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ORIGINAL

October 22, 2004

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COMMISSION CLERK

VIA HAND DELIVERY

Ms. Blanca Bayo, Director
Division of Commission Clerk and Administrative Services
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, Florida 32399-0850

RE: Docket No. 040951-WS - Joint Application for Approval of Sale of Florida Water Services Corporation's Land, Facilities, and Certificates in Brevard, Highlands, Lake, Orange, Pasco, Polk, Putnam, a portion of Seminole, Volusia and Washington Counties to Aqua Utilities Florida, Inc.

Dear Ms. Bayo:

Enclosed for filing in the above-referenced docket on behalf of Florida Water Services Corporation ("Florida Water") and Aqua Utilities Florida, Inc. ("Aqua Utilities") are the original and four copies of the following documents:

1) Aqua America, Inc.'s 2003 Annual Report; and

2) A statement of commitment from Aqua America, Inc. indicating that it will fund and financially support Aqua Utilities to become a self-sufficient corporation.

This information is being provided in response to Patti Daniel's letter dated September 24, 2004 requesting additional information in the above-referenced docket.

Ms. Daniel's letter also requested information relating to the territorial descriptions of two Florida Water systems located in Lake County. Florida Water's response to this inquiry is set forth below. Also included with this letter are the original and four copies of the supporting exhibits to Florida Water's response as referenced below.

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Specifically, Ms. Daniel's letter stated:

> The staff engineer noted that two systems in Lake County, specifically Palms Mobile Home Park and Friendly Center, do not have territorial descriptions, or a Commission Order, recognizing these water systems as part of the territory granted to Florida Water. This matter needs resolution so that the territory can be transferred to Aqua Utilities Florida, Inc.

Territorial Descriptions

Florida Water's tariffs, which have been adopted and filed in accordance with Chapter 25-9, Florida Administrative Code and approved by the Commission, include the territorial descriptions for both the Palms Mobile Home Park and Friendly Center systems. Original Sheet No. 12.7 of Volume I, Section II of Florida Water's tariff contains the territorial description of the Friendly Center system, and Original Sheet No. 12.14 of Volume I, Section II of Florida Water's tariff contains the territorial description of the Palms Mobile Home Park system. Copies of these tariff sheets are attached hereto as Exhibit "A." Also provided with the tariff sheets is a copy of the approval sheet for each of those tariff pages bearing the signature of Charles H. Hill, the Director of the Commission's Division of Water and Wastewater at the time these tariff pages were approved, with an effective date of April 18, 1997. Commission Docket No. 970028-WS is listed on the approval sheet which was the docket in which the Commission approved the name change of Southern States Utilities, Inc. ("Southern States") to Florida Water Services Corporation. The Palms Mobile Home Park and Friendly systems were acquired prior to the time that Docket 970028-WS was opened, but the approval of these tariff pages in Docket No. 970028-WS should indicate to the Commission that these systems were already recognized as part of Southern States' certificated territory by the Commission at the time the name change was approved in Docket No. 970028-WS.

Exhibit "Q" to the Joint Application filed by Florida Water and Aqua Utilities included sample tariffs sheets reflecting the new name of the utility, the existing rates and charges, and territorial description of the systems being acquired. The territory descriptions for both the Friendly Center and Palms Mobile Home Park Systems were included with this exhibit. (Copies of the sample tariff sheets are attached hereto and labeled as Exhibit "B"). In addition, on September 15, 2004, an electronic copy of all of Florida Water's tariff sheets containing the territory descriptions of the systems that are the subject of the application, including the Friendly Center and Palms Mobile Home Park Systems, were e-mailed to Richard Redemann of the Commission staff by Florida Water.

Acquisition of the Systems

In reviewing the available documentation, Florida Water has been able to ascertain that the Friendly Center System was acquired in June of 1977 from Friendly Center, Inc. When the system was purchased, it had a total of 10 customers, with a capacity at build-out to serve 41 customers. Palms Mobile Home Park was acquired in December of 1977 from Palms Easter Water System and at the time it was purchased served 49 customers with the capacity at build-out to serve 87 customers.

In 1977, at the time of these acquisitions, Section 367.022(6), Florida Statutes, provided that "systems designed to serve or serving 100 persons or less" are not subject to regulation by the Commission as a utility. (See Chapter 367, Florida Statutes, 1977, attached hereto as Exhibit "C"). It is likely that because these systems were considered exempt by the Commission at the time they were acquired, there was no need for the Commission to approve the acquisition of these systems by the utility through a formal docket.

Past Commission Orders

In researching past Commission Orders, Florida Water found several references to the Friendly Center and Palms Mobile Home Park systems that would indicate that these systems have been recognized by the Commission to be within Florida Water's certificated territory.

Docket No. 921014-WS - In re: Petition for Approval of Schedule to Amend Certificated Territories in Brevard, Citrus, Clay, Hernando, Lake, Marion, Martin, Orange, Osceola, Putnam, Seminole, and Volusia Counties by Southern States Utilities, Inc., was opened by the Commission to address a petition filed by Southern States to amend its certificates in order to include 49 systems that were being served by Southern States, but were outside of the utility's certificated territory. The Friendly Center system in Lake County was one of the 49 systems originally identified. However, according to Order No. PSC-93-0862-FOF-WS, issued June 8, 1993, in Docket No. 921014-WS, Southern States did not include Friendly Center in its application to amend its territory in Lake County because upon further review, it was discovered that the Friendly Center system actually was within the already-certificated area of Southern States. (See Order No. PSC-93-0862-FOF-WS attached hereto as Exhibit "D").

In addition, both the Friendly Center and Palms Mobile Home Park systems were included in rate cases filed by Southern States. Docket No. 920199-WS was opened to address an application filed by Southern States to increase the rates and charges for 127 of its water and wastewater systems. The Commission's decision in that case spawned a number of appeals which centered on issues of refunds and surcharges arising from rate structure issues. We note that when the Commission issued its Order on remand from the appellate court addressing refunds, both the Friendly Center and Palms Mobile Home Park systems were included in that Order. (See excerpts of Order No. PSC-98-0143-FOF-WS, issued January 26, 1998, attached hereto as Exhibit "E").

Docket No. 950495-WS was opened by the Commission to address a subsequent application for an increase in rates filed by Southern States. Once again, both the Friendly Center and Palms Mobile Home Park systems were included in that docket. Pursuant to Order No. PSC-1320-FOF-WS, issued October 30, 1996, the Commission approved the final rates and charges for the utility. Among the issues discussed in that Order was whether iron filtration equipment should be considered a water treatment component for used and useful purposes. The Palms Mobile Home Park system was one the systems affected by this issue, and was included in the discussion of that issue in the Final Order. (See page 46 of Order No. PSC-1320-FOF-WS, attached hereto as Exhibit "F"). The Palms Mobile Home Park system is referred to again in that Order in the Commission's discussion of the utility's proposed rate structure. (See page 165 of Exhibit "E"). The Friendly Center system is also specifically referred to in that Order in the discussion regarding specific adjustments to used and useful calculations. (See page 56 of Exhibit "E").

We hope that this information adequately addresses the staff engineer's concerns related to these systems. This information should clarify that the Commission has approved Florida Water's tariff sheets containing the territory descriptions for both of these systems, and that the Commission has recognized these systems as part of Florida Water's certificated territory in Lake County. Please do not hesitate to contact us should there be a need for any further information related to this matter.

Please acknowledge receipt of these documents by stamping the extra copy of this letter "filed" and returning the copy to me. Thank you for your assistance with this filing.

Sincerely,

Kenneth A. Hoffman

KAH/tls
Enclosures

cc: Melissa Taylor, Esq. (w/enclosures)
Kathy Pape, Esq. (w/enclosures)

LAKE COUNTY

Description Of Territory Served

PALMS MOBILE HOME PARK

Township 20 South, Range 24 East, Lake County, Florida.

Section 36
Part of Section 36.

Effective Date:

By: Forrest L. Ludsen

rrest L. Ludsen, Vice President
ance and Administration

EXHIBIT
A

FLORIDA PUBLIC SERVICE COMMISSION

APPROVED

AUTHORITY NO. WS-97-0054

DOCKET NO. 970028-WS

ORDER NO. Pending

EFFECTIVE DATE April 18, 1997

Charles H. Hill

DIRECTOR
DIVISION OF WATER AND WASTEWATER

LAKE COUNTY

Description Of Territory Served

FRIENDLY CENTER

Township 20 South, Range 26 East, Lake County, Florida.

Section 30
Part of Section 30.

FLORIDA PUBLIC SERVICE COMMISSION

APPROVED

AUTHORITY NO. WS-97-0054

DOCKET NO. 970028-WS

ORDER NO. Pending

EFFECTIVE DATE April 18, 1997

Charles H. Hill

DIRECTOR
DIVISION OF WATER AND WASTEWATER

LAKE COUNTY

Description Of Territory Served

PALMS MOBILE HOME PARK

Township 20 South, Range 24 East, Lake County, Florida.

Section 36
Part of Section 36.

LAKE COUNTY

Description Of Territory Served

FRIENDLY CENTER

Township 20 South, Range 26 East, Lake County, Florida.

Section 30
Part of Section 30.

Official

FLORIDA STATUTES

1977

Prepared by

STATUTORY REVISION AND INDEXING DIVISION

of the

Joint Legislative Management Committee

Published by the

STATE OF FLORIDA

TALLAHASSEE

EXHIBIT

C

Chapter No.
1977 Law

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CHAPTER 367

WATER AND SEWER SYSTEM REGULATORY LAW

[1]**367.011 Jurisdiction; legislative intent.**—

(1) This chapter shall be known and may be cited as the "Water and Sewer System Regulatory Law."

(2) The Florida Public Service Commission shall have exclusive jurisdiction over each utility with respect to its authority, service, rates, and issuance and sale of its securities maturing more than 12 months after date of issue, except as provided in this chapter.

(3) The regulation of utilities is declared to be in the public interest, and this law is an exercise of the police power of the state for the protection of the public health, safety, and welfare. The provisions of this chapter shall be liberally construed for the accomplishment of this purpose.

(4) This chapter shall supersede all other laws on the same subject, and subsequent inconsistent laws shall supersede this chapter only to the extent that they do so by express reference. This chapter shall not impair or take away vested rights other than procedural rights or benefits.

History.—s. 1, ch. 71-278; s. 3, ch. 76-168.
[1]**Note.**—Repealed by s. 3, ch. 76-168, effective July 1, 1980.

[1]**367.021 Definitions.**—As used in this chapter the following words or terms shall have the meanings indicated:

(1) "Commission" means the Florida Public Service Commission.

(2) "Certificate" means written authority from the commission to a utility to provide service in a specific territory.

(3) "Utility" means water or sewer utility and, except as provided in s. 367.022, includes every person, lessee, trustee or receiver owning, operating, managing, or controlling a system, or proposing construction of a system, who is providing, or proposes to provide, water or sewer service to the public for compensation.

(4) "System" means facilities and property used or useful in providing service and, upon a finding by the commission, may include a combination of functionally related facilities and property.

(5) "Governmental agency" means a political subdivision authorized to provide water or sewer service.

(6) "Territory" means the geographical area described in a certificate, which may be within or without the boundaries of an incorporated municipality, and may include areas in more than one county.

History.—s. 1, ch. 71-278; s. 3, ch. 76-168.
[1]**Note.**—Repealed by s. 3, ch. 76-168, effective July 1, 1980.

[1]**367.022 Exemptions.**—The following are not subject to regulation by the commission as a utility:

(1) The sale, distribution or furnishing of bottled water;

(2) Systems owned, operated, managed or controlled by governmental agencies;

(3) Manufacturers providing service solely in connection with their operations;

(4) Public lodging establishments providing service solely in connection with service to their guests;

(5) Landlords providing service to their tenants without specific compensation for the service;

(6) Systems designed to serve or serving 100 persons or less; and

(7) Nonprofit corporations, associations, or cooperatives providing service solely to members who own and control such nonprofit corporations, associations, or cooperatives.

History.—s. 1, ch. 71-278; s. 3, ch. 76-168.
[1]**Note.**—Repealed by s. 3, ch. 76-168, effective July 1, 1980.

[1]**367.031 Certificate.**—Each utility shall obtain a certificate authorizing it to provide service.

History.—s. 1, ch. 71-278; s. 3, ch. 76-168.
[1]**Note.**—Repealed by s. 3, ch. 76-168, effective July 1, 1980.

[1]**367.041 Application.**—Each applicant for a certificate shall:

(1) Provide information required by the commission, which may include a detailed inquiry into the ability of the applicant to provide service, the territory and facilities involved, and the existence or nonexistence of service from other sources within geographical proximity to the territory applied for;

(2) File with the commission schedules showing all rates, classifications, and charges for service of every kind furnished by it and all rules, regulations, and contracts relating thereto;

(3) File the application fee required by s. 367.141;

(4) Submit an affidavit that the applicant has caused notice of its intention to file an application, to be given:

(a) By mail or personal delivery:

1. To each utility serving, as disclosed by the records of the commission, within 10 miles of the applied-for territory, which has registered pursuant to the provisions of s. 367.171(1)(a); and

2. To the county commissions of the counties affected; and

(b) By publishing an advertisement each week, for 3 consecutive weeks, in a newspaper of general circulation in the territory involved.

Notice to be given shall be styled "Application For A Water Certificate," "Application For A Sewer Certificate," or "Application For A Water And Sewer Certificate," as the case may be, and shall include the name and address of the applicant together with a commonly understood description of the territory for which application is to be made. Notice must be given no more than 30 days prior to the filing of the application.

History.—s. 1, ch. 71-278; s. 3, ch. 76-168.
Note.—Repealed by s. 3, ch. 76-168, effective July 1, 1980.

[1]367.051 Issuance of certificate.—

(1) If within 20 days following the filing of the application, the commission does not receive written objection to the application, the commission may dispose of the application without hearing.

(2) If within 20 days following the filing of the application the commission receives a written prima facie valid objection to the application from a consumer, utility, or governmental agency in the territory involved, the commission shall hold a public hearing in or near such territory, with notice of the hearing to be given to the applicant and parties objecting.

(3) In either event, the commission may grant a certificate, in whole or in part or with modifications in the public interest, or, after notice and hearing, deny a certificate. The commission shall not grant a certificate for a proposed system, or for the extension of an existing system, which will be in competition with, or duplication of, any other system or portion of a system, unless it shall first determine that such other system or portion thereof is inadequate to meet the reasonable needs of the public or that the person operating the system is unable or refuses or neglects, after hearing on reasonable notice, to provide reasonably adequate service.

History.—s. 1, ch. 71-278; s. 3, ch. 76-168.
[1]Note.—Repealed by s. 3, ch. 76-168, effective July 1, 1980.

[1]367.061 Extension of certificate.—

(1) A utility may extend its service outside of the territory described in its certificate, if the extension does not involve territory described in an organizationally unrelated utility's certificate, served by a governmental agency, or receiving similar service from any other utility or governmental agency.

(2) Proposed extensions of service other than as authorized in subsection (1) shall not be commenced until the utility first obtains for such extensions an amended certificate in accordance with s. 367.041.

(3) A utility proposing to extend service in accordance with subsection (1) shall cause notice to be given at least 30 days prior to commencing of construction of the proposed extension, in the manner provided by s. 367.041(4).

(a) If within 50 days following the date notice was first given the commission does not receive written objection to the extension, the utility may provide service in the territory for which notice was given.

(b) If objection is received, the matter will be disposed of in accordance with s. 367.051(2) and (3).

(4) An application to amend a certificate may be made at any time, but no later than April 1 of the year following the extension. The application shall contain a description of all additional territory served. The commission shall issue an amended certificate describing all territory which it had theretofore been authorized to serve, together with the additional territory served by such extension.

(5) Notices will be styled "Application For Amendment Of Certificate No.......".

(6) Applications made pursuant to this section shall be accompanied by a fee as provided by s. 367.141.

History.—s. 1, ch. 71-278; s. 3, ch. 76-168.
[1]Note.—Repealed by s. 3, ch. 76-168, effective July 1, 1980.

[1]367.071 Transfer.—

(1) No utility shall sell, assign, or transfer its certificate, facilities or any portion thereof, or majority organizational control without determination and approval of the commission that the proposed sale, assignment, or transfer is in the public interest.

(2) Applications for proposed sale, assignment or transfer shall be made in the same manner as provided by s. 367.041, except that:

(a) The notice shall be styled "Application For Transfer Of Certificate No......," and

(b) The application shall be accompanied by a fee as provided by s. 367.141. No fee is required to be paid by a governmental agency that is buyer, assignee, or transferee.

(3) Applications shall be disposed of as provided in s. 367.051, except that:

(a) The sale or transfer of certificates or facilities to a governmental agency shall be approved as a matter of right.

(b) When paragraph (a) of this subsection does not apply, the commission shall amend the certificates as necessary to reflect the change resulting from the sale, assignment, or transfer.

History.—s. 1, ch. 71-278; s. 3, ch. 76-168.
[1]Note.—Repealed by s. 3, ch. 76-168, effective July 1, 1980.

[1]367.081 Rates; procedure for fixing and changing.—

(1) Rates and charges being charged and collected by a utility shall be changed only by approval of the commission.

(2) The commission shall, after notice and hearing, either upon request or upon its own motion, fix rates which are just, reasonable, compensatory, and not unjustly discriminatory. In all such proceedings, the commission shall consider the value and quality of the service and the cost of providing the service, which shall include, but not be limited to, debt interest, the utility's requirements for working capital, maintenance, depreciation, tax and operating expenses incurred in the operation of all property used and useful in the public service, and a fair return on the utility's investment in property used and useful in the public service. The commission shall also consider the utility's investment in property required by duly authorized governmental authority to be constructed in the public interest within a reasonable time in the future, not to exceed 24 months.

(3) The commission shall grant to any utility which receives all of its utility service from a governmental agency and redistributes that service to its

utility customers an increase or decrease in rates for service, without hearing, upon verified notice that the rates charged by the governmental agency have changed. The new rates authorized shall reflect the amount of the change of the rates imposed upon the utility by the governmental agency. Provisions of this subsection shall not prevent a utility which receives its service from a governmental agency, from seeking changes in rates pursuant to the provisions of subsection (2).

(4) Applications for rate changes shall be accompanied by a fee as provided by s. 367.141, except that no fee shall be required for applications for rate changes made pursuant to subsection (3).

(5) Pending a final order by the commission in any rate proceeding under this section, the commission may withhold consent to the operation of all or any portion of the new rate schedules, delivering to the utility requesting such increase, within 30 days, a reason or written statement of good cause for withholding its consent. Such consent shall not be withheld for a period longer than 8 months from the date of filing the new schedules. The new rates or any portion not consented to shall go into effect under bond at the end of such period, but the commission shall by order require such utility to keep accurate account in detail of all amounts received by reason of such increase, specifying by whom and in whose behalf such amounts were paid, and upon completion of hearing and final decision in such proceeding shall by further order require such utility to refund with interest at a fair rate, to be determined by the commission in such manner as it may direct, such portion of the increased rate or charge as by its decision shall be found not justified. Any portion of such refund not thus refunded to patrons or customers of the utility shall be refunded or disposed of by the utility as the commission may direct; however, no such funds shall accrue to the benefit of the utility.

(6) In no instance is any regulated company allowed to put suspended rates into effect more than one time in any 12-month period.

History.—s. 1, ch. 71-278; s. 5, ch. 74-195; s. 3, ch. 76-168.
[1]**Note.**—Repealed by s. 3, ch. 76-168, effective July 1, 1980.
cf.—s. 323.08 Rates; procedure for fixing and changing.
s. 364.05 Changing rates, tolls, rentals, etc.
s. 366.06 Rates; procedure for fixing and changing.

[1]367.091 Rates; new class of service.—If any request for service of a utility shall be for a new class of service not provided for in the filings required by s. 367.041(2), the utility may furnish the new class of service and fix and charge just, reasonable, and compensatory rates or charges therefor. A schedule of rates or charges so fixed shall be filed with the commission within 10 days after the service is furnished. The commission may approve such rates or charges as filed or, after hearing, may approve such other rates or charges for the new class of service which it finds are just, reasonable, and compensatory.

History.—s. 1, ch. 71-278; s. 3, ch. 76-168.
[1]**Note.**—Repealed by s. 3, ch. 76-168, effective July 1, 1980.

[1]367.101 Charges for service availability.—Charges and conditions made by a utility shall be just and reasonable. The commission shall, upon request or upon its own motion, investigate agreements or proposals for charges and conditions to be made by a utility for service availability. The commission shall, after notice and hearing, set just and reasonable charges and conditions for service availability.

History.—s. 1, ch. 71-278; s. 3, ch. 76-168.
[1]**Note.**—Repealed by s. 3, ch. 76-168, effective July 1, 1980.

[1]367.111 Service.—

(1) Each utility shall provide service to the territory described in its certificate within a reasonable time. If the commission finds, after notice and hearing, that any utility has failed to provide service to any person reasonably entitled thereto, it may amend the certificate to delete the territory not served or not properly served by the utility, or it may rescind the certificate.

(2) Each utility shall provide to each person reasonably entitled thereto such safe, efficient, and sufficient service as is prescribed by chapter 10 D-4, Florida Administrative Code for Water Systems, and chapter 17-4, Florida Administrative Code for Sewer Systems, but such service shall not be less safe, efficient, and sufficient than is consistent with the approved engineering design of the system and the reasonable and proper operation of the utility in the public interest.

History.—s. 1, ch. 71-278; s. 3, ch. 76-168.
[1]**Note.**—Repealed by s. 3, ch. 76-168, effective July 1, 1980.

[1]367.121 Powers of commission.—

(1) In the exercise of its jurisdiction, the commission shall have power:

(a) To prescribe fair and reasonable rates and charges, classifications, standards of quality and measurements, and service rules and regulations to be observed by each utility;

(b) To prescribe uniform system and classification of accounts for all utilities, which, among other things, shall establish adequate, fair, and reasonable depreciation rates and charges;

(c) To require the filing by each utility of periodic reports and all other reasonably necessary information;

(d) To require repairs, improvements, additions, and extensions to the plant and equipment of any utility reasonably necessary to promote the convenience and welfare of the public and secure sufficient service or facilities for those reasonably entitled thereto in the territory, except that no utility shall be required to extend its service outside its territory, or make additions to its plant or equipment to serve outside its territory, unless the commission shall first, after a hearing, enter an order based upon findings establishing the financial ability of the utility to make such additional investment without impairing its capacity to serve its existing customers and its ability to operate efficiently;

(e) To employ and fix the compensation for such examiners and technical, legal, and clerical employees as it deems necessary to carry out the provisions of this chapter;

(f) To prescribe all rules and regulations reasonably necessary and appropriate for the administration and enforcement of this chapter; and

(g) To exercise all judicial powers, issue all writs, and do all things necessary or convenient to the full and complete exercise of its jurisdiction and the enforcement of its orders and requirements.

(2) The commission or its duly authorized representatives may, during all reasonable hours, enter upon any premises occupied by any utility and set up and use thereon all necessary apparatus and appliances for the purpose of making investigations, inspections, examinations, and tests and exercising any power conferred by this chapter. Such utility shall have the right to be notified of and be represented at the making of such investigations, inspections, examinations, and tests.

History.—s. 1, ch. 71-278; s. 3, ch. 76-168.
[1]Note.—Repealed by s. 3, ch. 76-168, effective July 1, 1980.

[1]367.122 **Examination and testing of appliances.—**

(1) The commission may provide for the examination and testing of all appliances used for measuring any product or service of a utility.

(2) Any customer or user may have any such appliance tested by the utility upon payment of the fee fixed by the commission.

(3) The commission shall establish reasonable fees to be paid for testing such appliances on the request of the customers. The fee shall be paid by the customer or user at the time of his request. However, the fee shall be paid by the utility and repaid to the customer or user if the appliance is found defective or incorrect to the disadvantage of the customer or user in excess of the degree or amount of tolerance customarily allowed for such appliances, or as may be provided for in rules and regulations of the commission. No fee may be charged for any such testing done by the commission or its representatives.

(4) The commission may purchase materials, apparatus and standard measuring instruments for such examinations and tests.

History.—s. 1, ch. 71-278; s. 100, ch. 73-333; s. 3, ch. 76-168.
[1]Note.—Repealed by s. 3, ch. 76-168, effective July 1, 1980.

[1]367.123 **Service for resale.**—The commission shall not require a utility to provide service for resale, but any utility which provides service for resale shall provide such service upon terms and conditions established by the commission, and no utility shall discontinue such service without the approval of the commission.

History.—s. 1, ch. 71-278; s. 3, ch. 76-168.
[1]Note.—Repealed by s. 3, ch. 76-168, effective July 1, 1980.

[1]367.131 **Review of commission's orders.—** Any utility, or any person in interest, dissatisfied with any order of the commission may have it reviewed by the Supreme Court by certiorari.

History.—s. 1, ch. 71-278; s. 3, ch. 76-168.
[1]Note.—Repealed by s. 3, ch. 76-168, effective July 1, 1980.

[1]367.141 **Fees.**—Applications by utilities, made pursuant to the provisions of ss. 367.041, 367.061, 367.071, 367.081, and 367.181, shall be accompanied by a fee, based upon the existing or proposed capacity of the system or extension, as follows:

(1) From 1 to 249 persons, $50;
(2) From 250 to 499 persons, $75;
(3) From 500 to 999 persons, $150;
(4) From 1,000 to 1,499 persons, $375;
(5) From 1,500 to 2,499 persons, $600;
(6) From 2,500 to 4,999 persons, $900;
(7) From 5,000 to 9,999 persons, $1,500;
(8) Ten thousand or more persons, $2,250.

Such fees shall be placed in the Public Service Regulatory Trust Fund under the provisions of chapter 350.

History.—s. 1, ch. 71-278; s. 3, ch. 76-168; s. 3, ch. 76-265.
[1]Note.—Repealed by s. 3, ch. 76-168, effective July 1, 1980.

[1]367.151 **Gross receipts tax.**—Each utility shall, on or before March 15 in every year, report to the commission, under oath of one of its officers, the total amount of the gross receipts derived by it in the immediately preceding period of January 1 to December 31, inclusive, from utility business done within this state. Each utility whose ownership or system is transferred in any manner to a governmental agency shall, within 30 days of the date of transfer, report the total amount of gross receipts derived by it during the period from January 1 to the date of transfer. In either event, at the time of so reporting, each utility shall pay to the commission a gross receipts tax in the amount of 2.5 percent of such gross receipts. However, whenever a purchase is made of any water and a tax is paid thereon by a utility and such utility resells the same directly to customers, such utility shall be entitled to, and receive, credit on such taxes as may be due by it under this section to the extent of the tax paid or payable upon such water by the person, firm, or corporation from whom such purchase was made. If any utility fails to make such report and pay such tax, the commission, after giving at least 5 days' written notice to the utility, shall estimate the amount of such gross receipts from such information as it may be able to obtain from any source, add 10 percent of the amount of such tax as a penalty, and proceed to collect such tax and penalty, together with all costs of collection thereof, in the same manner as other delinquent taxes are collected. However, no penalty shall be added to the tax in the event a return is made and the amount of the tax is paid before the expiration of the time fixed in the notice given by the commission. All such tax payments and penalties shall be placed in the Florida Public Service Regulatory Trust Fund, as established under the provisions of chapter 350. The commission may audit such reports, and, upon demand, every utility shall submit all of its records, papers, books, and accounts to the commission or its representatives for audit.

History.—s. 1, ch. 71-278; s. 3, ch. 76-168; s. 3, ch. 76-265.
[1]Note.—Repealed by s. 3, ch. 76-168, effective July 1, 1980.

[1]367.161 **Incrimination, violations; penalties.—**

(1) A person called upon to testify before the commission or one of its examiners shall not be excused from answering on the ground or claim that his testimony would tend to incriminate him; but no person having so testified shall be prosecuted or subjected to any penalty or forfeiture for or on account of any transaction, matter, or thing concerning which he may have testified or produced documentary evidence. However, no person so testifying shall be exempted from prosecution or punishment for perjury in so testifying.

(2) If any utility, by any authorized officer, agent,

or employee, shall knowingly refuse to comply with, or willfully violate, any provision of this chapter or any lawful rate, rule or regulation, order, direction, demand, or requirement prescribed by the commission, such utility shall incur a penalty for each such offense of not more than $5,000, to be fixed, imposed, and collected by the commission. Each day that said refusal or violation continues shall constitute a separate offense. Each penalty shall be a lien upon the real and personal property of the utility, enforceable by the commission as statutory liens under chapter 85. The proceeds from the enforcement of any such lien shall be deposited in the general revenue fund of the state.

History.—s. 1, ch. 71-278; s. 3, ch. 76-168.
[1]**Note.**—Repealed by s. 3, ch. 76-168, effective July 1, 1980.

[1]367.171 Effectiveness of this chapter.—

(1) The provisions of this chapter shall become effective in a county of this state upon the adoption of a resolution by the board of county commissioners of such county, or, in counties operating under a countywide charter, by the appropriate board, declaring that such county is subject to the provisions of this chapter. Any board of county commissioners adopting such resolution shall immediately notify the commission of its adoption and submit the resolution to the commission.

(a) Within 30 days after this chapter becomes applicable to a county, each utility shall register by filing with the commission a written statement setting forth the full legal name of the utility, its mailing address, and a brief description of its area of service.

(b) On the day this chapter becomes applicable to any county, any utility engaged in the operation or construction of a system shall be entitled to receive a certificate for the area served by such utility on the day this chapter becomes applicable to it if, within 90 days, the utility will make application by filing with the commission:

1. A map of its existing system or system under construction; and

2. A description of the area served by the system.

Such application shall be accompanied by a fee as provided by s. 367.141

(2)(a) In consideration of the advisory opinion of the Supreme Court of Florida to the Governor on May 14, 1969, responding to the Governor's request for the court's opinion upon a question affecting the executive powers and duties, as authorized by s. 1(c), Art. IV, State Constitution, the court found, inter alia, that the Legislature of the State of Florida is vested with inherent power to prevent unjust discrimination and excessive charges by persons engaged in common carriage and providing other service of a public nature. Thus, the Legislature has inherent authority to create and empower a public utilities commission and impose upon it responsibility and authority for regulation of water and sewer utilities in certain areas of this state.

(b) In consideration of the variance of powers, duties, responsibilities, population, size of municipalities of the several counties and that every county varies from every other county and thereby affects the functions, duties and responsibilities required of its county officers and the scope of responsibilities which each county may, at this time, undertake, the Counties of Alachua, Baker, Bay, Bradford, Calhoun, Citrus, Collier, Columbia, Dade, DeSoto, Dixie, Escambia, Flagler, Gadsden, Gilchrist, Glades, Gulf, Hamilton, Hardee, Hendry, Highlands, Hillsborough, Holmes, Indian River, Jefferson, Lafayette, Leon, Levy, Liberty, Madison, Manatee, Marion, Martin, Monroe, Okaloosa, Okeechobee, Polk, St. Johns, Sarasota, Seminole, Sumter, Suwannee, Taylor, Union, Wakulla and Washington are excluded from the provisions of this chapter until such time as the board of county commissioners of such counties, acting pursuant to the provisions of subsection (1), shall make this chapter applicable to such county or until the Legislature shall, by appropriate act, remove one or more such counties from this exclusion.

History.—s. 1, ch. 71-278; s. 1, ch. 73-193; s. 3, ch. 76-168.
[1]**Note.**—Repealed by s. 3, ch. 76-168, effective July 1, 1980.

In Re: Petition for Approval of Schedule to Amend Certificated Territories in Brevard, Citrus, Clay, Hernando, Lake, Marion, Martin, Orange, Osceola, Putnam, Seminole, and Volusia Counties by SOUTHERN STATES UTILITIES, INC.
Docket No. 921014-WS
Order No. PSC-93-0862-FOF-WS
Florida Public Service Commission
June 8, 1993

Before J. Terry Deason, Chairman, Thomas M. Beard, Susan F. Clark, Julia L. Johnson and Luis J. Lauredo, Commissioners.

FINAL ORDER ACCEPTING SETTLEMENT

BY THE COMMISSION:

Background

*1 Section 367.045, Florida Statutes, prohibits a utility from extending its service outside the area described in its certificate of authorization without Commission approval. Southern States Utilities, Inc. (SSU or utility) discovered that it was in violation of Section 367.045, Florida Statutes, when the utility began preparing its rate case in Docket No. 920199-WS. On October 5, 1992, SSU filed a petition for Commission approval of a schedule to amend its certificated territories. The Petition identified 49 systems that SSU is serving outside of its certificated territory.

On February 9, 1993, this Commission issued Order No. PSC-93-0202-FOF-WS approving SSU's timetable for submitting the amendment applications. Order No. PSC-93-0202-FOF-WS required SSU to file applications for amendments of its certificates in Lake, Citrus, Seminole and Volusia Counties by February 1, 1993. All of the applications were filed after the February 1, 1993, deadline. (Docket No. 930129-WS - filed February 2, 1993; Docket No. 930130-WS - filed February 2, 1993; Docket No. 930147-WS - filed February 10, 1993; and Docket No. 930153-WS - filed February 12, 1993).

In addition to the untimely filing of the amendment dockets, the utility failed to include applications for all of the systems identified in its timetable. The Lake County Docket (Docket No. 930129-WS) did not include the Carlton Village/Lake Griffin and **Friendly Center** Systems. The Seminole County Docket (Docket No. 930130-WS) did not include the Lake Crescent and Harmony Homes systems. The Volusia County Docket (Docket No. 930153-WS) did not include the Sugarmill system.

In a letter dated March 18, 1993, SSU explained that the five applications, discussed above, were not filed by February 1, 1993, because the utility found that it is not serving outside its territory in those instances. Based on the facts represented to us in the March 18, 1993, letter, we do not find it necessary to take action on those five applications. Therefore, this Order will only address the untimely filing of the amendment applications and the resolution of this show cause proceeding.

Show Cause and Settlement Offer

At out May 18, 1993, Agenda Conference, we considered whether to require SSU to show cause in writing why it should not be fined for its violation of Order No. PSC-93-0202-FOF-WS. Order No. PSC-93-0202-FOF-WS was very specific as to the consequences of the utility's failure to comply with the Order. Order No. PSC-93-0202-FOF-WS states in part:

However, since SSU has provided details related to the history and extent of its violations and has provided a reasonable time table for correcting the problems,

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show cause proceedings will not be initiated. If the amendment applications are filed pursuant to Section 367.045, Florida Statutes, Rule 25-30.036, Florida Administrative Code, and in accordance with the approved time table, they may be processed administratively. It is important to note that the utility has violated the statute in these instances. If SSU commits any future violation of Sections 367.045 or 367.071, Florida Statutes, including acquisition of new systems, it will result in show cause proceedings. Also, in the event SSU fails to follow its own proposed schedule, show cause proceedings against SSU may be initiated.

***2** Without including the five systems discussed above, SSU did fail to file the remaining 23 amendment applications by February 1, 1993 as provided in Order No. PSC-93-0202-FOF-WS. This is the date for the systems identified by the utility on its own timetable. Prior to the issuance of Order No. PSC-93-0202-FOF-WS, each and every one of the 23 instances in which applications were to be filed was the potential basis for an independent show cause action against SSU. However, at that Agenda Conference, the utility made a settlement offer of $500 to resolve the show cause proceeding. We find this amount reasonable and hereby resolve this show cause.

Based on the foregoing, it is, therefore,

ORDERED by the Florida Public Service Commission that Southern States Utilities, Inc.'s settlement offer is hereby accepted and this show cause proceeding is hereby resolved. It is further

ORDERED that this docket be closed.

By ORDER of the Florida Public Service Commission this 8th day of June, 1993.

STEVE TRIBBLE, Director Division of Records and Reporting

(S E A L)

Commissioner Luis J. Lauredo dissented without opinion.

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.59(4), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

Any party adversely affected by the Commission's final action in this matter may request: 1) reconsideration of the decision by filing a motion for reconsideration with the Director, Division of Records and Reporting within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or 2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water or sewer utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Civil Procedure. The notice of appeal must be in the form specified in Rule 9.900 (a), Florida Rules of Appellate Procedure.

END OF DOCUMENT

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In Re: Application for Rate Increase in Brevard, Charlotte/Lee, Citrus, Clay, Duval, Highlands, Lake, Marion, Martin, Nassau, Orange, Osceola, Pasco, Putnam, Seminole, Volusia, and Washington Counties by Southern States Utilities, Inc.; Collier County by Marco Shores Utilities (Deltona); Hernando County by Spring Hill Utilities (Deltona); and Volusia County by Deltona Lakes Utilities (Deltona).
Docket No. 920199-WS
Order No. PSC-98-0143-FOF-WS
Florida Public Service Commission
January 26, 1998

Before Julia L. Johnson, Chairman, J. Terry Deacon, Susan F. Clark, Diane K. Kiesling and Joe Garcia, Commissioners.

*1 ORDER DENYING MOTIONS FOR CONTINUANCE AND FINAL ORDER ON REMAND REQUIRING REFUNDS TO SPRING HILL CUSTOMERS AND REQUIRING NO REFUNDS AND NO SURCHARGES TO OTHER CUSTOMERS ABSENT AN ALTERNATIVE SOURCE OF FUNDING

BY THE COMMISSION:

BACKGROUND

On May 11, 1992, Southern States Utilities, Inc., now known as Florida Water Services Corporation (Florida Water or utility), filed an application to increase the rates and charges for 127 of its water and wastewater service areas regulated by this Commission. By Order No. PSC-93-0423-FOF-WS, issued March 22, 1993, the Commission approved an increase in the utility's final rates and charges, basing the rates on a uniform rate structure.

On April 6, 1995, Order No. PSC-93-0423-FOF-WS was reversed in part and affirmed in part by the First District Court of Appeal, which stated that the Commission failed to make the requisite finding that the utility's facilities and land were functionally related. Citrus County v. Southern States Utils., Inc., 656 So. 2d 1307, 1311 (Fla. 1st DCA 1995). On remand, we considered many issues, including whether the record in Docket No. 920199-WS should be reopened to take evidence on the issue of functional relatedness. As a matter of policy, we chose not to reopen the record to take evidence on the functional relatedness issue, but rather we reviewed the evidence already present in Docket No. 920199-WS and determined that the record supported the implementation of a modified stand-alone rate structure. Therefore, by Order No. PSC-95-1292-FOF-WS, issued October 19, 1995, we required Florida Water to implement a modified stand-alone rate structure. The implementation of the modified stand-alone rate structure resulted in a rate decrease for some customers. Accordingly, we required the utility to make refunds with interest within 90 days to those customers. We also noted that the modified stand-alone rate structure resulted in a rate increase for other customers. Relying on the case law related to retroactive ratemaking, we believed that the utility could not retroactively collect the difference in rates from the customers who underpaid.

The Florida Supreme Court's decision in GTE Florida, Inc. v. Clark, 668 So. 2d 971 (Fla. 1996), to allow GTE to surcharge its customers, resulted in our reconsideration of Order No. PSC-95-1292-FOF-WS in this docket. See Order No. PSC-96-0406-FOF-WS, issued March 21, 1996. In finding that a surcharge imposed as a result of an erroneous Commission order did not constitute retroactive ratemaking, the GTE Court stated that "utility ratemaking is a matter of fairness. Equity requires that both ratepayers and utilities be treated in a similar manner." GTE at 973. Upon reconsideration, we recognized the principles set

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DOL RAY MANOR	$9,441.52
DRUID HILLS	$796.79
EAST LAKE HARRIS EST.	$591.50
FERN PARK	$845.30
FERN TERRACE	$71.68
FISHERMAN'S HAVEN	$425.06
FLA CNTRL COMM PARK	$31,233.14
FOUNTAINS	$2,989.86
FOX RUN	$2,829.55
FRIENDLY CENTER	$2,118.92
GOLDEN TERRACE	$2,971.55
GOSPEL ISLAND ESTATES	$2,201.02
GRAND TERRACE	$2,383.99
HARMONY HOMES	$759.79
HERMITS COVE	$2,562.19
HOBBY HILLS	$939.32
HOLIDAY HAVEN	$6,185.98
HOLIDAY HEIGHTS	$56.65
IMPERIAL MOBILE TERRACE	$455.27

PALISADES COUNTRY CLUB	$11,283.91
PALM PORT	$936.48
PALM TERRACE	$1,814.57
PALMS MOBILE HOME PK	$624.80
PARK MANOR	$20,414.40

PICCIOLA ISLAND	$214.82
PINE RIDGE	$1,106.09
PINE RIDGE ESTATES	$1,476.39
PINEY WOODS	$474.47
POINT O'WOODS	$1,662.38
POMONA PARK	$3,728.15
POSTMASTER VILLAGE	$695.94
QUAIL RIDGE	$4,620.95
RIVER GROVE	$1,604.02

RIVER PARK	$1,133.88
ROLLING GREEN	$2,090.26
ROSEMONT	$1,657.70
SALT SPRINGS	$29,682.20
SAMIRA VILLAS	$9,846.78
SARATOGA	$1,098.27

Re Southern States Utilities, Inc.
Docket No. 950495-WS
PSC-96-1320-FOF-WS
Florida Public Service Commission
October 30, 1996

APPEARANCES: KENNETH A. HOFFMAN and WILLIAM B. WILLINGHAM, Esquires, Rutledge, Ecenia, Underwood, Purnell & Hoffman, Post Office Box 551, Tallahassee, Florida, 32302-0551, and BRIAN P. ARMSTRONG and MATTHEW FEIL, Esquires, Southern States Utilities, Inc., 1000 Color Place Apopka, Florida, 32703. On behalf of Southern States Utilities, Inc. JACK SHREVE, CHARLES R. BECK, HAROLD C. McLEAN, STEPHEN C. REILLY, Esquires, Office of Public Counsel, The Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1400. On behalf of the Citizens of the State of Florida. LARRY M. HAAG, Esquire, 111 West Main Street, Second Floor, Suite B, Inverness, Florida, 34450. On behalf of Citrus County. MICHAEL B. TWOMEY, Esquire, Post Office Box 5256, Tallahassee, Florida, 32314-5256. On behalf of Marco Island Fair Water Rate Defense Fund Committee, Inc., Sugarmill Woods Civic Association, Inc., Concerned Citizens of Lehigh Acres, East County Water Control District, Citrus County Board of Commissioners, Springhill Civic Association., Inc., Hidden Hills Country Club Homeowners Association, Citrus Park Homeowners Association and the Harbor Woods Civic Association. ARTHUR I. JACOBS, Esquire, Post Office Box 1110, Fernandina Beach, Florida, 32035-1110. On behalf of Amelia Island Community Association, Resident Condominium, Residence Property Owners Association, Amelia Surf and Racquet Property Owners Association and Sandpiper Association. BARRY RICHARD, Esquire, Post Office Box 1838, Tallahassee, Florida, 32302. On behalf of witness Jeffrey Sharkey. DAROL H. M. CARR, Esquire, Post Office Box 2159, Port Charlotte, Florida, 33949. On behalf of Burnt Store Lakes. JOSEPH A. McGLOTHLIN, VICKI GORDON KAUFMAN, Esquires, McWhirter, Reeves, McGlothlin, Davidson, Rief & Bakas, 117 S. Gadsden Street, Tallahassee, Florida, 32301. On behalf of the City of Keystone Heights and the Marion Oaks Homeowners Association. MARGARET E. O'SULLIVAN, LILA A. JABER, ROSANNE G. CAPELESS, RALPH R. JAEGER, and CHARLES J. PELLEGRINI, Esquires, Florida Public Service Commission, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0863. On behalf of Commission Staff. PRENTICE P. PRUITT, Esquire, 1308 Peacefield Place, Tallahassee, Florida 32312. Counsel to the Commissioners.

Before Clark, chairman, and Deason, Garcia, Johnson, and Kiesling, commissioners.

BY THE COMMISSION:

FINAL ORDER APPROVING RATES AND CHARGES

I. BACKGROUND

***1** Southern States Utilities, Inc. (SSU or utility) is a Class A utility, which

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Buenaventura Lakes, Citrus Park, Holiday Haven, Jungle Den, Leisure Lakes, Marco Island and Marco Shores, whose permits specify annual average daily flows.

It has been our practice to rely on flow data in the most recent DEP operating permit to calculate used and useful percentages. Therefore, we find it appropriate to continue with the use of the flow upon which the DEP operating permit is based as the appropriate flow for used and useful purposes for wastewater treatment plant and effluent disposal. We note that the most recently-issued DEP operating permits contain information describing the flows upon which operating capacity is based. However, when such information is not available, we conclude that average daily flow in the maximum month, contained in the monthly operating reports submitted to the DEP, shall be used.

n. Iron filtration

The parties are in agreement that iron filtration equipment should be considered a water treatment component for used and useful purposes. We find it appropriate to authorize used and useful plant for SSU's service areas employing iron filtration equipment as 56.78 percent for Apache Shores, and 100 percent for Crystal River, Fox Run, Gospel Island, Lakeside, **Palms Mobile Home Park**, and Point O'Woods.

We have based calculations for all water treatment facilities on the maximum day demand, adjusted for growth, minus unaccounted for water, divided by the firm reliable capacity. Thus, we find it appropriate to treat iron filtration equipment as water treatment plant, and to determine the used and useful percentage for such equipment in the same manner as other water treatment plant on a service area by service area basis. Further, we find it appropriate that those service areas with iron filtration equipment have a separate used and useful percentage calculated as water treatment equipment, consistent with used and useful treatment for other water treatment processes such as reverse osmosis and lime softening facilities. We note that because the utility did not request separate consideration for source of supply and treatment, the used and useful percentage we authorize for Crystal River is greater than the utility's request.

o. Transmission, Distribution and Collection Lines

***46** SSU proposed a methodology for calculating ERCs for determining used and useful on mains based upon a lots connected to lots available comparison that entails taking the average number of ERCs, multiplying it by the 'ratio of customers' to ERCs, adding margin reserve, and then dividing this total by the number of lots with lines in front of them. To obtain the 'ratio of customers,' the utility compared the historical number of meters in service to the historical number of ERCs, yielding a ratio of lots (meters) to ERCs. This ratio was then applied to the projected number of ERCs to yield a projected 'number of lots' (meters) connected to the mains. This methodology was advanced by the utility apparently to be applied when the actual number of connected lots is not known or cannot be determined except by unreasonably laborious methods.

Nevertheless, SSU contended that it should be allowed the used and useful percentages authorized in the last rate proceeding for lines; and for the four Deltona facilities, those used and useful percentages achieved through hydraulic analysis. In OPC's view, in order to compare 'apples with apples,' the actual highest cost service areas. In ascending order of bill level at 10,000 gallons, Burnt Store ranks 77 out of 95 service areas. Our concerns about the narrow focus of rates differentiated by CIAC, discussed above, were also present in this situation. Thus, we find no validity to differentiating rates by only this one factor.

Uniform Rates Differentiated by Treatment Type and CIAC. This potential structure combined the methodologies discussed for the two previous rate options. Here again, we are troubled by the lack of any meaningful correlation among a plant's potential stand-alone rates based upon these variables. A review of the bills at 10,000 gallons did not indicate any logical consistency. For example, Hobby Hills, Keystone Club Estates, and Quail Ridge service areas use 'pump and chlorinate' for their treatment process and have identical CIAC levels of three percent. Therefore, calculation of their respective stand-alone rates would give equal consideration to both treatment type and CIAC. However, the stand-alone bills at 10,000 gallons for these service areas are $31.54, $41.44 and $123.94, respectively. We find the same flaws in the individual application of treatment type and CIAC-differentiated rates and reject this potential combined rate.

***169** Utility-Proposed Rate Structure. As stated above, SSU's proposed uniform rate structure classifies service areas in two categories: reverse osmosis for the water treatment facilities at the Burnt Store and Marco Island service areas and conventional treatment for all other water service areas. All wastewater customers are included in the same service classification and would be charged the same uniform rate.

Marco, et al strongly opposed SSU's proposed rate structure, believing that the rates should be based on cost of service in order to be fair and equitable. Sugarmill Woods witness Hansen testified that the total uniform rate subsidy cost for his service area is approximately $1.3 million higher than under the total stand-alone approach. In addition, Marco witness Mann testified that there is no cost of service justification for segregating the two reverse osmosis facilities and lumping them together for cost averaging.

SSU's proposed rate structure, with the adjustments made in this Order, would yield disparate results between the bills of the two reverse osmosis facilities: Burnt Store's customers would pay a bill based on 10,000 gallons that is only 67 percent of its comparable stand-alone requirement, while Marco Island customers' bills would be at 102 percent of its stand-alone requirement. A comparison among the conventional treatment facilities shows even greater variation, ranging from **Palms Mobile Home Park** paying only 14 percent of its stand-alone requirement to Amelia Island paying 198 percent of its stand-alone requirement. There are factors other than the type of treatment that influence the rates, and, therefore, we do not find this particular rate design proposal to be satisfactory.

Modified Stand-Alone Rates. The rate structure currently in effect for this utility is modified stand-alone. It is calculated by first reviewing the stand-alone rate of the various service areas for affordability. As stated in Mr. Shafer's testimony, the establishment of the benchmark for water service of $52 for 10,000 gallons and for wastewater service of $65 for 6,000 gallons is based on the concept of affordability as determined in the previous rate case. Therefore, for those service areas where the stand-alone bills exceed these benchmarks, their bills are capped. The resulting base facility and gallonage charges apply to those service areas. The should we find that to be justified by equitable considerations.

s. General Adjustments to Used and Useful Calculations

***56** Wherever a used and useful percentage was calculated that was equal to or greater than 95 percent, we rounded the used and useful percentage to 100 percent However, we consider the number of ERCs involved in that rounding as margin reserve. In many instances, the used and useful percentages as calculated exceeded 100 percent. Although we show the actual calculation results in Attachment B in order to indicate the present need to increase capacity, we have applied only 100 percent in those cases. SSU provided different projections for ERCs for both Marco Shores and Burnt Store. However, not all of the data needed was included; therefore, we derived the linear equation based on the given data so that the missing data could be calculated.

t. Specific Adjustments to Used and Useful Calculations

East Lake Harris and **Friendly Center**. We had calculated for these two service areas, which were stand-alone in the utility's last rate proceeding, used and useful of 100 percent for all components except for hydropneumatic tanks. In accord with our decision below, we find it appropriate to consider the hydropneumatic tanks to be 100 percent used and useful. These two service areas have been interconnected. Because we have found the water components for each to be 100 percent used and useful, we find that they are 100 percent used and useful as interconnected.

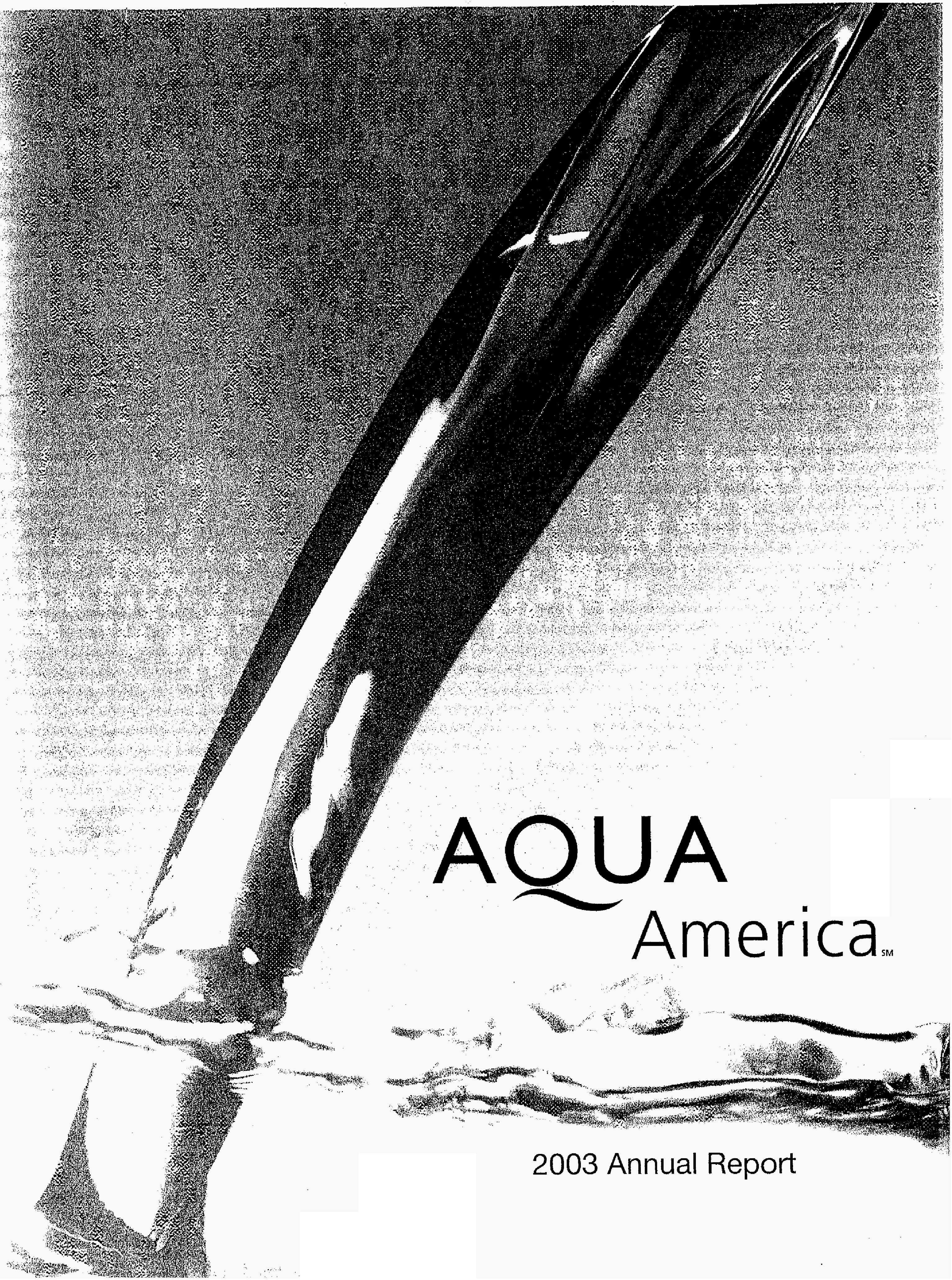
Imperial Mobile Terrace. We have removed the projected second well for Imperial Mobile Terrace from the 1996 budget because the utility did not adequately support its inclusion. Therefore, we have not added any capacity to source of supply.

Sunny Hills. SSU calculated used and useful percentages separately for Sunny Hills' two service areas. However, the investment for these components is not segregated. Therefore, we have applied the used and useful percentages calculated for the larger service area to the total investment.

Buenaventura Lakes. As stated herein, we have authorized used and useful percentages for wastewater plant and effluent disposal greater than the utility's request for Buenaventura Lakes. However, the utility appears to have erred in not including margin reserve in its calculation.

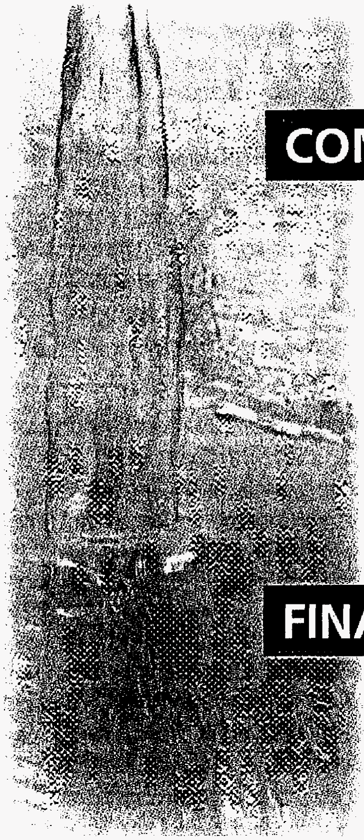
Plant and effluent disposal. SSU requested separate used and useful percentages for wastewater treatment plant and effluent disposal, and we performed such separate calculations. There are four instances, however, where the capacities are different for wastewater treatment plant and effluent disposal. However, NARUC account 380.4 is an aggregate of both treatment plant and effluent disposal investment, and the utility did not file a break-out of separate investment for all of the facilities in question. For Deltona Lakes and Lehigh, the break-out of investment was provided and the appropriate percentages were applied to the appropriate dollars. For Salt Springs and Zephyr Shores, it was not, and so we applied 100 percent used and useful to account 382.4, outfall sewer lines, while the treatment plant used and useful percentages were applied to account 380.4.

***57** Reduced wastewater treatment plant capacities. Three of SSU's wastewater



AQUA America[SM]

2003 Annual Report



COMPANY PROFILE

Aqua America, Inc. is the largest U.S.-based publicly-traded water utility serving approximately 2.5 million residents in Pennsylvania, Ohio, Illinois, Texas, New Jersey, Indiana, Virginia, Florida, North Carolina, Maine, Missouri, New York, South Carolina and Kentucky. Aqua America is listed on both the New York and Philadelphia Stock Exchanges under the ticker symbol WTR. The company has been committed to the preservation and improvement of the environment throughout its history, which spans more than 100 years.

FINANCIAL HIGHLIGHTS

(In thousands of dollars, except per share amounts)

	2003	2002	% Change
• Operating revenues (a)	$ 367,233	$ 322,028	14.0
• Net income available to common stock (a) (b)	70,785	67,154	5.4
• Diluted net income per common share (a) (b) (c)	0.79	0.78	1.3
• Annual dividend rate per common share (c)	0.48	0.448	7.1
• Dividends paid per common share (c)	0.456	0.43	6.0
• Common stockholders' equity per share (c)	7.11	5.80	22.6
• Stockholders' equity	659,030	493,097	33.7
• Total assets (a)	2,069,736	1,717,069	20.5
• Net cash flows from operating activities (a)	143,373	121,560	17.9
• Capital additions (a) (d)	163,320	136,164	19.9
• Number of customers served	749,491	605,474	23.8

(a) Beginning August 1, 2003, the financial results for the operations acquired in the AquaSource acquisition have been included in Aqua America's consolidated financial statements.

(b) 2002 amounts include a net gain of $3,690 or $0.04 per share on the sale of a portion of our Ashtabula, Ohio water system.

(c) Restated for 2003 5-for-4 stock split.

(d) Excludes payments for acquired water and wastewater systems: $192,331 in 2003 and $8,914 in 2002.

Chairman's Message

March 19, 2004

Dear Shareholder:

On Friday, January 16 we celebrated our name change to Aqua America, Inc. and our ticker symbol change to **WTR** by ringing The Closing Bell™ on the New York Stock Exchange. We also hosted a financial analyst day to coincide with the event. After more than 100 years of growth under our old name, it was time to have a name that better reflected our new national footprint and our position as the largest publicly-traded water utility based in the U.S. Overall, however, this change is simply new wrapping on the same strong management team that will use the same core strategy to position our company for continued growth at Aqua America.

The overriding theme for 2003 was growth as we added more than 20 percent to our customer base, primarily through the AquaSource acquisition, which closed on July 31, 2003. The AquaSource acquisition furthered our growth-through-acquisition strategy, supporting our goal of perpetuating the company's revenue and earnings growth. The acquisition also provided us with greater geographic and regulatory diversity with entry into several new states, including faster-growing southern states.

Last year, growth at Aqua America was not limited to the number of customers we served. Aqua America shareholders experienced a 34 percent stock price appreciation, and a 37 percent total return if their dividends were reinvested. Consistent with our long-term commitment to increasing shareholder value, on December 1, 2003 we effected our thirteenth dividend increase in 12 years. We raised our annual dividend 7.1 percent to an annual rate of $0.48 per share (split-adjusted) to share the benefits of the company's increased earnings with our shareholders. We also completed a five-for-four stock split that was effected in the form of a 25 percent stock distribution in December.

Full year revenues grew 14.0 percent to $367.2 million over 2002 revenue of $322.0 million. This increase was driven by customer growth through acquisitions, as well as rate relief in several of the states where we operate. In addition to the AquaSource acquisition, we completed another 17 acquisitions and growth ventures in our various other operating locations. The more than 20 percent growth in 2003 could be viewed as the equivalent of five years of normal growth in a single year.

Additionally, we announced our agreement to acquire the water and wastewater operations of Heater Utilities, Inc. in North Carolina. We will add approximately 50,000 new customers with this acquisition and gain the enhanced status of being the largest investor-owned water utility in the fast-growing state of North Carolina. Pending regulatory approval, we expect this agreement to close in mid-2004.

While customer growth drove revenues to record levels, challenging weather in our primary service areas dampened our top line performance throughout the typically high-demand spring and summer months of 2003. Several of our locations experienced rainfall over twice the normal levels coupled with unseasonably cool temperatures. Though we were able to grow in spite of the unfavorable weather, we look forward to the return of more normal weather patterns in 2004 to enhance our top line performance.

For the full year 2003 we reported $70.8 million in net income ($0.79 per share), an increase of 5.4 percent over 2002 net income of $67.2 million ($0.78 per share). It is important to note for comparative purposes that 2002's fourth quarter and full year net income per share figures included a $0.04 one-time gain from the sale of our Ashtabula County, Ohio water system.

Last year, Standard & Poor's affirmed the A+ credit rating on Aqua America's largest operating subsidiary Aqua Pennsylvania, indicating that the AquaSource acquisition improved our consolidated business profile. The recapitalization associated with the AquaSource acquisition included the issuance of $135 million in unsecured long-term debt on July 31, 2003 at 4.87 percent and the sale of five million shares (split-adjusted) of common stock at $18.72 (split-adjusted) through an offering completed on August 21, 2003.

Throughout the year, we continued to take advantage of historically low interest rates. Through the effective use of new low cost debt and refinancing, Aqua America's average interest rate for new long-term borrowings during 2003 was less than 4.8 percent.

We also officially closed the books on our connection to Veolia Environnement (formerly Vivendi Environnement) last year by conducting a secondary offering to sell the shares that we purchased (at a lower price) during Veolia's 2002 divestiture of its 16.8 percent interest in Aqua America. The 1.869 million shares (split-adjusted) were redistributed in a secondary offering last May to a diverse group of predominantly retail shareholders.

A key factor in our core strategy is operating excellence. Like other publicly-traded companies, we continue to face higher expenses associated with rising pension and other postretirement costs, as well as increasing professional fees due to the new Sarbanes-Oxley regulations. We also have a new, higher cost structure due to our acquired AquaSource properties which are more decentralized than the historically more concentrated operations in our northern U.S. service areas. Our 2003 operating and maintenance expenses were above 2002 levels primarily due to the addition of the AquaSource operations. Without AquaSource, expenses were up 3.7 percent, predominantly driven by increased pension and other postretirement benefit costs.

Although we inherited the higher operating expense model from the AquaSource operations, we were successful in holding the line on operating expenses over which we had direct control at our other subsidiaries. Several key union contracts were renegotiated and now all employees are sharing in the cost of health care coverage. We are committed to improving our expense ratio by identifying economies of scale within our newly-expanded operations. Synergies from the acquisition have begun to be realized and the integration of our new operations is ahead of schedule. Going forward, we plan to take costs out of our operations to continue to improve our efficiency, while maintaining reliability.

Utility reliability became the new focus of regulators and the general population after the electricity blackout in the Northeast in August 2003. We are pleased to report that throughout the blackout, none of our customers were without water. We remain committed to providing quality, reliable service to our customers.

We believe that mounting demands for reliable service, coupled with progressively more stringent EPA standards, will continue to drive consolidation among the more than 50,000 community water systems in the U.S. With our strong balance sheet and sound historical financial performance, we continue to believe that we are uniquely positioned to profitably capitalize on this consolidation by executing our growth-through-acquisition strategy.

This year, one of our esteemed board members, Alan Hirsig — a seasoned business professional — will retire. We express our gratitude to Mr. Hirsig for his faithful service on our board since 1997. Mr. Hirsig served through two of the largest acquisitions in the company's history – the Consumers Water Company merger in 1999, and the most recent acquisition of the AquaSource water and wastewater utilities in July 2003. This period represents a pivotal time in our history that transitioned Aqua America from a single state company to the largest U.S.-based publicly-traded water utility. We thank Mr. Hirsig for his dedicated service and wish him success during his retirement.

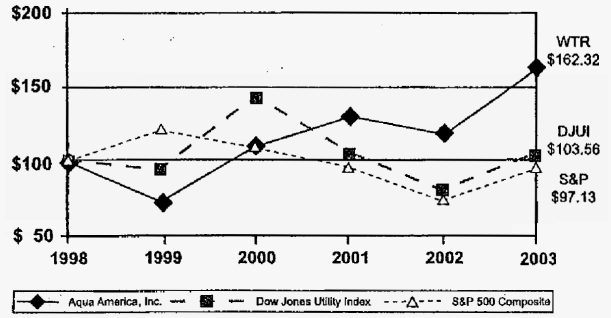
Finally, at the core of any company's success is its workforce, and Aqua America benefits from employing many excellent people. A special thanks to all of our employees for their continued dedication and hard work that allowed us to post another record year.

Sincerely,

Nick DeBenedictis

Nicholas DeBenedictis

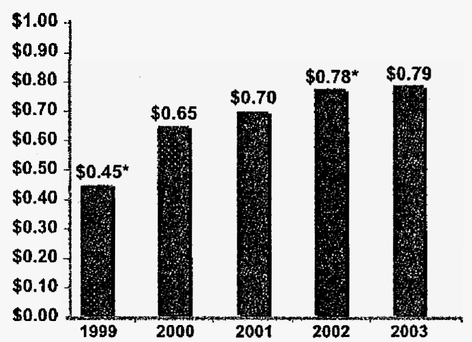
Five Year Cumulative Total Return



DIVIDEND HIGHLIGHTS

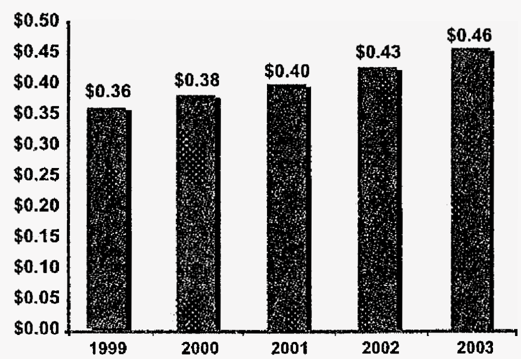
- Increased cash dividend by 7.1 percent to $0.48 (split - adjusted) on an annualized basis as of December 1, 2003
- 13 cash dividend increases in the last 12 years
- Dividends paid for 59 consecutive years
- Effected a five-for-four stock split in the form of a stock distribution on December 1, 2003
- Issued five stock splits in the last eight years

Earnings Per Share *(split-adjusted)*

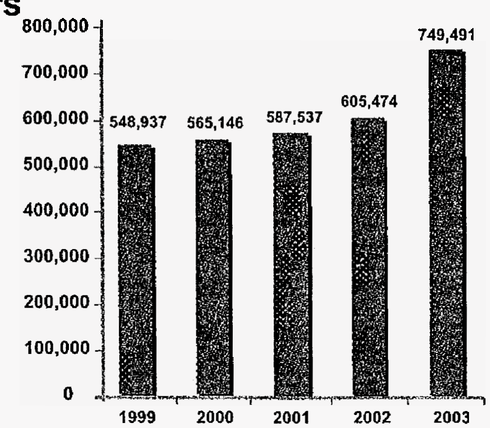


* 1999 included $0.11 of acquisition expenses resulting from the merger with Consumers Water Company, and 2002 included a $0.04 gain from the sale of a water system.

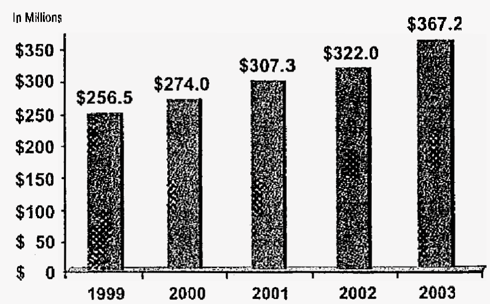
Dividends Paid *(split-adjusted)*



Customers



Operating Revenues



2003

FINANCIAL DATA

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(In thousands of dollars, except per share amounts)

FORWARD-LOOKING STATEMENTS

This report by Aqua America, Inc. ("Aqua America," "we" or "us") contains, in addition to historical information, forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements involve risks, uncertainties and other factors, many of which are outside our control, that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. In some cases you can identify forward-looking statements where statements are preceded by, followed by or include the words "believes," "expects," "anticipates," "plans," "future," "potential" or the negative of such terms or similar expressions. Forward-looking statements in this report, include, but are not limited to, statements regarding:

- recovery of capital expenditures and expenses in rates;
- projected capital expenditures and related funding requirements;
- dividend payment projections;
- future financing plans;
- future pension contributions;
- opportunities for future acquisitions and success of pending acquisitions;
- acquisition-related costs and synergies;
- the capacity of our water supplies and facilities; and
- general economic conditions.

Because forward-looking statements involve risks and uncertainties, there are important factors that could cause actual results to differ materially from those expressed or implied by these forward-looking statements, including but not limited to:

- changes in general economic, business and financial market conditions;
- changes in government regulations and policies, including public utility regulations and policies;
- changes in environmental conditions, including those that result in water use restrictions;
- abnormal weather conditions;
- changes in capital requirements;
- changes in our credit rating;
- our ability to integrate businesses, technologies or services which we may acquire;
- our ability to manage the expansion of our business;
- the extent to which we are able to develop and market new and improved services;
- unanticipated capital requirements;
- increasing difficulties in obtaining insurance and increased cost of insurance;

- cost overruns relating to improvements or the expansion of our operations; and
- civil disturbance or terroristic threats or acts.

Given these uncertainties, you should not place undue reliance on these forward-looking statements. You should read this report with the understanding that our actual future results may be materially different from what we expect. These forward-looking statements represent our estimates and assumptions only as of the date of this report. Except for our ongoing obligations to disclose material information under the federal securities laws, we are not obligated to update these forward-looking statements, even though our situation may change in the future. We qualify all of our forward-looking statements by these cautionary statements.

GENERAL INFORMATION

Name Change

On January 16, 2004, we changed our name from Philadelphia Suburban Corporation to Aqua America, Inc. The new name better represents our expanded service territory and reflects our position as the largest U.S.-based publicly-traded water utility. In addition, we have changed our ticker symbol from PSC to WTR on the New York Stock Exchange and Philadelphia Stock Exchange effective as of the opening of trading on January 20, 2004.

Overview

Aqua America, Inc. is the holding company for regulated utilities providing water or wastewater services to approximately 2.5 million people in Pennsylvania, Ohio, Illinois, Texas, New Jersey, Indiana, Virginia, Florida, North Carolina, Maine, Missouri, New York, South Carolina and Kentucky. Our largest operating subsidiary, Aqua Pennsylvania, Inc. - formerly Pennsylvania Suburban Water Company, accounts for approximately 60% of our operating revenues and provides water or wastewater services to approximately 1.3 million residents in the suburban areas north and west of the City of Philadelphia and in 19 other counties in Pennsylvania. Our other subsidiaries provide similar services in 13 other states. In addition, we provide water and wastewater service through operating and maintenance contracts with municipal authorities and other parties close to our operating companies' service territories. We are the largest U.S.-based publicly-traded water utility based on number of people served.

The mission of the investor-owned water utility industry is to provide quality and reliable water service at an affordable price for the customer, and provide a fair return to its shareholders. A number of challenges face the industry, including:

- strict environmental, health and safety standards;
- the need for substantial capital investment;
- economic regulation by local and/or state government; and
- the impact of weather and drought conditions on water sales demand.

Aqua America, Inc. strives to achieve the industry mission by effective planning and efficient use of its resources to meet the industry challenges. We maintain a rate case management capability to provide timely and adequate returns on the capital investments that we make in improving or replacing water mains, treatment plants and other infrastructure. This factor is important in our continued profitability and in providing a fair return to our shareholders, and thus providing access to capital markets to help fund these investments. Often these utility investments are required by a changed federal or state environmental standard, to improve our ability to deliver quality customer service, or to assist in our ability to supply water in sufficient quantities for future demand or when experiencing drought conditions. A strategy to meet the above challenges is to actively explore opportunities to expand our utility operations through acquisitions of water and wastewater utilities either in areas adjacent to our existing service areas or in new service areas. This growth-through-acquisition strategy allows us to operate more efficiently and provides an important source of growth. The ability to successfully execute these strategies and meet the industry challenges is largely due to our qualified and trained workforce, which we strive to retain by treating employees fairly and providing our employees with development and growth opportunities.

We believe that acquisitions will continue to be an important source of growth for us. With more than 50,000 community water systems in the U.S., 84% of which serve less than 3,300 customers, the water industry is the most fragmented of the major utility industries (telephone, natural gas, electric, water and wastewater). In the states were we operate, we believe there are over 22,000 public water systems of widely varying size, with the majority of the population being served by government-owned water systems.

Although not as fragmented as the water industry, the wastewater industry in the U.S. also presents opportunities for consolidation. According to the U.S. Environmental Protection Agency's (EPA) most recent survey of publicly-owned wastewater treatment facilities in 2000, there are approximately 16,000 such facilities in the nation serving approximately 72% of the U.S. population. The remaining population represents individual homeowners with their own treatment facilities; for example, community on-lot disposal systems and septic tank systems. The vast majority of wastewater facilities are government-owned rather than privately-owned. The EPA survey also indicated that there are approximately 6,800 wastewater facilities in operation or planned in the 14 states where we operate.

Because of the fragmented nature of the water and wastewater utility industries, we believe that there are many potential water and wastewater system acquisition candidates throughout the United States. We believe the factors driving the consolidation of these systems are:

- the benefits of economies of scale;
- increasingly stringent environmental regulations;
- the need for capital investment; and
- the need for technological and managerial expertise.

On July 31, 2003, we completed the acquisition of four operating water and wastewater subsidiaries of AquaSource, Inc., a subsidiary of DQE, Inc., including selected, integrated operating and maintenance contracts and related assets, for $190,717 in cash, as adjusted and subject to further adjustment pursuant to the purchase agreement. The acquired operations of AquaSource serve over 130,000 water and wastewater customer accounts in 11 states; including the Connecticut operations which we sold in October 2003. The operating results of AquaSource have been included in our consolidated financial statements beginning August 1, 2003.

On November 21, 2003, we entered into a purchase agreement with ALLETE Water Services, Inc., a subsidiary of ALLETE, Inc., to acquire the capital stock of Heater Utilities, Inc., which owns water and wastewater systems located in North Carolina. The purchase agreement provides for a cash purchase price of $48,000 and the assumption of approximately $28,000 in debt, reflecting an acquisition premium of approximately $18,000. We intend to seek the ability to recover a portion of this premium through customer rates via the North Carolina Utilities Commission approval process. The acquisition, which is subject to regulatory approval, is expected to close in mid-2004. This acquisition will add approximately 50,000 customers in the areas of suburban Raleigh, Charlotte, Gastonia and Fayetteville, North Carolina.

(In thousands of dollars, except per share amounts)

We are actively exploring other opportunities to expand our water and wastewater utility operations through acquisitions or otherwise. We intend to continue to pursue acquisitions of municipally-owned and investor-owned water and wastewater systems of all sizes that provide services in areas adjacent to our existing service territories or in new service areas.

Following are our selected five-year financial statistics:

Years ended December 31,	2003 (a)	2002	2001	2000	1999
Operating revenues	$ 367,233	$ 322,028	$ 307,280	$ 274,014	$ 256,546
Net income available to common stock	$ 70,785	$ 67,154	$ 60,005	$ 52,784	$ 36,275
Income from operations before non-recurring items (b)	$ 70,785	$ 63,464	$ 60,005	$ 50,548	$ 44,871
Operating Statistics					
Selected operating results as a percentage of operating revenues:					
Operations and maintenance	38.3%	36.6%	36.4%	37.1%	38.5%
Depreciation and amortization	14.0%	13.8%	13.1%	12.4%	12.4%
Taxes other than income taxes	5.9%	6.0%	6.8%	8.2%	8.5%
Interest expense, net	12.2%	12.5%	11.9%	12.9%	12.9%
Allowance for funds used during construction	(0.6)%	(0.4)%	(0.4)%	(1.0)%	(0.8)%
Net income available to common stock	19.3%	20.9%	19.5%	19.3%	14.1%
Effective tax rates	39.3%	38.5%	39.3%	39.2%	42.2%

Income from operations before non-recurring items is a measure that is not determined in accordance with generally accepted accounting principles (GAAP) and may not be comparable to similarly titled measures reported by other companies. This Non-GAAP measure should not be considered as an alternative to net income as determined in accordance with GAAP. We believe that this is useful as an indicator of operating performance, as we measure it for management purposes, because it provides a better understanding of our results of operations by highlighting our ongoing operations and the underlying profitability of our core business.

(a) 2003 includes five months of financial results for the operations acquired in the AquaSource acquisition.

(b) Non-recurring items represent the 2002 gain of $3,690 ($5,676 pre-tax) realized on the sale of a portion of our Ashtabula, Ohio water system, the 2000 gain of $2,236 ($4,041 pre-tax) for the partial recovery of the merger costs related to the 1999 merger with Consumers Water Company, and the 1999 charges of $8,596 ($10,121 pre-tax) for transaction costs and restructuring costs related to the merger with Consumers Water Company.

(In thousands of dollars, except per share amounts)

We consider the following nonfinancial measure and financial measures to be the fundamental basis by which we evaluate our performance: number of customers, operating revenues, net income and our dividend rate on common stock. In addition, we consider other key financial measures in evaluating our operating results: the ratio of operations and maintenance expense compared to operating revenues (this percentage is termed "operating expense ratio"); return on revenues (net income divided by operating revenues); and earnings before interest, taxes, depreciation and amortization. These measurements are reviewed regularly and compared to historical periods as well as our operating budget as approved by the Aqua America, Inc. Board of Directors.

Our operating expense ratio is one measure that we use to evaluate our operating efficiency and management effectiveness. As reported in the above table and as anticipated, our operating expense ratio increased for 2003 as compared to 2002 as a result of the additional operating costs associated with the AquaSource acquisition which closed on July 31, 2003. The business model of the acquired AquaSource operations is different from the rest of the Aqua America operations. The AquaSource operations are comprised of approximately 600 small systems, which are generally clustered in regions to achieve some level of operating efficiency. However, the fragmented nature of the AquaSource operations results in the additional operating revenues generated by the AquaSource operations being accompanied by a higher ratio of operations and maintenance expenses than the level Aqua America experiences in the rest of the Aqua America operations. The AquaSource operations can be characterized as having relatively-higher fixed operating costs in contrast to the rest of the Aqua America operations which generally have fewer, but larger, interconnected systems resulting in higher fixed capital costs (utility plant investment) per customer. For the twelve-month period ending June 30, 2003, the last reporting period before the July 31, 2003 closing of AquaSource, our operating expense ratio declined to 36.5%, from 36.6% for the year ended December 31, 2002. The operating results of AquaSource have been included in our consolidated financial statements beginning August 1, 2003. We are implementing management systems over time that will allow us to further control costs and improve efficiencies, but the effect of this acquisition will be to increase our overall operating expense ratio in 2004 from the levels experienced during the past five years. Consequently, we anticipate our return on revenues, net income divided by operating revenues, to be lower in 2004 than in the past four years as a result of the impact of the AquaSource operations.

Following are our selected five-year operating and sales statistics:

Years ended December 31,		2003	2002	2001	2000	1999
Customers	Residential water	624,355	535,506	526,776	512,442	497,937
	Commercial water	33,015	30,355	29,745	29,317	29,241
	Industrial water	1,397	1,423	1,454	1,446	1,430
	Other water	20,483	16,466	9,947	9,500	9,067
	Wastewater	70,241	21,724	19,615	12,441	11,262
	Total	749,491	605,474	587,537	565,146	548,937
Operating Revenues (a)	Residential water	$ 218,487	$ 197,190	$ 188,303	$ 170,597	$ 154,881
	Commercial water	61,343	55,962	53,103	47,109	45,192
	Industrial water	17,675	17,221	16,141	14,943	13,944
	Other water	40,048	36,255	35,681	29,582	31,999
	Wastewater	17,874	8,210	6,960	5,414	5,235
	Other	11,806	7,190	7,092	6,369	5,295
	Total	$ 367,233	$ 322,028	$ 307,280	$ 274,014	$ 256,546

(a) 2003 includes five months of financial results for the operations acquired in the AquaSource acquisition.

RESULTS OF OPERATIONS

Our net income has grown at an annual compound rate of approximately 9.6% during the five-year period ended December 31, 2003. During this same period, operating revenues grew at a compound rate of 7.9% and total expenses, exclusive of income taxes, grew at a compound rate of 7.0%.

Operating Revenues

The growth in revenues over the past five years is a result of increases in both the customer base and in water rates. The number of customers increased at an annual compound rate of 7.3% in the past five years primarily as a result of acquisitions of water and wastewater systems, including the AquaSource acquisition completed July 31, 2003. Acquisitions made during the five-year period ended December 31, 2003 have provided water and wastewater revenues of approximately $41,368 in 2003, $14,246 in 2002 and $11,157 in 2001. Excluding the effect of acquisitions, our customer base increased at a five-year annual compound rate of 0.9%. Rate increases implemented during the past three years have provided additional operating revenues of approximately $19,900 in 2003, $14,700 in 2002 and $13,100 in 2001. In addition to water and wastewater operating revenues, we had other non-regulated revenues that were primarily associated with operating and maintenance contracts, and data processing service fees of $11,806 in 2003, $7,190 in 2002 and $7,092 in 2001. The increase in 2003 resulted from the additional revenues for contract operations of $3,743, for five months, associated with the July 31, 2003 acquisition of AquaSource.

Economic Regulation – Most of our water and wastewater utility operations are subject to regulation by their respective state regulatory commissions, which have broad administrative power and authority to regulate rates and charges, determine franchise areas and conditions of service, approve acquisitions and authorize the issuance of securities. Some of our operations are subject to rate regulation by county or city government. The profitability of our utility operations is influenced a great extent by the timeliness and adequacy of rate allowances in the various states in which we operate. Accordingly, we maintain a rate case management capability to provide that the tariffs of the utility operations reflect, to the extent practicable, the timely recovery of increases in costs of operations, capital, taxes, energy, materials and compliance with environmental regulations. In assessing our rate case strategy, we consider the amount of utility plant additions and replacements made since the previous rate decision, the changes in the cost of capital, changes in the capital structure and changes in other costs. Based on these assessments, our utility operations periodically file rate increase requests with their respective state regulatory commissions.

In November 2003, our Pennsylvania operating subsidiary filed an application with the Pennsylvania Public Utility Commission (PAPUC) requesting a $25,300 or 10.2% increase in annual revenues. The application is currently pending before the PAPUC and a final determination is anticipated by August 2004. On August 1, 2002, the PAPUC granted our Pennsylvania operating subsidiary a $21,226 or 10.2% rate increase. The rates in effect at the time of the filing included $9,400 in Distribution System Improvement Charges (DSIC) at 5.0%. Consequently, the total base rates increased by $30,626 and the DSIC was reset to zero.

Operating subsidiaries located in other states were allowed annual rate increases of $1,275 in 2003 resulting from eight rate decisions, $3,024 in 2002 resulting from thirteen rate decisions and $4,799 in 2001 resulting from nine rate decisions. Revenues from these increases realized in the year of grant were approximately $839 in 2003, $1,403 in 2002 and $4,200 in 2001. These operating subsidiaries currently have eight rate requests in process requesting a $7,803 increase in annual revenues. These requests are currently under review by the respective state regulatory commission. During 2004, we intend to file 16 rate requests requesting an aggregate of approximately $17,700 of increased annual revenues.

Revenue Surcharges - Four states in which we operate permit water utilities, and in some states wastewater utilities, to add a surcharge to their water or wastewater bills to offset the additional depreciation and capital costs associated with certain capital expenditures related to replacing and rehabilitating infrastructure systems. Prior to these mechanisms being approved, water and wastewater utilities absorbed all of the depreciation and capital costs of these projects between base rate increases without the benefit of additional revenues. The gap between the time that a capital project is completed and the recovery of its costs in rates is known as regulatory lag. The infrastructure rehabilitation surcharge mechanism is intended to substantially reduce regulatory lag which often acted as a disincentive to water and wastewater utilities to rehabilitate their infrastructure. In addition, our subsidiaries in certain states use a surcharge or credit on their bill to reflect certain changes in costs until such time as the costs are incorporated in base rates.

Currently, Pennsylvania, Illinois, Ohio and Indiana allow for the use of infrastructure rehabilitation surcharges. In Pennsylvania, this mechanism is referred to as a DSIC. These mechanisms typically adjust periodically based on additional qualified capital expenditures completed or anticipated in a future period. The infrastructure rehabilitation surcharge is capped as a percentage of base rates, generally 5% of base rates, and is reset to zero when new base rates that reflect the costs of those additions become effective or when a utility's earnings exceed a regulatory benchmark. Infrastructure rehabilitation surcharges provided revenues of $8,147 in 2003, $5,518 in 2002 and $6,671 in 2001.

Sendout – "Sendout" represents the quantity of treated water delivered to our distribution systems. We use sendout as an indicator of customer demand. Weather conditions tend to impact water consumption, particularly in our northern service territories during the late spring and summer months when nonessential and recreational use of water is at its highest. Consequently, a higher proportion of annual operating revenues is realized in the second and third quarters. In general during this period, an extended period of dry weather increases water consumption, while above average rainfall decreases water consumption. Also, an increase in the average temperature generally causes an increase in water consumption. Conservation efforts, construction codes which require the use of low flow plumbing fixtures, as well as mandated water use restrictions in response to drought conditions, also affect water consumption.

The geographic diversity of our customer base reduces our exposure to extreme or unusual weather conditions in any one area of our service territory. Our geographic diversity has continued to widen as a result of the AquaSource acquisition which closed on July 31, 2003. During the quarter ended December 31, 2003, which was the first quarter containing three months of AquaSource operating results, our operating revenues were derived principally from the following states: 60% in Pennsylvania, 9% in Ohio, 7% in Illinois, 7% in Texas, 5% in New Jersey, 4% in Indiana, and 3% in Florida.

On occasion, drought warnings and water use restrictions are issued by governmental authorities for portions of our service territories in response to extended periods of dry weather conditions. The timing and duration of the warnings and restrictions can have an impact on our water revenues and net income. In general, water consumption in the summer months is affected by drought warnings and restrictions to a higher degree because nonessential and recreational use of water is highest during the summer months, particularly in our northern service territories. At other times of the year, warnings and restrictions generally have less of an effect on water consumption. In November 2001, a drought warning was declared in nine counties in Pennsylvania, including one of the five counties we serve in southeastern Pennsylvania. A drought warning calls for a 10 to 15 percent voluntary reduction of water use, particularly non-essential uses of water. In February 2002, a drought emergency was declared in 24 counties in Pennsylvania, including all five of the counties we serve in southeastern Pennsylvania where approximately 275,000 of our customers are located. A drought emergency imposes a ban on nonessential water use. In mid-2002, drought restrictions were relaxed in three of the five counties we serve in southeastern Pennsylvania, moving from the mandatory drought emergency to a voluntary drought warning. However, by early September 2002, the Commonwealth of Pennsylvania reinstated the drought emergency in the three counties where restrictions had been relaxed because of hot, dry weather in August. In November and December 2002, the Commonwealth of Pennsylvania removed the drought restrictions in the counties we serve in Pennsylvania. Water use restrictions were also imposed and relaxed at various times during 2002 in our service territories in New Jersey. Currently there are no drought warnings or restrictions in any of the areas we serve.

Operations and Maintenance Expenses

Operations and maintenance expenses totaled $140,602 in 2003, $117,735 in 2002 and $111,885 in 2001. Most elements of operating costs are subject to the effects of inflation, as well as the effects of changes in the number of customers served, in water consumption and the degree of water treatment required due to variations in the quality of the raw water. The principal elements of operating costs are labor and employee benefits, electricity, chemicals, maintenance expenses and insurance costs. Electricity and chemical expenses vary in relationship to water consumption, raw water quality, and to a lesser extent the competitive electric market in some of the states in which we operate. Maintenance expenses are sensitive to extremely cold weather, which can cause water mains to rupture. Operations and maintenance expenses increased in 2003 as compared to 2002 by $22,867 or 19.4% due to additional operating costs associated with acquisitions of $18,526, primarily from AquaSource, higher postretirement costs, and additional maintenance costs, offset in part by reduced bad debt expense. The postretirement benefits expense increase resulted principally from higher pension costs and increased retiree medical costs. The increased maintenance expenses are primarily a result of additional main break repairs resulting from the relatively harsh winter weather experienced in early 2003 in our northern service territory.

Operations and maintenance expenses increased in 2002 as compared to 2001 by $5,850 or 5.2% due to additional operating costs associated with acquisitions, transaction costs related to planned and completed acquisitions, increased insurance expense, higher bad debt expense and increased wages as a result of normal wage rate increases.

Depreciation and Amortization Expenses

Depreciation expense was $48,522 in 2003, $41,424 in 2002 and $37,979 in 2001, and has increased principally as a result of the significant capital expenditures made to expand and improve the utility facilities, and as a result of acquisitions of water systems.

Amortization expense was $2,941 in 2003, $2,898 in 2002 and $2,189 in 2001. The increase in 2003 and 2002 is due to the amortization of the costs associated with, and other costs being recovered in, various rate filings. Expenses associated with filing rate cases are deferred and amortized over periods that generally range from one to three years.

Taxes Other than Income Taxes

Taxes other than income taxes increased by $2,140 or 11.0% in 2003 as compared to 2002, and decreased by $1,420 or 6.8% in 2002 as compared to 2001. The increase in 2003 is due to additional taxes associated with the AquaSource acquisition and additional state taxes. The decrease in 2002 is due to a reduction in state taxes and a decrease in the Pennsylvania Capital Stock Tax. The decrease in state taxes is a result of a reduction in assessments and the Capital Stock Tax declined due to a reduction in the base on which the tax is applied and a legislated decrease in the tax rate.

Interest Expense, net

Net interest expense was $44,662 in 2003, $40,396 in 2002 and $39,859 in 2001. Interest income of $395 in 2003, $287 in 2002 and $367 in 2001 was netted against interest expense. Interest expense increased in 2003 and in 2002 primarily as a result of higher levels of borrowings, offset partially by the effects of decreased interest rates on borrowings. The higher level of borrowings in 2003 was used to finance the acquisition of AquaSource and capital expenditures. 2002 borrowing levels increased principally to fund capital expenditures. Interest expense during 2003 was favorably impacted by a reduction in the weighted cost of long-term debt from 6.56% at December 31, 2002 to 6.19% at December 31, 2003.

Allowance for Funds Used During Construction

The allowance for funds used during construction (AFUDC) was $2,127 in 2003, $1,389 in 2002 and $1,222 in 2001 and has varied over the years as a result of changes in the average balance of utility plant construction work in progress (CWIP), to which AFUDC is applied, and to changes in the AFUDC rate. The increase in 2003 is due to an increase in the AFUDC rate as a result of tax-exempt borrowings for our multi-year infrastructure rehabilitation plan and an increase in the average balance of CWIP. The increase in 2002 is a result of an increase in the average balance of CWIP to which AFUDC is applied, offset in part by a decrease in the AFUDC rate which is based on short-term interest rates.

Gain on Sale of Water System

Gain on sale of water system represents the gain realized on the December 2002 sale of a portion of the Ashtabula, Ohio water system to the county government. The sale provided $12,118 of net proceeds and resulted in a fourth quarter 2002 pre-tax gain of $5,676.

Gain on Sale of Other Assets

Gain on sale of other assets totaled $5,692 in 2003, $2,079 in 2002 and $3,384 in 2001 and consisted of gains on land and marketable securities sales. Gain on sale of land totaled $5,153 in 2003, $900 in 2002 and $3,018 in 2001. Gain on sale of marketable securities totaled $539 in 2003, $1,179 in 2002 and $366 in 2001.

Income Taxes

Our effective income tax rate was 39.3% in 2003, 38.5% in 2002 and 39.3% in 2001. The changes in the effective tax rates in 2003 and 2002 are due to differences between tax deductible expenses and book expenses.

Summary

Operating income was $153,561 in 2003, $140,504 in 2002 and $134,340 in 2001 and net income available to common stock was $70,785 in 2003, $67,154 in 2002 and $60,005 in 2001. Our operating results were affected by a non-recurring item in 2002. Net income for 2002 includes a gain of $5,676 ($3,690 after-tax or $0.04 per share) on the sale of a portion of our Ashtabula, Ohio water system. Diluted net income per share was $0.79 in 2003, $0.78 in 2002 and $.70 in 2001. Diluted income per share exclusive of the aforementioned non-recurring items (for 2002, $0.04 per share from the gain on the sale of water system), was $0.79 in 2003, $0.73 in 2002 and $0.70 in 2001. Diluted income per share exclusive of non-recurring items is a measure that is not determined in accordance with GAAP and may not be comparable to similarly titled measures reported by other companies. This Non-GAAP measure should not be considered as an alternative to net income per share as determined in accordance with GAAP. We believe that this is useful as an indicator of operating performance, as we measure it for management purposes, because it provides a better understanding of our results of operations by highlighting our ongoing operations and the underlying profitability of our core business. The changes in the per share income in 2003 and 2002 over the previous years were due to the aforementioned changes in income and impacted by a 3.1% increase in the average number of common shares outstanding during 2003 and a 0.7% increase in the average number of shares outstanding during 2002, respectively. The increase in the number of shares outstanding in 2003 is primarily a result of the additional shares issued in common share offerings and through our dividend reinvestment plan and employee stock and incentive plan during 2003.

Although we have experienced increased income in the recent past, continued adequate rate increases reflecting increased operating costs and new capital investments are important to the future realization of improved profitability.

(In thousands of dollars, except per share amounts)

Fourth Quarter Results

Net income available to common stock was $18,606 in the fourth quarter of 2003 and $18,646 in the same period of 2002. The fourth quarter results of 2002 include a net gain of $3,690 ($5,676 pre-tax) or $0.04 per share on the sale of a portion of our Ashtabula, Ohio water system. The change in net income is due to a $19,386 increase in operating revenues, a gain on the sale of other assets of $1,278 realized in the fourth quarter of 2003, and an increase in AFUDC, offset by increased operations and maintenance expense of $11,740, depreciation expense of $2,134, and the absence in 2003 of the aforementioned gain on the sale of water system of $5,676 realized in 2002. The increase in operating revenues was a result of the additional revenues from the AquaSource acquisition and an increase in water rates. The gain on sale of other assets is a result of the sale of marketable securities. The increased AFUDC resulted from a higher AFUDC rate. The higher operations and maintenance expense is due primarily to the additional operating costs associated with acquisitions. Depreciation expense increased due to acquisitions and utility plant additions made since the fourth quarter of 2002.

Effects of Inflation

As a regulated enterprise, our rates are established to provide recovery of costs and a return on our investment. Recovery of the effects of inflation through higher water rates is dependent upon receiving adequate and timely rate increases. However, rate increases are not retroactive and often lag increases in costs caused by inflation. During periods of moderate to low inflation, as has been experienced for the past several years, the effects of inflation on our operating results are not significant.

Security

In light of concerns regarding security in the wake of the September 11, 2001 terrorist attacks, we have increased security measures at our facilities. These increased security measures were not made in response to any specific threat. We are in contact with federal, state and local authorities and industry trade associations regarding current information on possible threats and security measures for water utility operations. The cost of the increased security measures, including capital expenditures, is expected to be recoverable in water rates and is not expected to have a material impact on our results from operations or financial condition.

FINANCIAL CONDITION

Cash Flow and Capital Expenditures

Net operating cash flow, dividends paid on common stock, capital expenditures, including allowances for funds used during construction, and expenditures for acquiring water and wastewater systems for the five years ended December 31, 2003 were as follows:

	Net Operating Cash Flow	Common Dividends	Capital Expenditures	Acquisitions of Utility Systems
1999	$ 74,103	$ 29,217	$ 96,383	$ 39,164
2000	86,972	30,406	129,740	3,546
2001	102,165	34,234	124,088	9,517
2002	121,560	36,789	136,164	8,914
2003	143,373	39,917	163,320	192,331
	$ 528,173	$ 170,563	$ 649,695	$ 253,472

Included in capital expenditures for the five-year period are: expenditures for the modernization and replacement of existing treatment plants, new water mains and customer service lines, rehabilitation of existing water mains and hydrants, and water meters. During this five-year period, we received $36,570 of customer advances and contributions in aid of construction to finance new water mains and related facilities which are not included in the capital expenditures presented in the above table. In addition, during this period, we have made sinking fund contributions and retired debt in the amount of $110,799, retired $3,220 of preferred stock, and have refunded $22,697 of customer advances for construction. Common dividends increased during the past five years as a result of an annual increase in the common dividends declared and paid and an increase in the shares outstanding during the period.

Our planned 2004 capital program, exclusive of the costs of new mains financed by advances and contributions in aid of construction, is estimated to be $178,900 of which $49,345 is for infrastructure rehabilitation surcharge-qualified projects. We have increased our capital spending for infrastructure rehabilitation in response to the infrastructure rehabilitation surcharge mechanisms, and should these mechanisms be discontinued for any reason, which is not anticipated, we would re-evaluate the magnitude our capital program. Our 2004 capital program, along with $39,386 of sinking fund obligations and debt maturities, and $28,007 of other contractual cash obligations, as reported in the section captioned "Contractual Obligations", is expected to be financed through internally-generated funds, our revolving credit facilities, the issuance of equity and the issuance of new long-term debt.

Future utility construction in the period 2005 through 2008, including recurring programs, such as the ongoing replacement of water meters, water treatment plant upgrades, storage facility renovations, the rehabilitation of water mains and additional transmission mains to meet customer demands, exclusive of the costs of new mains financed by advances and contributions in aid of construction, is estimated to require aggregate expenditures of approximately $600,000. We anticipate that less than one-half of these expenditures will require external financing of debt and the additional issuance of common stock through our dividend reinvestment plan and possible future public equity offerings. We expect to refinance $90,339 of sinking fund obligations and debt maturities during this period as they become due with new issues of long-term debt. The estimates discussed above do not include any amounts for possible future acquisitions of water systems or the financing necessary to support them, including the planned Heater acquisition described below.

Our primary source of liquidity is cash flows from operations, borrowings under various short-term lines of credit and other credit facilities, and advances and contributions in aid of construction. Our cash flow from operations, or internally-generated funds, is impacted by the timing of rate relief and water consumption. We fund our capital and acquisition programs through internally-generated funds, supplemented by short-term borrowings. Over time, we refinance our short-term borrowings with long-term debt and proceeds from the issuance of common stock. The ability to finance our future construction programs, as well as our acquisition activities, depends on our ability to attract the necessary external financing and maintain internally-generated funds. Rate orders permitting compensatory rates of return on invested capital and timely rate adjustments will be required by our operating subsidiaries to achieve an adequate level of earnings to enable them to secure the capital they will need and to maintain satisfactory debt coverage ratios.

Acquisitions

During the past five years, we have expended cash of $253,472 and issued 1,317,017 shares of common stock, valued at $16,400 at the time of the acquisition, related to the acquisitions of utility systems, primarily water utilities and some wastewater utilities. On July 31, 2003, we completed the acquisition of four operating water and wastewater subsidiaries of AquaSource, Inc., a subsidiary of DQE, Inc., including selected, integrated operating and maintenance contracts and related assets (individually and collectively the acquisition is referred to as "AquaSource") for $190,717 in cash, as adjusted pursuant to the purchase agreement and subject to further adjustment. The acquisition was initially funded by a portion of the proceeds from the July 2003 issuance of $135,000 of unsecured notes due 2023, with an interest rate of

4.87%, and the issuance of a $90,000 unsecured note by Aqua America. In August 2003, the $90,000 unsecured note was repaid with the proceeds from the issuance of 5,000,000 shares of common stock through a shelf registration. Please refer to the section captioned "AquaSource Acquisition" which follows. These acquisitions were accounted for as purchases. In March 1999, we completed a merger with Consumers Water Company (CWC). On the date of the merger, we issued 25,417,998 shares of Common Stock in exchange for all of the outstanding shares of CWC and CWC became our wholly-owned subsidiary. The CWC merger has been accounted for as a pooling-of-interests.

On November 21, 2003, we entered into a purchase agreement with ALLETE Water Services, Inc., a subsidiary of ALLETE, Inc., to acquire the capital stock of Heater Utilities, Inc., which owns water and wastewater systems located in North Carolina. The purchase agreement provides for a cash purchase price of $48,000 and the assumption of approximately $28,000 in debt, reflecting an acquisition premium of approximately $18,000. We intend to seek the ability to recover a portion of this premium through customer rates via the North Carolina Utilities Commission approval process. The acquisition, which is subject to regulatory approval, is expected to close in mid-2004. This acquisition will add approximately 50,000 customers in the areas of suburban Raleigh, Charlotte, Gastonia and Fayetteville, North Carolina. It is our intention to fund the acquisition at closing with cash from a combination short-term debt, long-term debt and/or the issuance of our common stock.

We continue to hold acquisition discussions with several water systems. In general, acquisitions are expected to be financed through the issuance of equity (for the acquisition of some investor-owned systems) or funded initially with short-term debt with subsequent repayment from the proceeds of long-term debt or proceeds from equity offerings.

Dispositions

In May 2003, we announced agreements for the sale of the AquaSource regulated and nonregulated operations located in Connecticut and New York to a New England-based water company for an aggregate purchase price of $5,000 and the assumption of approximately $800 of debt. The sale of the Conneticut operations closed on October 31, 2003 and provided proceeds of $4,000. The sale of the New York operations is expected to occur in mid-2004. The combined operations in New York and Connecticut represented approximately 2% of the operations acquired from AquaSource, Inc. We intend to sell other minor divisions of the acquired AquaSource operations as we will continue to review and evaluate our areas of business and operating divisions.

In December 2002, as a result of the settlement of a condemnation action, our Ohio operating subsidiary sold to Ashtabula County, Ohio the water utility assets in the unincorporated areas of Ashtabula County and the area within the Village of Geneva on the Lake for net proceeds of $12,118, which was in excess of the book value for these assets. The proceeds were used to pay down short-term debt, and the sale resulted in the recognition in the fourth quarter of 2002 of a gain on the sale of these assets of $5,676, or an after-tax gain of $3,690 and $0.04 per share. We continue to operate this water system for Ashtabula County, beginning after the closing of the sale, under a multi-year operating contract that was recently renewed and is expected to provide us with over $300 in operating revenues annually. The water utility assets sold represented less than 1% of our total assets, and the total number of customers included in the water system sold represented less than 1% of our total customer base.

Despite these transactions, our strategy continues to be to acquire additional water and wastewater systems, maintain our existing systems, and actively oppose efforts by municipal governments to acquire any of our operations.

Sources of Capital

Since net operating cash flow plus advances and contributions in aid of construction have not been sufficient to fully fund cash requirements, we issued approximately $462,500 of long-term debt and obtained other short-term borrowings during the past five years. At December 31, 2003, we had short-term lines of credit and other credit facilities of $178,000, of which $81,541 was available. Our short-term lines of credit and other credit facilities are either payable on demand or have a 364-day term.

In April 2003, we filed a universal shelf registration with the SEC to allow for the sale, over time, of up to $250,000 of various debt and equity securities, including common stock. To date, we have completed two issuances under the universal shelf registration:

- In May 2003, we sold 1,868,750 shares of common stock in a public offering for proceeds of $33,100, net of expenses. The net proceeds were used to repay short-term debt, including the repayment of $22,000 of indebtedness incurred in connection with our repurchase of 1,513,275 shares of our common stock from affiliates of Veolia Environnement, S.A., formerly Vivendi Enivironnement, S.A., in October 2002.
- In August 2003, we sold 5,000,000 shares of common stock in a public offering for proceeds of $90,100, net of expenses. The net proceeds were used to repay an unsecured note of $90,000. The indebtedness was incurred by Aqua America in connection with the acquisition of the operations that were purchased from AquaSource, Inc.

The balance remaining available for use under the universal shelf registration as of December 31, 2003 is $121,895. In addition, we have a shelf registration statement filed with the SEC to permit the offering from time to time of shares of common stock and shares of preferred stock for acquisitions. During 2003, no shares were issued from the acquisition shelf registration. During 2002 and 2001, 178,664 and 414,638 shares of common stock totaling $2,745 and $5,361, were issued to acquire water and wastewater systems. The balance remaining available for use under the acquisition shelf registration as of December 31, 2003 is 2,218,947 shares. The form and terms of such securities shall be determined when and if these securities are issued under these shelf registrations.

In September 2000, we sold 2,583,008 shares of common stock in a public offering for net proceeds of $29,689. The proceeds of this offering were used to make an equity contribution to our Pennsylvania operating subsidiary.

We offer a Dividend Reinvestment and Direct Stock Purchase Plan (Plan) that provides a convenient and economical way to purchase shares of Aqua America, Inc. Under the direct stock purchase portion of the Plan, shares are sold throughout the year and the shares are obtained by our transfer agent in the open market. The dividend reinvestment portion of the Plan offers a 5% discount on the purchase of original issue shares of common stock with reinvested dividends. As of the December 2003 dividend payment, holders of 17.0% of the common shares outstanding participated in the dividend reinvestment portion of the Plan. During the past five years, we have sold 2,150,474 original issue shares of common stock for net proceeds of $29,913 through the dividend reinvestment portion of the Plan and the proceeds were used to invest in our operating subsidiaries, to repay short-term debt, and for general corporate purposes.

Other Capital Transactions

In May 2002, Veolia Environnement, S.A., formerly Vivendi Environnement, S.A., which through its affiliates (collectively "VE") owned approximately 16.8% of our outstanding common stock, advised us of its decision to sell its investment in Aqua America. VE announced that its decision was part of its overall strategy to divest non-core assets and focus on other business strategies. In September 2002, in order to facilitate the orderly re-distribution of the shares held by VE into the market, we completed a secondary offering of 12,356,570 shares of Aqua America common stock held by VE. The number of outstanding shares of common stock was not changed and we did not receive any proceeds as a result of this secondary offering. In addition, in October 2002 we repurchased 1,513,275 shares of Aqua America common stock representing the remainder of the shares of Aqua America common stock held by VE. The repurchase of shares was funded with proceeds of $22,000 from a short-term credit facility. In May 2003, this $22,000 short-term credit facility was repaid with funds from the issuance of 1,868,750 shares of common stock through a shelf registration, providing proceeds of approximately $33,100, net of expenses. The balance of the net proceeds were used to repay other short-term debt.

(In thousands of dollars, except per share amounts)

The Board of Directors has authorized us to purchase our common stock, from time to time, in the open market or through privately negotiated transactions. We have not purchased any shares under this authorization since 2000. As of December 31, 2003, 411,209 shares remain available for repurchase. Funding for future stock purchases, if any, is not expected to have a material impact on our financial position.

Contractual Obligations

The following table summarizes our contractual cash obligations as of December 31, 2003:

	Payments Due By Period						
	2004	2005	2006	2007	2008	Thereafter	Total
Long-term debt (a)	$ 39,386	$ 40,418	$ 16,088	$ 14,395	$ 19,438	$ 606,327	$ 736,052
Operating leases (b)	2,558	2,110	1,352	1,081	1,016	16,420	24,537
Unconditional purchase obligations (c)	7,573	7,403	7,403	7,403	7,238	68,485	105,505
Other purchase obligations (d)	7,400	-	-	-	-	-	7,400
Defined benefit plan obligations (e)	5,371	-	-	-	-	-	5,371
Other obligations (f)	5,105	200	200	200	200	-	5,905
Total	$ 67,393	$ 50,131	$ 25,043	$ 23,079	$ 27,892	$ 691,232	$ 884,770

(a) Represents sinking fund obligations and debt maturities.
(b) Represents operating leases that are noncancelable, before expiration, for the lease of motor vehicles, buildings, land and other equipment.
(c) Represents our commitment to purchase minimum quantities of water as stipulated in agreements with other water purveyors. We use purchased water to supplement our water supply, particularly during periods of peak customer demand.
(d) Represents an approximation of the open purchase orders as of the period end for goods and services purchased in the ordinary course of business.
(e) Represents contributions expected to be made to qualified defined benefit plan. The amount of required contributions in 2005 and thereafter is not determinable.
(f) Represents capital expenditures estimated to be required under legal and binding contractual obligations.

In addition to these obligations, we make refunds on Customers' Advances for Construction over a specific period of time based on operating revenues related to developer-installed water mains or as new customers are connected to and take service from such mains. After all refunds are made, any remaining balance is transferred to Contributions in Aid of Construction. The refund amounts are not included in the above table because the refund amounts and timing cannot be accurately estimated because future refund payments depend on several variables, including new customer connections, customer consumption levels and future rate increases. Portions of these refund amounts are payable annually through 2017 and amounts not paid by the contract expiration dates become non-refundable.

(In thousands of dollars, except per share amounts)

These contractual obligations will be funded from cash flows from operations and liquidity sources held by or available to Aqua America.

AquaSource Acquisition

Pursuant to our strategy to grow through acquisitions, on July 31, 2003, we completed the acquisition of four operating water and wastewater subsidiaries of AquaSource, Inc. (a subsidiary of DQE, Inc.), including selected, integrated operating and maintenance contracts and related assets (individually and collectively the acquisition is referred to as "AquaSource") for $190,717 in cash, as adjusted pursuant to the purchase agreement for the completion of a closing balance sheet and the finalization of working capital ($195,533 was paid at closing and refunds were subsequently received totaling $4,816). There remains approximately $12,000 of the above purchase price subject to an agreed-upon arbitration process. Accordingly, the final purchase price is expected to be within the range of $178,700 to $190,717. We expect the arbitration process to conclude by mid-year 2004. The results of AquaSource have been included in our consolidated financial statements beginning August 1, 2003. The acquired operations of AquaSource serve over 130,000 water and wastewater customer accounts in 11 states (including the Connecticut operations which we sold in October 2003). Please refer to the section captioned "Dispositions" for a discussion of the sale of the AquaSource operations located in Connecticut and the planned sale of the New York operations.

The AquaSource acquisition was initially funded by a portion of the proceeds from the July 2003 issuance of $135,000 of unsecured notes due 2023, with an interest rate of 4.87%, and the issuance of a $90,000 unsecured note by Aqua America. In August 2003, the $90,000 unsecured note was repaid with the proceeds from the issuance of 5,000,000 shares of common stock through a shelf registration.

The acquired operations of AquaSource serve over 130,000 water and wastewater customer accounts in 11 states (including the Connecticut operations which we sold in October 2003). The acquisition provides an expanded platform from which to extend our growth-through-acquisition strategy of acquiring water and wastewater utility systems that are near or adjacent to our existing service territories. The AquaSource operations are comprised of approximately 600 small systems, which are generally clustered in regions to achieve some level of operating efficiency.

Market Risk

We are subject to market risks in the normal course of business, including changes in interest rates and equity prices. The exposure to changes in interest rates is a result of financings through the issuance of fixed-rate, long-term debt. Such exposure is typically related to financings between utility rate increases, because generally our rate increases provide a revenue level to allow recovery of our current cost of capital. Interest rate risk is managed through the use of a combination of long-term debt, which is at fixed interest rates and short-term debt, which is at floating interest rates. As of December 31, 2003, the debt maturities by period and the weighted average interest rate for fixed-rate, long-term debt are as follows:

	2004	2005	2006	2007	2008	Thereafter	Total	Fair Value
Long-term debt (fixed rate)	$ 39,386	$ 40,418	$ 16,088	$ 14,395	$ 19,438	$ 606,327	$ 736,052	$ 781,502
Weighted average interest rate	6.39%	7.26%	7.25%	6.94%	7.38%	6.02%	6.19%	

From time to time, we make investments in marketable equity securities. As a result, we are exposed to the risk of changes in equity prices for the "available for sale" marketable equity securities. As of December 31, 2003, our carrying value of marketable equity securities was $1,019, which reflects the market value of such securities and is in excess of our original cost. The market risks to which we are exposed are consistent with the risks to which we were exposed in the prior year.

(In thousands of dollars, except per share amounts)

Capitalization

The following table summarizes our capitalization during the past five years:

December 31,	2003	2002	2001	2000	1999
Long-term debt*	52.8%	55.6%	52.9%	52.4%	53.8%
Preferred stock*	0.0%	0.0%	0.1%	0.2%	0.2%
Common stockholders' equity	47.2%	44.4%	47.0%	47.4%	46.0%
	100.0%	100.0%	100.0%	100.0%	100.0%

*Includes current portion.

The changes in the capitalization ratios primarily result from the issuance of common stock over the past five years, and the issuance of debt to finance our acquisitions and capital program and the previously mentioned repurchase of common stock from Veolia Environnement (formerly Vivendi, S.A.) in 2002. It is our goal to maintain an equity ratio adequate to support our current Standard and Poors corporate credit rating of "A+" and its senior secured debt rating of "AA-" for Aqua Pennsylvania, our largest operating subsidiary.

Dividends on Common Stock

We have paid common dividends consecutively for 59 years. Effective December 1, 2003, our Board of Directors authorized an increase of 7.1% in the dividend rate over the amount we paid in the previous quarter. As a result of this authorization, beginning with the dividend payment in December 2003, the annual dividend rate increased to $0.48 per share. We presently intend to pay quarterly cash dividends in the future, on March 1, June 1, September 1 and December 1, subject to our earnings and financial condition, regulatory requirements and such other factors as our Board of Directors may deem relevant. During the past five years, our common dividends paid have averaged 59.4% of net income.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our financial condition and results of operations are impacted by the methods, assumptions, and estimates used in the application of critical accounting policies. The following accounting policies are particularly important to our financial condition or results of operations, and require estimates or other judgements of matters of uncertainty. Changes in the estimates or other judgements included within these accounting policies could result in a significant change to the financial statements. We believe our most critical accounting policies include revenue recognition, the use of regulatory assets and liabilities as permitted by Statement of Financial Accounting Standards ("SFAS") No. 71, "Accounting for the Effects of Certain Types of Regulation," the review for impairment of our long-lived assets which consist primarily of Utility Plant in Service and regulatory assets, and our accounting for pensions and other postretirement benefits.

Our utility revenues recognized in an accounting period include amounts billed to customers on a cycle basis and unbilled amounts based on estimated usage from the last billing to the end of the accounting period. The estimated usage is based on our judgement and assumptions; our actual results could differ from these estimates which would result in operating revenues being adjusted in the period that the revision to our estimates are determined.

SFAS No. 71 stipulates generally accepted accounting principles for companies whose rates are established by or are subject to approval by an independent third-party regulator. In accordance with SFAS No. 71, we defer costs and credits on the balance sheet as regulatory assets and liabilities when it is probable that these costs and credits will be recognized in the rate-making process in a period different from when the costs and credits were incurred. These deferred amounts, both assets and liabilities, are then recognized in the income statement in the same period that they are reflected in our rates charged for water and wastewater service. In the event that our assessment as to the probability of the inclusion in the rate-making process is incorrect, the associated regulatory asset or liability would be adjusted to reflect the change in our assessment or change in regulatory approval.

In accordance with the requirements of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", we review for impairment of our long-lived assets, including Utility Plant in Service. We also review regulatory assets for the continued application of SFAS No. 71. Our review determines whether there have been changes in circumstances or events that have occurred that require adjustments to the carrying value of these assets. In accordance with SFAS No. 71, adjustments to the carrying value of these assets would be made in instances where the inclusion in the rate-making process is unlikely.

We maintain a qualified defined benefit pension plan and plans that provide for certain postretirement benefits other than pensions. Accounting for pensions and other postretirement benefits requires an extensive use of assumptions about the discount rate, expected return on plan assets, the rate of future compensation increases received by our employees, mortality, turnover and medical costs. Each assumption is reviewed annually with assistance from our actuarial consultant who provides guidance in establishing the assumptions. The assumptions are selected to represent the average expected experience over time and may differ in any one year from actual experience due to changes in capital markets and the overall economy. These differences will impact the amount of pension and other postretirement benefit expense that we recognize.

Our discount rate is based on a market rate for a recognized-rating agency's high-quality long-term bond portfolio with durations matching the expected payouts under our retirement plans. Our pension expense and liability (benefit obligations) increases as the discount rate is reduced. A 25 basis-point reduction in this assumption would have increased 2003 pension expense by \$500 and the pension liabilities by \$5,500. The present values of Aqua America's future pension and other postretirement obligations were determined using discount rates of 6.25% at December 31, 2003 and 6.75% at December 31, 2002. Our expense under these plans is determined using the discount rate as of the beginning of the year, which was 6.75% for 2003, and will be 6.25% for 2004.

Our expected return on assets is determined by evaluating the asset class return expectations with our advisors as well as actual, long-term, historical results of our asset returns. Our pension expense increases as the expected return on assets decreases. A 25 basis-point reduction in this assumption would have increased 2003 pension expense by \$230. For 2003, we used an 8.5% expected return on assets assumption which will remain unchanged for 2004. The expected return on assets is based on a targeted allocation of 65% equities and 35% fixed income. We believe that our actual long-term asset allocation on average will approximate the targeted allocation. Our targeted allocation is driven by the investment strategy to earn a reasonable rate of return while maintaining risk at acceptable levels through the diversification of investments across and with various asset categories.

As of December 31, 2003, we have an additional minimum liability of \$41 associated with our defined benefit pension plan. The additional minimum liability is a result of the accumulated benefit obligation exceeding the fair value of plan assets and results in the establishment of a regulatory asset, as we anticipate recovery of the future, increased pension expense through customer rates. An additional minimum liability of \$4,731 was initially recorded on December 31, 2002 as a result of the following events during 2002:

- pension plan assets declined due to negative equity market performance, and
- assumed discount rate decreased resulting in an increase in pension liabilities.

The change in the additional minimum liability from December 31, 2002 to December 31, 2003 resulted from an increase in the pension plan assets during 2003 due to positive equity market performance, offset partially by the effect of a decreased discount rate. Although additional minimum liability does not directly impact net income or cash flow, in future years, our pension expense and cash funding requirements are anticipated to increase as a result of the decline in plan assets and the discount rate. Funding requirements for qualified defined benefit pension plans are determined by government regulations and not by accounting pronouncements. In accordance with funding rules, during 2004 our required pension contribution is expected to be approximately $5,371. We expect future changes in the amount of contributions and expense recognized will be properly included in customer rates.

IMPACT OF RECENT ACCOUNTING PRONOUNCEMENTS

In July 2001, the Financial Accounting Standards Board ("FASB") approved Statement of Financial Accounting Standards ("SFAS") No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred. When the liability is initially recognized, the carrying amount of the related long-lived asset is increased by the same amount. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, we may settle the obligation for its recorded amount, or an alternative amount, thereby incurring a gain or loss upon settlement. We've adopted this statement as required on January 1, 2003 and it did not have an impact on our results of operations. We recover, through customer rates, retirement costs which do not meet the definition of an asset retirement obligation under SFAS No. 143. Our Pennsylvania operating subsidiary recovers retirement costs through an amortization process in customer rates after the costs are incurred. Generally, these costs are recovered over a five-year period. As a result, $13,699 as of December 31, 2003 and $11,089 as of December 31, 2002 has been reclassified and reported as a regulatory asset. Certain other of our operating subsidiaries recover retirement costs through the depreciation component of customer rates during the life of the associated asset. As a result, $7,484 as of December 31, 2003 and $6,951 as of December 31, 2002 has been reclassified and is reported as a regulatory liability. Prior to the adoption of this statement, these amounts were embedded within accumulated depreciation. All prior year amounts have been restated to remove the regulatory asset and liability from accumulated depreciation.

In April 2002, the FASB approved SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS No. 145, among other things, rescinds SFAS No. 4, which required all gains and losses from the extinguishment of debt to be classified as an extraordinary item and amends SFAS No. 13 to require that certain lease modifications that have economic effects similar to sale-leaseback transactions be accounted for in the same manner as sale-leaseback transactions. We adopted this statement in the first quarter of 2003 and it did not have a material impact on our results of operations or financial position.

In June 2002, the FASB approved SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 requires the recognition of costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. This statement replaces the previous accounting guidance provided in Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002. We adopted this standard in the first quarter of 2003 and it did not have a material impact on our results of operations and financial position.

In November 2002, the FASB issued FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," an interpretation of SFAS No. 5, 57 and 107 and rescission of SFAS No. 34. This interpretation clarifies the requirements of FASB Statement No. 5, "Accounting for Contingencies" relating to the guarantor's accounting for, and disclosure of, the issuance of certain types of guarantees. The disclosure provisions of the interpretation are effective for financial statements of periods ending after December 15, 2002. The provisions for initial recognition and measurement are effective on a prospective basis for guarantees that are issued or modified after December 31, 2002. We adopted the accounting provisions of this standard in the first quarter of 2003 and it did not have a material impact on our results of operations or financial position.

In April 2003, the FASB approved SFAS No. 149, "Amendment of Statement No. 133 on Derivative Instruments and Hedging Activities." SFAS No. 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. The adoption of this standard had no effect on our results of operations or financial position. As of December 31, 2003, we had no derivative instruments or hedging activities.

In May 2003, the FASB approved SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS No. 150 establishes standards for classifying and measuring as liabilities certain financial instruments with characteristics of both liabilities and equity. The standard is effective for financial instruments entered into or modified after May 31, 2003, and is otherwise effective July 1, 2003. This statement did not have a material impact on our results of operations or financial position.

In December 2003, the FASB approved SFAS No. 132 (Revised 2003), "Employers' Disclosures about Pensions and Other Postretirement Benefits." SFAS No. 132 amends SFAS No. 87 "Employers' Accounting for Pensions," SFAS No. 88 "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits," and SFAS No. 106 "Employers' Accounting for Postretirement Benefits Other Than Pensions." This new statement does not change the recognition and measurement requirements of those amended statements, and retains the disclosure requirements contained in SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits," which it replaces and requires additional disclosure. We adopted the provisions of this statement as required as of December 31, 2003.

In January 2004, the FASB issued FASB Staff Position ("FSP") No. 106-1, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003." FSP 106-1, which is effective for our consolidated financial statements for the year ended December 31, 2003, permits a sponsor of a postretirement health care plan that provides a prescription drug benefit to make a one-time election to defer accounting for the effects of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act"). The Act was signed into law in December 2003 and establishes a prescription drug benefit under Medicare (Medicare Part D) and a federal subsidy to sponsors of postretirement health care plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. Under FSP No. 106-1, sponsors must consider the two new features in measuring the accumulated postretirement benefit obligation ("APBO") and net periodic postretirement benefit costs. In accordance with FSP 106-1, we made a one-time election to defer the recognition of the impact on FSP No. 106 accounting. Any measures of APBO and net periodic postretirement benefit cost in the consolidated financial statements and footnotes for the year ended December 31, 2003 do not reflect the effects of the Act. Currently, specific authoritative accounting guidance for the federal subsidy is pending and that guidance when issued may require us to change previously reported information. We are currently investigating the impacts of the adoption of FSP 106-1's initial recognition, measurement and disclosure provisions on our consolidated financial statements.

Report of Management

The consolidated financial statements and related information for the years ended December 31, 2003, 2002 and 2001 were prepared by management in accordance with accounting principles generally accepted in the United States of America and include management's best estimates and judgments, as required. Financial information included in other sections of this annual report is consistent with that in the consolidated financial statements.

The Company has an internal accounting control structure designed to provide reasonable assurance that assets are safeguarded and that transactions are properly authorized and recorded in accordance with established policies and procedures. The internal control structure is supported by the selection and training of qualified personnel, the delegation of management authority and responsibility, dissemination of policies and procedures and periodic reviews by our internal audit director.

The Company's independent accountants, PricewaterhouseCoopers LLP, provide an independent review of management's reporting of results of operations and financial condition. PricewaterhouseCoopers LLP has audited the financial statements by conducting tests as they deemed appropriate and their report follows.

The Audit Committee of the Board of Directors selects and evaluates the Company's independent accountants and reviews the scope and results of their audits. The Audit Committee also reviews the integrity of the Company's financial reporting process, system of internal controls and other significant financial matters. The Audit Committee meets regularly with management, our internal audit director and the independent accountants. The Audit Committee held six meetings in 2003.

Nick DeBenedictis

Nicholas DeBenedictis
Chairman &
President

David P. Smeltzer

David P. Smeltzer
Senior Vice President - Finance

Report of Independent Auditors

To the Board of Directors and Stockholders of
Aqua America, Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income and comprehensive income, of capitalization and of cash flow present fairly, in all material respects, the financial position of Aqua America, Inc. (formerly Philadelphia Suburban Corporation) and its subsidiaries at December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Philadelphia, PA
January 28, 2004

AQUA AMERICA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(In thousands, except per share amounts)
Years ended December 31, 2003, 2002 and 2001

	2003	2002	2001
Operating revenues	$ 367,233	$ 322,028	$ 307,280
Costs and expenses:			
Operations and maintenance	140,602	117,735	111,885
Depreciation	48,522	41,424	37,979
Amortization	2,941	2,898	2,189
Taxes other than income taxes	21,607	19,467	20,887
	213,672	181,524	172,940
Operating income	153,561	140,504	134,340
Other expense (income):			
Interest expense, net	44,662	40,396	39,859
Allowance for funds used during construction	(2,127)	(1,389)	(1,222)
Gain on sale of water system	-	(5,676)	-
Gain on sale of other assets	(5,692)	(2,079)	(3,384)
Income before income taxes	116,718	109,252	99,087
Provision for income taxes	45,923	42,046	38,976
Net income	70,795	67,206	60,111
Dividends on preferred stock	10	52	106
Net income available to common stock	$ 70,785	$ 67,154	$ 60,005
Net income	$ 70,795	$ 67,206	$ 60,111
Other comprehensive income (loss), net of tax:			
Unrealized gains on securities	455	104	39
Reclassification adjustment for gains reported in net income	(347)	(767)	(239)
	108	(663)	(200)
Comprehensive income	$ 70,903	$ 66,543	$ 59,911
Net income per common share:			
Basic	$ 0.80	$ 0.78	$ 0.71
Diluted	$ 0.79	$ 0.78	$ 0.70
Average common shares outstanding during the period:			
Basic	88,275	85,674	84,841
Diluted	89,244	86,538	85,943

See accompanying notes to consolidated financial statements.

AQUA AMERICA, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands of dollars, except per share amounts)
December 31, 2003 and 2002

	2003	2002
Assets		
Property, plant and equipment, at cost	$ 2,302,304	$ 1,836,892
Less accumulated depreciation	478,013	350,189
Net property, plant and equipment	1,824,291	1,486,703
Current assets:		
Cash and cash equivalents	10,757	5,915
Accounts receivable and unbilled revenues, net	62,320	57,680
Inventory, materials and supplies	5,841	4,555
Prepayments and other current assets	5,051	2,758
Total current assets	83,969	70,908
Regulatory assets	98,761	92,313
Deferred charges and other assets, net	34,277	23,391
Funds restricted for construction activity	28,438	43,754
	$ 2,069,736	$ 1,717,069
Liabilities and Stockholders' Equity		
Stockholders' equity:		
Common stock at $.50 par value, authorized 100,000,000 shares, issued 93,270,424 and 87,046,893 in 2003 and 2002	$ 46,635	$ 35,034
Capital in excess of par value	413,008	317,871
Retained earnings	210,915	180,047
Minority interest	912	503
Treasury stock, at cost, 681,384 and 2,151,350 shares in 2003 and 2002	(12,611)	(40,421)
Accumulated other comprehensive income	171	63
Total stockholders' equity	659,030	493,097
6.05% Series B cumulative preferred stock		172
Long-term debt, excluding current portion	696,666	582,910
Commitments	-	
Current liabilities:		
Current portion of long-term debt	39,386	34,265
Loans payable	96,459	115,113
Accounts payable	32,321	31,058
Accrued interest	11,126	9,269
Accrued taxes	16,779	14,500
Other accrued liabilities	35,930	22,326
Total current liabilities	232,001	226,531
Deferred credits and other liabilities:		
Deferred income taxes and investment tax credits	190,395	187,300
Customers' advances for construction	72,500	69,790
Other	9,419	13,330
Total deferred credits and other liabilities	272,314	270,420
Contributions in aid of construction	209,725	143,939
	$ 2,069,736	$ 1,717,069

See accompanying notes to consolidated financial statements.

AQUA AMERICA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CAPITALIZATION
(In thousands of dollars, except per share amounts)
December 31, 2003 and 2002

	2003	2002
Stockholders' equity:		
Common stock, $.50 par value	$ 46,635	$ 35,034
Capital in excess of par value	413,008	317,871
Retained earnings	210,915	180,047
Minority interest	912	503
Treasury stock, at cost	(12,611)	(40,421)
Accumulated other comprehensive income	171	63
Total stockholders' equity	659,030	493,097
6.05% Series B cumulative preferred stock	-	172
Long-term debt:		
Long-term debt of subsidiaries (substantially secured by utility plant):		
Interest Rate Range		
0.00% to 2.49%	16,868	18,009
2.50% to 2.99%	18,913	14,052
3.00% to 3.49%	5,618	4,733
3.50% to 3.99%	2,800	3,200
4.00% to 4.99%	8,135	8,135
5.00% to 5.49%	110,875	90,955
5.50% to 5.99%	76,260	86,260
6.00% to 6.49%	119,360	126,360
6.50% to 6.99%	42,000	52,000
7.00% to 7.49%	46,716	58,000
7.50% to 7.99%	23,000	23,000
8.00% to 8.49%	17,500	17,497
8.50% to 8.99%	9,000	9,000
9.00% to 9.49%	53,805	54,359
9.50% to 9.99%	43,242	44,637
10.00% to 10.50%	6,000	6,000
	600,092	616,197
Note payable, 6.05%, due 2006	960	978
Unsecured notes payable, 4.87%, due 2023	135,000	-
	736,052	617,175
Current portion of long-term debt	39,386	34,265
Long-term debt, excluding current portion	696,666	582,910
Total capitalization	$ 1,355,696	$ 1,076,179

See accompanying notes to consolidated financial statements.

AQUA AMERICA, INC. AND SUBSIDIARIES
CONSOLIDATED CASH FLOW STATEMENTS
(In thousands of dollars)
Years ended December 31, 2003, 2002 and 2001

	2003	2002	2001
Cash flows from operating activities:			
Net income	$ 70,795	$ 67,206	$ 60,111
Adjustments to reconcile net income to net cash flows from operating activities:			
Depreciation and amortization	51,463	44,322	40,168
Deferred income taxes	26,741	18,470	14,935
Gain on sale of water system	-	(5,676)	-
Gain on sale of other assets	(5,692)	(2,079)	(3,384)
Net increase in receivables, inventory and prepayments	(314)	(742)	(5,295)
Net increase in payables, accrued interest, accrued taxes and other accrued liabilities	7,777	1,346	7,045
Payment of Competitive Transition Charge	-	-	(11,465)
Other	(7,397)	(1,287)	50
Net cash flows from operating activities	143,373	121,560	102,165
Cash flows from investing activities:			
Property, plant and equipment additions, including allowance for funds used during construction of $2,127 $1,389 and $1,222	(163,320)	(136,164)	(124,088)
Acquisitions of water and wastewater systems	(192,331)	(8,914)	(9,517)
Net decrease (increase) in funds restricted for construction activity	15,314	(23,986)	(15,806)
Net proceeds from the sale of water systems	4,000	12,118	-
Net proceeds from the sale of other assets	6,496	6,258	5,211
Other	(312)	(362)	(173)
Net cash flows used in investing activities	(330,153)	(151,050)	(144,373)
Cash flows from financing activities:			
Customers' advances and contributions in aid of construction	8,181	10,266	5,175
Repayments of customers' advances	(4,257)	(5,070)	(4,652)
Net proceeds (repayments) of short-term debt	(18,654)	5,445	8,385
Proceeds from long-term debt	154,537	119,350	64,024
Repayments of long-term debt	(44,204)	(43,279)	(8,498)
Redemption of preferred stock	(172)	(944)	(644)
Proceeds from issuing common stock	134,826	10,611	13,522
Repurchase of common stock	(1,353)	(24,109)	(2,493)
Dividends paid on preferred stock	(10)	(52)	(106)
Dividends paid on common stock	(39,917)	(36,789)	(34,234)
Other	2,645	(1,034)	(1,348)
Net cash flows from financing activities	191,622	34,395	39,131
Net increase (decrease) in cash and cash equivalents	4,842	4,905	(3,077)
Cash and cash equivalents at beginning of year	5,915	1,010	4,087
Cash and cash equivalents at end of year	$ 10,757	$ 5,915	$ 1,010
Cash paid during the year for:			
Interest, net of amounts capitalized	$ 40,572	$ 38,040	$ 38,637
Income taxes	$ 19,168	$ 24,165	$ 19,388

See Summary of Significant Accounting Policies-Customers' Advances for Construction, Acquisitions and Employee Stock and and Incentive Plans footnotes for description of non-cash activities.
See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements
(In thousands of dollars, except per share amounts)

Summary of Significant Accounting Policies

Name Change – On January 16, 2004, Philadelphia Suburban Corporation changed its corporate name to Aqua America, Inc. In addition, we have changed our ticker symbol from PSC to WTR on the New York Stock Exchange and Philadelphia Stock Exchange effective as of the opening of trading on January 20, 2004.

Nature of Operations - Aqua America, Inc. ("Aqua America" or the "Company") is the holding company for regulated utilities providing water or wastewater services in Pennsylvania, Ohio, Illinois, Texas, New Jersey, Indiana, Virginia, Florida, North Carolina, Maine, Missouri, New York, South Carolina and Kentucky. Our largest operating subsidiary, Aqua Pennsylvania, Inc. - formerly Pennsylvania Suburban Water Company, accounts for approximately 60% of our operating revenues and provides water or wastewater service to customers in the suburban areas north and west of the City of Philadelphia and in 19 other counties in Pennsylvania. The Company's other subsidiaries provide similar services in 13 other states. In addition, the Company provides water and wastewater service through operating and maintenance contracts with municipal authorities and other parties close to our operating companies' service territories.

Regulation - Most of the operating companies that are regulated public utilities are subject to regulation by the public utility commissions of the states in which they operate. The respective public utility commissions have jurisdiction with respect to rates, service, accounting procedures, issuance of securities, acquisitions and other matters. Some of the operating companies that are regulated public utilities are subject to rate regulation by county or city government. Regulated public utilities follow Statement of Financial Accounting Standards ("SFAS") No. 71, "Accounting for the Effects of Certain Types of Regulation." SFAS No. 71 provides for the recognition of regulatory assets and liabilities as allowed by regulators for costs or credits that are reflected in current rates or are considered probable of being included in future rates. The regulatory assets or liabilities are then relieved as the cost or credit is reflected in rates.

Consolidation - The consolidated financial statements include the accounts of the Company and its subsidiaries. All material intercompany accounts and transactions have been eliminated where appropriate.

Recognition of Revenues - Revenues include amounts billed to customers on a cycle basis and unbilled amounts based on estimated usage from the latest billing to the end of the accounting period. Nonregulated revenues are recognized when services are performed and are primarily associated with operating and maintenance contracts and data processing service fees. Nonregulated revenues totaled $11,806 in 2003, $7,190 in 2002 and $7,092 in 2001.

Property, Plant and Equipment and Depreciation - Property, plant and equipment consist primarily of utility plant. The cost of additions includes contracted cost, direct labor and fringe benefits, materials, overheads and, for certain utility plant, allowance for funds used during construction. Water systems acquired are recorded at estimated original cost of utility plant when first devoted to utility service and the applicable depreciation is recorded to accumulated depreciation. The difference between the estimated original cost, less applicable accumulated depreciation, and the purchase price is recorded as an acquisition adjustment within utility plant. At December 31, 2003, utility plant includes a net credit acquisition adjustment of $48,054, which is generally being amortized from 0 to 20 years. Amortization of the acquisition adjustments totaled $1,649 during 2003, $633 during 2002 and $545 during 2001.

Utility expenditures for maintenance and repairs, including major maintenance projects and minor renewals and betterments, are charged to operating expenses when incurred in accordance with the system of accounts prescribed by the public utility commissions of the states in which the company operates. The cost of new units of property and betterments are capitalized.

When units of utility property are replaced, retired or abandoned, the recorded value thereof is credited to the asset account and such value, together with the net cost of removal, is charged to accumulated depreciation. To the extent the Company recovers cost of removal or other retirement costs through rates after the retirement costs are incurred, a regulatory asset is recorded. In some cases, the Company recovers retirement costs through rates during the life of the associated asset and before the costs are incurred. These amounts result in a regulatory liability being reported based on the amounts previously recovered through customer rates. All prior year amounts have been restated to remove the regulatory asset and liability from accumulated depreciation where it had been previously reported.

The straight-line remaining life method is used to compute depreciation on utility plant. Generally, the straight-line method is used with respect to transportation and mechanical equipment, office equipment and laboratory equipment.

In accordance with the requirements of Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", the long-lived assets of the Company, which consist primarily of Utility Plant in Service and regulatory assets, are reviewed for impairment when changes in circumstances or events occur. There has been no change in circumstances or events that have occurred that require adjustments to the carrying values of these assets.

Allowance for Funds Used During Construction - The allowance for funds used during construction ("AFUDC") is a non-cash credit which represents the estimated cost of funds used to finance the construction of utility plant. In general, AFUDC is applied to construction projects requiring more than one month to complete. No AFUDC is applied to projects funded by customer advances for construction or contributions in aid of construction. AFUDC includes the net cost of borrowed funds and a rate of return on other funds when used, and is recovered through water rates as the utility plant is depreciated. The amount of AFUDC related to equity funds in 2003, 2002 and 2001 was $0, $9 and $0 respectively. No interest was capitalized by our nonregulated businesses.

Cash and Cash Equivalents - The Company considers all highly liquid investments with an original maturity of three months or less, which are not restricted for construction activity, to be cash equivalents.

Deferred Charges and Other Assets - Deferred charges and other assets consist of financing expenses, other costs and marketable securities. Deferred bond issuance expenses are amortized by the straight-line method over the life of the related issues. Call premiums related to the early redemption of long-term debt, along with the unamortized balance of the related issuance expense, are deferred and amortized over the life of the long-term debt used to fund the redemption. Other costs, for which the Company has received or expects to receive prospective rate recovery, are deferred and amortized over the period of rate recovery in accordance with SFAS No. 71.

Marketable securities are considered "available-for-sale" and accordingly, are carried on the balance sheet at fair market value. Unrecognized gains are included in other comprehensive income.

Income Taxes - The Company accounts for certain income and expense items in different time periods for financial reporting than for tax reporting purposes. Deferred income taxes are provided on the temporary differences between the tax basis of the assets and liabilities, and the amounts at which they are carried in the consolidated financial statements. The income tax effect of temporary differences not allowed currently in rates is recorded as deferred taxes with an offsetting regulatory asset or liability. These deferred income taxes are based on the enacted tax rates expected to be in effect when such temporary differences are projected to reverse. Investment tax credits are deferred and amortized over the estimated useful lives of the related properties.

Customers' Advances for Construction - Water mains or, in some instances, cash advances to reimburse the Company for its costs to construct water mains, are contributed to the Company by customers, real estate developers and builders in order to extend water service to their properties. The value of these contributions is recorded as Customers' Advances for Construction. The Company makes refunds on these advances over a specific period of time based on operating revenues related to the main or as new customers are connected to and take service from the main. After all refunds are made, any remaining balance is transferred to Contributions in Aid of Construction. Non-cash property, in the form of water mains, has been received, generally from developers, as advances or contributions of $9,991, 17,271 and $10,196 in 2003, 2002 and 2001, respectively.

(In thousands of dollars, except per share amounts)

Contributions in Aid of Construction - Contributions in aid of construction include direct non-refundable contributions and the portion of customers' advances for construction that become non-refundable.

Inventories, Materials and Supplies - Inventories are stated at cost. Cost is principally determined using the first-in, first-out method.

Stock-Based Compensation - The Company accounts for stock-based compensation using the intrinsic value method in accordance with APB Opinion No. 25, "Accounting for Stock Issued to Employees". Accordingly, no compensation expense related to granting of stock options has been recognized in the financial statements for stock options that have been granted. Pursuant to the disclosure requirements of SFAS No. 123, "Accounting for Stock-Based Compensation," as amended by SFAS No. 148, pro forma net income available to common stock and earnings per share are presented in the following table as if compensation cost for stock options was determined as of the grant date under the fair value method:

	Years Ended December 31,		
	2003	2002	2001
Net income available to common stock, as reported	$ 70,785	$ 67,154	$ 60,005
Add: stock-based employee compensation expense included in reported net income, net of tax	224	473	194
Less: pro forma expense related to stock options granted, net of tax effects	(1,793)	(1,741)	(1,125)
Pro forma	$ 69,216	$ 65,886	$ 59,074
Basic net income per share:			
As reported	$ 0.80	$ 0.78	$ 0.71
Pro forma	0.78	0.77	0.70
Diluted net income per share:			
As reported	$ 0.79	$ 0.78	$ 0.70
Pro forma	0.78	0.76	0.69

The per share weighted-average fair value at the date of grant for stock options granted during 2003, 2002 and 2001 was $4.67, $5.15 and $4.47 per option, respectively. The fair value of options at the date of grant was estimated using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2003	2002	2001
Expected life (years)	5.6	5.5	5.2
Interest rate	3.7%	4.9%	5.0%
Volatility	32.4%	34.2%	32.7%
Dividend yield	2.6%	2.6%	2.6%

Use of Estimates in Preparation of Consolidated Financial Statements - The preparation of consolidated 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 reporting period. Actual results could differ from those estimates.

Reclassifications – Certain prior year amounts have been reclassified to conform with current year's presentation.

Recent Accounting Pronouncements – In July 2001, the Financial Accounting Standards Board ("FASB") approved Statement of Financial Accounting Standards ("SFAS") No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred. When the liability is initially recognized, the carrying amount of the related long-lived asset is increased by the same amount. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, the Company may settle the obligation for its recorded amount, or an alternative amount, thereby incurring a gain or loss upon settlement. The Company adopted this statement as required on January 1, 2003 and it did not have an impact on the Company's results of operations. The Company recovers, through customer rates, retirement costs which do not meet the definition of an asset retirement obligation under SFAS No. 143. The Company's Pennsylvania operating subsidiary recovers retirement costs through an amortization process in customer rates after the costs are incurred. Generally, these costs are recovered over a five-year period. As a result, $13,699 and $11,089 have been reclassified and reported as a regulatory asset as of December 31, 2003 and 2002. Certain other of the Company's operating subsidiaries recover retirement costs through the depreciation component of customer rates during the life of the associated asset. As a result, $7,484 and $6,951 have been reclassified as of December 31, 2003 and 2002, and is reported as a regulatory liability. Prior to the adoption of this statement, these amounts were embedded within accumulated depreciation. All prior year amounts have been restated to remove the regulatory asset and liability from accumulated depreciation.

In April 2002, the FASB approved SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS No. 145, among other things, rescinds SFAS No. 4, which required all gains and losses from the extinguishment of debt to be classified as an extraordinary item and amends SFAS No. 13 to require that certain lease modifications that have economic effects similar to sale-leaseback transactions be accounted for in the same manner as sale-leaseback transactions. The Company adopted this statement in the first quarter of 2003 and it did not have a material impact on the Company's results of operations or financial position.

In June 2002, the FASB approved SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 requires the recognition of costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. This statement replaces the previous accounting guidance provided in Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002. The Company adopted this standard in the first quarter of 2003 and it did not have a material impact on the Company's results of operations or financial position.

In November 2002, the FASB issued FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," an interpretation of SFAS No. 5, 57 and 107 and rescission of SFAS No. 34. This interpretation clarifies the requirements of FASB Statement No. 5, "Accounting for Contingencies" relating to the guarantor's accounting for, and disclosure of, the issuance of certain types of guarantees. The disclosure provisions of the interpretation are effective for financial statements of periods ending after December 15, 2002. The provisions for initial recognition and measurement are effective on a prospective basis for guarantees that are issued or modified after December 31, 2002. The Company adopted the accounting provisions of this standard in the first quarter of 2003 and it did not have a material impact on the Company's results of operations or financial position.

In April 2003, the FASB approved SFAS No. 149, "Amendment of Statement No. 133 on Derivative Instruments and Hedging Activities." SFAS No. 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. The adoption of this standard had no effect on the Company's results of operations or financial position. As of December 31, 2003, the Company had no derivative instruments or hedging activities.

In May 2003, the FASB approved SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS No. 150 establishes standards for classifying and measuring as liabilities certain financial instruments with characteristics of both liabilities and equity. The standard is effective for financial instruments entered into or modified after May 31, 2003, and is otherwise effective July 1, 2003. This statement did not have a material impact on the Company's results of operations or financial position.

In December 2003, the FASB approved SFAS No. 132 (Revised 2003), "Employers' Disclosures about Pensions and Other Postretirement Benefits." SFAS No. 132 amends SFAS No. 87 "Employers' Accounting for Pensions," SFAS No. 88 "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits," and SFAS No. 106 "Employers' Accounting for Postretirement Benefits Other Than Pensions." This new statement does not change the recognition and measurement requirements of those amended statements, and retains the disclosure requirements contained in SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits," which it replaces and requires additional disclosure. The Company adopted the provisions of this statement as required as of December 31, 2003.

In January 2004, the FASB issued FASB Staff Position ("FSP") No. 106-1, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003." FSP 106-1, which is effective for the Company's consolidated financial statements for the year ended December 31, 2003, permits a sponsor of a postretirement health care plan that provides a prescription drug benefit to make a one-time election to defer accounting for the effects of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act"). The Act was signed into law in December 2003 and establishes a prescription drug benefit under Medicare (Medicare Part D) and a federal subsidy to sponsors of postretirement health care plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. Under FSP No. 106-1, sponsors must consider the two new features in measuring the accumulated postretirement benefit obligation ("APBO") and net periodic postretirement benefit costs. In accordance with FSP 106-1, the Company made a one-time election to defer the recognition of the impact on FSP No. 106 accounting. Any measures of APBO and net periodic postretirement benefit cost in the consolidated financial statements and footnotes for the year ended December 31, 2003 do not reflect the effects of the Act. Currently, specific authoritative accounting guidance for the federal subsidy is pending and that guidance when issued may require the Company to change previously reported information. The Company is currently investigating the impacts of the adoption of FSP 106-1's initial recognition, measurement and disclosure provisions on its consolidated financial statements.

Acquisitions

AquaSource Acquisition - Pursuant to our strategy to grow through acquisitions, on July 31, 2003, the Company completed its acquisition of four operating water and wastewater subsidiaries of AquaSource, Inc. (a subsidiary of DQE, Inc.), including selected, integrated operating and maintenance contracts and related assets (individually and collectively the acquisition is referred to as "AquaSource") for $190,717 in cash, as adjusted pursuant to the purchase agreement for the completion of a closing balance sheet and the finalization of working capital ($195,533 was paid at closing and refunds were subsequently received totaling $4,816). There remains approximately $12,000 of the above purchase price in dispute subject to an arbitration process under the terms of the purchase agreement. Accordingly, the final purchase price is expected to be within the range of $178,700 to $190,717. We expect the arbitration process to conclude by mid-2004.

The results of AquaSource have been included in the Company's consolidated financial statements beginning August 1, 2003. The acquired operations of AquaSource serve over 130,000 water and wastewater customer accounts in 11 states (including the Connecticut operations which were sold in October 2003). Please refer to the Dispositions footnote for a discussion of the sale of the AquaSource operations located in Connecticut and the planned sale of the New York operations. The AquaSource acquisition was initially funded by a portion of the proceeds from the July 2003 issuance of $135,000 of unsecured notes due 2023, with an interest rate of 4.87%, and the issuance of a $90,000 unsecured note by Aqua America. In August 2003, the

(In thousands of dollars, except per share amounts)

$90,000 unsecured note was repaid with the proceeds from the issuance of 5,000,000 shares of common stock through a shelf registration.

Under the purchase method of accounting, the purchase price is allocated to AquaSource's net tangible and intangible assets based upon their estimated fair values at the date of the acquisition. The preliminary purchase price allocation, which does not reflect the effects of the purchase price arbitration proceeding, is as follows:

	July 31, 2003
Property, plant and equipment, net	$ 210,008
Current assets	9,687
Other long-term assets	14,204
Assets held for sale, net	4,096
Total assets acquired	237,995
Current liabilities	8,214
Long-term debt	7,170
Other long-term liabilities	31,894
Total liabilities assumed	47.278
Net assets acquired	$ 190,717

The net property, plant and equipment balance includes accumulated depreciation of $91,296. The following supplemental pro forma information is presented to illustrate the effects of the AquaSource acquisition, which was completed on July 31, 2003, on the historical operating results for the year ended December 31, 2003 and 2002 as if the acquisition had occurred at the beginning of the respective periods (unaudited):

	Years Ended December 31, 2003	Years Ended December 31, 2002
Operating revenues	$ 407,628	$ 391,569
Net income	$ 74,436	$ 72,420
Net income per common share:		
Basic	$ 0.81	$ 0.80
Diluted	$ 0.81	$ 0.79

The supplemental information is not necessarily representative of the actual results that may have occurred for these periods or of the results that may occur in the future. This information does not reflect the effects of recent rate increases or cost savings that may result from the acquisition, such as the effects of a reduction in administrative costs. This information is based upon the historical operating results of AquaSource for periods prior to the acquisition date of July 31, 2003 as provided to the Company by AquaSource, Inc. and DQE, Inc. management.

Other Acquisitions – On November 21, 2003, Aqua America entered into a purchase agreement with ALLETE Water Services, Inc., a subsidiary of ALLETE, Inc., to acquire the capital stock of Heater Utilities, Inc., which owns water and wastewater systems located in North Carolina. The purchase agreement provides for a cash purchase price of $48,000 and the assumption of approximately $28,000 in debt, reflecting an acquisition premium of approximately $18,000. The Company intends to seek the ability to recover a portion of this premium through customer rates via the North Carolina Utilities Commission approval process. The acquisition, which is subject to regulatory approval, is expected to close in mid-2004. This acquisition will add approximately 50,000 customers in the areas of suburban Raleigh, Charlotte, Gastonia and Fayetteville, North Carolina.

During 2003, in addition to the AquaSource acquisition, the Company completed 17 acquisitions or other growth ventures in the various states in which the Company operates for an aggregate purchase price of $1,614 in cash . The operating revenues included in the consolidated financial statements during the period owned by the Company was $312.

During 2002, the Company completed 25 acquisitions or other growth ventures in various states. The total purchase price of $11,659 for the systems acquired in 2002 consisted of $8,914 in cash and the issuance of 178,864 shares of the Company's common stock. Operating revenues included in the consolidated financial statements related to the systems acquired in 2002 were $2,920 in 2003 and $1,341 in 2002.

During 2001, the Company completed 20 acquisitions or other growth ventures including the Company's entry into North Carolina. The total purchase price of $14,878 for the systems acquired in 2001 consisted of $9,517 in cash and the issuance of 414,638 shares of the Company's common stock. Operating revenues included in the consolidated financial statements related to the systems acquired in 2001 were $4,647 in 2003, $4,736 in 2002 and $3,432 in 2001.

On February 4, 2003, the Company entered into a mutual termination agreement with Pennichuck Corporation terminating Aqua America's planned acquisition of Pennichuck Corporation, which was originally announced in April 2002. The mutual decision to terminate the merger agreement was primarily in response to a referendum of the City of Nashua, New Hampshire, authorizing Nashua to pursue the acquisition, by an eminent domain proceeding or otherwise, of all or a portion of Pennichuck Corporation's water works system, and was considered to be in the best interests of both companies.

Dispositions

In May 2003, the Company announced agreements for the sale of the AquaSource regulated and nonregulated operations located in Connecticut and New York to a New England-based water company for an aggregate purchase price of $5,000 and the assumption of approximately $800 of debt. The sale of the Conneticut operations closed on October 31, 2003 and provided proceeds of $4,000. The sale of the New York operations is expected to occur in mid-2004. The combined operations in New York and Connecticut represented approximately 2% of the operations acquired from AquaSource, Inc.

In December 2002, as a result of the settlement of a condemnation action, the Company's Ohio operating subsidiary sold to Ashtabula County, Ohio the water utility assets in the unincorporated areas of Ashtabula County and the area within the Village of Geneva on the Lake for $12,118, net of certain closing costs. The sale was in excess of the book value for these assets and the sale generated a gain of $5,676 (or an after-tax gain of $3,690 and $0.04 per share) recorded in the fourth quarter of 2002. We continue to operate this water system for Ashtabula County, beginning after the closing of the sale, under a multi-year operating contract that was recently renewed. The water utility assets sold represent less than 1% of our total assets, and the total number of customers included in the water system sold represents less than 1% of our total customer base.

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

Property, Plant and Equipment

	December 31, 2003	December 31, 2002	Approximate range of remaining lives
Utility plant and equipment:			
Mains and accessories	$ 962,439	$ 815,066	33 to 85 years
Services, hydrants, treatment plants and reservoirs	547,622	432,564	5 to 68 years
Operations structures and water tanks	175,663	140,796	18 to 61 years
Miscellaneous pumping and purification equipment	259,468	182,415	12 to 50 years
Meters, data processing, transportation and operating equipment	251,721	194,073	5 to 50 years
Land and other non-depreciable assets	58,223	51,317	
Utility Plant and equipment	2,255,136	1,816,231	
Utility construction work in progress	92,106	23,964	
Net utility plant acquisition adjustment	(48,054)	(6,210)	0 to 20 years
Non-utility plant and equipment	3,116	2,907	2 to 40 years
Total property, plant and equipment	$ 2,302,304	$ 1,836,892	

Accounts Receivable

	December 31, 2003	December 31, 2002
Billed utility revenue	$ 41,843	$ 34,733
Unbilled utility revenue	23,876	26,007
Other	2,452	520
	68,171	61,260
Less allowance for doubtful accounts	5,851	3,580
Net accounts receivable	$ 62,320	$ 57,680

The Company's customers are located principally in the following states: 54% in Pennsylvania, 11% in Ohio, 8% in Illinois, 7% in Texas, 6% in New Jersey and 4% in Indiana. No single customer accounted for more than one percent of the Company's operating revenues during the years ended December 31, 2003, 2002 or 2001. The following table summarizes the changes in the Company's allowance for doubtful accounts:

	2003	2002	2001
Balance at January 1,	$ 3,580	$ 2,482	$ 1,907
Amounts charged to expense	2,643	3,182	2,557
Accounts written off	(2,715)	(2,375)	(2,179)
Recoveries of accounts written off	253	291	197
Allowance acquired through acquisitions	2,090	-	-
Balance at December 31,	$ 5,851	$ 3,580	$ 2,482

(In thousands of dollars, except per share amounts)

Regulatory Assets and Liabilities

The regulatory assets represent costs that are expected to be fully recovered from customers in future rates while regulatory liabilities represent amounts that are expected to be refunded to customers in future rates or amounts recovered from customers in advance of incurring the costs. Except for income taxes and the competitive transition charge payment, regulatory assets and regulatory liabilities are excluded from the Company's rate base and do not earn a return. The components of regulatory assets and (liabilities) are as follows:

	December 31,	
	2003	2002
Income taxes, asset	$ 68,917	$ 67,658
Income taxes, liability	(3,434)	(3,574)
CTC payment	8,026	9,172
Postretirement benefits	6,698	8,334
Merger Costs	2,700	3,229
Water tank painting	3,240	2,114
Utility plant retirement costs, asset	13,699	11,089
Utility plant retirement costs, liability	(7,484)	(6,951)
Rate case filing expenses & other	6,399	1,242
	$ 98,761	$ 92,313

Items giving rise to deferred state income taxes, as well as a portion of deferred Federal income taxes related to certain differences between tax and book depreciation expense, are recognized in the rate setting process on a cash or flow-through basis and will be recovered as they reverse. The regulatory asset associated with the Competitive Transition Charge ("CTC") payment represents the full payoff in 2001, net of amortization, of the allocable share of a CTC as negotiated by Aqua Pennsylvania, Inc. from its electric distribution company, PECO Energy Company. The Pennsylvania Electricity Generation Customer Choice and Competition Act permitted electric distribution utilities to recover their stranded costs from its customers in the form of a CTC. Rate recovery of the $11,465 CTC payment began in 2000 and is expected to conclude in 2010.

Postretirement benefits include pension and other postretirement benefits. The pension costs include deferred net pension expense in excess of amounts funded which the Company believes will be recoverable in future years as pension funding is required, and in addition includes an additional minimum liability for pensions as a result of a decline in the fair market value of plan assets and a decline in the discount rate assumed for pension obligations. The additional minimum liability equals the excess of the accumulated benefit obligation over the fair value of plan assets. The regulatory asset related to postretirement benefits other than pensions represents costs that were deferred between the time that the accrual method of accounting for these benefits was adopted in 1993 and the recognition of the accrual method in the Company's rates as prescribed in subsequent rate filings. Amortization of the amount deferred for postretirement benefits other than pensions began in 1994 and is currently being recovered in rates.

The regulatory asset related to the recovery of merger costs represents the portion of the Consumers Water Company merger costs that will be recovered in rates as a result of a rate settlement in 2000 and is being amortized over the recovery period. Expenses associated with water tank painting are deferred and amortized over a period of time as approved in the regulatory process. The regulatory asset for utility plant retirement costs, including cost of removal, represents costs already incurred that are expected to be recovered in future rates over a five year recovery period. The regulatory liability for utility plant retirement costs represents amounts recovered through rates during the life of the associated asset and before the costs are incurred. The regulatory asset related to rate case filing expenses represents the costs associated with filing for rate increases that are deferred and amortized over periods that generally range from one to three years.

(In thousands of dollars, except per share amounts)

Income Taxes

The provision for income taxes consists of:

	Years Ended December 31,		
	2003	2002	2001
Current:			
Federal	$ 11,933	$ 16,619	$ 18,935
State	7,249	6,647	5,106
	19,182	23,266	24,041
Deferred:			
Federal	25,521	17,921	13,048
State	1.220	859	1.887
	26,741	18,780	14,935
Total tax expense	$ 45,923	$ 42,046	$ 38,976

The statutory Federal tax rate is 35% and for states with a corporate net income tax, the state corporate net income tax rates range from 5.50% to 9.99% for all years presented. The Company's Federal income tax returns for all years through 1999 have been closed.

The reasons for the differences between amounts computed by applying the statutory Federal income tax rate to income before income tax expense are as follows:

	Years Ended December 31,		
	2003	2002	2001
Computed Federal tax expense at statutory rate	$ 40,852	$ 38,238	$ 34,680
Increase in tax expense for depreciation expense to be recovered in future rates	1,125	558	452
Merger transaction costs	(96)	(680)	-
Charitable contribution	(424)	(98)	-
Deduction for Aqua America common dividends paid under employee benefit plan	(241)	(207)	-
Amortization of deferred investment tax credits	(285)	(283)	(276)
Prior year rate reductions	(431)	(315)	(322)
State income taxes, net of federal tax benefit	5,505	4,879	4,545
Other, net	(82)	(46)	(103)
Actual income tax expense	$ 45,923	$ 42,046	$ 38,976

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

The tax effects of temporary differences between book and tax accounting that give rise to the deferred tax assets and deferred tax liabilities are as follows:

	December 31, 2003	December 31, 2002
Deferred tax assets:		
Customers' advances for construction	$ 17,133	$ 17,787
Costs expensed for book not deducted for tax, principally accrued expenses	6,525	4,015
Utility plant acquisition adjustment basis differences	21,784	-
Total gross deferred tax assets	45,442	21,802
Deferred tax liabilities:		
Utility plant, principally due to depreciation and differences in the basis of fixed assets due to variation in tax and book accounting	203,706	177,620
Deferred taxes associated with the gross-up of revenues necessary to recover, in rates, the effect of temporary differences	24,634	23,972
Deferred investment tax credit	6,618	6,903
Unrealized gain on marketable securities	141	83
Other	738	524
Total gross deferred tax liabilities	235,837	209,102
Net deferred tax liability	$ 190,395	$ 187,300

Commitments

The Company maintains agreements with other water purveyors for the purchase of water to supplement its water supply, particularly during periods of peak demand. The agreements stipulate purchases of minimum quantities of water to the year 2026. The estimated annual commitments related to such purchases are expected to approximate $7,404 through 2008. The Company purchased approximately $8,014, $7,079 and $5,807 of water under these agreements during the years ended December 31, 2003, 2002 and 2001, respectively.

The Company leases motor vehicles, buildings and other equipment under operating leases that are noncancelable. During the next five years, $5,797 of future minimum lease payments are due: $2,098 in 2004, $1,647 in 2005, $888 in 2006, $615 in 2007 and $549 in 2008. The Company leases parcels of land on which treatment plants and other facilities are situated and adjacent parcels that are used for watershed protection. The operating leases are noncancelable, expire between 2012 and 2052 and contain certain renewal provisions. Certain leases are subject to an adjustment every five years based on changes in the Consumer Price Index. During each of the next five years, approximately $464 of lease payments for land, subject to the aforesaid adjustment, are due. The Company leases treatment plants to other parties under lease agreements that require payments to the Company of $567 in 2004, $567 in 2005, $567 in 2006, $267 in 2007 and $308 in 2008.

Rent expense was $2,993, $2,182 and $2,281 for the years ended December 31, 2003, 2002 and 2001, respectively.

(In thousands of dollars, except per share amounts)

Long-term Debt and Loans Payable

The Consolidated Statements of Capitalization provides a summary of long-term debt and loans outstanding as of December 31, 2003 and 2002. The supplemental indentures with respect to certain issues of the First Mortgage Bonds restrict the ability of Aqua Pennsylvania, Inc. and certain other operating subsidiaries of the Company to declare dividends, in cash or property, or repurchase or otherwise acquire the stock of these companies. As of December 31, 2003, approximately $245,000 of Aqua Pennsylvania's retained earnings and $52,000 of the retained earnings of certain other subsidiaries were free of these restrictions. Certain supplemental indentures also prohibit Aqua Pennsylvania and certain other subsidiaries of the Company from making loans to, or purchasing the stock of, the Company.

Annual sinking fund payments are required for certain issues of First Mortgage Bonds by the supplemental indentures. The future sinking fund payments and debt maturities of the Company's long-term debt are as follows:

Interest Rate Range	2004	2005	2006	2007	2008	Thereafter
0.00% to 2.49%	$ 147	$ 164	$ 136	$ 135	$ 135	$ 16,151
2.50% to 2.99%	13	21	22	22	22	18,813
3.00% to 3.49%	-	-	-	-	-	5,618
3.50% to 3.99%	400	400	400	400	400	800
4.00% to 4.99%		-	-	-	-	143,135
5.00% to 5.49%	70	70	75	75	80	110,505
5.50% to 5.99%	10,000		-	-	-	66,260
6.00% to 6.49%	15,000		644	144	10,172	94,360
6.50% to 6.99%	-	10,000	10,000	10,000	-	12,000
7.00% to 7.49%	12,040	28,040	2,040	2,040	2,040	516
7.50% to 7.99%			-		-	23,000
8.00% to 8.49%	-				-	17,500
8.50% to 8.99%	-					9,000
9.00% to 9.49%	561	568	576	584	594	50,922
9.50% to 9.99%	1,155	1,155	2,195	995	5,995	31,747
10.00% to 10.50%	-	-			-	6,000
Total	$ 39,386	$ 40,418	$ 16,088	$ 14,395	$ 19,438	$ 606,327

Aqua Pennsylvania has a five-year $300,000 medium-term note program through December 2004 that provides for the issuance of long-term debt with maturities ranging between one and 35 years at fixed rates of interest, as determined at the time of issuance. The notes issued under this program are secured by the Thirty-Third Supplement to the trust indenture relating to Aqua Pennsylvania's First Mortgage Bonds. In June 2002, Aqua Pennsylvania issued First Mortgage Bonds through the program of $25,000 5.93% Series due 2012. The proceeds from this issuance was used to fund acquisitions, to reduce the balance of Aqua Pennsylvania's short-term debt and for Aqua Pennsylvania's ongoing capital program.

In July 2003, the Company issued $135,000 of unsecured notes due 2023 and with an interest rate of 4.87%. The proceeds of this financing was used to fund the acquisition of the AquaSource operations and to refinance existing debt. In July 2003, the Company also issued a $90,000 unsecured note payable and the proceeds were also used to fund the acquisition of the AquaSource operations. In August 2003, the $90,000 note payable was repaid with the proceeds from an equity offering. At various times during 2003, Aqua Pennsylvania, other operating subsidiaries and the Company issued other notes payable, first mortgage bonds and tax-exempt bonds in aggregate of $27,894 at a weighted average interest rate of 4.50% due at various times ranging from 2013 to 2032. The proceeds from these issuances were used to reduce a portion of the balance of the short-term debt at each of the respective operating subsidiaries, to redeem $7,000 of first mortgage bonds of operating subsidiaries with a weighted average interest rate of 6.35% and redeem the Company's preferred stock of $172.

As of December 31, 2003, the Trustees for four issues held $28,438 pending completion of the projects financed with the issues and are reported in the consolidated balance sheet as funds restricted for construction activity. In connection with the acquisition of the AquaSource operations in July 2003, the Company assumed $8,131 of long-term debt of which $7,415 was retired during 2003.

In June 2002, Aqua Pennsylvania issued $25,000 tax-exempt bonds due in 2032 at a rate of 5.55%. In December 2002, Aqua Pennsylvania issued $25,000 tax-exempt bonds due in 2032 at a rate of 5.15%. The proceeds from the bonds issued are restricted to funding the costs of certain capital projects. At various times during 2002, Aqua Pennsylvania and other operating subsidiaries issued notes payable and tax-exempt bonds in aggregate of $47,765 at a weighted average interest rate of 4.32% due at various times ranging from 2007 to 2032. The proceeds from these issuances were used to reduce a portion of the balance of the short-term debt at each of the respective operating subsidiaries, to redeem $26,835 of First Mortgage Bonds of operating subsidiaries ranging from 3.75% to 5.6% and redeem Aqua America preferred stock of $944. In connection with acquisitions completed in 2002, $6,313 of long-term debt was assumed as a result of acquisitions at an interest rate of 1% due in various years. The weighted average cost of long-term debt at December 31, 2003 and 2002 was 6.19% and 6.56%, respectively.

In October 2002, a 364-day note payable of $22,000 was issued by the Company, the proceeds of which were used to repurchase shares of Aqua America common stock from Veolia Environnement, S.A. (formerly Vivendi Environnement, S.A.) Interest under this facility was based, at the borrower's option, on either a defined base rate or an adjusted London Interbank Offered Rate corresponding to the interest period selected. This note payable was redeemed in May 2003 with a portion of the proceeds from a common stock offering.

Aqua Pennsylvania has a $70,000 364-day revolving credit facility with four banks and the Company has a $20,000 364-day bank revolving credit facility. Funds borrowed under these agreements are classified as loans payable and are used to provide working capital. As of December 31, 2003 and 2002, funds borrowed under the Aqua Pennsylvania revolving credit agreements were $52,068 and $35,664, respectively, and $19,801 and $12,902 were borrowed under the Company's revolving credit agreement, respectively. Interest under these facilities is based, at the borrower's option, on the prime rate, an adjusted federal funds rate, an adjusted London Interbank Offered Rate corresponding to the interest period selected, an adjusted Euro-Rate corresponding to the interest period selected or at rates offered by the banks. These agreements restrict the total amount of short-term borrowings of Aqua Pennsylvania and the Company. A commitment fee ranging from 1/4 to 1/10 of 1% is charged on the unused portion of the revolving credit agreements. The average cost of borrowing under these facilities was 1.6% and 2.3%, and the average borrowing was $62,528 and $63,529, during 2003 and 2002, respectively. The maximum amount outstanding at the end of any one month was $73,079 in 2003 and $83,836 in 2002.

At December 31, 2003 and 2002, the Company had combined short-term lines of credit of $88,000 and $90,000, respectively. Funds borrowed under these lines are classified as loans payable and are used to provide working capital. The average borrowing under the lines was $50,353 and $48,527 during 2003 and 2002, respectively. The maximum amount outstanding at the end of any one month was $73,700 in 2003 and $75,575 in 2002. Interest under the lines is based at the Company's option, depending on the line, on the prime rate, an adjusted Euro-Rate, an adjusted federal funds rate or at rates offered by the banks. The average cost of borrowings under all lines during 2003 and 2002 was 2.4% and 2.8%, respectively.

Interest income of $395, $287 and $367 was netted against interest expense on the consolidated statements of income for the years ended December 31, 2003, 2002 and 2001, respectively. The total interest cost was $45,057, $40,683 and $40,226 in 2003, 2002 and 2001, including amounts capitalized of $2,127, $1,389 and $1,222, respectively.

(In thousands of dollars, except per share amounts)

Fair Value of Financial Instruments

The carrying amount of current assets and liabilities that are considered financial instruments approximates their fair value as of the dates presented. The carrying amount and estimated fair value of the Company's long-term debt are as follows:

	December 31, 2003	December 31, 2002
Carrying amount	$ 736,052	$ 617,175
Estimated fair value	781,502	660,436

The fair value of long-term debt has been determined by discounting the future cash flows using current market interest rates for similar financial instruments of the same duration. The Company's customers' advances for construction and related tax deposits have a carrying value of $72,500 and $69,790 at December 31, 2003 and 2002, respectively. Their relative fair values cannot be accurately estimated because future refund payments depend on several variables, including new customer connections, customer consumption levels and future rate increases. Portions of these non-interest bearing instruments are payable annually through 2017 and amounts not paid by the contract expiration dates become non-refundable. The fair value of these amounts would, however, be less than their carrying value due to the non-interest bearing feature.

Preferred Stock

At December 31, 2003, the Company had 1,770,819 shares of Series Preferred Stock with a $1.00 par value authorized, of which 100,000 shares are designated as Series A Preferred Stock. During 1996, the Company designated and issued in connection with an acquisition 32,200 shares as Series B Preferred Stock, $1.00 par value. The Series A Preferred Stock, as well as the undesignated shares of Series Preferred Stock, remains unissued. The Series B Preferred Stock was recorded on the consolidated balance sheet at its liquidation value of $100 per share. All but 172 shares were liquidated during 2002, and in December 2003, the remaining 172 shares of Series B Preferred Stock were redeemed as provided under the provisions of the issue through the issuance of debt with a five-year maturity at an interest rate of 6.05% per annum. As of December 31, 2003, the Company did not have any preferred stock outstanding and has provided for all dividends accrued on the Series B Preferred Stock.

Stockholders' Equity

At December 31, 2003, the Company had 100,000,000 shares of common stock authorized; par value $0.50. Shares outstanding at December 31, 2003, 2002 and 2001 were 92,589,040, 84,895,543 and 85,483,086, respectively. Treasury shares held at December 31, 2003, 2002 and 2001 were 681,384, 2,151,350 and 913,877, respectively.

(In thousands of dollars, except per share amounts)

The following table summarizes the activity of common stockholders' equity:

	Common stock	Treasury stock	Capital in excess of par value	Retained earnings	Accumulated Other Comprehensive Income	Total
Balance at December 31, 2000	$ 27,260	$ (15,346)	$ 291,013	$ 123,911	$ 926	$ 427,764
Net income			-	60,005	-	60,005
Other comprehensive income, net of income tax of $19			-	-	39	39
Reclassification adjustment for gains reported in net income, net of income tax of $127	-		-	-	(239)	(239)
Dividends			-	(34,234)	-	(34,234)
Stock split	6,829	-	(6,829)		-	-
Stock issued for acquisitions	133		5,228	-	-	5,361
Sale of stock	128	672	5,783		-	6,583
Repurchase of stock	-	(2,493)			-	(2,493)
Equity Compensation Plan	3		141	-	-	144
Exercise of stock options	297		6,642		-	6,939
Employee stock plans tax benefits	-	-	2,061	-	-	2,061
Balance at December 31, 2001	34,650	(17,167)	304,039	149,682	726	471,930
Net income	-	-	-	67,154	-	67,154
Other comprehensive income, net of income tax of $56		-	-	-	104	104
Reclassification adjustment for gains reported in net income, net of income tax of $412					(767)	(767)
Dividends	-			(36,789)	-	(36,789)
Stock issued for acquisitions	71		2,674		-	2,745
Sale of stock	161	855	6,220		-	7,236
Repurchase of stock	-	(24,109)	-			(24,109)
Equity Compensation Plan	15		598			613
Exercise of stock options	137		3,237		-	3,374
Employee stock plans tax benefits	-	-	1,103	-	-	1,103
Balance at December 31, 2002	35,034	(40,421)	317,871	180,047	63	492,594
Net income			-	70,785	-	70,785
Other comprehensive income, net of income tax of $244			-	-	455	455
Reclassification adjustment for gains reported in net income, net of income tax of $186	-	-	-	-	(347)	(347)
Dividends		-	-	(39,917)	-	(39,917)
Stock split	9,244	-	(9,244)	-	-	-
Sale of stock	2,168	29,163	99,031	-	-	130,362
Repurchase of stock	-	(1,353)	-	-	-	(1,353)
Equity Compensation Plan	8	-	344	-	-	352
Exercise of stock options	181	-	4,283	-	-	4,464
Employee stock plans tax benefits	-	-	723	-	-	723
Balance at December 31, 2003	$ 46,635	$ (12,611)	$ 413,008	$ 210,915	$ 171	$ 658,118

In August 2003, the Company's Board of Directors declared a 5-for-4 common stock split to be effected in the form of a 25% stock distribution for all common shares outstanding, to shareholders of record on November 14, 2003. Common shares outstanding do not include shares held by the Company in treasury. The new shares were distributed on December 1, 2003. The Company's par value of $0.50 per share remained unchanged and $9,244 was transferred from Capital in Excess of Par Value to Common Stock to record the split. All share and per share data for all periods presented have been restated to give effect to the stock split.

In April 2003, the Company filed a universal shelf registration with the Securities and Exchange Commission to allow for the sale, over time, of up to $250,000 of various debt and equity securities, including common stock. To date, the Company has issued common stock in two transactions under the universal shelf registration:

- In May 2003, the Company issued 1,868,750 shares of common stock in a public offering for proceeds of $33,100, net of expenses. The net proceeds were used to repay short-term debt, including the repayment of $22,000 of indebtedness incurred in connection with the Company's repurchase of 1,513,275 shares of common stock from affiliates of Veolia Environnement, S.A. (formerly Vivendi Environnement, S.A.) in October 2002.

- In August 2003, the Company issued 5,000,000 shares of common stock in a public offering for proceeds of $90,100, net of expenses. The net proceeds were used to repay an unsecured note of $90,000. The indebtedness was incurred by Aqua America in connection with the acquisition of the operations that were purchased from AquaSource, Inc.

The balance remaining available for use under the universal shelf registration as of December 31, 2003 is $121,895. In addition, the Company has a shelf registration statement filed with the Securities and Exchange Commission to permit the offering from time to time of shares of common stock and shares of preferred stock for acquisitions. During 2002 and 2001, 178,664 and 414,638 shares of common stock totaling $2,745 and $5,361, respectively, were issued by the Company to acquire water and wastewater systems. The balance remaining available for use under the acquisition shelf registration as of December 31, 2003 is 2,218,947 shares. The form and terms of such securities shall be determined when and if these securities are issued under these shelf registrations.

In May 2002, Veolia Environnement, S.A. which through its affiliates (collectively "VE") owned approximately 16.8% of our outstanding common stock, advised the Company of their decision to sell its investment in Aqua America, Inc. VE announced that its decision was part of its overall strategy to divest non-core assets and focus on other business strategies. In September 2002, in order to facilitate the orderly re-distribution of the shares held by VE into the market, the Company completed a secondary offering of 12,356,570 shares of Aqua America common stock held by VE. The number of outstanding shares of common stock was not changed and the Company did not receive any proceeds as a result of this secondary offering. In addition, in October 2002 the Company repurchased 1,513,275 shares of Aqua America, Inc. common stock representing the remainder of the shares of Aqua America, Inc. common stock held by VE. The repurchase of shares was funded with proceeds of $22,000 from a short-term credit facility. In May 2003, this $22,000 short-term credit facility was repaid with a portion of the funds from the issuance of 1,868,750 shares of common stock through a shelf registration as described above.

In addition, the Board of Directors has authorized the Company to purchase its common stock, from time to time, in the open market or through privately negotiated transactions. The Company has not repurchased any shares under this authorization since 2000. As of December 31, 2003, 411,209 shares remain available for purchase by the Company.

The Company has a Dividend Reinvestment and Direct Stock Purchase Plan ("Plan") that allows reinvested dividends to be used to purchase original issue shares of common stock at a five percent discount from the current market value. Under the direct stock purchase program, shares are purchased by investors at market price and the shares are purchased by the Company's transfer agent in the open-market at least weekly. During 2003, 2002 and 2001, under the dividend reinvestment portion of the Plan, 395,605, 402,084 and 379,883 original issue shares of common stock were sold providing the Company with proceeds of $7,000, $6,407 and $5,980, respectively.

The Company reports comprehensive income in accordance with SFAS No. 130, "Reporting Comprehensive Income." Accordingly, the Company's accumulated other comprehensive income for unrealized gains on securities is reported in the Stockholders' Equity section of the Consolidated Balance Sheets and the related other comprehensive income is reported in the Consolidated Statements of Income and Comprehensive Income.

Net Income per Common Share and Equity per Common Share

Basic net income per share is based on the weighted average number of common shares outstanding. Diluted net income per share is based on the weighted average number of common shares outstanding and potentially dilutive shares. The dilutive effect of employee stock options is included in the computation of Diluted net income per share. The following table summarizes the shares, in thousands, used in computing Basic and Diluted net income per share:

	Years ended December 31,		
	2003	2002	2001
Average common shares outstanding during the period for Basic computation	88,275	85,674	84,841
Dilutive effect of employee stock options	969	864	1,102
Average common shares outstanding during the period for Diluted computation	89,244	86,538	85,943

Equity per common share was $7.11 and $5.80 at December 31, 2003 and 2002, respectively. These amounts were computed by dividing common stockholders' equity by the number of shares of common stock outstanding at the end of each year.

Shareholder Rights Plan

The Company has a Shareholder Rights Plan designed to protect the Company's shareholders in the event of an unsolicited unfair offer to acquire the Company. Each outstanding common share is entitled to one Right which is evidenced by the common share certificate. In the event that any person acquires 20% or more of the outstanding common shares or commences a tender or exchange offer which, if consummated, would result in a person or corporation owning at least 20% of the outstanding common shares of the Company, the Rights will begin to trade independently from the common shares and, if certain circumstances occur, including the acquisition by a person of 20% or more of the outstanding common shares, each Right would then entitle its holder to purchase a number of common shares of the Company at a substantial discount. If the Company is involved in a merger or other business combination at any time after the Rights become exercisable, the Rights will entitle the holder to acquire a certain number of shares of common stock of the acquiring company at a substantial discount. The Rights are redeemable by the Company at a redemption price of $.01 per Right at any time before the Rights become exercisable. The Rights will expire on March 1, 2008, unless previously redeemed.

(In thousands of dollars, except per share amounts)

Employee Stock and Incentive Plan

Under the 1994 Equity Compensation Plan ("Plan"), the Company may grant qualified and non-qualified stock options to officers, key employees and consultants. Officers and key employees may also be granted dividend equivalents and restricted stock. Restricted stock may also be granted to non-employee members of the Board of Directors ("Board"). In May 2003, the Shareholders authorized a 3,500,000 share increase in the shares available for issuance under the Plan. The maximum number of shares that may be subject to grants under the Plan to any one individual in any one year is 150,000. Awards under this plan are made by a committee of the Board of Directors.

Options under the plan were issued at the market price of the stock on the day of the grant. Options are exercisable in installments of 33% annually, starting one year from the date of the grant and expire 10 years from the date of the grant. The following table summarizes stock option transactions for the plan:

	As of or For the Years Ended December 31,					
	2003		2002		2001	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Options:						
Outstanding, beginning of year	2,830,133	$ 12.06	2,559,763	$ 10.66	2,829,754	$ 8.55
Granted	613,654	16.98	617,813	16.64	669,599	15.28
Terminated	(15,533)	14.78	(8,265)	12.99	(22,729)	9.70
Exercised	(434,833)	10.28	(339,178)	9.82	(916,861)	7.51
Outstanding, end of year	2,993,421	$ 13.31	2,830,133	$ 12.06	2,559,763	$ 10.66
Exercisable, end of year	1,756,300	$ 11.01	1,555,483	$ 9.70	1,269,635	$ 8.63

Options exercised during 2003 ranged in price from $4.38 per share to $16.65 per share. At December 31, 2003, 4,984,151 options under the Plan were still available for grant. The following table summarizes the price ranges of the options outstanding and options exercisable as of December 31, 2003:

	Options Outstanding			Options Exercisable	
	Shares	Weighted Average Remaining Life (years)	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Range of prices:					
$ 4.56 - 7.99	419,291	2.3	$ 6.18	419,291	$ 6.18
$ 8.00 - 9.99	320,558	6.3	9.39	320,558	9.39
$10.00 - 12.99	489,839	4.9	11.10	489,839	11.10
$13.00 - 15.99	556,918	7.3	15.28	338,294	15.28
$16.00 - 16.99	1,084,944	8.8	16.65	188,318	16.65
$17.00 - 18.34	121,871	9.4	18.32		
	2,993,421	6.7	$ 13.31	1,756,300	$ 11.01

Under SFAS No. 123 "Accounting for Stock-Based Compensation" and SFAS No. 148 "Accounting for Stock-Based Compensation – Transition and Disclosure", the Company elects to continue to apply the provisions of APB Opinion No. 25 and to provide the pro forma disclosure provisions of this statement. Accordingly, no compensation cost has been recognized in the financial statements for stock options that have been granted. Pursuant to the disclosure requirements of SFAS No. 123, "Accounting for Stock-Based Compensation," as amended by SFAS No. 148, pro forma net income available to common stock and earnings per share are presented in the Summary of Significant Accounting Policies - Stock-Based Compensation as if compensation cost for stock options was determined as of the grant date under the fair value method.

Restricted stock awards provide the grantee with the rights of a shareholder, including the right to receive dividends and to vote such shares, but not the right to sell or otherwise transfer the shares during the restriction period. During 2003, 2002 and 2001, 20,156, 37,031 and 9,844 shares of restricted stock were granted with a restriction period ranging from six to 36 months. The value of restricted stock awards, which are "compensatory", is equal to the fair market value of the stock on the date of the grant and is amortized ratably over the restriction period.

Pension Plans and Other Postretirement Benefits

The Company maintains a qualified, defined benefit pension plan that covers a majority of its full-time employees who were hired prior to April 1, 2003. Retirement benefits under the plan are generally based on the employee's total years of service and compensation during the last five years of employment. The Company's policy is to fund the plan annually at a level which is deductible for income tax purposes and which provides assets sufficient to meet its pension obligations. To offset certain limitations imposed by the Internal Revenue Code with respect to payments under qualified plans, the Company has a non-qualified Excess Benefit Plan for Salaried Employees in order to prevent certain employees from being penalized by these limitations. The Company also has non-qualified Supplemental Executive Retirement Plans for certain current and retired employees. The net pension costs and obligations of the qualified and non-qualified plans are included in the tables which follow. Employees hired after April 1, 2003 may participate in a defined contribution plan that provides a Company matching contribution on amounts contributed by participants and an annual profit-sharing contribution based upon a percentage of the eligible participants' compensation.

In addition to providing pension benefits, the Company offers certain Postretirement Benefits other than Pensions ("PBOPs") to employees hired before April 1, 2003 and retiring with a minimum level of service. These PBOPs include continuation of medical and prescription drug benefits for eligible retirees and life insurance benefits for certain eligible retirees. The Company funds its gross PBOP cost through various trust accounts. The benefits of retired officers and certain other retirees are paid by the Company and not from plan assets due to limitations imposed by the Internal Revenue Code.

On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act") was signed into law which would provide plan sponsors a federal subsidy for certain qualifying prescription drug benefits covered under the sponsor's postretirement health care plans. The Company is currently reviewing the impact of the Act and has elected to defer recognition of the benefit to its postretirement health care plans in accordance with FASB Staff Position No. 106-1, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003." Any measures of accumulated postretirement benefit obligation and net periodic PBOP cost for the year ended December 31, 2003 do not reflect the effects of the Act. Currently, specific authoritative accounting guidance for the federal subsidy is pending and that guidance when issued may require the Company to change previously reported information.

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

The changes in the benefit obligation and fair value of plan assets, the funded status of the plans and the assumptions used in the measurement of the company's benefit obligation are as follows:

	Pension Benefits		Other Postretirement Benefits	
	2003	2002	2003	2002
Change in benefit obligation:				
Benefit obligation at January 1,	$ 131,059	$ 119,667	$ 25,436	$ 22,317
Service cost	3,627	3,205	987	840
Interest cost	8,999	8,501	1,703	1,620
Plan amendments	-	170	-	-
Actuarial loss	12,222	5,104	1,978	1,574
Plan participants' contributions	-	-	513	342
Benefits paid	(5,809)	(5,588)	(1,483)	(1,257)
Benefit obligation at December 31,	150,098	131,059	29,134	25,436
Change in plan assets:				
Fair value of plan assets at January 1,	94,438	113,330	12,200	12,216
Actual return on plan assets	20,021	(13,369)	816	(1,168)
Employer contributions	81	65	2,345	2,067
Benefits paid	(5,809)	(5,588)	(970)	(915)
Fair value of plan assets at December 31,	108,731	94,438	14,391	12,200
Funded status of plan:				
Funded status at December 31,	41,367	36,621	14,743	13,236
Unrecognized actuarial loss	(29,164)	(30,471)	(4,857)	(2,839)
Unrecognized prior service cost	(1,942)	(2,337)	590	647
Unrecognized net transition obligation	1,227	1,436	(7,231)	(8,034)
Accrued benefit costs	$ 11,488	$ 5,249	$ 3,245	$ 3,010

The Company's pension plans had an accumulated benefit obligation of $121,521 and $106,053 at December 31, 2003 and 2002, respectively. The following table provides the net liability recognized on the Consolidated Balance Sheets at December 31,:

	Pension Benefits		Other Postretirement Benefits	
	2003	2002	2003	2002
Prepaid benefits cost	$ -	$ 1,919	$ 937	$ 1,225
Accrued benefit cost	(11,488)	(7,168)	(4,182)	(4,235)
Additional minimum liability	(2,003)	(5,989)	-	-
Intangible assets	1,962	1,258	-	-
Accumulated other comprehensive income	41	4,731	-	-
Net liability recognized	$ (11,488)	$ (5,249)	$ (3,245)	$ (3,010)

(In thousands of dollars, except per share amounts)

At December 31, 2003 and 2002, the Company's pension plans had benefit obligations in excess of its plan assets. The following tables provide the projected benefit obligation, the accumulated benefit obligation and fair market value of the plan assets as of December, 31:

	Projected Benefit Obligation Exceeds the Fair Value of Plan Assets	
	2003	2002
Projected benefit obligation	$ 150,098	$ 131,059
Fair value of plan assets	108,731	94,438

	Accumulated Benefit Obligation Exceeds the Fair Value of Plan Assets	
	2003	2002*
Accumulated benefit obligation	$ 121,521	$ 84,756
Fair value of plan assets	108,731	72,551

*2002 data in this table excludes pension plan with plan assets in excess of accumulated benefit obligation.

The following table provides the components of net periodic benefit costs for the years ended December 31,:

	Pension Benefits			Other Postretirement Benefits		
	2003	2002	2001	2003	2002	2001
Service cost	$ 3,627	$ 3,205	$ 2,986	$ 987	$ 840	$ 705
Interest cost	8,999	8,501	8,261	1,703	1,620	1,427
Expected return on plan assets	(7,775)	(9,945)	(10,891)	(917)	(953)	(947)
Amortization of transition obligation (asset)	(209)	(209)	(110)	803	803	803
Amortization of prior service cost	395	414	432	(57)	(57)	(57)
Amortization of actuarial (gain) loss	1,282	(2)	(528)	62	(5)	(179)
Amortization of regulatory asset	-	-	-	136	136	136
Capitalized costs	(205)	(66)	(49)	(598)	(520)	(475)
Rate-regulated adjustment	-	-	(553)	-	-	-
Net periodic benefit cost	$ 6,114	$ 1,898	$ (452)	$ 2,119	$ 1,864	$ 1,413

The rate-regulated adjustment set forth above is required for 2001 in order to reflect pension expense (credit) for the Company in accordance with the method used in establishing water rates.

Accounting for pensions and other postretirement benefits requires an extensive use of assumptions about the discount rate, expected return on plan assets, the rate of future compensation increases received by the Company's employees, mortality, turnover and medical costs. Each assumption is reviewed annually with assistance from the Company's actuarial consultant who provides guidance in establishing the assumptions. The assumptions are selected to represent the average expected experience over time and may differ in any one year from actual experience due to changes in capital markets and the overall economy. These differences will impact the amount of pension and other postretirement benefit expense that the Company recognizes.

(In thousands of dollars, except per share amounts)

The significant assumptions related to the Company's pension and other postretirement benefit plans are as follows:

	Pension Benefits		Other Postretirement Benefits	
	2003	2002	2003	2002
Weighted-average Assumptions Used to Determine Benefit Obligations as of December 31,				
Discount rate	6.25%	6.75%	6.25%	6.75%
Rate of compensation increase	4.0-5.0%	4.0-5.0%	4.0%	4.0%
Assumed Health Care Cost Trend Rates Used to Determine Benefit Obligations as of December 31,				
Health care cost trend rate	n/a	n/a	10%	10%
Rate to which the cost trend is assumed to decline (the ultimate trend rate)	n/a	n/a	5%	5%
Year that the rate reaches the ultimate trend rate	n/a	n/a	2009	2006
Weighted-average Assumptions Used to Determine Net Periodic Benefit Costs for Years Ended December 31,				
Discount rate	6.75%	7.25%	6.75%	7.25%
Expected return on plan assets	8.50%	9.00%	6.0-9.0%	6.0-9.0%
Rate of compensation increase	4.0-5.0%	4.0-5.0%	4.0%	4.0%
Assumed Health Care Cost Trend Rates Used to Determine Net Periodic Benefit Costs for Years Ended December 31,				
Health care cost trend rate	n/a	n/a	10%	12%
Rate to which the cost trend is assumed to decline (the ultimate trend rate)	n/a	n/a	5%	5%
Year that the rate reaches the ultimate trend rate	n/a	n/a	2006	2006

n/a – Assumption is not applicable to pension benefits.

Assumed health-care trend rates have a significant effect on the expense and liabilities for other postretirement benefit plans. The health care trend rate is based on historical rates and expected market conditions. A one-percentage point change in the expected health-care cost trend rates would have the following effects:

	1-Percentage-Point Increase	1-Percentage-Point Decrease
Effect on the health-care component of the accrued other postretirement benefit obligation	$ 949	$ (860)
Effect on total service and interest cost components of net periodic postretirement health-care benefit cost	$ 103	$ (95)

(In thousands of dollars, except per share amounts)

The discount rate is based on a market rate for a recognized-rating agency's high-quality long-term bond portfolio with durations matching the expected payouts under our retirement plans. The Company's pension expense and liability (benefit obligations) increases as the discount rate is reduced.

The Company's expected return on assets is determined by evaluating the asset class return expectations with its advisors as well as actual, long-term, historical results of our asset returns. The Company's pension expense increases as the expected return on assets decreases. The Company believes its actual long-term asset allocation on average will approximate the targeted allocation. The Company's investment strategy is to earn a reasonable rate of return while maintaining risk at acceptable levels through the diversification of investments across and within various asset categories. Investment returns are compared to benchmarks that include the S&P 500 Index, the Lehman Brothers Intermediate Government/Credit Index, and a combination of the two indices. The Pension Committee of the Board of Directors meets semi-annually to review plan investments and management monitors investment performance quarterly through a performance report prepared by an external consulting firm.

The Company's pension plan asset allocation and the target allocation by asset category are as follows:

	2004 Target Allocation	Percentage of Plan Assets at December 31, 2003	2002
Asset Category:			
Equity securities	65%	66%	63%
Debt securities	35%	32%	35%
Cash	0%	2%	2%
Total	100%	100%	100%

Equity securities include Aqua America, Inc. common stock in the amounts of $6,469 or 5.9% of total plan assets and $4,701 or 5.0% of total plan assets as of December 31, 2003 and 2002, respectively.

The asset allocation for the Company's other postretirement benefit plans and the target allocation by asset category are as follows:

	2004 Target Allocation	Percentage of Plan Assets at December 31, 2003	2002
Asset Category:			
Cash	65%	64%	64%
Equity securities	35%	36%	36%
Total	100%	100%	100%

Funding requirements for qualified defined benefit pension plans are determined by government regulations and not by accounting pronouncements. In accordance with funding rules, during 2004 our pension contribution is expected to be $5,371.

As of December 31, 2003, the Company has an additional minimum liability of $41 associated with our defined benefit plan. The additional minimum liability is a result of the accumulated benefit obligation exceeding the fair value of plan assets and results in the establishment of a regulatory asset, as the Company anticipates recovery of the future, increased pension expense through customer rates. An additional minimum liability of $4,731 was initially recorded on December 31, 2002 as a result of a decline in pension plan assets and a decrease in the assumed discount rate which resulted in an increase in pension liabilities. The change in the additional minimum liability from December 31, 2002 to December 31, 2003 resulted from an increase in the pension plan assets during 2003 due to positive equity market performance, offset partially by the effect of a decreased discount rate.

The Company has 401(k) savings plans that cover substantially all employees. The Company makes matching contributions that are invested in Aqua America, Inc. common stock based on a percentage of an employee's contribution, subject to certain limitations. The Company's matching contribution, recorded as compensation expense, was $921, $859 and $798 for the years ended December 31, 2003, 2002 and 2001, respectively.

Water and Wastewater Rates

In November 2003, the Company's Pennsylvania operating subsidiary, Aqua Pennsylvania, Inc., filed an application with the Pennsylvania Public Utility Commission ("PAPUC") requesting a $25,300 or 10.2% increase in annual revenues. The application is currently pending before the PAPUC and a final determination is anticipated by August 2004.

On August 1, 2002, the PAPUC granted Aqua Pennsylvania, Inc. a $21,226 or 10.2% base rate increase. The rates in effect at the time of the filing included $9,400 in Distribution System Improvement Charges ("DSIC") at 5.0%. Consequently, the total base rates increased by $30,626 and the DSIC was reset to zero.

The Company's other operating subsidiaries were allowed annual rate increases of $1,275 in 2003, $3,024 in 2002 and $4,799 in 2001, represented by eight, thirteen and nine rate decisions, respectively. Revenues from these increases realized in the year of grant were approximately $839, $1,403 and $4,200 in 2003, 2002 and 2001, respectively.

Four states in which the Company operates permit water utilities, and in some states wastewater utilities, to add a surcharge to their water or wastewater bills to offset the additional depreciation and capital costs related to infrastructure system replacement and rehabilitation projects completed and placed into service between base rate filings. Currently, Pennsylvania, Illinois, Ohio and Indiana allow for the use of infrastructure rehabilitation surcharges. These mechanisms typically adjust periodically based on additional qualified capital expenditures completed or anticipated in a future period. The infrastructure rehabilitation surcharge is capped as a percentage of base rates, generally 5% of base rates, and is reset to zero when new base rates that reflect the costs of those additions become effective or when a utility's earnings exceed a regulatory benchmark. Infrastructure rehabilitation surcharges provided revenues in 2003, 2002 and 2001 of $8,147, $5,518 and $6,672, respectively.

Selected Quarterly Financial Data (Unaudited)
(in thousands of dollars, except per share amounts)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
2003					
Operating revenues	$ 80,489	$ 83,379	$ 102,153	$ 101,212	$ 367,233
Operations and maintenance expense	30,664	31,029	36,777	42,132	140,602
Net income available to common stock	13,324	15,235	23,620	18,606	70,785
Basic net income per common share	0.16	0.18	0.26	0.20	0.80
Diluted net income per common share	0.16	0.18	0.26	0.20	0.79
Dividend paid per common share	0.112	0.112	0.112	0.120	0.456
Dividend declared per common share	0.112	0.112	0.232	-	0.456
Price range of common stock					
- high	17.83	19.85	20.07	22.40	22.40
- low	15.77	17.22	18.28	18.71	15.77
2002					
Operating revenues	$ 71,669	$ 76,615	$ 91,918	$ 81,826	$ 322,028
Operations and maintenance expense	27,285	28,915	31,143	30,392	117,735
Net income available to common stock	11,875	14,818	21,815	18,646	67,154
Basic net income per common share	0.14	0.17	0.25	0.22	0.78
Diluted net income per common share	0.14	0.17	0.25	0.22	0.78
Dividend paid per common share	0.106	0.106	0.106	0.112	0.430
Dividend declared per common share	0.106	0.106	0.218	-	0.430
Price range of common stock					
- high	19.69	20.00	16.24	17.50	20.00
- low	16.88	14.79	12.82	15.44	12.82

All per share data as presented has been adjusted for the 2003 5-for-4 common stock split effected in the form of a 25% stock distribution. High and low prices of the Company's common stock are as reported on the New York Stock Exchange Composite Tape. The cash dividends paid in December 2003 of $0.12 and December 2002 of $0.112 were declared in August 2003 and August 2002, respectively.

Beginning August 1, 2003, the financial results for the operations acquired in the AquaSource acquisition have been included in the Company's consolidated financial statements.

Net income available to common stock and net income per share for the fourth quarter of 2002 includes a net gain of $3,690 ($5,676 pre-tax) or $0.04 per share on the sale of a portion of our Ashtabula, Ohio water system.

Summary of Selected Financial Data
(in thousands of dollars, except per share amounts)

Years ended December 31,	2003 (a)	2002*	2001*	2000*	1999*
PER COMMON SHARE:					
Income from operations before non-recurring items: (b)					
Basic	$0.80	$0.74	$0.71	$0.62	$0.56
Diluted	0.79	0.73	0.70	0.62	0.56
Net income (b)					
Basic	0.80	0.78	0.71	0.65	0.45
Diluted	0.79	0.78	0.70	0.65	0.45
Cash dividends paid	0.46	0.43	0.40	0.38	0.36
Cash dividends declared	0.46	0.43	0.40	0.38	0.36
Return on average stockholders' equity (b)	12.3%	13.9%	13.3%	13.2%	10.1%
Book value at year end	$7.11	$5.80	$5.52	$5.10	$4.55
Market value at year end	22.10	16.48	18.04	15.68	10.59
INCOME STATEMENT HIGHLIGHTS:					
Operating revenues	$367,233	$322,028	$307,280	$274,014	$256,546
Depreciation and amortization	51,463	44,322	40,168	34,100	31,903
Interest expense, net (c)	42,535	39,007	38,637	37,775	31,796
Income before income taxes	116,718	109,252	99,087	86,995	62,915
Provision for income taxes	45,923	42,046	38,976	34,105	26,531
Net income available to common stock (b)	70,785	67,154	60,005	52,784	36,275
BALANCE SHEET HIGHLIGHTS:					
Total assets	$2,069,736	$1,717,069	$1,555,108	$1,413,723	$1,280,805
Property, plant and equipment, net	1,824,291	1,486,703	1,364,282	1,249,652	1,135,230
Stockholders' equity	659,030	493,097	472,717	430,587	367,141
Long-term debt, including current portion	736,052	617,175	531,455	472,712	425,946
Total debt	832,511	732,288	641,123	573,706	529,015
ADDITIONAL INFORMATION:					
Net cash flows from operating activities	$143,373	$121,560	$102,165	$86,972	$74,103
Capital additions	163,320	136,164	124,088	129,740	96,383
Cash expended for acquisitions of utility systems	192,331	8,914	9,517	3,546	39,164
Dividends on common stock	39,917	36,789	34,234	30,406	29,217
Number of customers served	749,491	605,474	587,537	565,146	548,937
Number of shareholders of common stock	22,726	21,389	20,920	20,978	21,187
Common shares outstanding (000)	92,589	84,896	85,483	83,869	80,103
Employees (full-time)	1,260	971	951	943	945

*Share and per share data has been restated for the 2003 5-for-4 stock split.

(a) Beginning August 1, 2003, the financial results for the operations acquired in the AquaSource acquisition have been included in Aqua America's consolidated financial statements.

(b) Income per share from operations before non-recurring items is a measure that is not determined in accordance with GAAP and may not be comparable to similarly titled measures reported by other companies. This Non-GAAP measure should not be considered as an alternative to net income per share as determined in accordance with GAAP. We believe that this is useful as an indicator of operating performance, as we measure if for management purposes, because it provides a better understanding of our results of operations by highlighting our ongoing operations and the underlying profitability of our core business. Non-recurring items include the following: the 2002 amounts include a net gain of $3,690 ($5,676 pre-tax) or $0.04 per share on the sale of a portion of our Ashtabula, Ohio water system; the 2000 amounts include a net gain of $2,236 ($4,041 pre-tax) or $0.03 per share for the partial recovery of the merger costs related to the merger with Consumers Water Company; and the 1999 amounts include a net charge of $8,596 ($10,121 pre-tax) or $0.11 per share for the merger transaction costs and related restructuring costs.

(c) Includes dividends on preferred stock of subsidiary and minority interest; net of allowance for funds used during construction.

AQUA AMERICA, INC. AND SUBSIDIARIES
INVESTOR RELATIONS INFORMATION

Financial reports and Investor Relations

Copies of the company's public financial reports including annual reports and Forms 10-K and 10-Q are available on line and can be downloaded from the Investor Relations section of our website at www.aquaamerica.com. You may also obtain these reports by writing to us at:

ATTN: Investor Relations
Aqua America, Inc.
762 W. Lancaster Avenue
Bryn Mawr, PA 19010-3489
www.aquaamerica.com

Corporate Governance

We are committed to maintaining high standards of corporate governance and implementing the corporate governance rules of the Securities and Exchange Commission (SEC) and the New York Stock Exchange. Copies of our key corporate governance documents, including our Corporate Governance Guidelines, Code of Ethical Business Conduct, and the Charters of each Committee of our Board of Directors can be obtained from the Corporate Governance portion of the Investor Relations section of our website – www.aquaamerica.com – or requests may be directed to the address above. Amendments to the Code, and any grant of waiver from a provision of the Code requiring disclosure under applicable SEC rules will be disclosed on our website. As required under section 302 of the Sarbanes-Oxley Act of 2002 and Rule 13a-14(a) under the Securities and Exchange Act of 1934, Aqua America's Chief Executive Officer and Chief Financial Officer have performed the required certification for 2003 without exception and their certifications were filed as Exhibits 31.1 and 31.2 to our Form 10-K for 2003. You may access this report and our other SEC filings from our website.

Annual Meeting
10:00 a.m. Eastern Daylight Time
Thursday, May 20, 2004
Springfield Country Club
400 West Sproul Road
Springfield, PA 19064

Transfer Agent and Registrar
EquiServe Trust Company, N.A.
P.O. Box 43010
Providence, RI 02940-3010
800-205-8314 or 781-575-3100
www.equiserve.com

Independent Accountants
PricewaterhouseCoopers LLP
Two Commerce Square
Suite 1700
2001 Market St.
Philadelphia, PA 19103-7042

Stock Exchanges
The Common Stock of the company is listed on the New York Stock Exchange and the Philadelphia Stock Exchange under the ticker symbol WTR. The daily closing price is printed in *The Wall Street Journal* as AquaAmer. Listings might vary in other major newspapers.

Dividend Reinvestment and Direct Stock Purchase Plan
The company's Dividend Reinvestment and Direct Stock Purchase Plan ("Plan") enables shareholders to reinvest all, or a designated portion of, dividends paid on up to 100,000 shares of Common Stock in additional shares of Common Stock at a five percent discount from a price based on the market value of the stock. In addition, shareholders may purchase additional shares of Aqua America Common Stock at any time with a minimum investment of $50, up to a maximum of $250,000 annually. Individuals may become shareholders by making an initial investment of at least $500. A Plan prospectus may be obtained by calling EquiServe Trust Company at 800-205-8314 or by visiting www.equiserve.com. **Please read the prospectus carefully before you invest.** Shares for the direct stock purchase portion of the Plan are purchased in the open market at prevailing market prices.

AQUA AMERICA, INC. AND SUBSIDIARIES
INVESTOR RELATIONS INFORMATION

IRA, Roth IRA, Education IRA

An IRA, Roth IRA or Education IRA may be opened through the Plan to hold shares of Common Stock of the company and to make contributions to the IRA to purchase shares of Common Stock. Participants in the Plan may roll over an existing IRA or other qualified plan distribution in cash into an IRA under the Plan to purchase the company's Common Stock. Participants may also transfer the company's Common Stock from an existing IRA into an IRA under the Plan. A prospectus, IRA forms and a disclosure statement may be obtained by calling EquiServe Trust Company at 800-472-7428. **Please read the prospectus carefully before you invest.**

Direct Deposit

With direct deposit, Aqua America cash dividends are deposited automatically on the dividend payment date of each quarter. Shareholders will receive confirmation of their deposit in the mail. Shareholders interested in direct deposit should call the Company's transfer agent at 800-205-8314.

Delivery of voting materials to shareholders sharing an address

To reduce the expense of delivering duplicate voting materials to our shareholders who have more than one Aqua America stock account, we are delivering only one annual report and proxy statement to registered shareholders who share an address unless otherwise requested. A separate proxy card is included in the voting materials for each of these shareholders.

How to obtain a separate set of voting materials

If you are a registered shareholder who shares an address with another registered shareholder and have received only one set of voting materials for the 2004 annual meeting, you may write or call us to request a separate copy of this material at no cost to you at 610-645-1196 or Attn: Investor Relations, Aqua America, Inc., 762 W. Lancaster Avenue, Bryn Mawr, PA, 19010. For future annual meetings, you may request separate voting material by calling the Company's transfer agent at 800-205-8314.

Account Access

Aqua America has paid dividends since 1946. The normal Common Stock dividend dates for 2004 and the first six months of 2005 are:

Declaration Date	Ex-Dividend Date	Record Date	Payment Date
February 3, 2004	February 12, 2004	February 16, 2004	March 1, 2004
May 3, 2004	May 12, 2004	May 14, 2004	June 1, 2004
August 3, 2004	August 12, 2004	August 16, 2004	September 1, 2004
October 5, 2004	November 11, 2004	**November 15, 2004**	December 1, 2004
February 1, 2005	February 11, 2005	February 14, 2005	March 1, 2005
May 3, 2005	May 12, 2005	May 16, 2005	June 1, 2005

To be an owner of record, and therefore eligible to receive the quarterly dividend, shares must have been purchased before the ex-dividend date. Owners of any share(s) on or after the ex-dividend date will not receive the dividend for that quarter. The previous owner - the owner of record - will receive the dividend.

Only the Board of Directors may declare dividends and set record dates. Therefore, the payment of dividends and these dates may change at the discretion of the Board. Announcement of the dividend declaration is usually published in *The Wall Street Journal* and several other newspapers.

Dividends paid on the company's Common Stock are subject to Federal and State income tax.

Lost Dividend Checks and Stock Certificates

Dividend checks lost by shareholders, or those that might be lost in the mail, will be replaced upon notification of the lost or missing check. All inquiries concerning lost or missing dividend checks should be made to the Company's transfer agent at 800-205-8314.

Shareholders should call or write the Company's transfer agent to report a lost certificate. Appropriate documentation will be prepared and sent to the shareholder with instructions.

Safekeeping of Stock Certificates

Under the Direct Stock Purchase Plan, shareholders may have their stock certificates deposited with the transfer agent for safekeeping free of charge. Stock certificates and written instructions should be forwarded to:

EquiServe Trust Company, N.A.
P.O. Box 43010
Providence, RI 02940-3010

BOARD OF DIRECTORS

Nicholas DeBenedictis, 58
Chairman, President & CEO
Aqua America, Inc.
Director since 1992

Mary C. Carroll, 63
Consultant and
Community Volunteer
Director since 1981

G. Fred DiBona, Jr., 53
President and CEO
Independence Blue Cross
Director since 1993

Richard Glanton, 57
Senior Vice President
Exelon Corporation
Director since 1995

Alan Hirsig, 64
President and CEO (Retired)
Arco Chemical Company
Director since 1997

John F. McCaughan, 68
Chairman (Retired)
Betz Laboratories, Inc.
Director since 1984

John E. Menario, 68
Assistant to the President (Retired)
Banknorth Group, Inc.
Director since 1999

Richard L. Smoot, 63
Regional Chairman, Advisory Board
(Retired)
PNC Financial Services Group
Philadelphia and Southern New Jersey
Director since 1997

OFFICERS

Nicholas DeBenedictis, 58
Chairman, President and CEO

Richard D. Hugus, 54
Regional President
Aqua America – South

Karl M. Kyriss, 55
President
Aqua Pennsylvania, Inc.

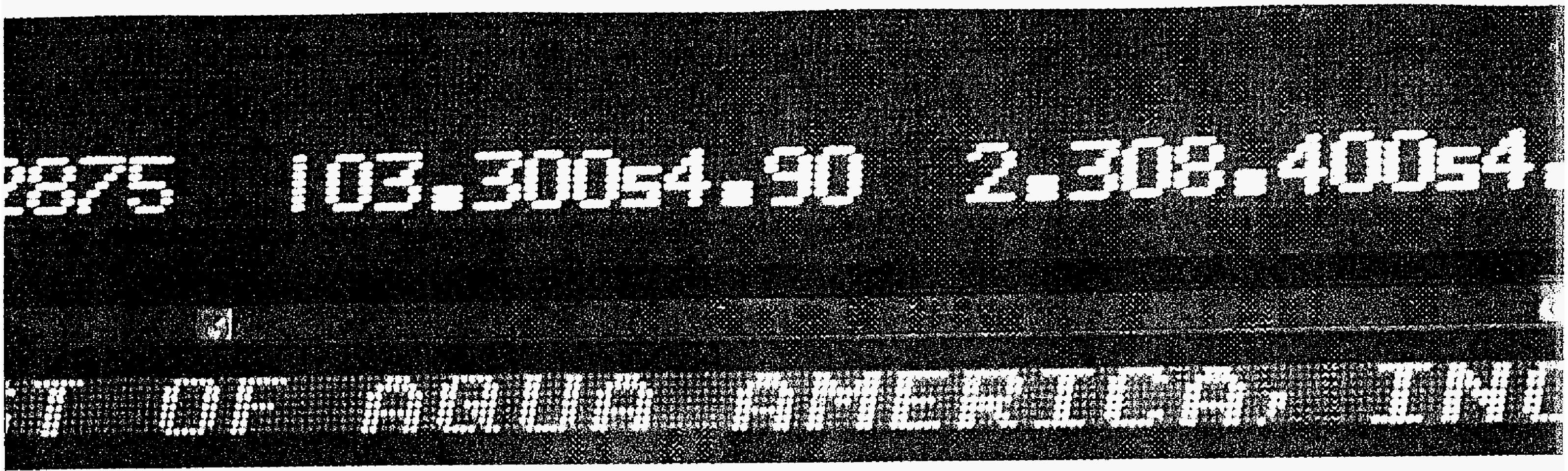
Robert G. Liptak, 56
Regional President
Aqua America – North

Richard R. Riegler, 57
Senior Vice President
Engineering and
Environmental Affairs

David P. Smeltzer, 45
Senior Vice President
Finance and CFO

Roy H. Stahl, Esq., 51
Executive Vice President,
General Counsel
and Corporate Secretary

NOTES



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America

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T: 610-525-1400
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www.aquaamerica.com

AA-K-2004

4959-AR-04

AQUA America

Aqua America, Inc.
762 W. Lancaster Avenue
Bryn Mawr, PA 19010

Kathy L. Pape
Vice President,
Treasurer and Rate Counsel

T: 610.645.1142
F: 610.519.0989
klpape@aquaamerica.com
www.aquaamerica.com

October 21, 2004

Ms. Blanca Bayo, Director
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, Fl 32399-0850

Re: Docket No. 040951 – WS
Joint Application for Approval of Sale of Florida Water Services Corporation's Land, Facilities, and Certificates in Brevard, Highlands, Lake, Orange, Pasco, Polk, Putnam, a portion of Seminole, Volusia and Washington Counties to Aqua Utilities Florida, Inc.

Dear Ms. Bayo

Please be advised that Aqua America, Inc., the parent of Aqua Utilities, Florida, Inc. will fund and financially support Aqua Utilities Florida, Inc. to become a self sufficient corporation.

Very truly yours,

Kathy L. Pape (BP)

Kathy L. Pape

KLP/bp

cc: Patti Daniel
Kenneth Hoffman, Esq.