



Chester Water Authority

Quality. Service. Value

*Your
Neighborhood
Water
Company*



*In 1868, South Ward Water
Works responded to the need
for a safe, clean water supply in
the Chester area, providing a
capacity of 800,000 gallons per
day to 67 customers in its first
year of operation.*

And today....

Board of Directors



Donald F. Tonge
Chairman



Linda A. Cartisano, Esq.
Vice Chairman



Norma Jean Holmes
Treasurer



Mary Smith
Secretary



Earline R. Mann
*Assistant Secretary/
Assistant Treasurer*



Arthur Levy, Esq.
Solicitor

Today, as successor to that small community water company, Chester Water Authority provides a capacity of 60 million gallons per day to more than 41,000 customers in western Delaware County, southern Chester County, and Lancaster County, and to water companies in Pennsylvania and Delaware – and, as we begin our 68th year of service as a municipal water authority, we’re still growing.

Yet in many ways, Chester Water Authority is still “your neighborhood water company.”

Many of our facilities have become landmarks in our community – from our Octoraro Reservoir and Treatment Plant in Oxford, Pennsylvania, to our headquarters in the City of Chester. And many of our people work *and* live in our service area – from meter readers to board members.

As part of our community for 139 years, we live our mission every day: to provide “Quality, Service, and Value” in all aspects of our operation, and to all of our customers.

2006 Report to Bondholders

In 2006, Chester Water Authority completed its 67th year of service as a municipal authority. Also in 2006, Chester Water Authority recorded another positive year when measuring all financial and operational benchmarks.

Our customer base increased to 41,645 from 41,201 in 2005. Total operating revenue increased to \$32,397,168 from \$30,553,658 in 2005.

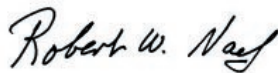
Net funded debt was \$54,970,638, compared to \$48,927,475 at the end of 2005. In September of 2006 Chester Water Authority secured a bond issue in the amount of \$9,500,000 for the Chester Water Authority capital construction program. Capital expenditures were \$11,329,175 in 2006, compared to \$8,850,700 in 2005, to provide for infrastructure rehabilitation or replacement and facility construction to provide for customer growth and regulatory compliance.

The Board of Directors is committed to maintaining a very positive financial condition for Chester Water Authority, as evidenced by a rate increase of 8.6% on July 1, 2006. This was the second of three prior approved rate increases to insure that Chester Water Authority has ample funds for bond requirements, operation and maintenance expenses, and capital improvements.

The management and the Board of Directors realize that all of the successful accomplishments of Chester Water Authority directly flow from the daily contributions of all present and past Chester Water Authority employees that allow Chester Water Authority to accomplish its mission of providing "Quality, Service and Value" to our customers and our bondholders.



Donald F. Tonge
Chairman of the Board



Robert W. Naef
Executive Manager &
Chief Engineer



Chester Water Authority 2006 Milestones

- 139 years of service, since our inception as the South Ward Water Works
- Water supplied to 41,645 active customers
- Rate increased by 8.6 percent on July 1, 2006 – CWA is still an excellent value at about 60 percent of the average rate of neighboring private water companies
- \$9.5 million bond issue settled
- Continuous capital improvement program for the Octoraro Treatment Plant, the Susquehanna Pumping Station, and all other major facilities and long-life assets



Octoraro Treatment Plant: The Heart of Our Community's Water System

*At Chester Water Authority,
we are proud that our
drinking water consistently
meets or exceeds state and
federal regulation.*

Long-Term Capital Improvement Program Underway

The Octoraro Treatment Plant has been a local landmark for southern Chester County and Lancaster County since it was commissioned on Thanksgiving Day 1951. Over the past 55 years, CWA's proactive capital construction program has ensured that all of the water we deliver is provided in strict compliance with federal and state regulations using reliable, up-to-date operating facilities and equipment.

In 2006, the Authority began construction of the first phase of a 10-year, \$48 million capital improvement program for the Octoraro Treatment Plant – the heart of our community's water system – and the Susquehanna Pumping Station.

Improving Treatment Capabilities

Improvements to the Octoraro Treatment Plant provide improved treatment capabilities within our existing infrastructure.

The rolling hills and scattered farms of the Brandywine Valley provide inspiration to local artists, including the Wyeth family, and add scenic beauty to the CWA service area.

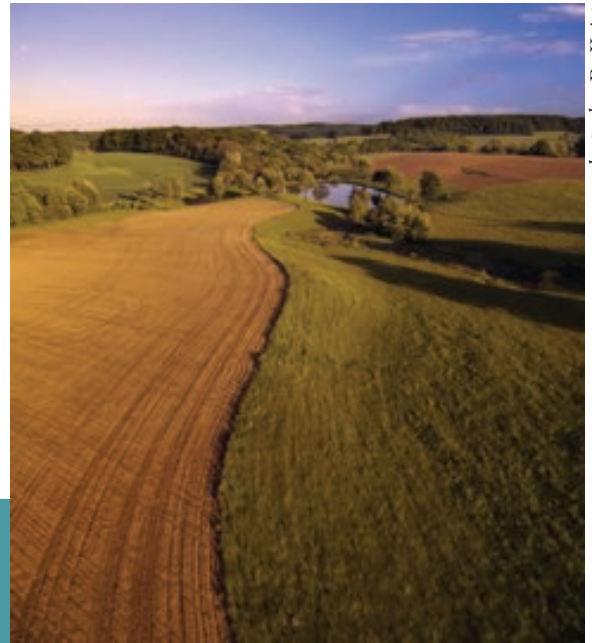


photo by B. Krist

Tainter Gate Bulkhead to Launch

The Authority continued preparations for the spring 2007 launch of a floating bulkhead that will enable a full inspection and refurbishment of the Tainter gates on the dam at our Octoraro Reservoir. The gates, which have been in continuous service since 1951, contain and control the water level in, and the flow from, the reservoir.

The bulkhead will be launched on to the reservoir, where it will be placed against new supports upstream of the gates, enabling the gates to be dewatered and maintenance work to be performed. The lifting chains will be replaced, and the upstream faces of the gates will be repainted. In addition, steel plates will be welded onto the Tainter gates to satisfy the requirements of the Federal Energy Regulatory Commission (FERC).

Transmission Main #2 Replacement in Design

In 2006, CWA completed environmental impact studies and began design of a project to rehabilitate approximately 2,300 feet of Transmission Main #2, one of two 42-inch concrete transmission mains that carry treated water from the Octoraro Treatment Plant to the Oxford Tank Farm.





*Work at our Octoraro
Treatment Plant continues,
as we expand our commit-
ment to preparedness and
anticipate population
growth in our service area.*

Testing Emergency Preparedness

“Imagine the failure of the Authority’s Pine Grove Dam...”

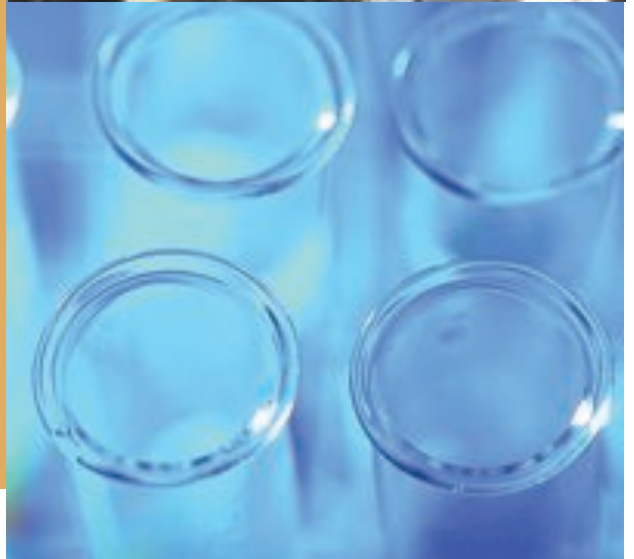
That is what our consultant asked CWA staff to consider during two exercises designed to address a hypothetical emergency situation. In a table-top exercise, CWA staff and emergency officials from three counties assembled in a conference room to discuss the operational and management steps required to handle such an emergency.

Our Octoraro Treatment Plant combines state-of-the-art technologies and processes with the surrounding beauty and tradition of the Pennsylvania countryside. In 2006, CWA began the first phase of a 10-year capital improvement program, a major commitment to our customers and our community.

A subsequent functional exercise took the scenario further, with CWA staff and emergency officials in three counties posted at their respective locations.

During the functional exercise, controllers presented hypothetical conditions to which staff and officials responded with mock actions that stopped just short of deploying emergency responders and equipment.

Participants identified areas for improvement, which will be addressed in our emergency response plan and other contingency plans. These exercises must be conducted every five years under Federal Energy Regulatory Commission (FERC) regulations.





Engineering: Planning for Our Growing Community

Changes in technology and demand for drinking water mean we must continuously maintain and expand our service capabilities. This includes the recent completion of one of the largest water main rehabilitation projects ever undertaken by CWA.

New London and Penn Booster Projects Completed

In November 2006, the Authority completed the three-phase reinforcement of the New London Booster Station, connecting it to the existing Creek Road/Jennersville booster system to provide redundancy and improved fire-flow capability in this growing area of southern Chester County.

CWA also completed the Penn Booster Station and installed 29,500 feet of 12-inch-diameter water main to serve the Honeycroft, New Daleville, and Countrywalk developments. A water main construction project of this size and scope requires effective coordination among CWA and officials in the affected townships and other public agencies, including the Pennsylvania Department of Transportation (PennDot). In Penn and Londonderry Townships, the Engineering Department worked closely with township engineers and other municipal officials to ensure the project's successful completion.

As part of this project, the Engineering Department specified the use of horizontal directional drilling to tunnel under the 900-foot width of U.S. Route 1 in order to create the passageway for the water main. The pipe was then fed through this space. Horizontal

The new Harrah's Casino in Chester is one of the recent redevelopment success stories in the city.



directional drilling, which avoids traffic disruption and roadway repairs, is an alternative to digging a trench to lay the pipe. This project was one of CWA's largest, and is the longest horizontal directional drill that CWA has completed to date.

2006 Water Main Rehabilitation Project Is Largest in 32 Years

In November, the Authority completed the 2006 Water Main Rehabilitation Project in the city of Chester. It is the largest water main rehabilitation project in the 32-year history of this program, requiring a 20-person construction crew to complete.

Approximately 9,900 feet of 4-, 6-, and 8-inch-diameter cast-iron water main was rehabilitated using a cleaning and lining process that has proved successful in the water industry. About 3,500 feet of 6- and 8-inch-diameter cast-iron water main was replaced with ductile-iron cement-lined (DACL) water main. The project also involved renewal of associated valves, water services, meters, and fire hydrants.

Since 1974, the Authority has invested \$23.3 million in the rehabilitation of approximately 45 miles of water main, and related equipment. Our rehabilitation projects help increase residual water pressures and hydrant flows, while reducing pipe leakage and improving water quality. Moreover, by maintaining and upgrading our water-distribution system on a regular basis, CWA remains focused and proactive in keeping our infrastructure sound.

Distribution:

Extending Reliable Service to Every Home and Business



Automated Meter Reading Program Tops 70 Percent

In 2006, the Distribution Department completed installation of 2,509 Automated Meter Reading (AMR) meters for a total of 29,662 meter conversions and new installations – reaching more than 70 percent of the meters in our service area.

The AMR program gained the advantage of using our Geographic Information System (GIS) maps to show the current locations of AMR meters, prioritizing installations in service areas where AMR coverage is almost complete.

AMR technology is fast, accurate, and efficient, enabling the Authority to obtain an actual reading without entering a customer's home or office. Our meter readers use a hand-held or truck-mounted electronic device to activate a radio-controlled device on the water meter and record the current reading.

New Meter Test Equipment Saves Time, Reduces Costs

In 2006, the Authority replaced existing meter test benches dating from the 1950s with state-of-the-art automated benches and related equipment. The new equipment doubles our in-house testing capacity and streamlines the testing process, which is essential to ensure the accuracy of our billing and our revenue stream.

The new equipment includes two test benches that permit in-house testing of meters ranging in size from 5/8 inch to 10 inches, including commercial and industrial meters. Previously, the larger meters were shipped back to the manufacturer for annual testing.

The new equipment thus saves time as well as shipping and testing costs. Moreover, instead of measuring water by the gallon, the new gravimetric test benches measure water by weight, ensuring the accuracy of readings.

Test results are automatically entered into our database via portable hand-held computers, streamlining the process and making the information available online.

*As of December 31, 2006,
CWA has 639 miles of
water main in service.*

John and Benjamin Mendenhall emigrated from England in 1685, and settled in Chester County. The original family name was Mildenhall, and the name dates back to 1275 during the reign of Edward I.

The Mendenhall Inn is situated on a part of 1000 acres purchased by Benjamin Mendenhall in 1703, from the heirs of William Penn.



Hydrants Inspected in Proven Process

In October 2006, a team of three CWA employees finished inspecting and flushing 2,557 hydrants in the Authority's service area. For the third consecutive year, CWA used a strategy that reduced the time required for this process from nine months to a little over nine weeks.

Timely inspections, flushing, and repairs of the increasing number of hydrants in our distribution system ensure that hydrants are operating properly if and when they are needed to fight fires. The process also preserves water quality for our customers.

Our Distribution Department mails scheduling notices of the inspections to municipal officials, fire chiefs, and county fire boards. These efforts are coordinated with the Authority's Human Resources/Public Relations Department, which places the notices in local newspapers.

Leak Study Identifies 69 Leaks, Avoiding Costly Damage

The Distribution Department expanded the annual survey of the older sections of our water main system to cover 230 miles in the City of Chester, in Aston Township, and in Upper Chichester Township in Delaware County, as well as in New Garden Township in Chester County. Using electronic leak-detection equipment, our consultant identified 69 underground leaks that had not yet surfaced.

The survey is performed during the spring, summer, and fall months to allow time for crews to make repairs before winter. The \$80,000 cost of the survey is exceeded by the savings in preventing main breaks and resulting damage, water leakage, and insurance claims.

Information Systems:

Using Knowledge to Run Our Business



Our new Customer Information System will provide more information to our customer service representatives, allowing them to respond more easily and quickly to our customers' inquiries.

Customer Information System Enhances Service

The Authority's new Customer Information System (CIS) is up and running, thanks to the joint effort of our Information Systems (IS) and Business Office managers and staff members. Our customer service representatives are already noticing improvements: most of the information they need to handle a customer's inquiry is on the first screen, and additional information can be accessed more quickly.

Tailored for the water-utility industry, the new CIS has a number of important capabilities, including fully automated service orders; secure processing of new bill-payment methods, such as automatic checking-account debits; display of water consumption graphs on bills; and encryption of critical information. Our Business Office uses CIS to record new and terminated services, record meter readings, process billing and payments, and process requests for service inspections.

Human Resources/Payroll System Upgrade

In 2006, the Human Resources Department received approval to upgrade our human resources/payroll system. The upgrade, which will be implemented in 2007, is designed to provide enhanced capabilities in certain areas. For example, the new version of the system will merge the two databases currently associated with human resources and payroll into a single database, which is designed to improve the management and analysis of employee information.

In other developments, IS initiated a pilot program on electronic documentation to study the feasibility of reducing paper files.

“Rock Around the Clock!”

In the 1950s, Bill Haley worked at WDRF radio in Chester, recorded his early work in Chester, and was based on 5th Street, where CWA is located today. In tribute to Haley, musical notes from the original recording studio have been placed in the sidewalk near our Main Building parking lot.

Shake, rattle and roll!



Hardening Firewalls to Protect SCADA System

In 2005, the Authority identified increased security of our Supervisory Control and Data Acquisition (SCADA) system as a priority under a five-year plan for improvements in our IS infrastructure, hardware, and software. In 2006, IS completed an upgrade of the firewalls, which prevent unauthorized access to the SCADA system, and took other steps to protect it from intrusion.

The SCADA system enables remote monitoring and management of vital points in our distribution system from authorized CWA computer stations and laptops. The SCADA system provides the detailed data that is essential in monitoring our day-to-day water system operations and designing system improvements. It also enables rapid response to emergencies, such as large main breaks, pump failures, large fire flows, and unusual tank draining.

As part of the overall security improvements to our network, IS also installed the latest firewall and anti-virus software as a first line of defense against disruptions in our network. IS also maintains anti-virus software on each of our desktop PCs.

SCADA System Extended at Octoraro Treatment Plant

The Authority extended the reach of our SCADA system to three buildings at the Octoraro Treatment Plant: the chemical building, enabling personnel to monitor and control chemical feeds; power substation, allowing employees to monitor power use and the status of breakers; and hydroelectric facility, enabling staff to monitor and control supplementary power for the treatment plant.

These extensions are part of CWA's ongoing expansion of our SCADA system in order to monitor and control water quality and distribution. Since 2004, CWA has installed water quality monitoring equipment at eight of our facilities, to provide trend data on residual chlorine, pH, and turbidity. Full-time remote monitoring of these important measures enables rapid response to potential water quality issues on a “real-time” basis.





Executive Office: Leadership in Fulfilling Our Mission

Bond Issues and Increased Revenues Fund an Ambitious Capital Program

Over the past 10 years, CWA has invested approximately \$9 million annually for capital construction, proactive maintenance, improvements to our operational efficiency, and compliance with regulatory changes, all with the goal of providing a vital service to our customers and community: quality water at a reasonable cost.

Toward that end, our projects have included storage tank construction and renovations, construction of new transmission mains and booster pumping stations, rehabilitation of water mains and hydrants, upgrades to and automation of our treatment plant processes, installation of automatic meter reading devices, and improvements to our operational

systems and processes. In addition, CWA periodically makes modifications to our treatment processes and treatment facilities to meet the current and proposed regulatory requirements of the U.S. Environmental Protection Agency (EPA) and the Pennsylvania Department of Environmental Resources (PADEP).

In addition to our ongoing programs, in 2006, CWA began the first phase of construction in our ambitious \$48 million capital improvement plan for the Octoraro Treatment Plant.

As a result, our investment in capital programs totaled \$11.3 million in 2006, and this investment is projected to increase to \$15.5 million in 2007. Our bond issues and rate increases provide the necessary funding for these essential investments in our community's water treatment and distribution infrastructure.

In September 2006, CWA settled a \$9.5 million bond issue, part of a cycle that occurs approximately every three years. In 2007, the Authority will issue a \$9.3 million bond in order to refinance our 2002 bond issue at a lower interest rate.

The Board of Directors also approved a rate increase of 8.6 percent, which took effect on July 1, 2006. Our operational efficiencies are the reason our rates are, and will remain, significantly lower than the rates of major neighboring for-profit water utilities.

From the battlefields of the Brandywine Valley to the City of Chester, site of the original Penn's Landing, CWA's drinking water serves historic landmarks and residential neighborhoods, as well as businesses of all sizes.

Customer Survey in Progress: "Great Job" Overall

The results are in for the first two phases of a three-year customer survey, and 96.5% of respondents say they are satisfied or very satisfied with the overall job CWA is doing. Of particular interest, 89% say they are satisfied or very satisfied with the quality of their water, and 84% are satisfied or very satisfied with its taste. Moreover, 96% expressed confidence that CWA complies with all regulatory requirements. And, when asked about their contacts with CWA employees, 95.5% say they are satisfied or more than satisfied with the results.

CWA mailed the first round of postage-paid surveys on November 8, 2005, to roughly 13,300 customers, representing a cross-section of residential, commercial, and industrial accounts. The second round of identical surveys was mailed on September 22, 2006, to an additional 14,624 customers. In all, we received about 4,800 responses from the two mailings, with an excellent response rate of approximately 17.5 percent.

The customer survey consists of six sections that focus on water quality, customer service, consumer awareness, household information, support for future programs, and overall customer satisfaction.

The survey is being conducted over the course of three years to enable CWA to respond to customers' comments. In 2005, 153 customers requested a response to their comments, and these were forwarded to department heads for action. In 2006, 167 people requested a response, by either mail, phone, or e-mail, and these were forwarded to the appropriate department heads as they were received, improving response time.

The current survey is a follow-up to a similar customer survey that was conducted in 1993, 1994, and 1995, when CWA received very positive feedback. The third phase of the current survey will be conducted, and completed, in 2007.



photo by K. Ciapa

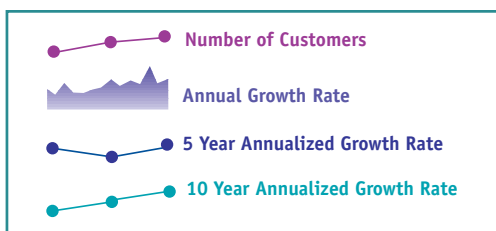
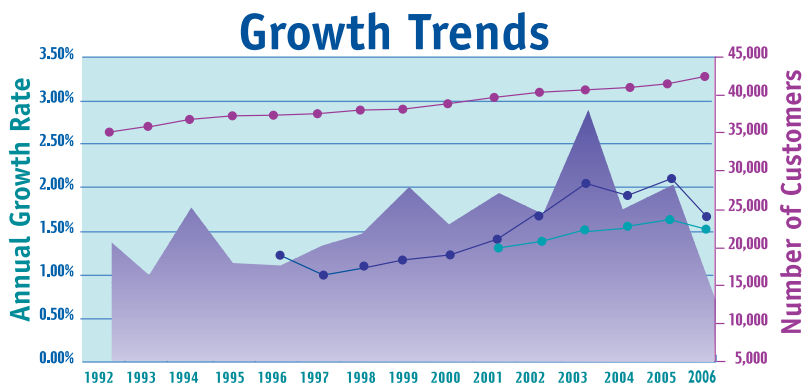


Management Staff



(Standing, left to right) Elizabeth A. McGoldrick, *Controller*; Mitchell A. Kaplan, *Director, Information Systems*; Robert W. Naef, P.E., *Executive Manager and Chief Engineer*; Russell C. Williams, P.E., *Director, Engineering/Assistant Executive Manager*; Patricia P. Stabler, P.E., *Chief of Treatment and Pumping*

(Sitting, left to right) Diane M. Shull, *Director, Business Office Group*; David J. Krupiak, *Chief of Distribution*; Theodore J. Pawlik, S.P.H.R., *Director, Human Resources/Public Information*; Sandra L. Hunt, *Executive Administrator*; Brian P. MacEwen, P.E., *Director, Capital Programs*



2006	
Average Daily Pumpage (gal.)	34.21 million
Total Customers	41,645
Distribution Main (miles)	639.06
Total Operating Revenue	\$ 32,397,168
Average Annual Domestic Bill	\$307.51
Total Assets	\$205,448,096
Funded Debt, net	\$ 54,970,638
Total Operating Expenses	\$ 27,379,489

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR 2006

This section presents management's analysis of the Authority's financial condition and activities for the year. This information should be read in conjunction with the financial statements.

Financial Highlights

Management believes the Authority's financial condition is strong. The Authority is well within its debt covenants and the more stringent financial policies and guidelines set by the Board and management. The following are key financial highlights for 2006:

- The Authority issued \$9,500,000 of water revenue bonds in September 2006. At December 31, 2006 the indebtedness of the Authority was \$55,100,000. The 2006 bond proceeds will be used for the Authority's capital program.
- In January 2006, the Authority adopted a rate increase of 8.6% effective July 1, 2006 to support an active Capital Construction Program and continue with the traditional on-going proactive maintenance program.
- At December 31, 2006 and 2005, total assets were \$205,448,096 and \$189,791,548, respectively; total liabilities were \$59,380,097 and \$51,840,889 and net assets were \$146,067,999 and \$137,950,659
- For the year 2006, the Authority sold 10.091 billion gallons of water, compared to 10.427 billion gallons of water in 2005. The year 2006 provided 44.0 inches of rain compared to normal precipitation of 43.9 inches.
- Operating income for the year was \$5,017,679 representing a \$494,692 increase over 2005. Net assets increased \$8,117,340 which includes \$3,736,565 of developer contributions.
- The operating ratio (operating revenues divided by operating expenses less depreciation) was 1.45 in 2006 versus 1.46 in 2005

Overview of Annual Financial Report

Management's Discussion and Analysis ("MD&A") serves as an introduction to, and should be read in conjunction with, the basic audited financial statement and supplementary information. The MD&A represents management's examination and analysis of the Authority's financial condition and performance. Summary financial statement data, key financial and operational indicators used in the Authority's strategic plan, budget, bond resolutions and other management tools were used for this analysis.

The financial statements report information about the Authority using full accrual accounting methods, except as noted in Notes 2 and 7 to the financial statements, as utilized by similar business activities in the private sector. However, rate-regulated accounting principles applicable to private sector utilities are not used by most governmental utilities. The financial statements include a statement of net assets; statement of revenues, expenses, and changes in net assets; a statement of cash flows; and notes to the financial statements.

The *Statement of net assets* presents the financial position of the Authority on a full accrual historical cost basis. The *Statement of net assets* presents information on all of the Authority's assets and liabilities, with the difference reported as net assets. Over time, increases and decreases in net assets are one indicator of whether the financial position of the Authority is improving or deteriorating.

While the *Statement of net assets* provides information about the nature and amount of resources and obligations at year-end, the *Statement of revenues, expenses and changes in net assets* presents the results of the business activities over the course of the fiscal year and information as to how the net assets changed during the year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement also provides certain information about the Authority's recovery of its costs. Rate setting policies use different methods of cost recovery not fully provided for by generally accepted accounting principles. The primary objectives of the rate model are to improve equity among customer classes and to ensure that capital costs are allocated on the basis of long-term capacity needs, ensuring that growth pays for growth.

The *Statement of cash flows* presents changes in cash and cash equivalents, resulting from operational, financing, and investing activities. The statement presents cash receipts and cash disbursement information, without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.

The *Notes to the financial statements* provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the Authority's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

The financial statements were prepared by the Authority's staff from the detailed books and records of the Authority. The financial statements were audited and adjusted, if material, during the independent, external audit process.

Summary of Organization and Business

The Authority was created under the Pennsylvania Municipality Authorities Act of 1935, being the Act of June 28, 1935, P.L. 463, as amended by the Act of May 20, 1937, P.L. 739, as amended by Act 85, approved May 17, 1939, as a public, nonprofit corporation to acquire and distribute supplies of fresh water for industrial and domestic purposes within its service area. The Authority was incorporated on July 6, 1939 and is now governed by the "Act" and a Board that consists of five members who are appointed by the City of Chester, Delaware County, Pennsylvania and now supplies water in a service area which includes portions of 39 municipalities in Delaware and Chester Counties, Pennsylvania.

The Authority has no taxing power. Operational and maintenance costs are funded from customer fees and charges. The acquisition and construction of capital assets are funded by the issuance of municipal bonds, capital contributions from customers, including other utilities and developers, and customer revenues.

The Authority provides reliable high quality supplies of potable water used for drinking, irrigation, fire protection and other purposes. The Octoraro surface water plant is the sole treatment facility, using the Octoraro Creek and the Susquehanna River as its sources of supply. The Authority has the ability to withdraw 60 million gallons per day from these sources.

Water Rate Covenant

The Authority covenants in the Bond Resolution that it will fix and charge water rates and charges upon the users of the Water System, which will be sufficient to provide for:

1. The reasonable expenses for the Authority for operating, maintaining and repairing the Water System; and
2. A debt service fund sufficient for the payment of interest on the outstanding Bonds and principal thereof at maturity.

The Authority has met all covenants of the bond resolution in each year, including 2006.

Financial Analysis

The following comparative condensed financial statements and other selected information serve as the key financial data and indicators of management, monitoring and planning. The Authority is reporting in compliance with Governmental Accounting Standards Board Statements No. 33 and 34.

Condensed Statement of Net Assets

	December 31, 2006	December 31, 2005
Current assets	\$ 11,542,420	\$ 10,109,035
Other assets	24,613,804	21,071,250
Capital assets – net of accumulated depreciation	<u>169,291,872</u>	<u>158,611,263</u>
Total assets	205,448,096	189,791,548
Current liabilities	6,760,265	5,330,012
Noncurrent liabilities	<u>52,619,832</u>	<u>46,510,877</u>
Total liabilities	<u>59,380,097</u>	<u>51,840,889</u>
Net assets	\$ <u>146,067,999</u>	\$ <u>137,950,659</u>

Condensed Statement of Revenues, Expenses, and Changes in Net Assets

	December 31, 2006	December 31, 2005
Operating revenues	\$ 32,397,168	\$ 30,553,658
Operating expenses	<u>27,379,489</u>	<u>26,030,671</u>
Operating income	<u>5,017,679</u>	<u>4,522,987</u>
Nonoperating income:		
Developer contributions	3,736,565	3,609,453
Interest income	1,251,481	889,286
Other	<u>284,220</u>	<u>145,452</u>
Total nonoperating income	<u>5,272,266</u>	<u>4,644,191</u>
Total nonoperating expenses	<u>2,172,605</u>	<u>2,129,556</u>
Increase in net assets	\$ <u>8,117,340</u>	\$ <u>7,037,622</u>

Selected Statistical Information

	2006	2005	Change Amount	Change %
Full-time positions at year-end	146	144	2	1.4
Average full-time employees	144.9	142.8	2	1.5
Water customers at year-end:				
Residential	38,963	38,541	422	1.1
Commercial	2,183	2,173	10	0.5
Industrial	60	62	(2)	(3.2)
Fire protection	428	414	14	3.4
Other water utilities	<u>11</u>	<u>11</u>	<u>0</u>	<u>0.0</u>
Total	<u>41,645</u>	<u>41,201</u>	<u>444</u>	<u>1.1</u>
Average Residential Bill	<u>\$ 307.51</u>	<u>\$ 304.34</u>	<u>\$ 3.17</u>	<u>1.0</u>
Water consumption (millions of gallons):				
Residential & commercial	3,962.3	4,046.7	(84.4)	(2.1)
Industrial	4,027.0	4,281.1	(254.1)	(5.9)
Other water utilities	2,093.6	2,087.9	5.7	0.3
Fire Protection	<u>7.7</u>	<u>11.6</u>	<u>(3.9)</u>	<u>(33.6)</u>
Total	<u>10,090.6</u>	<u>10,427.3</u>	<u>(336.7)</u>	<u>(3.2)</u>
Revenues per 1,000 gallons consumed	<u>\$ 3.08</u>	<u>\$ 2.91</u>	<u>\$ 0.17</u>	<u>5.8</u>
Expenses per 1,000 gallons consumed	<u>\$ 2.71</u>	<u>\$ 2.50</u>	<u>\$ 0.21</u>	<u>8.4</u>

General Trends and Significant Events

The population growth rate in Delaware and Chester Counties over the last five years has been approximately 0.6% and 8.8% respectively. Total customer accounts increased 1.1% from 2005 to a total of 41,645 in 2006.

Weather temperatures during 2006 remained consistent with historical averages. The average rainfall for the area is 43.9 inches per year. Rainfall recorded at the water treatment plant for 2006 was 44.03 inches.

The volume of water sold in the year 2006 was approximately 10.091 billion gallons, a decrease of 3.2% from the year 2005. Retail water customers (Residential/Commercial) accounted for 39.3% as compared to 38.8% in 2005 of the volume sold, and 53.7% as compared to 53.2% in 2005 of the revenue earned on water sales.

Financial Condition

The Authority's financial condition remained strong at year end with adequate liquid assets, a reliable plant and system to meet demand and a reasonable level of unrestricted net assets. Management believes that the current financial condition, technical support staff capabilities, and operating and expansion plans to meet anticipated customer needs are well balanced and under control.

Total assets grew \$15,656,548 from 2005 or 8.3%. This increase was primarily related to the addition of capital assets, including work on year 2006 capital improvement program, developer contributions, and other asset acquisitions. Accounts receivable at year-end were \$159,246 more than year-end 2005 due to rate increases of 8.6%.

Results of Operations

Operating Revenues: Revenues from operations fall into water services and ancillary charges. Ancillary charges include tapping fees, delinquency turnoff fees, engineering and inspection services and charges for other miscellaneous services. The Authority has five classes of water customers: residential, commercial, industrial, fire protection and other water utilities.

Operating Revenue from Water Services and Other Fees:

	2006	2005	Change	%
Residential	\$11,981,460	\$11,393,109	\$ 588,351	5.2
Commercial	4,713,373	4,256,758	456,617	10.7
Industrial	6,940,412	6,544,484	395,928	6.0
Fire Protection	2,292,058	2,129,190	162,868	7.6
Other Water Utilities	5,176,140	5,083,685	92,455	1.8
Capacity and Flat Fees	<u>1,293,723</u>	<u>1,146,432</u>	<u>147,291</u>	12.8
Total	<u>\$32,397,168</u>	<u>\$30,553,658</u>	<u>\$1,843,510</u>	6.0

Revenues increased due to a rate increase of 8.6% implemented July 1, 2006. Another increase will take place on July 1, 2007 and will increase the rate 7.9%.

Capital Contributions and Grants: The Authority collects water capacity fees in order to ensure that current customers do not bear the entire burden of growth. These fees are paid by new customers and represent on a residential equivalent unit basis the cost of the water capacity represented by the new account. Most of these fees are paid for units of capacity purchased by residential and commercial real estate developers.

The Authority also receives or records additions to its distribution system from developers. Prior to GASB 33 and 34 implementation, the money and system assets received were recorded as direct contributions to the Authority's equity. GASB 33 and 34 define these fees as non operating revenues and requires reporting the amounts through the Statement of Revenues, Expenses and Changes in Net Assets.

Developers convey these residential systems and extensions to the Authority upon completion of projects in accordance with plans and specifications approved by the Authority. In 2006, developers contributed \$3,736,565 in system extensions, of which \$259,592 was received in cash to reimburse the Authority for its capital outlays. These contributions are not budgeted as they are of limited relevance to rate setting and the timing is not subject to Authority control.

Expenses: The Authority operates and maintains a potable water treatment and delivery system. All of the water production occurs at its 60 million gallons per day conventional surface water Octoraro treatment plant.

Operating expenses increased 5.18% in 2006 compared to 2005. Payroll increased \$436,481 or 5.4% from 2006 to 2005, electricity for pumping from the Susquehanna to improve water quality increased \$116,531 or 35.4% and the pension expense increased \$54,137 or 11.7%.

Cash Flow Activity

The following table shows the Authority's ability to generate operating cash and the use of that cash in the Authority's capital spending program. Amounts are shown both in total dollars and as a percentage of operating revenues.

	2006		2005	
Total operating revenues	<u>\$32,397,168</u>	100.0%	<u>\$ 30,553,658</u>	100.0 %
Net cash provided by operations	\$10,226,409	31.6%	\$ 8,090,349	26.4%
Less: operating cash used for acquisition of property, plant and equipment (a non-GAAP measure)	<u>(4,660,557)</u>	14.4 %	<u>(1,554,586)</u>	20.3%
Net operating cash available for other purposes (a non-GAAP measure)	<u>\$ 5,565,852</u>	17.2 %	<u>\$ 6,535,763</u>	6.1 %

Capital Assets and Debt Administration

The investment in capital assets, net of related debt, increased \$4,670,609 during 2006. Property, plant and equipment, excluding depreciation, increased \$15,147,554 with \$6,750,432 funded by bond proceeds, \$3,736,565 from developer contributions (excluding tapping fees), \$573,512 funded by capacity fees and the remaining from surplus revenues in the Capital Additions Fund. The Authority spent \$6,707,331 for Distribution and Purification structures and buildings and \$355,448 in computer equipment and software.



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