



**Every new season brings
change and renewal as
part of a continuous cycle.**

**2007
Annual
Report**

Board of Directors



Donald F. Tonge
Chairman



Linda A. Cartisano, Esq.
Vice Chairman



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Treasurer



Mary Smith
Secretary



Earline R. Mann
*Assistant Secretary/
Assistant Treasurer*



Arthur Levy, Esq.
Solicitor



Sustainability. Continuity.

The year 2007 marked the beginning of a new season in Chester Water Authority's 140-year history. We are pleased to introduce the new members of CWA's management team and reacquaint our bondholders and customers with familiar faces in new leadership positions.

Also inside: new projects and updates on our 10-year capital improvement and ongoing proactive maintenance programs.

2007 Report to Bondholders

The Authority experienced the retirements of four key long-term management personnel in 2007 — the Executive Manager and Chief Engineer, Controller, Director of Human Resources, and the Director-Business Office Group. The combined Authority experience for Bob Naef, Bette McGoldrick, Ted Pawlik, and Diane Shull was 123 years. These long-term employees were replaced by in-house personnel and external new hires. The replacements for these four experienced retired personnel are introduced to you on the following pages.

The Board of Directors and Management are resolved to meet our financial responsibilities through implementation of a rate structure that insures conservative debt coverage. We secured a bond issue in the amount of \$9,240,000 in March 2007 to provide funds to refund the Authority's Water Revenue Bonds, Series of 2002, outstanding in the principal amount \$8,965,000, and the payment of the costs of issuing and insuring the 2007 Bonds. Our bond rating has stayed at the highest level and we have received a Moody's Aaa rating. After the 2007 Bond Issuance, the Authority's indebtedness decreased from \$55,100,000 in 2006 to \$51,820,000. The Authority adopted a rate increase of 7.9% effective July 1, 2007 to support both our active Capital Additions program and continue with the traditional ongoing proactive maintenance program. Nevertheless, our rates remain very competitive compared to the neighboring private, for-profit water companies. Our new rates are at a level of about 60% of the average rate of these neighboring companies.

Capital expenditures for ongoing projects totaled \$11,760,000. Much of our capital expenditures included major replacements and improvements to our source of supply and treatment facilities. This construction helps to enable us to meet minimum water quality requirements during periods of the poorest raw water quality. Total Operating Revenue increased from \$32,397,168 in 2006 to \$35,755,714 in 2007. The Authority's revenue increase was caused by the rate increase in 2007, the slight increase of total customers, and higher total volume of water sold. However, the customer growth rate did drop dramatically in 2007 to 0.4% due to the extreme slowdown of the residential housing construction market. This five year customer growth rate between the years 2001–2005 was 2.0%.

Finally, we completed the third and final annual phase since 2005 of our Customer Survey in 2007. The results of the current survey show a 97% approval rate which is excellent. We had completed a previous three-year survey in 1995 with similar results. This current result shows that our mission statement of providing Quality Service Value to our customers still applies as strongly as ever.

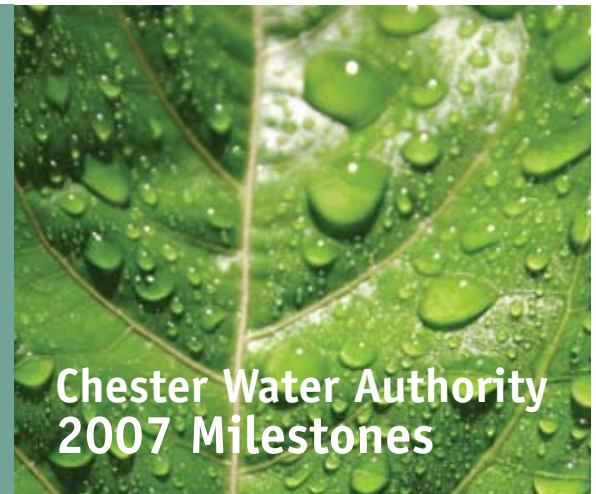


Donald F. Tonge
Chairman of the Board



Russell C. Williams
Executive Manager &
Chief Engineer

Quality. Service. Value.



Chester Water Authority 2007 Milestones

- 140 years of service.
- Water supplied to 41,830 active customers. Population served, directly or indirectly, is estimated at 200,000 in western Delaware County and southern Chester County, as well as to water companies in Pennsylvania and Delaware.
- Rate increased by 7.9 percent on July 1, 2007. CWA is still an excellent value at about 60 percent of the average rate of neighboring private water companies.
- \$9.2 million refunding water revenue bond issue settled.
- Several projects completed as part of phase one of the 10-year capital improvement program for the Octoraro Treatment Plant and Susquehanna Pumping Station.
- 97 percent of CWA's customers are satisfied or very satisfied with Chester Water Authority's overall performance, based on the final results of a three-year customer survey completed in November 2007.
- The average daily pumpage for the year was 33.99 million gallons per day (MGD).
- The distribution system comprises approximately 647 miles of pipelines varying in diameter from 36 inches to one inch.



Octoraro Treatment Plant: Quality Matters to Us and to Our Customers

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

Capital Improvement Program Advances

In 2007, the Authority completed several projects in the first phase of a 10-year, \$48 million capital improvement program for the Octoraro Treatment Plant and the Susquehanna Pumping Station. The Octoraro Treatment Plant has been the center of our water treatment and transmission system since it was commissioned in November 1951. For 56 years, the Authority's capital improvement and proactive maintenance programs have worked in tandem to ensure that finished water complies with federal and state regulations.

Improved Treatment Infrastructure

Improvements to the Octoraro Treatment Plant are intended to provide improved treatment capabilities within our existing infrastructure. CWA substantially completed the following components of the \$5.7 million project:

- **Stainless-steel plate settlers** in four sedimentation basins that have increased the treatment capacity of each sedimentation basin and also improved the water quality prior to entering the filtration stage.
- **Sedimentation basin effluent flumes** allow for a more economical and efficient routing of water to the filters thereby increasing hydraulic capacity. These new flumes also enable us to minimize the number of chemical feed points in the plant.
- **A blend tank** at the start of the treatment process allows for complete mixing of our source waters, which allows for better control of the entire treatment process.

Water Quality and Reliability

Substantial progress was made in 2007 with the construction of the Susquehanna Pumping Station improvements which will be completed in 2008. The following components of the \$2.3 million project were completed:

- **Construction of a new building** to house the new and existing pumps, motors, and control equipment.
- **The installation of the new river intake structure**, which will improve the reliability of the intake during adverse weather conditions.
- **Installation of a new emergency generator** for the station, which was successfully started up.

Tainter Gate Bulkhead Tested

The Authority's contractor launched and tested a floating bulkhead that will enable the first full inspection and refurbishment of the Tainter gates since they went into service in 1951. The Tainter gates are located on the Pine Grove Dam at our Octoraro Reservoir. This refurbishment includes modifications to the Tainter gates that will extend the functional life of this important equipment and will also satisfy the requirements of the Federal Energy Regulatory Commission (FERC). This \$1.2 million project will be completed in 2008.

Maintaining Facilities and Improving Operations

In 2007, the Authority completed three projects to repair equipment, maintain facilities, and improve operations at the Octoraro Treatment Plant.

- **Underdrain repair of Filter #9:** CWA cleaned the underdrain, repaired the grout joints, rebuilt the filter bed, and restored Filter #9 to service. The water treatment process was unaffected thanks to the redundancy built into the system
- **Roof replacements:** Through proactive maintenance, CWA replaced the 20-year-old roofs on the main plant and auxiliary buildings. The Authority selected white membrane roofs, which will reduce air-conditioning loads in the summer.
- **Chlorine loading-dock extension and platform:** The Authority constructed and put into service an L-shaped extension to the existing loading dock. The extension enables delivery trucks to park closer to the loading dock and off-load chlorine cylinders with a truck-mounted crane. The new structure improves the safety of the off-loading process.

In Progress:

- **Replacement of Transmission Main #2:** In 2007, the Authority substantially completed design of a project to replace approximately 2,300 feet of Transmission Main #2, one of two 42-inch concrete transmission mains that carry finished water from the Octoraro Treatment Plant to the Oxford Tank Farm. Transmission Main #2 was installed in 1968 to meet increasing water demand and provide redundancy.
- **Pine Grove Bridge Reconstruction:** CWA was involved in a review of Pennsylvania Department of Transportation's (PennDOT) plans for reconstruction of the landmark Pine Grove Bridge, which is located adjacent to the Octoraro Treatment Plant. The Authority is working with PennDOT during the reconstruction project, which is scheduled to be completed in mid-2008, and has taken appropriate steps to protect the Octoraro Treatment Plant's transmission facilities.



Patricia P. Stabler, P.E., Chief of Treatment and Pumping, joined the Authority in 1977.

Ms. Stabler is a licensed Water Works Operator and is a registered Professional Engineer in Pennsylvania. She has a Bachelor's degree in Biology from Swarthmore College and a Master of Science degree in Water Resources Engineering from Villanova University. Ms. Stabler is a member of the American Water Works Association and the Pennsylvania Water Works Operators Association.

"Through capital improvements and attention to daily operations, Chester Water Authority management and employees strive '24/7' at the Octoraro Treatment Plant to maintain optimal operational performance with full regulatory compliance, and to advance and improve our collective knowledge and practices. Quality matters to us and to our customers."

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



Engineering: Planning for Growth, Redundancy, and Efficiency

Three New Booster Stations Reinforce Infrastructure

The Engineering Department designed two new booster stations and completed construction of a third to reinforce CWA's water distribution infrastructure in growing service areas. Two are designed as below-grade structures, an unobtrusive and cost-effective design that facilitates construction in a public right-of-way.

- **Temple Road Booster Station:** This booster station will provide redundancy for the pressure district in Concord and Birmingham townships, Delaware County, which currently is supplied by two existing booster stations. The new below-grade station will include two 600-gallon-per-minute (GPM) pumps. The design of this station is complete and installation and testing will take place in 2008.
- **Penn Green Road Booster Station:** Similarly, a new below-grade booster station is being designed for New Garden Township, Chester County, to provide redundancy for the Newark Road Booster Station. The new station will include two 600-GPM pumps.
- **Bethel Booster Station:** This small booster station was constructed and placed in service to allow more flexibility in maintaining storage levels in the nearby Bethel Tank. This booster station meets pressure requirements for a new residential development in Bethel Township, Delaware County.



Storage Tanks Preserved

As part of CWA's ongoing proactive maintenance program to preserve our water storage tanks, the Engineering Department completed a project to refurbish the Harrison Hill Tank in Brookhaven Borough, Delaware County, and bid a project to refurbish Oxford Tank #3 in Chester County. Each tank has a capacity of four million gallons.

Harrison Hill Tank was taken out of service last summer while old paint was removed, the tank was recoated, and modifications were made to improve access and venting. A similar process will be used to refurbish Oxford Tank #3 during 2008. The Harrison Hill Tank project cost \$450,000, and the estimated project cost for Oxford Tank #3 is \$720,000.

System Improvements Designed to Optimize Water Pressure

System improvements were designed to optimize water pressure in two areas of Aston Township, Delaware County, where water pressure is higher than necessary. High pressure may contribute to water main leaks and breaks, and may also necessitate installation of individual pressure-reduction valves on residential services to protect indoor plumbing lines and water heaters.

The Engineering Department designed a solution that involves installation of pressure-reduction valves in the distribution system in the affected areas. This modification does not compromise fire-flow capability of the hydrants in these areas.

In a related project, CWA completed renewal of 1,400 feet of six-inch-diameter water main on Redwood Street, Scott Avenue, and Blueball Avenue in Chichester Township, Delaware County. The new main replaced sections of old water main that had a series of breaks and leaks due to high pressure in the area.

Brian P. MacEwen, P.E., Director of Engineering, joined the Authority in 1999. Prior to his appointment as Director of Engineering in August 2007, he served as Director of Capital Programs. In that role, Mr. MacEwen was responsible for the management and design review of large capital projects at the Octoraro Treatment Plant, including initiation of the 10-year treatment plant improvement program. In addition, Mr. MacEwen was responsible for organizing the annual capital improvement program of the Authority.



Mr. MacEwen received a Bachelor of Science degree in Civil Engineering from Pennsylvania State University and a Master of Civil Engineering degree in Water Resources Engineering from Villanova University. He is a registered Professional Engineer in Pennsylvania and is also a licensed Water Works Operator. Mr. MacEwen is a member of the American Water Works Association and the Water Works Operators' Association of Pennsylvania.

"The Engineering Department's mission is to plan and design improvements that will enhance the water system's redundancy, grow our customer base in a logical manner, improve efficiencies, and rehabilitate existing infrastructure so its useful life is extended at a reasonable cost."

Brian P. MacEwen, P.E., Director of Engineering

Distribution: Prepared for Emergencies – and for Every Day



“Emergency Use Only”

Unauthorized use of fire hydrants is a serious concern to CWA. In 2007, the Distribution Department installed hydrant placards that state, “For Emergency Use Only -- Unauthorized Use Is Theft -- Chester Water Authority -- Emergency 610-876-8181.” The placards were installed on the 4-¹/₂-inch nozzle behind the nozzle cap and do not interfere with the operation of the hydrant. These placards convey to the public that the Authority prohibits unauthorized use of our fire hydrants.

The new placards were installed as part of our annual hydrant inspection, flushing, and repair program. This process ensures that hydrants are operating properly, if and when they are needed to fight fires, and that water quality is preserved for our customers.



Similarly, the department conducts an annual leak-detection survey of the water main system to identify underground leaks that have not surfaced. The survey yields quantifiable savings in treated water, as well as savings associated with main breaks and resulting damage, emergency repairs, and insurance claims. These savings exceed the cost of the survey.

In addition, the department progressed with the installation of Automated Meter Reading (AMR) devices, an electronic technology that enables a fast, accurate, non-intrusive method of obtaining meter readings.

Distribution System Project Statistics at a Glance

Leak Detection Survey:

- 175 miles of water main surveyed.
- 31 leaks identified and repaired.
- 95 million gallons of water per year saved.
- \$95,000 per year saved (i.e., total cost of water treatment).
- \$62,000 cost of survey.

Hydrant Inspection and Flushing:

- 2,650 hydrants inspected and flushed.
- “Emergency Use Only” placards installed.

Automated Meter Reading (AMR) Program:

- 1,897 AMR devices installed (2007).
- 31,559 AMR devices installed (total through 2007).

David J. Krupiak,
Chief of Distribution, has been with the Authority since 1980. Mr. Krupiak holds a



Bachelor of Science degree in Civil Engineering from Drexel University. A licensed Water Works Operator, he is member of the American Water Works Association and the Water Works Operators’ Association of Pennsylvania.

“The staff of the Distribution Department remains dedicated to fulfilling our goal – providing reliable service to every home and business – through new construction, proactive inspection and maintenance programs, and effective use of information technology, including our Supervisory Control and Data Acquisition (SCADA) system.”

David J. Krupiak, Chief of Distribution



Information Systems: Utilizing Technology to Fulfill our Mission

Enhancing IS Capabilities and Security

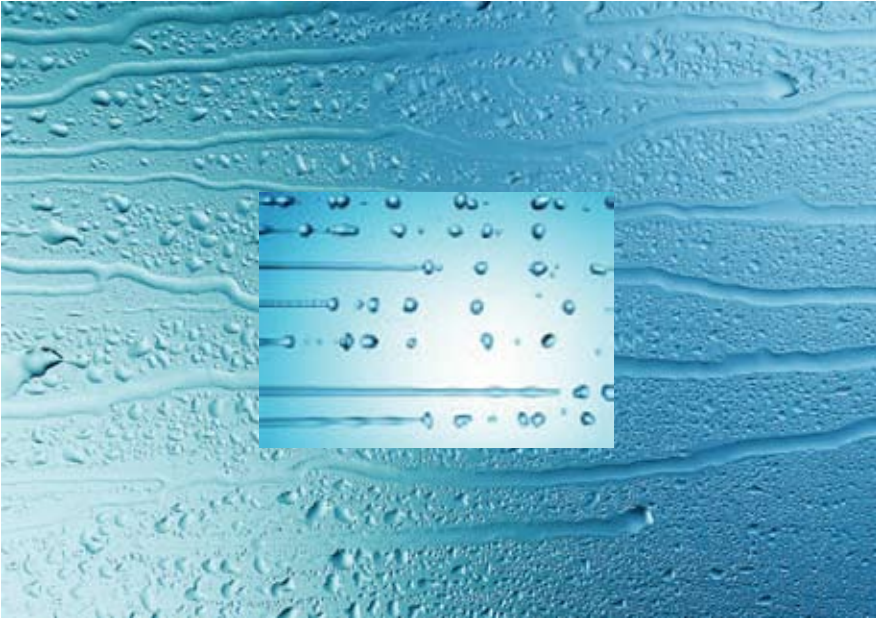
In 2007, the Information Systems (IS) Department completed a number of projects designed to enhance the capabilities of the new Customer Information System (CIS) and Payroll/Human Resources System, increase system-wide security, and upgrade system components.

CIS Enhanced

In late 2006, the Authority implemented a new CIS with a number of important capabilities, including fully automated service orders, display of water-consumption graphs on bills, and encryption of critical information.

As IS gained detailed knowledge of the underlying database structure of the CIS throughout 2007, the department developed several supplements to the base system to enhance its capabilities:

- A Service Order Management Program enables Customer Service to view scheduled work and report scheduling issues to management in a timely manner.
- New information added to the database allows for meter mapping, water-consumption tracking by pumping stations, and work scheduling by geographic region.
- Reporting capabilities were expanded in the collections, meter reading, and billing portions of the system.



Payroll/H.R. System Upgraded

IS upgraded and added a variety of new reports to the Authority's Payroll/Human Resources System. The upgrade merged the H.R. and Payroll databases into a single database, which enabled the Authority to improve management and analysis of employee information.

IS also rolled out an enhancement to the Accounting System – a new property management system to help the Authority track its properties and monitor associated expenses.

Other Upgrades

IS hardened the Authority's system-wide security with state-of-the-art software and hardware solutions.

In other developments, IS expanded the use of document scanning with the addition of new scanners, and investigated software to make it easier to locate scanned items within our systems. The department added two new servers and upgraded three servers to keep up with new software and expanding demand. It continued to upgrade older PCs as needed throughout the year.



Mitchell A. Kaplan, Director of Information Systems, joined the Authority in 1983. Mr. Kaplan has a Bachelor of Science degree in Psychology from

Rensselaer Polytechnic Institute, a Master of Education degree from Edinboro University of Pennsylvania, a Master of Science degree in Computer Science from Villanova University, and a Juris Doctor degree from Widener University. He is a member of the American Water Works Association.

“In today's business environment, Chester Water Authority depends as much on our information systems as we do on our water treatment and distribution infrastructure to fulfill our mission to our customers and bondholders. Just as the Authority builds capacity, reliability, and redundancy into our water treatment and distribution infrastructure, we build and maintain our information systems to achieve these standards.”

Mitchell A. Kaplan, Director of Information Systems

Executive Office: Managing Our Business... Serving Our Customers

President Grover Cleveland once said, 'A public service is a public trust.' I live by that principle."

*Russell C. Williams, P.E.,
Executive Manager and Chief Engineer*

"In 2007, Chester Water Authority experienced a significant succession of leadership at the executive and management levels, which included promotions of long-term members of our management team, as well as the hiring of new individuals from the private sector. That this period of transition has been seamless for our customers and bondholders is a tribute to the Authority's thoughtful approach to succession planning – another manifestation of our focus on preparedness and continuity. It is also a tribute to our employees' daily dedication to our mission of delivering 'Quality, Service, and Value' to our customers and bondholders."

*Russell C. Williams, P.E., Executive
Manager and Chief Engineer*



Russell C. Williams, P.E., Executive Manager and Chief Engineer, joined the Authority in 1978. In 1997, he was appointed as Director of Engineering since 1997, and in 2001, he was appointed to a concurrent position of

Assistant Executive Manager. From 1997 to 2007, the Authority experienced significant growth of its distribution system and residential customer base, and the Engineering Department, under Mr. Williams' leadership, designed a number of major projects to meet these demands.

Mr. Williams has a Bachelor of Science degree in Civil Engineering from Pennsylvania State University and is a registered Professional Engineer in Pennsylvania. He served as a Chair of the Pennsylvania section of the American Water Works Association in 2007 and 2008, and he is a former President (1996-97) of the Water Works Operators Association of Pennsylvania. Mr. Williams is an avid reader and collector of books related to United States presidential history.

Accounting and Finance:

Focused on
Our Customers and
Community

CWA Builds a Solid Foundation for the Future

At Chester Water Authority, it has always been our goal to provide an essential service to our customers and community – quality water at a reasonable cost – and we remain focused on that goal as we move ahead. Since 1997, Chester Water Authority has invested approximately \$9 million to \$10 million per year for capital construction, proactive maintenance, compliance with regulatory changes, and improvements to our operational efficiency.

These investments have funded rehabilitation of water mains and hydrants, upgrades to our treatment plant processes, storage tank construction and renovations, construction of new transmission mains and distribution booster pumping stations, installation of automatic meter reading devices, and improvements to our operational systems and processes. The Authority also makes periodic modifications to our treatment processes and treatment facilities to comply with federal and state regulations.

In 2007, CWA completed several projects under the first phase of our ambitious \$48 million capital improvement plan for the Octoraro Treatment Plant. As a result, our investment in capital programs totaled \$11.7 million in 2007, with a projected increase to \$12.5 million in 2008. Periodic bond issues and rate increases provide the funding for these necessary investments in our community's water treatment and distribution infrastructure. In 2007, the Board of Directors approved an average rate increase of 7.9 percent, which took effect on July 1. Due to our operational efficiencies, our rates remain significantly lower than the rates of major neighboring for-profit water utilities.



Elgin A. Nowoswiat, CPA, Controller, joined the Authority in 2007. Prior to joining CWA, Ms. Nowoswiat accumulated financial and operational audit experience and managerial experience in the Internal Audit Department of Comcast

Corporation and PricewaterhouseCoopers LLP. During her public accounting years, she served clients in the technology and utility industries, including Chester Water Authority. Ms. Nowoswiat has a Bachelor of Arts degree in Accounting from Park University and Master of Science in Administration degree with concentration of General Administration from Central Michigan University. She is a Certified Public Accountant and a member of the American Institute of Certified Public Accountants.

“Chester Water Authority’s management and Board have always taken a prudent approach to financial management to enable the Authority to fulfill a long-standing mission to provide ‘Quality, Service, and Value’ to our customers and bondholders. That will remain my motto as we go forward.”

Elgin A. Nowoswiat, CPA, Controller



Chester Water Authority

Human Resources: Keeping Current With Our Customers



Robyn S. Bennett, PHR, Assistant Director of Human Resources, joined the Authority in 2006. Prior to joining CWA, she was a Human Resources Specialist for Comcast,

Philadelphia. Ms. Bennett received a Bachelor of Science degree in Business Administration – Marketing/Economics from the Johnson C. Smith University of Charlotte, North Carolina. She is a member of the Society for Human Resource Management (SHRM) and is certified by SHRM as a Professional in Human Resources (PHR).

“The 144 permanent, full-time employees of Chester Water Authority demonstrate both professional and personal commitment to our organization and the customers we serve. In fact, most employees have contributed to the Authority’s performance and growth over quite a number of years – in some cases, decades – through a real hands-on, team approach that is rare in larger organizations.”

Robyn S. Bennett, PHR, Assistant Director of Human Resources

Authority Earns Customers’ Praise

Ninety-seven percent of CWA’s customers are satisfied or very satisfied with Chester Water Authority’s overall performance, based on the final results of a three-year customer survey completed in November 2007. The customer survey focused on water quality, customer service, consumer awareness, household information, support for future programs, and overall customer satisfaction.

Here are a few highlights:

- 91 percent are satisfied with the quality of their water.
- 85 percent are satisfied with the taste of their water.
- 96 percent are confident that CWA complies with all regulatory requirements.
- 95 percent are satisfied or more than satisfied with the results of contacts with CWA employees.

A total of 41,882 surveys were mailed over a three-year period, and a total of 7,206 responses were received – an excellent 17-percent average response rate.

The design and execution of the survey enabled CWA to respond to customers’ comments as they were received. For example, in 2007, 606 customers included comments. Of these, 217 requested a response to their comments by mail, phone, or e-mail, and these requests were forwarded to appropriate department heads for immediate action.

The survey was initiated and managed by the Human Resources Department as a follow-up to a similar customer survey that was conducted from 1993 through 1995. Then, as now, CWA received very positive feedback.

Business Office Group: Efficiency, Security, and New Technology

Customer Service Broadens Use of CIS

Business Office Group Supervisors and Representatives – and our customers – are using more of our Customer Service System (CIS) features and experiencing more of its benefits. The department can assign various account tasks via e-mail and attach related documents. Service orders can be accessed electronically, enabling Customer Service Representatives to see the “queue” when a customer calls with a new request. The department can also e-mail emergency service orders to Field Service Foremen and Technicians, and can attach documents such as maps of service locations.

As a result of integrating the CIS with Microsoft Office, the Business Office and Customer Service Department are able to export information to Word and Excel documents. This allows them to respond more efficiently to customers’ requests concerning their water consumption, billing, and payment history. Previously, these documents were created manually.

The Business Office and Customer Service Department can also generate daily, weekly, and monthly reports of customer service activity for management reporting purposes. The department now uses the system’s document imaging capability to scan documents and letters received from customers and attach them to the electronic files, making them easily accessible to Customer Service Representatives.

Renovations Improve Lobby Security

The Authority completed renovations to the lobby of the main office to improve security during customer service transactions. A secure glass partition separates Customer Service Representatives from customers, while still allowing them to converse and share paperwork across the desk.

CWA installed a numbering system that displays the number of the customer being served and the associated desk number of the Representative. The system has improved efficiency and reduced the potential for confusion.



Thomas A. Zetusky, Manager of Business Office Group, joined the Authority in 1984. Mr. Zetusky is responsible for both the Business Office and Customer Service

operations. Prior to this appointment, he served as Assistant Chief of Distribution, with responsibility for field meter operations. Mr. Zetusky has an Associate degree in Business Administration from Delaware County Community College. For the past five years, Mr. Zetusky has served as Vice President of the Eastern Meter Management Association. He is also a member of the American Water Works Association.

“The Chester Water Authority Business Office Group’s mission is to provide exceptional customer service through teamwork, professional assistance, and personal accountability. Our job is not complete until customer satisfaction has been achieved.”

Thomas A. Zetusky, Manager of Business Office Group

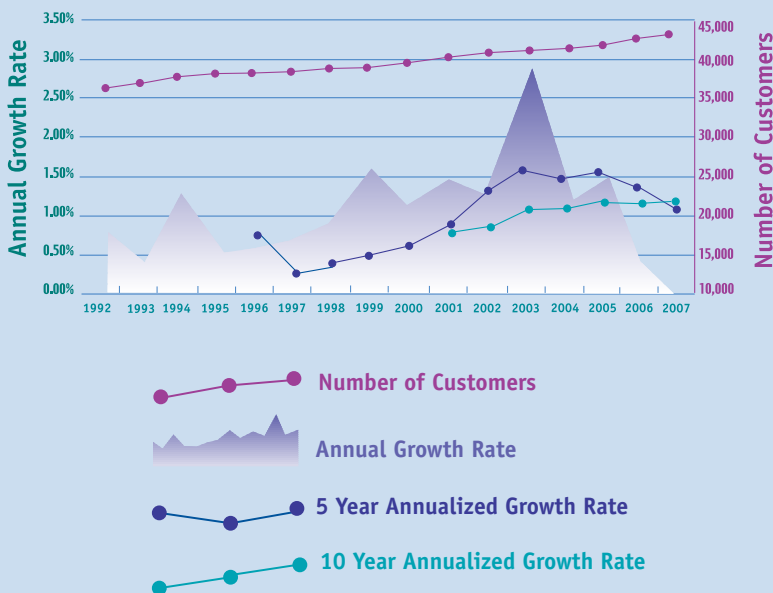
Management Staff



(Standing, left to right) Mitchell A. Kaplan, *Director, Information Systems*; Patricia P. Stabler, P.E., *Chief of Treatment and Pumping*; Russell C. Williams, P.E., *Executive Manager and Chief Engineer*; Robyn S. Bennett, PHR, *Assistant Director of Human Resources*; Thomas A. Zetuskys, *Manager Business Office Group*.

(Sitting, left to right) Elgin Nowoswiat, CPA, *Controller*; David J. Krupiak, *Chief of Distribution*; Sandra L. Hunt, *Executive Administrator*; Brian P. MacEwen, P.E., *Director of Engineering*.

CWA Growth



2007

Average Daily Pumpage (gal.)	33.99 million
Total Customers	41,830
Distribution Main (miles)	646.93
Total Operating Revenue	\$ 35,755,714
Average Annual Residential Bill	\$340.44
Total Assets	\$214,673,342
Funded Debt, net of current	\$ 48,425,000
Total Operating Expenses	\$ 29,543,256

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR 2007

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 2007:

- The Authority issued \$9,240,000 of water revenue bonds in March 2007. At December 31, 2007, the indebtedness of the Authority was \$51,820,000. The 2007 bond proceeds were used to pay off the Authority's outstanding water revenue Bonds, Series of 2002 outstanding in the principal amount \$8,965,000, and the payment of the costs of issuing and insuring the 2007 Bonds.
- The Authority adopted a rate increase of 7.9% effective July 1, 2007 to support an active Capital Construction Program and continue with the traditional on-going proactive maintenance program.
- At December 31, 2007 and 2006, total assets were \$214,673,342 and \$205,448,096, respectively; total liabilities were \$56,676,432 and \$59,380,097; respectively and net assets were \$157,996,910 and \$146,067,999, respectively.
- For the year 2007, the Authority sold 10.480 billion gallons of water, compared to 10.091 billion gallons of water in 2006. The year 2007 provided 40.95 inches of rain compared to 44.0 inches in 2006.
- Operating income for the year was \$6,212,458 representing a \$1,194,779 increase over 2006. Changes in net assets were \$11,928,911 for the year ended December 31, 2007, which includes \$6,704,948 of developer contributions.
- The operating ratio (operating revenues divided by operating expenses less depreciation) was 1.49 in 2007 versus 1.45 in 2006.

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 statements 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 6 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 statements of net assets; statements of revenues, expenses, and changes in net assets; statements of cash flows; and notes to 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 studies use revenue requirements and cost allocation methods in order to generate sufficient revenues to recover the Authority's operation and maintenance expenses, the provisions for renewals, replacements, reserve operations and debt service requirements.

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 financial 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

(continued on page 16)

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 GASB 33 and 34.

Condensed Statements of Net Assets

	December 31, 2007	December 31, 2006
Current assets	\$ 14,389,530	\$ 11,542,420
Restricted cash and investments, and deferred expenses	18,330,859	24,613,804
Capital assets – net of accumulated depreciation	<u>181,952,953</u>	<u>169,291,872</u>
Total assets	<u>214,673,342</u>	<u>205,448,096</u>
Current liabilities	7,193,635	6,760,265
Noncurrent liabilities	49,482,797	52,619,832
Total liabilities	<u>56,676,432</u>	<u>59,380,097</u>
Net assets	<u>\$157,996,910</u>	<u>\$146,067,999</u>

(continued from page 15)

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 2007.

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 0.4% from 2006 to a total of 41,830 in 2007.

Weather temperatures during 2007 remained consistent with historical averages. The average rainfall for the area is 44.61 inches per year. Rainfall recorded at the water treatment plant for 2007 was 40.95 inches.

The volume of water sold in the year 2007 was approximately 10.480 billion gallons, an increase of 3.9% from the year 2006. Retail water customers (Residential/Commercial) accounted for 39% in 2007 as compared to 39.3% in 2006 of the volume sold, and 52.3% in 2007 as compared to 51.5% in 2006 of the revenue earned on water sales.

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

	Year Ended December 31, 2007	Year Ended December 31, 2006
Operating revenues	\$ 35,755,714	\$ 32,397,168
Operating expenses	<u>29,543,256</u>	<u>27,379,489</u>
Operating income	<u>6,212,458</u>	<u>5,017,679</u>
Nonoperating income:		
Interest income	1,301,200	1,251,481
Other	<u>67,255</u>	<u>284,220</u>
Total nonoperating income	<u>1,368,455</u>	<u>1,535,701</u>
Total nonoperating expenses	<u>2,356,950</u>	<u>2,172,605</u>
Income before contributions	5,223,963	4,380,775
Capital contributions	<u>6,704,948</u>	<u>3,736,565</u>
Increase in net assets	<u>\$ 11,928,911</u>	<u>\$ 8,117,340</u>

Selected Statistical Information

	2007	2006	CHANGE	
			Amount	%
Full-time positions at year-end	144	146	(2)	(1.4)
Average full-time employees	144.3	144.9	(0.6)	(0.4)
Water customers at year-end:				
Residential	39,120	38,963	157	0.4
Commercial	2,195	2,183	12	0.5
Industrial	57	60	(3)	(5.0)
Fire protection	448	428	20	4.7
Other water utilities	<u>10</u>	<u>11</u>	<u>(1)</u>	<u>(9.1)</u>
Total	<u>41,830</u>	<u>41,645</u>	<u>185</u>	<u>0.4</u>
Average residential bill	<u>\$ 345.89</u>	<u>\$ 307.51</u>	<u>\$ 38.38</u>	<u>12.5</u>
Water consumption (millions of gallons):				
Residential and commercial	4,087.4	3,962.3	125.1	3.2
Industrial	4,288.5	4,027.0	261.5	6.5
Other water utilities	2,088.9	2,093.6	(4.7)	(0.2)
Fire protection	<u>15.4</u>	<u>7.7</u>	<u>7.7</u>	<u>100</u>
Total	<u>10,480.2</u>	<u>10,090.6</u>	<u>389.6</u>	<u>3.9</u>
Revenue per 1,000 gallons consumed	<u>\$ 3.41</u>	<u>\$ 3.21</u>	<u>\$ 0.20</u>	<u>6.2</u>
Expenses per 1,000 gallons consumed	<u>\$ 2.82</u>	<u>\$ 2.71</u>	<u>\$ 0.11</u>	<u>4.1</u>

FINANCIAL CONDITION

The Authority's financial condition remained strong at year-end with adequate liquid assets and 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 \$9,225,246 from 2006 or 4.5%. This increase was primarily related to the addition of capital assets, including work on year 2007 capital improvement program, developer contributions, and other asset acquisitions. Accounts receivable at year-end were \$798,440 more than year-end 2006 primarily due to a rate increase of 7.9%.

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:

	2007	2006	Change	%
Residential	\$ 13,531,308	\$ 11,981,460	\$ 1,549,848	12.9
Commercial	5,186,834	4,713,375	473,459	10.0
Industrial	7,864,549	6,940,412	924,137	13.3
Fire Protection	2,583,171	2,292,058	291,113	12.7
Other Water Utilities	5,302,446	5,176,140	126,306	2.4
Capacity, Flat Fees and Late Fees	<u>1,287,406</u>	<u>1,293,723</u>	<u>(6,317)</u>	(0.5)
Total	<u>\$ 35,755,714</u>	<u>\$ 32,397,168</u>	<u>\$ 3,358,546</u>	10.4

Overall, revenues increased as a result of a 7.9% rate increase effective July 1, 2007 and a 3.9% increase in water usage, which represented approximately 389 million gallons of water consumed in 2007 over 2006.

Capital Contributions: 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 require 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 2007, developers contributed \$6,704,948 in system extensions, of which \$253,708 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 7.90% in 2007 compared to 2006. Employee wages increased \$357,730 or 4.2% from 2007 to 2006, the electric use for pumping from the Susquehanna to improve water quality increased by \$263,814 or 11%, the Carbon usage increased \$247,014 or 129% and finally pension expense increased \$89,192 or 17.2%.

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.

	2007		2006	
Total operating revenues	<u>\$35,755,714</u>	100.0%	<u>\$32,397,168</u>	100.0%
Net cash provided by operations	\$12,186,102	34.1%	\$10,226,409	31.6%
Operating cash used for acquisition of property, plant and equipment(*)	<u>(5,139,862)</u>	14.4%	<u>(4,660,557)</u>	14.4%
Net operating cash available for other purposes(*)	<u>\$ 7,046,240</u>	19.7%	<u>\$ 5,565,852</u>	17.2%

(*): A non-GAAP Measure.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Property, plant and equipment, excluding depreciation, increased \$17,843,385, with \$5,998,575 funded by bond proceeds and \$6,704,948 funded from developer contributions (excluding tapping fees). The Authority spent \$9,238,638 for Distribution and Purification structures and \$1,147,569 on service renewals during 2007.