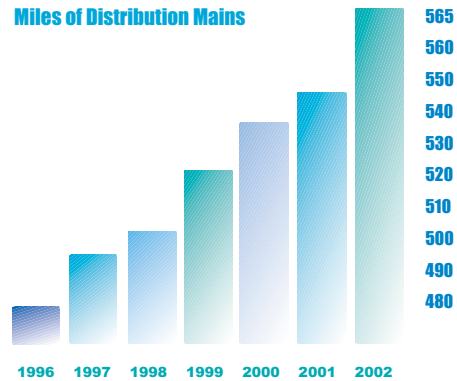
Chester Water Authority's cost-effective upgrades of our water distribution facilities help ensure that we maintain reliability and keep pace with the increasing demand for water in our growing communities.

Third Pump Added at Village Green Booster Station

The area around Village Green in Delaware County is a prime example of a growing community, in which increasing development and demand are anticipated to exceed the pumping capacity of the two existing 500-gallon-per-minute (gpm) pumps at the Village Green Booster Station. In 2002, the Authority installed a new 800 gpm pump to serve as the station's base pump, with the existing pumps coming online as needed to match peak demand. A cost-effective alternative to construction of a new booster station, the new pump gives the existing station the capacity to meet projected demand.

Phase One of Hillendale Booster Station Upgrade Completed

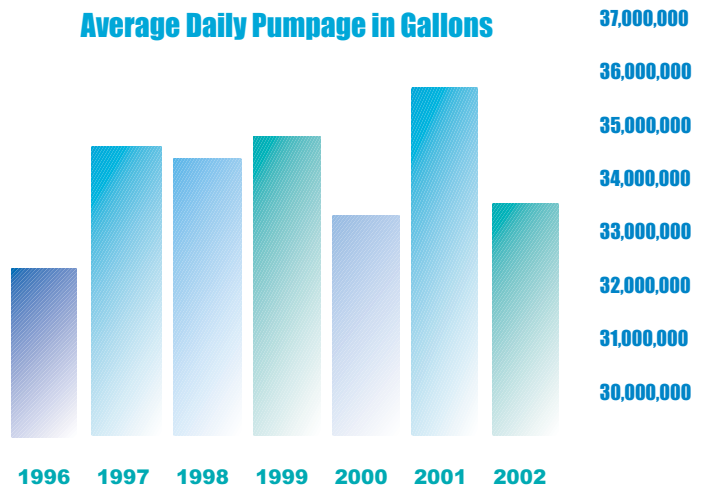
In 2002, the Authority initiated the first phase of a project designed to replace the electrical service equipment at the Hillendale Booster Station, replace one of the four existing pumps, and retrofit all four pumps with new, more reliable variable speed drives like those at our other booster stations. The project reduces maintenance, improves reliability, reduces operating costs, and increases capacity of the station, which supplies water to the Artesian Water Company and a growing number of customers in New Garden Township, Chester County. In 2002, the overall design of this project was completed. In addition, the smallest pump, which operated at 1 million gallons per day (mgd), was replaced with a 4 mgd pump and variable frequency drive. In 2003, the existing general electrical service transformer which is owned by the electrical utility com-



pany, will be replaced with high-tension service equipment that will be owned by the Authority. The Authority anticipates a five-year payback on the initial investment for the new electrical equipment, which will reduce the cost of electricity required to operate the booster station. Authority employees worked with our electrical contractor on the project, handling the mechanical aspects of pump replacement.

Design and Bidding Completed for Oxford Booster Station Upgrade

The Oxford service area in Chester County also is experiencing significant growth. In 2002, the Authority completed design and bidding for a project that will expand the existing Oxford Booster Station building to accommodate the installation of new, higher-capacity pumps, as well as control units. The addition will be constructed above the existing building, which is now partially underground, and will use existing piping. A cost-effective solution, the design also is intended to reduce maintenance costs and provide greater redundancy and reliability.



Systems Improvements

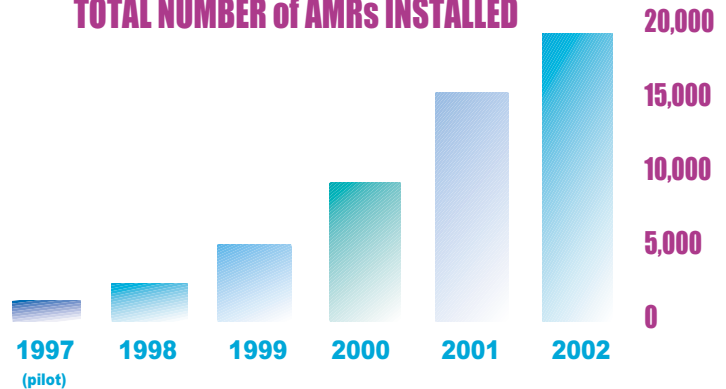
Reliable, effective, and integrated information technology (IT) systems are essential to an organization's ability to fulfill its mission. Yet the only constant in the IT field is change. With this in mind, Chester Water Authority actively seeks opportunities to upgrade and enhance our systems.

SCADA's Scope Expanded

When the Authority implemented a new Supervisory Control and Data Acquisition (SCADA) system in 2001, we laid the groundwork for remote monitoring and management of additional vital points throughout our distribution system. In 2002, we expanded the SCADA system to cover the booster stations at Jennersville, located in Penn Township, Chester County, and Regency Square, located in Upper Chichester, Delaware County. Design was also completed to add pressure-reducing valves (PRVs) to SCADA. This will be implemented in 2003. Information collected by SCADA also was used to calibrate new hydraulic models of our distribution system in Western Delaware County and the Toughkenamon system in Southern Chester County.

SCADA not only permits rapid identification of changing conditions and response to emergencies, it also provides the detailed data that is essential in understanding water-system operations and helps in the design of system improvements. Moreover, SCADA is capable of sharing data with the Authority's other information management systems, contributing to an integrated picture of the Authority's operations. In addition, the system is accessible from any authorized Authority computer station or laptop, providing greater flexibility and more rapid response. Continued expansion is planned for 2003.

TOTAL NUMBER of AMRs INSTALLED



AMR: Beyond the Halfway Point

Approximately 4,000 new water meters were installed in 2002 as part of the Authority's ongoing Automated Meter Reading (AMR) program, bringing the total number of meter conversions to 19,000 – more than half of our metered customers. We continued to expand our use of vehicle-mounted reading devices, gaining experience in the design of efficient driving routes to optimize system capability.

With AMR, a meter reader uses a hand-held or truck-mounted electronic device to activate a radio-controlled device on the water meter and record the current reading. Fast, accurate, and efficient, AMR enables the Authority to obtain an actual reading without entering a customer's home or business. This avoids inconveniencing customers and eliminates estimated readings, thereby improving billing accuracy.

Unlike many water utilities, which hire outside contractors to replace meters, the Authority's employees have performed all but the pilot conversions, enhancing our control over the pace, quality, and cost of the project.

File Servers and PCs Replaced

In today's information technology systems, personal computers (PCs) networked through shared file servers provide instant access to software applications, stored documents, and operational data. As part of the Authority's continuing efforts to ensure adequate and reliable information-processing capability, two five-year-old computer file servers were replaced with current models that include expanded data-storage capacity.

The Authority also continued its program to replace two or three outgrown PCs each month. These efforts ensure that our employees have the information-processing capability they need to perform their work efficiently and effectively.

A DROUGHT EMERGENCY GRIPPED PENN BUT CHESTER WATER AUTHORITY



A heron flies over what appears to be a sandy beach on the shores of our reservoir. But this is no beach; it is exposed reservoir bottom, left dry as the water levels dropped to severe lows.



As the drought continued, the exposed reservoir bottom began to grow weeds where there should be water.

As Pennsylvania's stream and groundwater supplies dipped to dangerously low levels in many counties, former governor Mark Schweiker signed a proclamation on February 12, 2002, declaring a drought emergency for 24 southeastern and eastern counties, including Delaware and Chester Counties. Chester Water Authority, along with other water utilities across the state, had been operating under a voluntary water conservation program since the first drought watches were issued in the fall of 2001. The drought emergency remained in effect until December 18, 2002. And the Authority was prepared for what was to come, thanks to a reliable secondary source of supply for raw water from the Susquehanna River.

A record drought

In 2002, the Authority experienced the worst drought in the 51-year history of the Octoraro Reservoir. It began in 2001 with the lowest rainfall recorded in some 40 years of record-keeping at the Octoraro Treatment Plant. It continued and worsened in 2002. Over the long, hot summer rainfall deficits increased, groundwater inflows dwindled, and summer thunderstorms brought no relief. By the first week of August, the Octoraro Reservoir had fallen to 50 percent of its total volume. On August 2, PA DEP authorized a reduction in the required downstream release from the reservoir. Even with customer

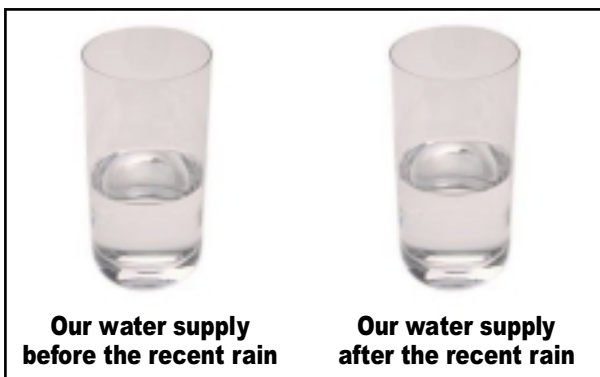
SYLVANIA IN 2002, WAS PREPARED

conservation, reduction of downstream release, and maximum use of the Susquehanna source, the reservoir volume continued to be depleted into September. But rains came and finally, in the third week of September, reservoir in-flows started to increase. By the second week of November, the reservoir had returned to full volume.

Susquehanna: a vital resource

In August and September, the Authority was pumping around the clock to the maximum limit – 30 million gallons per day (mgd) – from the Susquehanna River. More than 50 percent of the water used in 2002 was from the Susquehanna River; under normal conditions, only 15 percent comes from that source. Since 1970, the Susquehanna River 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 Octoraro Treatment Plant. Its reliable operation is essential in enabling us to meet the varying demand for water, especially under drought conditions. In 2000, the Authority completed installation of a third pump and new electronic controls and upgraded the electrical system at the Susquehanna Pumping Station, improving the station's reliability, redundancy, and remote operability.

DROUGHT UPDATE FOR CUSTOMERS OF CHESTER WATER AUTHORITY



We're very pleased that we have had some rainfall recently, but we are still in a severe drought situation. Our Octoraro Reservoir is still well below normal capacity. The effects of this summer's drought will be with us for a long time. Chester Water Authority appreciates your conservation efforts, and asks that you continue to save water, even when it's raining.

EVERY DROP STILL COUNTS!



Chester Water Authority
www.chesterwater.com

415 Welsh Street • P.O. Box 467
Chester, PA 19016
(610) 876-8185 • (800) 793-2323

Information on the drought may be found at www.chesterwater.com, or from the PA Department of Environmental Resources at www.dep.state.pa.us.

Ads like this one helped inform our customers of the critical situation, and encouraged conservation.

Customers conserve

The Authority launched a public education campaign to encourage water conservation, using newspaper ads, bill stuffers, Web site bulletins, and for the first time, a streamer on the cable television weather channel.

Thanks to the water conservation efforts of our customers, water use was significantly reduced during the drought period. Late-summer rains also helped replenish our supply.

The Authority overcame one of the most challenging years we have ever faced with no water outages and minimal inconvenience to our customers. Moreover, the industries we serve did not have to curtail water to an extent that affected employment. We accomplished these goals through our preparedness in developing and upgrading the Susquehanna Pumping Station, the conservation efforts of our customers, and the cooperation of neighboring water companies with which we have cooperative agreements.

The Authority is currently beginning a study to identify viable options that will further strengthen our source of supply so that we can continue to meet our goal of delivering quality water to our customers when they need it, at a reasonable cost.

Planning, preparedness, and built-in back-up all helped us to provide our customers with clean, quality drinking water even under extreme drought conditions.

New Financial Information System to Enhance Capabilities

In 2002, the Authority began working with an information technology consultant in a thorough search to identify, acquire, and implement a new Financial Information System (FIS), which will enhance our ability to perform financial functions and make effective management decisions. The new system will be our third-generation FIS, the most recent step in our progressive program to automate day-to-day financial functions – general ledger, accounts payable, job costing, procurement, inventory, fixed assets, payroll – as well as human resources processing and information.

Employees representing various departments are involved in evaluating proposed systems to ensure that the selected system meets the diverse needs of our organization. Plans call for the new system to be operational in 2003.

Proactive Maintenance

Chester Water Authority's ongoing proactive maintenance program preserves the valuable assets in our water storage and distribution system, including storage tanks, water mains and associated valves, service lines, and hydrants; contributes to water quality; and increases fire flows and pressures.

Village Green Tank Maintenance Preserves Key Storage Facility

Ongoing preventive maintenance of the nine storage tanks at the Village Green Tank Farm in Delaware County is designed to preserve a valuable asset at this key storage facility. In 2002, the Authority awarded a contract to clean and repaint steel tank #1, as well as to replace the vent. When the project is completed in 2003, it will be the fifth and last steel tank at Village Green to undergo this process since 1998. The cost for rehabilitating one 10-million-gallon tank is approximately \$1 million.

Looking ahead, the Authority plans to clean, repair, and repaint the exteriors of concrete tanks #2, #3, and #4 in 2004. These 10-million-gallon tanks were constructed at Village Green in 1950, when the Authority's source of supply was moved to the Octoraro Creek. Maintenance performed in the mid-to late 1980s preserved these original concrete tanks. The latest round of exterior renovations is designed to maintain these tanks in good condition.

Main Rehabilitation Preserves Quality, Increases Fire Flows and Pressures

Since 1974, the Authority has invested \$17 million in the rehabilitation of 38.8 miles of water main and associated valves, service lines, and hydrants throughout our service area. These efforts preserve water quality and increase fire flows and pressures. In 2002, the Authority completed one project in Delaware County, involving cleaning and cement lining of a half-mile of 12-inch-diameter cast-iron main on Upland Road in Brookhaven, Upland, and Parkside Boroughs, and a half-mile of 6- and 8-inch-diameter cast-iron mains in the area of Widener University in the City of Chester.



In 2003, the Authority plans to rehabilitate approximately 1,800 feet of 30-inch-diameter cast-iron water main located in and along the Chester Creek behind Crozer-Chester Medical Center in Upland, Delaware County. The main will be lined with plastic. A major benefit of this project is safeguarding against possible water leaks. Also in 2003, the Authority plans to rehabilitate 2.4 miles of 6-, 8-, and 12-inch-diameter main in the City of Chester.

Contracts Awarded for Main Renewals at Bridge Crossings

At the end of 2002, contracts were awarded for the replacement of old water mains at two bridge crossings in Upper Chichester Township, Delaware County. A new 6-inch-diameter pipe will be attached to the bridge on Meetinghouse Road over the Naaman's Creek and the existing 30-foot main in the creek bed will be retired. A new 6-inch-diameter pipe will be attached to the railroad bridge on Chichester Avenue, replacing the existing 130-foot main.

Improving Work Processes

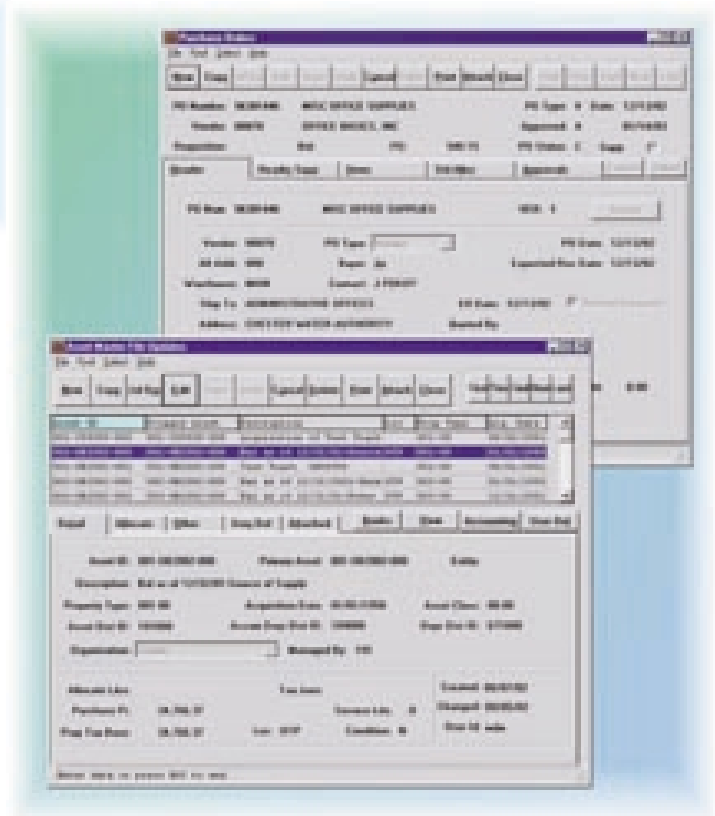
At Chester Water Authority, we are finding ways to “work smarter” by getting the full benefits out of our investment in information technology systems.

Purchase Order Process Automated

Over time, the Authority has phased in use of each of the modules in our Financial Information System, but until recently, purchase orders were generated manually. In 2002, we implemented the purchasing module of our FIS following a successful pilot project in the Distribution Department. The pilot was conducted by a team of staff members from Distribution, Information Systems, and Accounting who were assisted by an outside facilitator. Automation has reduced the cost and increased the efficiency and accuracy of the purchase order process.

Automation of Fixed-Assets System in Progress

Similarly, when an old water main or other facility is replaced and must be removed from the Authority's fixed-assets records, the process of combing old paper files for its original dollar value is time-consuming. In 2002, the Authority began the process of automating its fixed-assets records, which will increase accuracy and operational efficiency. This multi-year project is focusing on interpreting and entering data into the fixed-assets module of the FIS from manual records of assets acquired or built in the past.



Capital Budget Tracking System Developed

One of the advantages of today's IT systems is the ability to select and analyze data from a variety of sources. In 2002, the Authority's Information Systems Department developed a system to track and report the status of our capital budget items. The 2002 Capital Budget Analysis Report lists 130 projects, from the \$50,000 hydrant-renewal program to the \$1.3 million Automated Meter Reading (AMR) program. Pulling figures from the FIS, the system tracks the budgeted amount and expenditures for the current month, for the year to date, as a percentage of budget, and from inception to date – and generates a monthly report – all without duplication of effort. At a glance, managers can see the financial status of a project and track its progress.

Contributing to Our Community

The new Chester City Hall represents urban renewal at its best. Formerly a bank, the building now houses city offices.



Route 291 PENNDOT Project Contributes to City of Chester Revitalization

Design has been completed for the second phase of the renewal of water service facilities for the Pennsylvania Department of Transportation's (PENNDOT) \$2.8 million Route 291 Phase 2 highway reconstruction project in the City of Chester, Delaware County. This phase will make Second Street from Franklin to Trainer Streets a safer, easily traveled highway by widening it from two to four lanes, plus a center turning lane.

The Route 291 PENNDOT project is an integral part of the public infrastructure improvement plan for the City of Chester's waterfront area and an important contributor to the city's overall revitalization.

Chester's waterfront development plans include construction of a river walk and a portion of the East Coast Greenway – an initiative that would allow bicyclists to pedal from Maine to Florida on scenic pathways – assisted by a \$1 million grant from the State Transportation Commission to the City of Chester. These projects complement the city's \$1.2 million Seaport Drive project, which is under construction, to provide better vehicle access to the waterfront.

As part of the Route 291 project, the Authority plans the renewal, retirement, and relocation of old water main – many of which are over 100 years old – and associated services:

- Replacement of 10,250 feet of 6- and 10-inch-diameter water main with 8-inch-diameter water main along Route 291 and some side streets
- Relocation of 3,650 feet of 20-inch-diameter water main
- Renewal and transfer of water services and fire hydrants

In addition, the Authority is installing reinforcement mains in the area in conjunction with this project.

During Phase 1 of the Route 291 project, which was completed in 2000, the Authority renewed approximately 3,600 feet of water main from Ridley Creek to Franklin Street.

The Authority will maintain water service and fire protection to customers along Second Street throughout the project. The project will require continued close coordination with PENNDOT and its contractors, as well as with other utility companies working in the construction area.

Paid for through a cost-sharing agreement between the Authority and PENNDOT, this represents the single largest water main renewal and relocation project undertaken by the Authority.

430 Years of Service and Dedication



Standing in front of our Main Office Building, CWA Executive Manager and Chief Engineer Bob Naef (far left), 35 years of service, is joined by (from left to right) Jim Taylor, Supervisor, Meter Services, 30 years of service; Diane Shull, Office Manager, 40 years of service; Ed Sendek, Assistant Director of Engineering, 33 years of service; and Shelly Schwalbe, Meter Service Working Foreman, 32 years of service.

At Chester Water Authority, we are proud to provide our customers with quality, service, and value. We are able to meet these high standards because our employees are dedicated, skilled, and experienced. Their enthusiasm, expertise, and strength of purpose is one of our most important assets. As valued employees, they in turn value our customers: a winning formula for our continued success. CWA is happy to recognize our employees of longest standing. We thank them for their contributions to CWA's ability to grow and to deliver quality, service, and value.



Octoraro Treatment Plant employees (from left to right) Os Moran, Senior Outside Maintenance Foreman, 35 years of service; Lonnie Shoemaker, Assistant Lab Technician, 34 years of service; Jackie Wallace, Relief Operator/Assistant Plant Mechanic, 33 years of service; and Ken Lawrence, Assistant Chief of Treatment, 31 years of service, enjoy the view of the Octoraro Reservoir.



Distribution employees (from left to right) Joe Pitner, Distribution Facilities Supervisor, 31 years of service; Ed Hall, Construction Supervisor, 31 years of service; Tom Cain, Assistant Chief of Distribution, 31 years of service; and Larry Crews, Leader, 34 years of service, shown here at our Distribution Building, have contributed over 127 total years to CWA.

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*



David J. Krupiak
Chief of Distribution



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



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



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



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



Sandra Hunt
Executive Administrator

INDEPENDENT AUDITORS' REPORT

Board of Directors Chester Water Authority

We have audited the accompanying balance sheet of Chester Water Authority ("the Authority") as of December 31, 2002, and the related statements of income and retained earnings and of cash flows for the year 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 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 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 audit provides a reasonable basis for our opinion.

As described in Note 2, the financial statements do not include a provision for depreciation or the capitalization of financing costs during construction as would be required under generally accepted accounting principles.

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 Chester Water Authority at December 31, 2002, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

March 20, 2003
Philadelphia, PA

Deloitte + Touche LLP

CHESTER WATER AUTHORITY BALANCE SHEET DECEMBER 31, 2002

ASSETS

FIXED CAPITAL ASSETS:

Property, plant and equipment, including construction in progress	\$200,428,599
Less—accumulated provision for renewals, replacements and extensions	<u>15,730,401</u>
Net property, plant and equipment	184,698,198

FIXED CAPITAL FUNDS:

Cash and cash equivalents	2,638,443
Restricted short-term investments	<u>10,376,000</u>
Total fixed capital	<u>197,712,641</u>

DEBT SERVICE FUNDS:

Cash and cash equivalents	51,621
Restricted short-term investments	<u>4,908,210</u>
Total debt service fund	<u>4,959,831</u>

CURRENT ASSETS:

Cash and cash equivalents	1,360,778
Accounts receivable, less allowance for uncollectible accounts of \$80,000	1,145,108
Unbilled revenues	2,383,591
Investments	6,680,647
Materials and supplies	1,116,398
Other current assets	<u>133,670</u>
Total current assets	<u>12,820,192</u>

OTHER ASSETS:

Unamortized discounts and other deferred amounts	320,097
Deferred debt issuance costs	<u>526,576</u>
Total other assets	846,673

TOTAL	<u>\$216,339,337</u>
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**CHESTER WATER AUTHORITY BALANCE SHEET
DECEMBER 31, 2002**

CAPITALIZATION AND LIABILITIES:

CAPITALIZATION:

Funded debt - water revenue bonds (non-current portion)	\$38,795,000
Retained earnings	141,346,376
Contributions in Aid of Construction	30,661,692
Total capitalization	<u>210,803,068</u>

CURRENT LIABILITIES:

Accounts payable and accrued expenses	1,467,306
Accrued interest on funded debt	148,118
Customer deposits	525,961
Bonds payable (portion due in one year)	2,885,000
Total current liabilities	<u>5,026,385</u>

OTHER LIABILITIES:

Advances for construction	509,884
Total other liabilities	<u>509,884</u>
TOTAL	<u>\$216,339,337</u>

See notes to financial statements.

**CHESTER WATER AUTHORITY
STATEMENTS OF INCOME AND RETAINED EARNINGS
DECEMBER 31, 2002**

OPERATING REVENUES \$24,814,724

OPERATING COSTS AND EXPENSES:

Operating and maintenance	18,020,654
Provisions for renewals, replacements and extensions (See Note 2):	
Renewals and replacements fund	747,958
Operating and maintenance fund	900,000
Total operating costs and expenses	<u>19,668,612</u>

OPERATING INCOME 5,146,112

NONOPERATING INCOME:

Developer contributions	2,195,504
Interest earned	643,199
Rents and sundry	40,702
Investment income	392,328
Total nonoperating income	<u>3,271,733</u>

INCOME BEFORE CHARGES ON FUNDED DEBT 8,417,845

CHARGES ON FUNDED DEBT:

Interest	1,688,428
Amortization of bond discounts and debt issue costs	251,463
Total charges on funded debt	<u>1,939,891</u>

NET INCOME 6,477,954

**RETAINED EARNINGS, BEGINNING OF YEAR,
AS PREVIOUSLY REPORTED** 132,633,655

PRIOR PERIOD ADJUSTMENT (See Note 12) 2,234,767

**RETAINED EARNINGS, BEGINNING OF YEAR,
AS RESTATED** 134,868,422

RETAINED EARNINGS, END OF YEAR **\$141,346,376**

See notes to financial statements.

**CHESTER WATER AUTHORITY STATEMENT OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2002**

OPERATING ACTIVITIES:

Operating income	\$5,146,112
Adjustments to reconcile net income to net cash provided by operating activities:	
Provisions for renewals, replacements and extensions	1,647,958
Changes in assets and liabilities that relate to operations:	
Decrease in accounts receivable	405,171
Decrease in unbilled revenues	8,631
Decrease in materials and supplies	191,167
Increase in other current assets	(71,379)
Increase in accounts payable and accrued expenses	517,289
Increase in customer deposits	59,206
Net cash provided by operating activities	<u>7,904,155</u>

INVESTING ACTIVITIES:

Purchases of investment securities	(56,243,570)
Proceeds from sale and maturities of investment securities	50,399,877
Interest received	562,949
Investment income received	392,328
Additions to property, plant and equipment	(6,069,024)
Net cash used in investing activities	<u>(10,957,440)</u>

CAPITAL AND RELATED FINANCING ACTIVITIES:

Proceeds from sale of water revenue bonds	10,000,000
Repayment of water revenue bonds	(2,555,000)
Interest paid on water revenue bonds	(1,688,428)
Bond issue costs	(225,131)
Advances for construction	276,863
Refunds of contractor advances	(83,508)
Net cash provided by capital and related financing activities	<u>5,724,796</u>

**NET INCREASE IN CASH AND
CASH EQUIVALENTS** 2,671,511

**CASH AND CASH EQUIVALENTS,
BEGINNING OF YEAR** 1,379,331

**CASH AND CASH EQUIVALENTS,
END OF YEAR** **\$4,050,842**

**SUPPLEMENTAL SCHEDULE OF NONCASH
FINANCING ACTIVITIES:**

Additions to property, plant and equipment provided by contractors	<u>\$2,190,352</u>
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See notes to financial statements.

City of Chester in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 14, The Financial Reporting Entity.

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 pays into separate funds for the following purposes:

Operation and Maintenance Fund—The Authority shall pay an amount each month into this fund for the purpose of paying all reasonable expenses of operation and maintenance of the water system.

Renewal and Replacement Fund—The Authority shall pay after making the above-mentioned payments into the Operation and Maintenance Fund, an amount equal to 1/2 of 1% of the aggregate principal amount of all bonds issued by the Authority for purposes of paying for cost of major and extraordinary repairs, renewals and replacements to the water system.

Debt Service Fund—The Authority shall pay into this fund, monthly, an amount to provide for the annual payment necessary to amortize the principal of all bonds over the term of the bonds, in equal annual pay-ments plus accrued interest thereon at an annual interest rate of 2-1/2%. 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. The bond resolutions also 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.

Notes continue on next page

**CHESTER WATER AUTHORITY NOTES TO
FINANCIAL STATEMENTS DECEMBER 31, 2002**

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 38,620 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 Authority is therefore considered a component unit of the

Capital Additions Funds—The Authority shall pay into this fund any surpluses from revenues, after making all required payments into the Operation and Maintenance, Renewal and Replacement and Debt Service Funds. The Capital Additions Funds may be used for payment of costs of capital additions, extraordinary repairs or replacements to the water system; for the purchase or redemption of outstanding bonds; for the purchase of direct general obligations of the United States or the Commonwealth of Pennsylvania; and for any other lawful purpose of the Authority.

Plant Expansion Fund—The Plant Expansion Fund is funded from bond proceeds for the payment of costs of capital additions including extraordinary repairs or replacements to the water system. The Plant Expansion Fund is also used for funding any deficiency in the Debt Service Fund for which there are no funds from operations to funding such Debt Service Fund deficiencies. Additionally, the Plant Expansion Fund is used to purchase or redeem bonds of any series or for any other lawful purpose of the Authority.

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 accounting principles generally accepted in the United States of America ("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.(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 (\$1,647,958 in 2002). 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 \$4,500,000 for the year ended December 31, 2002. The estimated depreciation expense was calculated by applying a composite depreciation rate of 2.5% to the average balance of depreciable property for the years ended.

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.

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 \$286,000 for the year ended December 31, 2002. The estimated capitalized interest costs were calculated by applying a weighted average interest rate of 4.45% for the year ended December 31, 2002, to the average construction in progress amount.

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

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.

The preparing 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.

Generally, the Authority's agreements with developers require that for a period of ten years from the time an approach main is completed by the developer and contributed to the Authority, the Authority has a commitment to refund to the developer any tapping fees that are collected from other developers tapping into such water main. During 2002, the Authority returned approximately \$78,000 of such tapping fees to developers.

In accordance with Governmental Accounting Standards Board Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting, the Authority does not apply accounting standards promulgated by the Financial Accounting Standards Board issued after November 30, 1989.

3. CASH AND INVESTMENTS

By State statute the Authority may invest its funds in United States Treasury Bills, obligations of the United States Government or its agencies, obligations of the Commonwealth of Pennsylvania or its agencies or political subdivisions, obligations of the City of Chester, bank savings accounts and time deposits, and shares of an investment company registered pursuant to the Investment Company Act of 1940 provided that such investment vehicles are collateralized. Investments in repurchase agreements collateralized by obligations of the United States Government are also permitted in certain circumstances.

Analysis of Credit Risk

The Authority's deposits and investments at December 31, 2002 totaling \$26,015,699 are as follows:

	Cash and Cash Equivalents	Investments	Total
Current Assets	\$1,360,778	\$ 6,680,647	\$ 8,041,425
Debt Service	51,621	4,908,210	4,959,831
Fixed Capital	2,638,443	10,376,000	13,014,443
Total	<u>\$4,050,842</u>	<u>\$ 21,964,857</u>	<u>\$ 26,015,699</u>

The following schedule contains information about the deposits (checking accounts, saving accounts, certificates of deposit and other cash accounts maintained by bank trust departments) of the Authority for the year ended December 31, 2002:

Carrying amount	<u>\$13,656,030</u>
Bank balance:	
Insured	\$ 600,000
Uninsured and uncollateralized, but covered under the provisions of Act 72 of the General Assembly	<u>13,874,464</u>
Total bank balance	<u>\$14,474,464</u>

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 following is a schedule of investments, by type, of the Authority presenting their fair value and categorization as to credit risk at December 31, 2002:

	Fair Value			
	Total	Credit Risk Category		
		(1)	(2)	(3)
Common Stock	\$ 127,312	\$ 127,312		
U.S. Treasury Notes	9,344,545			\$9,344,545
Total investments	<u>\$9,471,857</u>	<u>\$ 127,312</u>	<u>\$</u>	<u>\$9,344,545</u>

The Authority also had \$2,887,812 invested in money market investments at December 31, 2002. Due to the nature of these investments, they are not categorized as to credit risk.

The three categories of credit risk are defined as follows:

Category

- (1) Insured, registered or securities held by the entity or its agent (bank trust department) in entity's name (name of the Authority).
- (2) Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the entity's name.
- (3) Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the entity's name.

During the year ended December 31, 2002, deposits and investments of the Authority were similar to those on hand at December 31, 2002 with respect to credit risk.

At December 31, 2002, the Authority held 4,542 shares of common stock in Nationwide Financial Services Incorporated with a fair value of \$127,312. The Authority received these shares in connection with the demutualization of Provident Mutual Life Insurance Company. Such shares were sold in January 2003.

4. FIXED CAPITAL ASSETS

Fixed capital assets including construction in progress of \$5,817,265, is comprised of the following:

	December 31, 2002
Land and improvements	\$ 4,895,473
Buildings	70,132,726
Mains, meters, hydrants and other equipment	119,498,802
Furniture, office equipment and vehicles	5,901,598
	<u>\$200,428,599</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 \$395,076 in 2002.

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 \$215,672 in 2002.

6. FUNDED DEBT

Funded debt is comprised of the following:

	December 31, 2002
Series of 1998 - 3.25% to 4.40% - maturing annually to 2016 (callable on or after December 1, 2003)	\$ 6,525,000
Series of 1999 - 3.10% to 4.45% - maturing annually to 2013 (callable on or after December 1, 2003)	7,965,000
Series of 2000 - 4.40% to 5.50% - maturing annually to 2021 (callable on or after December 1, 2005)	3,335,000
Series of 2001 - 3.25% to 4.50% - maturing annually to 2010 (callable on or after December 1, 2006)	4,625,000
Series of 2001A - 2.2% to 4.625% - maturing annually to 2016 (callable on or after December 1, 2007)	9,230,000
Series of 2002 - 2.7% to 5.1% - maturing annually to 2023 (callable on or after June 1, 2007)	<u>10,000,000</u>
Total debt	41,680,000
Less unamortized discount and other deferred amounts	<u>320,097</u>
	<u>\$41,359,903</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 April 2002, the Authority issued water revenue bonds with a stated principal amount of \$10,000,000. The proceeds of the bonds is to be used toward the Authority's capital improvement program, which includes nine specifically identified projects.

The bonds are collateralized by a pledge of all revenues of the Authority derived from the operation of the water system. At December 31, 2002, 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, 2002 and thereafter are follows:

2003	\$ 2,885,000
2004	3,010,000
2005	3,070,000
2006	3,335,000
2007	3,260,000
Thereafter	<u>26,120,000</u>
	<u>\$41,680,000</u>

7. PENSION PLANS

The Authority has a noncontributory, defined benefit pension plan covering substantially all employees. Employees will be 100% vested in the accrued benefit after five years of credited service. The Authority's policy is to fund pension costs accrued. Pension expense was \$136,977 and \$141,949 in 2002 and 2001, 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 primarily because the pension expense does not include a provision for the amortization of actuarial gains or losses. The Authority has not determined what the pension expense would have been under generally accepted accounting principles.

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, 2001, the date of the most recent actuarial study is as follows:

Actuarial present value of accumulated plan benefits:	
Active members	\$12,829,024
Inactive members	<u>3,023,493</u>
	<u>\$15,852,517</u>
Net assets available for benefits	<u>\$13,565,955</u>

An 8% investment return per annum, net of investment expenses assumption was used to determine the actuarial present value of accumulated plan benefits in 2002. All plan benefits are valued using the entry age normal cost valuation method. Plan assets are valued at market values except insurance holdings, if any, are valued at reported contract values. Plan assets consist of approximately 70% mutual funds and 30% notes and annuities.

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 42 participants in 2002 for a total of \$158,880, net of co-pay amounts charged to retirees.

9. COMMITMENTS

The Authority's construction program for 2003 is estimated to cost approximately \$14,000,000. Commitments have been made in connection with certain projects included in this program.

10. NEW REPORTING STANDARDS

In July 1999, Governmental 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 is currently evaluating the impact of the adoption of GASB Statement 34 which is effective in 2003.

11. RATE MATTERS

The Authority received approval from its Board of Directors to increase its rates for service by an average of 10%, effective January 1, 2003.

12. PRIOR PERIOD ADJUSTMENT

GASB 33, Accounting and Financial Reporting for Nonexchange Transactions, was effective for periods beginning after June 15, 2000. Adoption of GASB 33 required governmental entities that use proprietary fund accounting to recognize capital contributions as non-operating revenue on a prospective basis and not as contributions in aid of construction. The effect of adoption of GASB 33 on the Authority's 2001 financial statements should have been to increase retained earnings and net income by \$2,234,767 rather than increasing contributions in aid of construction by the same amount. Therefore, in order for the Authority to adopt GASB 33, the beginning retained earnings as of January 1, 2002 have been restated to reflect this change.