

YORK WATER CO
Form 10-K
March 12, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2011

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 001-34245

THE YORK WATER COMPANY

(Exact name of registrant as specified in its charter)

PENNSYLVANIA

23-1242500

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

130 EAST MARKET STREET, YORK, PENNSYLVANIA

17401

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code (717) 845-3601

Securities registered pursuant to Section 12(b) of the Act:

None

(Title of Each Class)

(Name of Each Exchange on Which Registered)

Securities registered pursuant to Section 12(g) of the Act:

COMMON STOCK, NO PAR VALUE

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

YES NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

YES NO

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to

submit and post such files).

YES NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. "

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (check one):

Large accelerated filer Accelerated filer YES
Non-accelerated filer Small Reporting Company "

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES NO

The aggregate market value of the Common Stock, no par value, held by nonaffiliates of the registrant on June 30, 2011 was \$210,903,923.

As of March 12, 2012 there were 12,807,000 shares of Common Stock, no par value, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Company's 2012 Annual Meeting of Shareholders are incorporated by reference into Part III.

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FORWARD-LOOKING STATEMENTS

Certain statements contained in this annual report and in documents incorporated by reference constitute “forward-looking statements” within the meaning of Section 21E of the Securities Exchange Act of 1934 and Section 27A of the Securities Act of 1933. Words such as "may," "should," "believe," "anticipate," "estimate," "expect," "intend," "plan" and similar expressions are intended to identify forward-looking statements. These forward-looking statements include certain information relating to the Company’s business strategy; statements including, but not limited to:

- statements regarding the amount and timing of rate increases and other regulatory matters including the recovery of costs recorded as regulatory assets;
 - expected profitability and results of operations;
 - statements as to trends;
 - goals, priorities and plans for, and cost of, growth and expansion;
 - strategic initiatives;
 - availability of water supply;
 - water usage by customers; and
 - ability to pay dividends on common stock and the rate of those dividends.

The forward-looking statements in this Annual Report reflect what the Company currently anticipates will happen. What actually happens could differ materially from what it currently anticipates will happen. The Company does not intend to make a public announcement when forward-looking statements in this Annual Report are no longer accurate, whether as a result of new information, what actually happens in the future or for any other reason. Important matters that may affect what will actually happen include, but are not limited to:

- changes in weather, including drought conditions;
- levels of rate relief granted;
- the level of commercial and industrial business activity within the Company's service territory;
- construction of new housing within the Company's service territory and increases in population;
 - changes in government policies or regulations;
 - the ability to obtain permits for expansion projects;
- material changes in demand from customers, including the impact of conservation efforts which may impact the demand of customers for water;
 - changes in economic and business conditions, including interest rates, which are less favorable than expected;
 - changes in, or unanticipated, capital requirements;
 - changes in accounting pronouncements;
 - changes in the Company’s credit rating or the market price of its common stock;
 - the ability to obtain financing; and
 - other matters set forth in Item 1A, “Risk Factors,” of this Annual Report.

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THE YORK WATER COMPANY

PART I

Item 1. Business.

The York Water Company (the “Company”) is the oldest investor-owned water utility in the United States and is duly organized under the laws of the Commonwealth of Pennsylvania. The Company has operated continuously since 1816. The business of the Company is to impound, purify to meet or exceed safe drinking water standards and distribute water. The Company operates within its franchised territory, which covers 39 municipalities within York County, Pennsylvania and seven municipalities within Adams County, Pennsylvania. The Company is regulated by the Pennsylvania Public Utility Commission, or PPUC, in the areas of billing, payment procedures, dispute processing, terminations, service territory, debt and equity financing and rate setting. The Company must obtain PPUC approval before changing any practices associated with the aforementioned areas. Water service is supplied through the Company's own distribution system. The Company obtains its water supply from both the South Branch and East Branch of the Codorus Creek, which together have an average daily flow of 73.0 million gallons per day. This combined watershed area is approximately 117 square miles. The Company has two reservoirs, Lake Williams and Lake Redman, which together hold up to approximately 2.2 billion gallons of water. The Company has a 15-mile pipeline from the Susquehanna River to Lake Redman which provides access to an additional supply of 12.0 million gallons of untreated water per day. As of December 31, 2011, the Company's average daily availability was 35.0 million gallons, and daily consumption was approximately 18.5 million gallons. The Company's service territory had an estimated population of 187,000 as of December 31, 2011. Industry within the Company's service territory is diversified, manufacturing such items as fixtures and furniture, electrical machinery, food products, paper, ordnance units, textile products, air conditioning systems, laundry detergent, barbells and motorcycles.

The Company's business is somewhat dependent on weather conditions, particularly the amount of rainfall. Revenues are particularly vulnerable to weather conditions in the summer months. Prolonged periods of hot and dry weather generally cause increased water usage for watering lawns, washing cars, and keeping golf courses and sports fields irrigated. Conversely, prolonged periods of dry weather could lead to drought restrictions from governmental authorities. Despite the Company's adequate water supply, customers may be required to cut back water usage under such drought restrictions which would negatively impact revenues. The Company has addressed some of this vulnerability by instituting minimum customer charges which are intended to cover fixed costs of operations under all likely weather conditions.

The Company's business does not require large amounts of working capital and is not dependent on any single customer or a very few customers for a material portion of its business. Increases in revenues are generally dependent on the Company's ability to obtain rate increases from the PPUC in a timely manner and in adequate amounts and to increase volumes of water sold through increased consumption and increases in the number of customers served. The Company continuously looks for acquisition and expansion opportunities both within and outside its current service territory. The Company also looks for additional opportunities to enter into bulk water contracts with municipalities and other entities to supply water.

In addition to its primary business of providing water, the Company has recently begun to provide sewer billing services for various municipalities. The level of activity has not reached that of a reportable segment.

Competition

As a regulated utility, the Company operates within an exclusive franchised territory that is substantially free from direct competition with other public utilities, municipalities and other entities. Although the Company has been granted an exclusive franchise for each of its existing community water systems, the ability of the Company to expand

or acquire new service territories may be affected by currently unknown competitors obtaining franchises to surrounding water systems by application or acquisition. These competitors may include other investor-owned utilities, nearby municipally-owned utilities and sometimes from strategic or financial purchasers seeking to enter or expand in the water industry. The addition of new service territory and the acquisition of other utilities are generally subject to review and approval by the PPUC.

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Water Quality and Environmental Regulations

Provision of water service is subject to regulation under the federal Safe Drinking Water Act, the Clean Water Act and related state laws, and under federal and state regulations issued under these laws. The federal Safe Drinking Water Act establishes criteria and procedures for the U.S. Environmental Protection Agency, or EPA, to develop national quality standards. Regulations issued under the Act, and its amendments, set standards on the amount of certain contaminants allowable in drinking water. Current requirements are not expected to have a material impact on the Company's operations or financial condition as it already meets or exceeds standards.

The Clean Water Act regulates discharges from water treatment facilities into lakes, rivers, streams and groundwater. The Company complies with this Act by obtaining and maintaining all required permits and approvals for discharges from its water facilities and by satisfying all conditions and regulatory requirements associated with the permits.

Under the requirements of the Pennsylvania Safe Drinking Water Act, or SDWA, the Pennsylvania Department of Environmental Protection, or DEP, monitors the quality of the finished water supplied to customers. DEP requires the Company to submit weekly reports showing the results of daily bacteriological and other chemical and physical analyses. As part of this requirement, the Company conducts over 77,000 laboratory tests annually. Management believes that the Company complies with the standards established by the agency under the SDWA. DEP also assists the Company by preventing and eliminating pollution by regulating discharges into the Company's watershed area.

DEP and the Susquehanna River Basin Commission, or SRBC, regulate the amount of water withdrawn from streams in the watershed to assure that sufficient quantities are available to meet the Company's needs and the needs of other regulated users. Through its Division of Dam Safety, DEP regulates the operation and maintenance of the Company's impounding dams. The Company routinely inspects its dams and prepares annual reports of their condition as required by DEP regulations. DEP reviews these reports and inspects the Company's dams annually. DEP most recently inspected the Company's dams in May 2011 and noted no significant violations.

Since 1980, DEP has required any new dam to have a spillway that is capable of passing the design flood without overtopping the dam. The design flood is either the Probable Maximum Flood, or PMF, or some fraction of it, depending on the size and location of the dam. PMF is very conservative and is calculated using the most severe combination of meteorological and hydrologic conditions reasonably possible in the watershed area of a dam.

The Company engaged a professional engineer to analyze the spillway capacities at the Lake Williams and Lake Redman dams and validate DEP's recommended design flood for the dams. Management presented the results of the study to DEP in December 2004, and DEP then requested that the Company submit a proposed schedule for the actions to address the spillway capacities. Thereafter, the Company retained an engineering firm to prepare preliminary designs for increasing the spillway capacities to pass the PMF through armoring the dams with roller compacted concrete. Management met with DEP in September 2006 to review the preliminary design and discuss scheduling, permitting, and construction requirements. The Company is currently completing preliminary work on the dams as well as the final design and the permitting process. The Company expects to begin armoring one of the dams between 2014 and 2015. The second dam is expected to be armored in a year or two following the first dam armoring. The cost to armor each dam is expected to be approximately \$6 million.

Capital expenditures and operating costs required as a result of water quality standards and environmental requirements have been traditionally recognized by state public utility commissions as appropriate for inclusion in establishing rates. The capital expenditures currently required as a result of water quality standards and environmental requirements have been budgeted in the Company's capital program and represent less than 10% of its expected total capital expenditures over the next 5 years.

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Growth

During the five year period ended December 31, 2011, the Company maintained growth in the number of customers and distribution facilities.

The following table sets forth certain of the Company's summary statistical information.

(In thousands of dollars)	For the Years Ended December 31,				
	2011	2010	2009	2008	2007
Revenues					
Residential	\$25,693	\$24,478	\$23,299	\$20,572	\$19,722
Commercial and industrial	11,820	11,440	10,734	9,671	9,290
Other	3,116	3,087	3,010	2,595	2,421
Total	\$40,629	\$39,005	\$37,043	\$32,838	\$31,433
Average daily consumption (gallons per day)	18,465,000	18,875,000	18,233,000	18,298,000	19,058,000
Miles of mains at year-end	929	925	922	884	845
Additional distribution mains installed/acquired (ft.)	17,212	19,886	200,439	206,140	147,803
Number of customers at year-end	62,738	62,505	62,186	61,527	58,890
Population served at year-end	187,000	182,000	180,000	176,000	171,000

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Executive Officers of the Registrant

The Company presently has 106 full time employees including the officers detailed below.

Name	Age	Positions and Offices Held	Officer Since
Jeffrey R. Hines, P.E.	50	President and Chief Executive Officer, The York Water Company, March 2008 to date Chief Operating Officer and Secretary, The York Water Company, January 2007 to March 2008 Vice President-Engineering and Secretary, The York Water Company, May 1995 to January 2007	5/1/1995
Joseph T. Hand	49	Chief Operating Officer, The York Water Company, March 2008 to date Chief, Navigation Branch, Baltimore District, U.S. Army Corps of Engineers, September 2006 to February 2008	3/3/2008
Kathleen M. Miller	49	Chief Financial Officer and Treasurer, The York Water Company, January 2003 to date	1/1/2003
Vernon L. Bracey	50	Vice President-Customer Service, The York Water Company, March 2003 to date	3/1/2003
Bruce C. McIntosh	59	Vice President-Human Resources, Secretary and Assistant Treasurer, The York Water Company, March 2008 to date Vice President-Human Resources and Assistant Treasurer, The York Water Company, January 2003 to February 2008	5/4/1998
Mark S. Snyder, P.E.	41	Vice President-Engineering, The York Water Company, May 2009 to date Engineering Manager, The York Water Company, December 2006 to May 2009	5/1/2009
John H. Strine	55	Vice President-Operations, The York Water Company, May 2009 to date Operations Manager, The York Water Company, February 2008 to May 2009 Maintenance and Grounds Superintendent, The York Water Company, August 1991 to February 2008	5/1/2009

Available Information

The Company makes available free of charge, on or through its website (www.yorkwater.com), its annual report on Form 10-K, its quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after the Company electronically files such material with, or furnishes it to, the SEC.

Shareholders may request, without charge, copies of the Company's financial reports. Such requests, as well as other investor relations inquiries, should be addressed to:

Kathleen M. Miller	The York Water Company	(717) 845-3601
Chief Financial Officer	P. O. Box 15089	(800) 750-5561
	York, PA 17405-7089	kathym@yorkwater.com

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Item 1A. Risk Factors.

The rates we charge our customers are subject to regulation. If we are unable to obtain government approval of our requests for rate increases, or if approved rate increases are untimely or inadequate to cover our investments in utility plant and equipment and projected expenses, our results of operations may be adversely affected.

Our ability to maintain and meet our financial objectives is dependent upon the rates we charge our customers, which are subject to approval by the PPUC. We file rate increase requests with the PPUC, from time to time, to recover our investments in utility plant and equipment and projected expenses. Any rate increase or adjustment must first be justified through documented evidence and testimony. The PPUC determines whether the investments and expenses are recoverable, the length of time over which such costs are recoverable, or, because of changes in circumstances, whether a remaining balance of deferred investments and expenses is no longer recoverable in rates charged to customers. Once a rate increase application is filed with the PPUC, the ensuing administrative and hearing process may be lengthy and costly. The timing of our rate increase requests are therefore dependent upon the estimated cost of the administrative process in relation to the investments and expenses that we hope to recover through the rate increase.

We can provide no assurances that future requests will be approved by the PPUC; and, if approved, we cannot guarantee that these rate increases will be granted in a timely or sufficient manner to cover the investments and expenses for which we sought the rate increase. If we are unable to obtain PPUC approval of our requests for rate increases, or if approved rate increases are untimely or inadequate to cover our investments in utility plant and equipment and projected expenses, our results of operations may be adversely affected.

We are subject to federal, state and local regulation that may impose costly limitations and restrictions on the way we do business.

Various federal, state and local authorities regulate many aspects of our business. Among the most important of these regulations are those relating to the quality of water we supply our customers and water allocation rights. Government authorities continually review these regulations, particularly the drinking water quality regulations, and may propose new or more restrictive requirements in the future. We are required to perform water quality tests that are monitored by the PPUC, the EPA, and the DEP, for the detection of certain chemicals and compounds in our water. If new or more restrictive limitations on permissible levels of substances and contaminants in our water are imposed, we may not be able to adequately predict the costs necessary to meet regulatory standards. If we are unable to recover the cost of implementing new water treatment procedures in response to more restrictive water quality regulations through our rates that we charge our customers, or if we fail to comply with such regulations, it could have a material adverse effect on our financial condition and results of operations.

We are also subject to water allocation regulations that control the amount of water that we can draw from water sources. The SRBC and DEP regulate the amount of water withdrawn from streams in the watershed for water supply purposes to assure that sufficient quantities are available to meet our needs and the needs of other regulated users. In addition, government drought restrictions could cause the SRBC or DEP to temporarily reduce the amount of our allocations. If new or more restrictive water allocation regulations are implemented or our allocations are reduced due to weather conditions, it may have an adverse effect on our ability to supply the demands of our customers, and in turn, on our revenues and results of operations.

Our business is subject to seasonal fluctuations, which could affect demand for our water service and our revenues.

Demand for our water during the warmer months is generally greater than during cooler months due primarily to additional requirements for water in connection with cooling systems, swimming pools, irrigation systems and other

outside water use. Throughout the year, and particularly during typically warmer months, demand will vary with temperature and rainfall levels. If temperatures during the typically warmer months are cooler than expected, or there is more rainfall than expected, the demand for our water may decrease and adversely affect our revenues.

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Weather conditions and overuse may interfere with our sources of water, demand for water services, and our ability to supply water to our customers.

We depend on an adequate water supply to meet the present and future demands of our customers and to continue our expansion efforts. Unexpected conditions may interfere with our water supply sources. Drought and overuse may limit the availability of surface water. These factors might adversely affect our ability to supply water in sufficient quantities to our customers and our revenues and earnings may be adversely affected. Additionally, cool and wet weather, as well as drought restrictions and our customers' conservation efforts, may reduce consumption demands, also adversely affecting our revenue and earnings. Furthermore, freezing weather may also contribute to water transmission interruptions caused by pipe and main breakage. If we experience an interruption in our water supply, it could have a material adverse effect on our financial condition and results of operations.

The current concentration of our business in central and southern Pennsylvania makes us susceptible to adverse developments in local economic and demographic conditions.

Our service territory presently includes 39 municipalities within York County, Pennsylvania and seven municipalities within Adams County, Pennsylvania. Our revenues and operating results are therefore subject to local economic and demographic conditions in the area. A change in any of these conditions could make it more costly or difficult for us to conduct our business. In addition, any such change would have a disproportionate effect on us, compared to water utility companies that do not have such a geographic concentration.

Contamination of our water supply may cause disruption in our services and adversely affect our revenues.

Our water supply is subject to contamination from the migration of naturally-occurring substances in groundwater and surface systems and pollution resulting from man-made sources. In the event that our water supply is contaminated, we may have to interrupt the use of that water supply until we are able to substitute the flow of water from an uncontaminated water source through our interconnected transmission and distribution facilities. In addition, we may incur significant costs in order to treat the contaminated source through expansion of our current treatment facilities or development of new treatment methods. Our inability to substitute water supply from an uncontaminated water source, or to adequately treat the contaminated water source in a cost-effective manner, may have an adverse effect on our revenues.

The necessity for increased security has and may continue to result in increased operating costs.

We have taken steps to increase security measures at our facilities and heighten employee awareness of threats to our water supply. We have also tightened our security measures regarding the delivery and handling of certain chemicals used in our business. We have and will continue to bear increased costs for security precautions to protect our facilities, operations and supplies. We are not aware of any specific threats to our facilities, operations or supplies. However, it is possible that we would not be in a position to control the outcome of such events should they occur.

The growing dependence on digital technology has increased the risks related to cybersecurity.

Computers and the Internet have led to increased company productivity and improved customer service. Unfortunately, progress in this area has brought with it cybersecurity risks. Recently, the frequency and severity of cyber attacks on companies has increased resulting in a disruption to business operations and the corruption or misappropriation of proprietary data. We have and will continue to bear increased costs for security precautions to protect our information technology. However, if such an attack was to occur and could not be prevented, customer information could be misappropriated, our networks may be down for an extended period of time disrupting our business, and it could require costly replacement of hardware and software.

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We depend on the availability of capital for expansion, construction and maintenance.

Our ability to continue our expansion efforts and fund our construction and maintenance program depends on the availability of adequate capital. There is no guarantee that we will be able to obtain sufficient capital in the future or that the cost of capital will not be too high for future expansion and construction. In addition, approval from the PPUC must be obtained prior to our sale and issuance of securities. If we are unable to obtain approval from the PPUC on these matters, or to obtain approval in a timely manner, it may affect our ability to effect transactions that are beneficial to us or our shareholders. A single transaction may itself not be profitable but might still be necessary to continue providing service or to grow the business.

The failure to maintain our existing credit rating could affect our cost of funds and related liquidity.

Standard & Poor's Ratings Services rates our outstanding debt and has given a credit rating to us. Their evaluations are based on a number of factors, which include financial strength as well as transparency with rating agencies and timeliness of financial reporting. In light of the difficulties in the financial services industry and the difficult financial markets, there can be no assurance that we will be able to maintain our current strong credit rating. Failure to do so could adversely affect our cost of funds and related liquidity.

We may face competition from other water suppliers that may hinder our growth and reduce our profitability.

We face competition from other water suppliers for acquisitions, which may limit our growth opportunities. Furthermore, even after we have been the successful bidder in an acquisition, competing water suppliers may challenge our application for extending our franchise territory to cover the target company's market. Finally, third parties either supplying water on a contract basis to municipalities or entering into agreements to operate municipal water systems might adversely affect our business by winning contracts that may be beneficial to us. If we are unable to compete successfully with other water suppliers for these acquisitions, franchise territories and contracts, it may impede our expansion goals and adversely affect our profitability.

An important element of our growth strategy is the acquisition of water systems. Any pending or future acquisitions we decide to undertake will involve risks.

The acquisition and integration of water systems is an important element in our growth strategy. This strategy depends on identifying suitable acquisition opportunities and reaching mutually agreeable terms with acquisition candidates. The negotiation of potential acquisitions as well as the integration of acquired businesses could require us to incur significant costs. Further, acquisitions may result in dilution for the owners of our common stock, our incurrence of debt and contingent liabilities and fluctuations in quarterly results. In addition, the businesses and other assets we acquire may not achieve the financial results that we expect, which could adversely affect our profitability.

We have restrictions on our dividends. There can also be no assurance that we will continue to pay dividends in the future or, if dividends are paid, that they will be in amounts similar to past dividends.

The terms of our debt instruments impose conditions on our ability to pay dividends. We have paid dividends on our common stock each year since our inception in 1816 and have increased the amount of dividends paid each year since 1997. Our earnings, financial condition, capital requirements, applicable regulations and other factors, including the timeliness and adequacy of rate increases, will determine both our ability to pay dividends on our common stock and the amount of those dividends. There can be no assurance that we will continue to pay dividends in the future or, if dividends are paid, that they will be in amounts similar to past dividends.

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If we are unable to pay the principal and interest on our indebtedness as it comes due or we default under certain other provisions of our loan documents, our indebtedness could be accelerated and our results of operations and financial condition could be adversely affected.

Our ability to pay the principal and interest on our indebtedness as it comes due will depend upon our current and future performance. Our performance is affected by many factors, some of which are beyond our control. We believe that our cash generated from operations, and, if necessary, borrowings under our existing credit facilities will be sufficient to enable us to make our debt payments as they become due. If, however, we do not generate sufficient cash, we may be required to refinance our obligations or sell additional equity, which may be on terms that are not as favorable to us. No assurance can be given that any refinancing or sale of equity will be possible when needed or that we will be able to negotiate acceptable terms. In addition, our failure to comply with certain provisions contained in our trust indentures and loan agreements relating to our outstanding indebtedness could lead to a default under these documents, which could result in an acceleration of our indebtedness.

We depend significantly on the services of the members of our senior management team, and the departure of any of those persons could cause our operating results to suffer.

Our success depends significantly on the continued individual and collective contributions of our senior management team. If we lose the services of any member of our senior management or are unable to hire and retain experienced management personnel, our operating results could suffer.

There is a limited trading market for our common stock; you may not be able to resell your shares at or above the price you pay for them.

Although our common stock is listed for trading on the NASDAQ Global Select Market, the trading in our common stock has substantially less liquidity than many other companies quoted on the NASDAQ Global Select Market. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the market of willing buyers and sellers of our common stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which we have no control. Because of the limited volume of trading in our common stock, a sale of a significant number of shares of our common stock in the open market could cause our stock price to decline.

The failure of, or the requirement to repair, upgrade or dismantle, either of our dams may adversely affect our financial condition and results of operations.

Our water system includes two impounding dams. While we maintain robust dam maintenance and inspection programs, a failure of the dams could result in injuries and damage to residential and/or commercial property downstream for which we may be responsible, in whole or in part. The failure of a dam could also adversely affect our ability to supply water in sufficient quantities to our customers and could adversely affect our financial condition and results of operations. We carry liability insurance on our dams, however, our limits may not be sufficient to cover all losses or liabilities incurred due to the failure of one of our dams. The estimated costs to maintain and upgrade our dams are included in our capital budget. Although such costs have previously been recoverable in rates, there is no guarantee that these costs will continue to be recoverable and in what magnitude they will be recoverable.

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We are subject to market and interest rate risk on our \$12,000,000 variable rate PEDFA Series A bond issue.

We are subject to interest rate risk in conjunction with our \$12,000,000 variable interest rate debt issue. This exposure, however, has been hedged with an interest rate swap. This hedge will protect the Company from the risk of changes in the benchmark interest rates, but does not protect the Company's exposure to the changes in the difference between its own variable funding rate and the benchmark rate. A breakdown of the historical relationships between the Company's cost of funds and the benchmark rate underlying the interest rate swap could result in higher interest rates adversely affecting our financial results.

The holders of the \$12,000,000 variable rate PEDFA Series A Bonds may tender their bonds at any time. When the bonds are tendered, they are subject to an annual remarketing agreement, pursuant to which a remarketing agent attempts to remarket the tendered bonds pursuant to the terms of the Indenture. In order to keep variable interest rates down and to enhance the marketability of the Series A Bonds, the Company entered into a Reimbursement, Credit and Security Agreement with PNC Bank, National Association ("the Bank") dated as of May 1, 2008. This agreement provides for a three-year direct pay letter of credit issued by the Bank to the trustee for the Series A Bonds. The letter of credit expires May 6, 2013 and is reviewed annually for a possible one-year extension. The Bank is responsible for providing the trustee with funds for the timely payment of the principal and interest on the Series A Bonds and for the purchase price of the Series A Bonds that have been tendered or deemed tendered for purchase and have not been remarketed. If the Bank is unable to meet its obligations, the Company would be required to buy any bonds which had been tendered.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Source of Supply

The Company owns two impounding dams located in York and Springfield Townships adjoining the Borough of Jacobus to the south. The lower dam, the Lake Williams Impounding Dam, creates a reservoir covering approximately 165 acres containing about 870 million gallons of water. The upper dam, the Lake Redman Impounding Dam, creates a reservoir covering approximately 290 acres containing about 1.3 billion gallons of water.

In addition to the two impounding dams, the Company owns a 15-mile pipeline from the Susquehanna River to Lake Redman that provides access to a supply of an additional 12.0 million gallons of water per day. As of December 31, 2011, the Company's present average daily availability was 35.0 million gallons, and daily consumption was approximately 18.5 million gallons.

Pumping Stations

The Company's main pumping station is located in Spring Garden Township on the south branch of the Codorus Creek about 1,500 feet upstream from its confluence with the west branch of the Codorus Creek and about four miles downstream from the Company's lower impounding dam. The pumping station presently houses pumping equipment consisting of three electrically driven centrifugal pumps and two diesel-engine driven centrifugal pumps with a combined pumping capacity of 68.0 million gallons per day. The pumping capacity is more than double peak requirements and is designed to provide an ample safety margin in the event of pump or power failure. A large diesel backup generator is installed to provide power to the pumps in the event of an emergency. The raw water is pumped approximately two miles to the filtration plant through pipes owned by the Company.

The Susquehanna River Pumping Station is located on the western shore of the Susquehanna River several miles south of Wrightsville, PA. The pumping station is equipped with three Floway Vertical Turbine pumps rated at 6 million gallons per day each. The pumping station pumps water from the Susquehanna River approximately 15 miles through a combination of 30" and 36" ductile iron main to the Company's upper impounding dam, located at Lake Redman.

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Water Treatment

The Company's filtration plant is located in Spring Garden Township about one-half mile south of the City of York. Water at this plant is filtered through twelve dual media filters having a stated capacity of 31.0 million gallons per day with a maximum supply of 42.0 million gallons per day for short periods if necessary. Based on an average daily consumption in 2011 of approximately 18.5 million gallons, the Company believes the pumping and filtering facilities are adequate to meet present and anticipated demands. In 2005, the Company performed a capacity study of the filtration plant, and in 2007, began upgrading the facility to increase capacity for future growth. The project is expected to continue over the next several years.

The Company's sediment recycling facility is located at its Spring Garden Township location. This state of the art facility employs cutting edge technology to remove fine, suspended solids from untreated water. The Company estimates that through this energy efficient, environmentally friendly process, approximately 600 tons of sediment will be removed annually, thereby improving the quality of the Codorus Creek watershed.

Transmission and Distribution

The distribution system of the Company has approximately 929 miles of main water lines which range in diameter from 2 inches to 36 inches. The distribution system includes 28 booster stations and 30 standpipes and reservoirs capable of storing approximately 58.0 million gallons of potable water. All booster stations are equipped with at least two pumps for protection in case of mechanical failure. Following a deliberate study of customer demand and pumping capacity, the Company installed standby generators at all critical booster stations to provide emergency power in the event of an electric utility interruption.

Other Properties

The Company's distribution center and material and supplies warehouse are located at 1801 Mt. Rose Avenue, Springettsbury Township, and are composed of three one-story concrete block buildings aggregating 30,680 square feet.

The accounting and executive offices of the Company are located in one three-story and one two-story brick and masonry buildings, containing a total of approximately 21,861 square feet, at 124 and 130 East Market Street, York, Pennsylvania.

All of the Company's properties described above are held in fee by the Company. There are no material encumbrances on such properties.

In 1976, the Company entered into a Joint Use and Park Management Agreement with York County under which the Company licensed use of certain of its lands and waters for public park purposes for a period of 50 years. Under the agreement, York County has agreed not to erect a dam upstream on the East Branch of the Codorus Creek or otherwise obstruct the flow of the creek.

Item 3. Legal Proceedings.

There are no material legal proceedings involving the Company.

Item 4. Mine Safety Disclosures.

Not applicable.

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PART II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market for Common Stock and Dividends

The common stock of The York Water Company is traded on the NASDAQ Global Select Market (Symbol "YORW"). Quarterly price ranges and cash dividends per share for the last two years follow:

	2011			2010		
	High	Low	Dividend*	High	Low	Dividend*
1st Quarter	\$17.51	\$15.81	\$0.1310	\$15.00	\$13.04	\$0.1280
2nd Quarter	17.72	16.40	0.1310	15.60	12.83	0.1280
3rd Quarter	18.14	16.00	0.1310	16.40	13.42	0.1280
4th Quarter	18.00	15.86	0.1336	18.00	15.52	0.1310

*Cash dividends per share reflect dividends declared at each dividend date.

Prices listed in the above table are sales prices as listed on the NASDAQ Global Select Market. Shareholders of record (excluding individual participants in securities positions listings) as of December 31, 2011 numbered approximately 1,658.

Dividend Policy

Dividends on the Company's common stock are declared by the Board of Directors and are normally paid in January, April, July and October. Dividends are paid based on shares outstanding as of the stated record date, which is ordinarily the last day of the calendar month immediately preceding the dividend payment.

The dividend paid on the Company's common stock on January 17, 2012 was the 564th consecutive dividend paid by the Company. The Company has paid consecutive dividends for its entire history, since 1816. The policy of the Company's Board of Directors is currently to pay cash dividends on a quarterly basis. The dividend rate has been increased annually for fifteen consecutive years. The Company's Board of Directors declared dividend number 565 in the amount of \$0.1336 per share at its January 2012 meeting. The dividend is payable on April 16, 2012 to shareholders of record as of February 29, 2012. Future cash dividends will be dependent upon the Company's earnings, financial condition, capital demands and other factors and will be determined by the Company's Board of Directors. See Note 4 to the Company's financial statements included herein for restrictions on dividend payments.

Purchases of Equity Securities by the Company

The Company did not repurchase any of its securities during the fourth quarter of 2011.

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Performance Graph

The following line graph presents the annual and cumulative total shareholder return for The York Water Company Common Stock over a five-year period from 2006 through 2011, based on the market price of the Common Stock and assuming reinvestment of dividends, compared with the cumulative total shareholder return of companies in the S&P 500 Index and a peer group made up of publicly traded water utilities, also assuming reinvestment of dividends. The peer group companies include: American States, Aqua America, Artesian Resources, California Water Service, Connecticut Water Service, Middlesex Water, Pennichuck Corporation and San Jose Water.

The York Water Company: Price Performance
(2006 - 2011)

	2006	2007	2008	2009	2010	2011
The York Water Company	100.00	89.16	72.08	89.63	110.40	116.22
S&P 500 Index	100.00	103.53	63.69	78.62	88.67	88.67
Peer Group*	100.00	94.37	92.07	81.05	94.40	92.53

*ARTNA, AWR, CTWS, CWT, MSEX, PNNW, SJW, WTR

Source: FactSet Research Systems Inc.

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Item 6. Selected Financial Data.

(All dollar amounts are stated in thousands of dollars.)

For the Year	Summary of Operations				
	2011	2010	2009	2008	2007
Water operating revenues	\$40,629	\$39,005	\$37,043	\$32,838	\$31,433
Operating expenses	20,754	19,238	19,655	18,158	17,333
Operating income	19,875	19,767	17,388	14,680	14,100
Interest expense	5,155	4,795	4,780	4,112	3,916
Other income (expenses), net	(677)	(465)	(517)	(509)	(78)
Income before income taxes	14,043	14,507	12,091	10,059	10,106
Income taxes	4,959	5,578	4,579	3,628	3,692
Net income	\$9,084	\$8,929	\$7,512	\$6,431	\$6,414
Per Share of Common Stock					
Book value	\$7.45	\$7.19	\$6.92	\$6.14	\$5.97
Basic earnings per share	0.71	0.71	0.64	0.57	0.57
Cash dividends declared per share	0.5266	0.5150	0.5060	0.4890	0.4750
Weighted average number of shares outstanding during the year	12,734,420	12,626,660	11,695,155	11,298,215	11,225,822
Utility Plant					
Original cost, net of acquisition adjustments	\$278,344	\$269,856	\$259,839	\$245,249	\$222,354
Construction expenditures	9,472	10,541	12,535	24,438	18,154
Other					
Total assets	\$274,219	\$259,931	\$248,837	\$240,442	\$210,969
Long-term debt including current portion	85,017	85,173	77,568	86,353	70,505

For Management's Discussion and Analysis of Financial Condition and Results of Operations, please refer to Item 7 of this Annual Report.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

(All dollar amounts are stated in thousands of dollars.)

Overview

The York Water Company (the "Company") is the oldest investor-owned water utility in the United States, operated continuously since 1816. The Company is a purely regulated water utility. Profitability is largely dependent on water revenues. Due to the size of the Company and the limited geographic diversity of its service territory, weather conditions, particularly rainfall, economic, and market conditions can have an adverse affect on revenues. 2011 was a challenging year in many respects. Market conditions and the economy in general are recovering very slowly from the recession. As a result, there was very little growth in the customer base and existing customers reduced their water usage. In 2011, total water usage per customer declined by 1.7% compared to 2010. Much of the reduction is attributed to record rainfall, particularly during the third quarter which is normally a high usage period. The Company recorded 22 more inches of rainfall in 2011 than in 2010. Conservation efforts account for a lesser portion of the decline in consumption.

Despite these challenges, the Company was able to increase revenues in 2011 compared to 2010 due to a timely rate filing which settled in November 2010. The Company also benefited from reduced income taxes in 2011 due to the deductibility of bonus depreciation for state tax purposes. The tax savings helped to offset unexpected increases in expenses for tank remediation and bad debts.

The Company's business does not require large amounts of working capital and is not dependent on any single customer or a very few customers for a material portion of its business. In 2011, operating revenue was derived from the following sources and in the following percentages: residential, 63%; commercial and industrial, 29%; and other, 8% which is primarily from the provision for fire service. The customer mix helps to reduce volatility in consumption.

The Company seeks to grow revenues by increasing the volume of water sold through increased consumption and increases in the number of customers served, and the timely filing for rate increases. The Company continuously looks for acquisition and expansion opportunities both within and outside its current service territory as well as through contractual services and bulk water supply.

In 2011, the Company entered into agreements with several municipalities to provide sewer billing services. In addition, the Company signed an agreement to purchase the assets and operate its first wastewater collection and treatment system. The wastewater acquisition is subject to PPUC approval, but provides additional opportunities for the Company to expand its business. In 2012, the Company expects to pilot a service line protection program as well in order to further diversify the business.

Performance Measures

Company management uses financial measures including operating revenues, net income, earnings per share and return on equity to evaluate its financial performance. Additional statistical measures including number of customers, customer complaint rate, annual customer rates and the efficiency ratio are used to evaluate performance quality. These measures are calculated on a regular basis and compared with historical information, budget and the other publicly-traded water companies.

The Company's 2011 performance was strong under the above measures. Increased rates from a rate filing and increases in the number of customers resulted in higher revenue. In addition, the Company incurred lower income taxes in 2011. The overall effect was an increase in net income in 2011 over 2010 of 1.7% and a return on year end common equity of 9.5% which was consistent with 2010.

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The efficiency ratio, which is calculated as net income divided by revenues, is used by management to evaluate its ability to control expenses. Over the five previous years, the Company's ratio averaged 20.9%. In 2011, the ratio was higher than the average at 22.4% due to the higher net income resulting from higher revenue and reduced income tax expense. Management is confident that its ratio will again exceed that of its peers. Management continues to look for ways to decrease expenses and increase efficiency as well as to file for rate increases promptly when needed.

Results of Operations

2011 Compared with 2010

Net income for 2011 was \$9,084, an increase of \$155, or 1.7%, from net income of \$8,929 for 2010. The primary contributing factors to the increase in net income were higher water revenues and lower income taxes which were partially offset by higher interest on debt and increased operating expenses, primarily for depreciation, pension, distribution system maintenance and the provision for doubtful accounts.

Water operating revenues for the year increased \$1,624, or 4.2%, from \$39,005 for 2010 to \$40,629 for 2011. The primary reason for the increase in revenues was a rate increase effective November 4, 2010. The 8.7% rate increase was partially offset by a lower volume of water sold. The total per capita volume of water sold in 2011 decreased compared to 2010 by approximately 1.7%. The decrease is mainly attributed to lower residential consumption due to record rainfall. Commercial and industrial consumption was also slightly lower than last year. The average number of customers served in 2011 increased as compared to 2010 by 203 customers, from 62,474 to 62,677 customers. The Company expects revenues for 2012 to remain consistent with 2011. A potential rate filing, other regulatory actions and weather patterns could impact results.

Operating expenses for the year increased \$1,516, or 7.9%, from \$19,238 for 2010 to \$20,754 for 2011. The increase was primarily due to higher depreciation expense of approximately \$313 due to increased plant investment, higher pension expense of approximately \$313 due to increased contributions, higher distribution system maintenance expense of approximately \$310 primarily due to a tank remediation project and a higher provision for doubtful accounts of approximately \$258 due to additional inactive accounts. Also contributing to the increase were higher salary and wage expense of approximately \$127 and other expenses aggregating approximately \$195. Depreciation expenses are expected to continue to rise due to investment in utility plant, the provision for doubtful accounts is expected to decrease with the absence of the 2011 adjustment, pension expense is expected to remain consistent and other operating expenses are expected to increase at a moderate rate as costs to serve customers and to extend the distribution system continue to rise.

Interest on debt for 2011 increased \$348, or 7.1%, from \$4,906 for 2010 to \$5,254 for 2011. The increase was primarily due to interest of \$577 on the 5.00% Senior Notes, Series 2010A, issued in October of 2010. Offsetting the increase were lower interest payments of \$149 on the Company's lines of credit due to reduced borrowings, lower interest of \$67 due to retirement of the 3.75% Industrial Development Authority Revenue Refunding Bonds, Series 1995, in June of 2010 and other lower interest expense of \$13. During 2011, there were no borrowings under the lines of credit. The average interest rate on the lines of credit was 1.54% for 2010 on average debt outstanding of \$7,191. Interest expense in 2012 is expected to remain consistent with 2011.

Allowance for funds used during construction decreased \$12, from \$111 for 2010 to \$99 in 2011, due to a lower volume of eligible construction. Allowance for funds used during construction is expected to show a modest increase in 2012 based on a projected increase in the amount of construction expenditures.

Other income (expenses), net for 2011 reflects increased expenses of \$212 as compared to 2010. The increase was primarily due to higher employee retirement expense of approximately \$154 due to increased liabilities from a decline in the discount rate which was partially offset by life insurance proceeds. Also contributing to the increase were

higher charitable contributions of approximately \$25 and increased other expenses aggregating approximately \$33. In 2012, other income (expenses) will be largely determined by the change in market returns and discount rates.

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Income taxes for 2011 decreased \$619, or 11.1%, compared to 2010. The Company's effective tax rate was 35.3% for 2011 and 38.5% for 2010. The decrease in the effective tax rate was due to the deductibility of bonus depreciation for state purposes in 2011. The Company expects a lower effective tax rate to continue through 2012 if bonus depreciation remains deductible. A higher effective tax rate is likely if bonus depreciation returns to 2009 levels.

2010 Compared with 2009

Net income for 2010 was \$8,929, an increase of \$1,417, or 18.9%, from net income of \$7,512 for 2009. The primary contributing factors to the increase in net income were higher water revenues and reduced expenses for salary and wages, distribution system maintenance and employee retirement. Higher capitalized overhead and lower interest expense added to the reduction in expenses which were partially offset by higher depreciation expense, a reduced allowance for funds used during construction, higher power costs and increased capital stock tax.

Water operating revenues for the year increased \$1,962, or 5.3%, from \$37,043 for 2009 to \$39,005 for 2010. The primary reasons for the increase in revenues were an increased distribution system improvement charge (DSIC), a rate increase effective November 4, 2010 and growth in the customer base. The DSIC allows the Company to add a charge to customers' bills for qualified replacement costs of certain infrastructure without submitting a rate filing. The average number of customers served in 2010 increased as compared to 2009 by 577 customers, from 61,897 to 62,474 customers. The total per capita volume of water sold in 2010 increased compared to 2009 by approximately 0.3%. Per capita consumption by industrial and commercial customers showed a modest increase over prior year and was partially offset by a slight decrease in use by residential customers.

Operating expenses for the year decreased \$417, or 2.1%, from \$19,655 for 2009 to \$19,238 for 2010. The decrease was primarily due to lower salary and wage expense of approximately \$177. This was mainly a result of the vacation accrual recorded in 2009 as discussed in Note 1 (Reclassifications) to the Company's financial statements included herein. Lower distribution system maintenance expense of approximately \$158, increased capitalized overhead of approximately \$152, and reduced pension cost and other expenses aggregating approximately \$275 added to the reduction of expenses. Higher depreciation expense due to increased plant investment, increased power costs and higher capital stock tax aggregating approximately \$345 partially offset the decrease.

Interest on debt for 2010 decreased \$84, or 1.7%, from \$4,990 for 2009 to \$4,906 for 2010. The primary reasons for the decrease were lower interest payments of \$131 due to the retirement of the 3.60% Industrial Development Authority Revenue Refunding Bonds, Series 1994, in May of 2009 and the 3.75% Industrial Development Authority Revenue Refunding Bonds, Series 1995, in June of 2010, lower interest of \$81 on the Company's lines of credit due to reduced borrowings and lower interest of \$47 on the \$12,000 variable rate bonds due to reduced interest rates. The decrease in expense was partially offset by higher interest of \$175 primarily for the newly issued 5.00% Senior Notes, Series 2010A, in October of 2010. The average interest rate on the lines of credit was 1.54% for 2010 compared to 1.41% for 2009. The average debt outstanding under the lines of credit was \$7,191 for 2010 and \$16,848 for 2009.

Allowance for funds used during construction decreased \$99, from \$210 for 2009 to \$111 in 2010, due to a lower volume of eligible construction. Eligible 2009 construction expenditures included a main extension to West Manheim Township.

Other income (expenses), net for 2010 reflects decreased expenses of \$52 as compared to 2009. The decrease was primarily due to lower employee retirement expense.

Income taxes for 2010 increased by \$999, or 21.8%, compared to 2009, primarily due to an increase in taxable income. The Company's effective tax rate was 38.5% in 2010 and 37.9% in 2009.

Rate Developments

See Note 7 to the Company's financial statements included herein for a discussion of its rate developments.

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Acquisitions

See Note 2 to the Company's financial statements included herein for a discussion of its acquisitions.

On December 28, 2011, the Company agreed to purchase the assets of Asbury Pointe Wastewater Collection and Treatment System in York County, Pennsylvania. Closing of the acquisition is contingent upon receiving approval from all required regulatory authorities. Closing is expected in the second quarter of 2012 at which time the Company will add approximately 240 wastewater customers. This acquisition provides further diversification to the Company's business by adding wastewater collection and treatment to its services.

On March 2, 2012, the Company signed an agreement to purchase the assets of Section A Water Corporation in Adams County, Pennsylvania, at a purchase price of \$135. The Company will initially serve approximately 100 new customers by operating the current system as a satellite location. The acquisition is expected to close in the third quarter of 2012 following necessary approvals from regulatory authorities.

On March 7, 2012, the Company signed an agreement to purchase the water assets of York Starview, LP in York County, Pennsylvania, at a purchase price of \$125. Because York Starview, LP is already in the Company's service territory, fewer approvals will be needed. The Company expects to begin serving approximately 240 new customers through an interconnection with its current distribution system during the second quarter of 2012.

These acquisitions are expected to be immaterial to total company results. The Company is also pursuing other bulk water contracts and acquisitions in and around its service territory to help offset further declines in per capita water consumption.

Capital Expenditures

During 2011, the Company invested \$9,472 in construction expenditures including routine items, upgrades to its water treatment facilities, reinforcing water mains, and various replacements of aging infrastructure. The Company replaced and relined over 41,000 feet of main in 2011. The Company was able to fund operating activities and construction expenditures using internally-generated funds, proceeds from its stock purchase plans (see Note 5 to the Company's financial statements included herein), and customer advances.

The Company anticipates construction and acquisition expenditures for 2012 and 2013 of approximately \$12,040 and \$13,660, respectively. In addition to routine transmission and distribution projects, a portion of the anticipated 2012 and 2013 expenditures will be for additional main extensions, further upgrades to water treatment facilities, a new pumping station, improvements to the dams, an upgrade to the enterprise software system, and various replacements of aging infrastructure. The Company intends to use internally-generated funds for at least half of its anticipated 2012 and 2013 construction and fund the remainder through line of credit borrowings, proceeds from its stock purchase plans, potential debt and equity offerings, the DSIC and customer advances and contributions (see Note 1 to the Company's financial statements included herein). Customer advances and contributions are expected to account for less than 5% of funding requirements in 2012 and 2013. The Company believes it will have adequate credit facilities and access to the capital markets, if necessary during 2012, to fund anticipated construction and acquisition expenditures.

Liquidity and Capital Resources

Cash

The Company manages its cash through a cash management account that is directly connected to a line of credit. Excess cash generated automatically pays down outstanding borrowings under the line of credit arrangement. If there are no outstanding borrowings, the cash is used as an earnings credit to reduce banking

fees. Likewise, if additional funds are needed, besides what is generated internally, for payroll, to pay suppliers, or to pay debt service, funds are automatically borrowed under the line of credit. The cash balance of \$4,006 at December 31, 2011 represents the balance of the proceeds of the October 2010 long-term debt issue plus the funds from operations generated internally in 2011 primarily due to lower cash required for income taxes due to bonus depreciation. The Company expects the cash balance to decline in 2012 based on currently allowable bonus depreciation. After the cash balance is fully utilized, the cash management facility is expected to provide the necessary liquidity and funding for the Company's operations for the foreseeable future based on its past experience.

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Accounts Receivable

Recently the Company has noticed a decline in the timeliness of payments by its customers and an increase in the number of inactive accounts with outstanding balances. The Company has increased its allowance for doubtful accounts in consideration of this trend. If this trend continues, the Company may incur additional expenses for uncollectible accounts and experience a reduction in its internally-generated funds. The Company made a one-time adjustment during the second quarter of 2011 to the allowance and corresponding provision for doubtful accounts for inactive accounts that were written off during the second half of 2011. The amount of the adjustment was not considered material to the financial statements. No further adjustments are expected in 2012.

Internally-generated Funds

The amount of internally-generated funds available for operations and construction depends on the Company's ability to obtain timely and adequate rate relief, customers' water usage, weather conditions, customer growth and controlled expenses. In 2011, the Company generated \$17,474 internally as compared to \$14,755 in 2010 and \$15,801 in 2009. The reduction in income taxes paid increased cash flow from operating activities.

Credit Lines

Historically, the Company has borrowed \$15,000 to \$20,000 under its lines of credit before refinancing with long-term debt or equity capital. As of December 31, 2011, the Company maintained unsecured lines of credit aggregating \$29,000 with three banks at interest rates ranging from LIBOR plus 1.20% to LIBOR plus 2.00%. The Company had no outstanding borrowings under any of its lines of credit as of December 31, 2011. The Company plans to renew a \$5,000 line of credit that expires in June 2012 under similar terms and conditions.

The credit and liquidity crisis which began in 2008 has caused substantial volatility and uncertainty in the capital markets and in the banking industry resulting in increased borrowing costs and reduced credit availability. Since then, the Company has experienced more stability as the economy recovers from the recession. Actual interest rates remain low and two of the Company's banks recently reduced the interest rate on its lines of credit. One of the lines of credit continues to carry a commitment fee, although it has been reduced. The Company has taken steps to manage the risk of reduced credit availability such as maintaining primarily committed lines of credit that cannot be called on demand and obtaining a 2-year revolving maturity. Despite the general improvements and actions taken, there is no guarantee that the Company will be able to obtain sufficient lines of credit with favorable terms in the future. In addition, if the Company is unable to refinance its line of credit borrowings with long-term debt or equity when necessary, it may have to eliminate or postpone capital expenditures. The Company was able to pay off its line of credit borrowings by issuing long-term debt in October 2010. Management believes the Company will have adequate capacity under its current lines of credit to meet financing needs throughout 2012.

Long-term Debt

The Company's loan agreements contain various covenants and restrictions. Management believes it is currently in compliance with all of these restrictions. See Note 4 to the Company's financial statements included herein for additional information regarding these restrictions.

The 6.00% Pennsylvania Economic Development Financing Authority Exempt Facilities Revenue Bonds, Series 2008B, contain special redemption provisions. Under these provisions, representatives of deceased beneficial owners of the bonds have the right to request redemption prior to the stated maturity of all or part of their interest in the bonds. In 2011, the Company retired \$115 under these provisions. Currently, no additional bonds that met the special provisions have been tendered for redemption. The Company is not obligated to redeem any individual interest exceeding \$25, or aggregate interest exceeding \$300 in any annual period.

The Company's debt (long-term debt plus current portion of long-term debt) as a percentage of the total capitalization, defined as total common stockholders' equity plus long-term debt (including current portion of long-term debt), was

47.2% as of December 31, 2011, compared with 48.3% as of December 31, 2010. As debt load trends upward in the future, the Company will likely match increasing debt with increasing equity so that its debt to total capitalization ratio remains at nearly fifty percent. This capital structure has historically been acceptable to the PPUC in that prudent debt costs and a fair return have been granted by the PPUC in rate filings. See Note 4 to the Company's financial statements included herein for the details of its long-term debt outstanding as of December 31, 2011.

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The Company has an effective “shelf” Registration Statement on Form S-3 on file with the Securities and Exchange Commission (SEC), pursuant to which the Company may offer an aggregate remaining amount of up to \$25,000 of its common stock or debt securities subject to market conditions at the time of any such offering. The Company is not currently planning to issue securities under the shelf Registration Statement in 2012.

Deferred Income Taxes and Uncertain Tax Positions

The Company has seen an increase in its deferred income tax liability amounts over the last several years. This is primarily a result of the accelerated and bonus depreciation deduction available for federal tax purposes which creates differences between book and tax depreciation expense. The Company expects this trend to continue as it makes significant investments in capital expenditures and as the tax code continues to extend bonus depreciation.

The Company has a substantial deferred income tax asset primarily due to the differences between the book and tax balances of the pension and deferred compensation plans from lower discount rates. The Company does not believe a valuation allowance is required due to the expected generation of future taxable income during the periods in which those temporary differences become deductible. The Company has determined there are no uncertain tax positions that require recognition as of December 31, 2011.

Common Stock

Common stockholders’ equity as a percent of the total capitalization was 52.8% as of December 31, 2011, compared with 51.7% as of December 31, 2010. It is the Company’s intent to maintain a ratio near fifty percent. Under the shelf Registration Statement previously mentioned, the Company has the ability to issue additional shares of its common stock, subject to market conditions at the time of any such offering.

Credit Rating

The Company’s ability to maintain its credit rating depends, among other things, on adequate and timely rate relief, which it has been successful in obtaining, and its ability to fund capital expenditures in a balanced manner using both debt and equity. In 2012, the Company’s objectives will be to continue to maximize its funds provided by operations and maintain the equity component of total capitalization.

Dividends

During 2011, the Company's dividend payout ratios relative to net income and net cash provided by operating activities were 73.8% and 38.2%, respectively. During 2010, the Company’s dividend payout ratios relative to net income and net cash provided by operating activities were 72.9% and 43.8%, respectively. During the fourth quarter of 2011, the Board of Directors increased the dividend by 2% from \$0.1310 per share to \$0.1336 per share per quarter. This was the fifteenth consecutive annual dividend increase and the 196th consecutive year of paying dividends.

The Company’s Board of Directors declared a dividend in the amount of \$0.1336 per share at its January 2012 meeting. The dividend is payable on April 16, 2012 to shareholders of record as of February 29, 2012. While the Company expects to maintain this dividend amount in 2012, future dividends will be dependent upon the Company’s earnings, financial condition, capital demands and other factors and will be determined by the Company’s Board of Directors. See Note 4 to the Company’s financial statements included herein for restrictions on dividend payments.

Inflation

The Company is affected by inflation, most notably by the continually increasing costs incurred to maintain and expand its service capacity. The cumulative effect of inflation results in significantly higher facility replacement costs which must be recovered from future cash flows. The ability of the Company to recover this increased investment in facilities is dependent upon future rate increases, which are subject to approval by the PPUC. The Company can

provide no assurances that its rate increases will be approved by the PPUC; and, if approved, the Company cannot guarantee that these rate increases will be granted in a timely or sufficient manner to cover the investments and expenses for which the rate increase was sought.

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Contractual Obligations

The following summarizes the Company's contractual obligations by period as of December 31, 2011:

	Total	Payments due by period				
		Less than 1 Year	Years 2 and 3	Years 4 and 5	More than 5 Years	
Long-term debt obligations (a)	\$85,017	\$42	\$12,085	\$7,387	\$65,503	
Interest on long-term debt (b)	79,807	4,863	9,725	9,467	55,752	
Purchase obligations (c)	1,810	1,810	-	-	-	
Defined benefit obligations (d)	1,593	1,593	-	-	-	
Deferred employee benefits (e)	4,729	240	481	492	3,516	
Other deferred credits (f)	3,634	353	652	514	2,115	
	Total	\$176,590	\$8,901	\$22,943	\$17,860	\$126,886

- (a) Represents debt maturities including current maturities. Included in the table is a payment of \$12,000 in Years 2 and 3 on the variable rate bonds which would only be due if the bonds were unable to be remarketed. There is currently no such indication of this happening.
- (b) Excludes interest on the \$12,000 variable rate debt as these payments cannot be reasonably estimated. The interest rate on this issue is reset weekly by the remarketing agent based on then current market conditions. Also excludes any interest on committed lines of credit due to the variability of both the outstanding amount and the interest rate.
- (c) Represents an approximation of open purchase orders at year end.
- (d) Represents contributions expected to be made to qualified defined benefit plans. The contribution may increase if the minimum required contribution as calculated under Employee Retirement Income Security Act (ERISA) standards is higher than these amounts but in no case will the amount be less. The amount of required contributions in 2013 and thereafter is not currently determinable.
- (e) Represents the obligations under the Company's Supplemental Retirement and Deferred Compensation Plans for executives.
- (f) Represents the estimated settlement payments to be made under the Company's interest rate swap contract.

In addition to these obligations, the Company makes 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. The refund amounts are not included in the above table because the timing cannot be accurately estimated. Portions of these refund amounts are payable annually through 2022 and amounts not paid by the contract expiration dates become non-refundable and are transferred to Contributions in Aid of Construction.

See Note 9 to the Company's financial statements included herein for a discussion of its commitments.

Environmental Matters

In November 2011 during a routine tank cleaning, the Company discovered a small amount of mercury in the bottom of the tank. The tank was not in service at the time of the discovery and remains out of service. A number of tests were performed to confirm no mercury entered the water supply and no employees or contractors present during the discovery were impacted. The Company is working with the DEP and the EPA to ensure proper removal and disposal of the mercury. The tank will remain out of service until it is confirmed that it is free of any mercury. No disruption of service to any customers has occurred or is expected to occur. The Company incurred total costs of \$168 which are included in operating expenses in the 2011 statement of income and represent all known costs related to the remediation.

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Critical Accounting Estimates

The methods, estimates and judgments the Company used in applying its accounting policies have a significant impact on the results reported in its financial statements. The Company's accounting policies require Management to make subjective judgments because of the need to make estimates of matters that are inherently uncertain. The Company's most critical accounting estimates include: regulatory assets and liabilities, revenue recognition and accounting for its pension plans.

Regulatory Assets and Liabilities

Generally accepted accounting principles define professional standards for companies whose rates are established by or are subject to approval by an independent third-party regulator. In accordance with the professional standards, the Company defers costs and credits on its 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 are then recognized in the statement of income in the period in which they are reflected in customer rates. If the Company later finds that these assets and liabilities cannot be included in rate-making, they are adjusted appropriately. See Note 1 for additional details regarding regulatory assets and liabilities.

Revenue Recognition

Revenues include amounts billed to metered customers on a cycle basis and unbilled amounts based on both actual and estimated usage from the latest meter reading to the end of the accounting period. Estimates are based on average daily usage for those particular customers. The unbilled revenue amount is recorded as a current asset on the balance sheet. Actual results could differ from these estimates and would result in operating revenues being adjusted in the period in which the actual usage is known. Based on historical experience, the Company believes its estimate of unbilled revenues is reasonable.

Pension Accounting

Accounting for defined benefit pension plans requires estimates of future compensation increases, mortality, the discount rate, and expected return on plan assets as well as other variables. These variables are reviewed annually with the Company's pension actuary. The Company selected its December 31, 2011 and 2010 discount rates based on the Citigroup Pension Liability Index. This index uses the Citigroup spot rates for durations out to 30 years and matches them to expected disbursements from the plan over the long term. The Company believes this index most appropriately matches its pension obligations. The present values of the Company's future pension obligations were determined using a discount rate of 4.25% at December 31, 2011 and 5.35% at December 31, 2010.

Choosing a lower discount rate normally increases the amount of pension expense and the corresponding liability. In the case of the Company, a reduction in the discount rate would increase its liability, but would not have an impact on its pension expense. The PPUC, in a previous rate settlement, agreed to grant recovery of the Company's contribution to the pension plans in customer rates. As a result, under the professional standards, expense in excess of the Company's pension plan contribution is deferred as a regulatory asset and will be expensed as contributions are made to the plans and the contributions are recovered in customer rates. Therefore, changes in the discount rate affect regulatory assets rather than pension expense.

The Company's estimate of the expected return on plan assets is primarily based on the historic returns and projected future returns of the asset classes represented in its plans. The target allocation of pension assets is 50% to 70% equity securities, 30% to 50% debt securities, and 0% to 10% cash reserves. The Company used 7% as its estimate of expected return on assets in both 2011 and 2010. If the Company were to reduce the expected return, its liability would increase, but its expense would again remain unchanged because the expense is equal to the Company's contribution to the plans. The additional expense would instead be recorded as an increase to regulatory assets.

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Continued low discount rates and underperformance of assets could cause future required contributions and expense to increase substantially. If this were to happen, the Company would have to consider changes to its pension plan benefits and possibly request additional recovery of expenses through increased rates charged to customers.

Other critical accounting estimates are discussed in the Significant Accounting Policies Note to the Financial Statements.

Off-Balance Sheet Transactions

The Company does not use off-balance sheet transactions, arrangements or obligations that may have a material current or future effect on financial condition, results of operations, liquidity, capital expenditures, capital resources or significant components of revenues or expenses. The Company does not use securitization of receivables or unconsolidated entities. The Company uses a derivative financial instrument, an interest rate swap agreement discussed in Note 4 to the financial statements included herein, for risk management purposes. The Company does not engage in trading or other risk management activities, does not use other derivative financial instruments for any purpose, has no lease obligations, no guarantees and does not have material transactions involving related parties.

Impact of Recent Accounting Pronouncements

See Note 1 to the Company's financial statements included herein for a discussion on the effect of new accounting pronouncements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

(All dollar amounts are stated in thousands of dollars.)

The Company's operations are exposed to market risks primarily as a result of changes in interest rates. This exposure to market risks relates to the Company's debt obligations under its lines of credit. As of February 2012, the Company has unsecured lines of credit with maximum availability of \$29,000 with three banks. The first line of credit, in the amount of \$13,000, is a committed line of credit with a revolving 2-year maturity (currently May 2013), and carries an interest rate of LIBOR plus 1.20%. The Company had no outstanding borrowings under this line of credit as of December 31, 2011. The second line of credit, in the amount of \$11,000, is a committed line of credit, which matures in May 2013 and carries an interest rate of LIBOR plus 1.25%. This line of credit has a compensating balance requirement of \$500. The Company had no outstanding borrowings under this line of credit as of December 31, 2011. The third line of credit, in the amount of \$5,000, is a committed line of credit, which matures in June 2012 and carries an interest rate of LIBOR plus 2.00%. The Company had no outstanding borrowings under this line of credit as of December 31, 2011. Other than lines of credit, the Company has long-term fixed rate debt obligations as discussed in Note 4 to the financial statements included herein and a variable rate PEDFA loan agreement described below.

In May 2008, the Pennsylvania Economic Development Financing Authority, or the PEDFA, issued \$12,000 aggregate principal amount of PEDFA Exempt Facilities Revenue Bonds, Series A. The proceeds of this bond issue were used to refund the \$12,000 PEDFA Exempt Facilities Revenue Bonds, Series B of 2004 which were refunded due to bond insurer downgrading issues. The PEDFA then loaned the proceeds to the Company pursuant to a variable interest rate loan agreement with a maturity date of October 1, 2029. In connection with the loan agreement, the Company retained its interest rate swap agreement whereby the Company exchanged its floating rate obligation for a fixed rate obligation. The purpose of the interest rate swap is to manage the Company's exposure to fluctuations in the interest rate. If the interest rate swap agreement works as intended, the receive rate on the swap should approximate the variable rate the Company pays on the PEDFA Series A Bond Issue, thereby minimizing its risk. See Note 4 to

the Company's financial statements included herein.

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The table below provides information about the Company's financial instruments that are sensitive to changes in interest rates, including long-term debt obligations and the interest rate swap. For debt obligations, the table presents principal cash flows and related weighted average interest rates by expected maturity dates. For the interest rate swap, the table presents the undiscounted net payments and weighted average interest rates by expected maturity dates. Notional amounts are used to calculate the contractual payments to be exchanged under the contract. Weighted average variable rates are based on implied forward rates in the yield curve at the reporting date.

Liabilities	Expected Maturity Date						Total	Fair Value
	2012	2013	2014	2015	2016	Thereafter		
Long-term debt:								
Fixed Rate	\$42	\$42	\$43	\$43	\$7,344	\$65,503	\$73,017	\$90,000
Average interest rate	1.00%	1.00%	1.00%	1.00%	4.67%	6.90%	6.66%	
Variable Rate	-	\$12,000	-	-	-	-	\$12,000	\$12,000
Average interest rate	0.09%	0.09%	-	-	-	-	0.09%	
Interest Rate Swap –								
Notional Value \$12,000								\$2,842
Variable to Fixed *	\$353	\$335	\$317	\$275	\$239	\$2,115	\$3,634	
Average pay rate	3.16%	3.16%	3.16%	3.16%	3.16%	3.16%	3.16%	
Average receive rate	0.24%	0.36%	0.51%	0.87%	1.18%	1.79%	1.46%	

*Represents undiscounted net payments.

The variable rate portion of the liabilities section of the table includes the \$12,000 variable rate loan due in 2013, as the underlying bonds could be tendered at any time. If all of the bonds were tendered and could not be remarketed, the earliest that the Company would have to buy them back would be fourteen months from the date of notification. As of February 29, 2012, there had been no such notification. If the bonds are able to be remarketed as intended for the term of the bonds, the loan will be due in October 2029. The interest rate of 0.09% on the \$12,000 variable rate loan represents the rate paid to bondholders for the PEDFA Series A issue at December 31, 2011.

Other than the interest rate swap, the Company has no other derivative instruments used for any purpose, no additional financial instruments with significant credit risk, and no material exposure to currency or commodity risk.

Item 8. Financial Statements and Supplementary Data.

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THE YORK WATER COMPANY
Report of Independent Registered Public Accounting Firm

To the Board of Directors and
Stockholders of The York Water Company

We have audited The York Water Company's (the "Company") internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The York Water Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, The York Water Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the balance sheets and the related statements of income, common stockholders' equity, and cash flows of The York Water Company, and our report dated March 12, 2012 expressed an unqualified opinion.

/s/ParenteBeard LLC

ParenteBeard LLC
York, Pennsylvania
March 12, 2012

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THE YORK WATER COMPANY
Report of Independent Registered Public Accounting Firm

To the Board of Directors and
Stockholders of The York Water Company

We have audited the accompanying balance sheets of The York Water Company (the “Company”) as of December 31, 2011 and 2010, and the related statements of income, common stockholders’ equity, and cash flows for each of the years in the three-year period ended December 31, 2011. In connection with our audits of the financial statements, we also have audited the financial statement schedule listed in the Index at Item 15(2). These financial statements and financial statement schedule are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The York Water Company as of December 31, 2011 and 2010, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2011 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), The York Water Company’s internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 12, 2012 expressed an unqualified opinion.

/s/ParenteBeard LLC
ParenteBeard LLC
York, Pennsylvania
March 12, 2012

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THE YORK WATER COMPANY

Balance Sheets
(In thousands of dollars, except per share amounts)

	Dec. 31, 2011	Dec. 31, 2010
ASSETS		
UTILITY PLANT, at original cost	\$281,002	\$272,565
Plant acquisition adjustments	(2,658)	(2,709)
Accumulated depreciation	(46,067)	(42,179)
Net utility plant	232,277	227,677
OTHER PHYSICAL PROPERTY:		
Net of accumulated depreciation of \$203 in 2011 and \$190 in 2010	702	712
CURRENT ASSETS:		
Cash and cash equivalents	4,006	1,327
Accounts receivable, net of reserves of \$334 in 2011 and \$245 in 2010	3,705	3,769
Unbilled revenues	2,258	2,503
Recoverable income taxes	197	21
Materials and supplies inventories, at cost	692	608
Prepaid expenses	303	398
Deferred income taxes	228	167
Total current assets	11,389	8,793
OTHER LONG-TERM ASSETS:		
Deferred debt expense	2,396	2,501
Notes receivable	368	407
Deferred regulatory assets	23,114	15,821
Restricted cash-compensating balance	500	500
Other assets	3,473	3,520
Total other long-term assets	29,851	22,749
Total Assets	\$274,219	\$259,931

The accompanying notes are an integral part of these statements.

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THE YORK WATER COMPANY

Balance Sheets
(In thousands of dollars, except per share amounts)

	Dec. 31, 2011	Dec. 31, 2010
STOCKHOLDERS' EQUITY AND LIABILITIES		
COMMON STOCKHOLDERS' EQUITY:		
Common stock, no par value, authorized 46,500,000 shares, issued and outstanding 12,791,671 shares in 2011 and 12,692,054 shares in 2010	\$77,113	\$75,481
Retained earnings	18,152	15,776
Total common stockholders' equity	95,265	91,257
PREFERRED STOCK, authorized 500,000 shares, no shares issued	-	-
LONG-TERM DEBT, excluding current portion	84,975	85,132
COMMITMENTS	-	-
CURRENT LIABILITIES:		
Current portion of long-term debt	42	41
Accounts payable	1,110	1,245
Dividends payable	1,481	1,440
Accrued compensation and benefits	1,012	985
Accrued interest	1,065	1,068
Other accrued expenses	573	552
Total current liabilities	5,283	5,331
DEFERRED CREDITS:		
Customers' advances for construction	13,761	15,031
Deferred income taxes	29,809	25,437
Deferred employee benefits	14,660	9,814
Other deferred credits	3,489	2,003
Total deferred credits	61,719	52,285
Contributions in aid of construction	26,977	25,926
Total Stockholders' Equity and Liabilities	\$274,219	\$259,931

The accompanying notes are an integral part of these statements.

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THE YORK WATER COMPANY

Statements of Income
(In thousands of dollars, except per share amounts)

	Year Ended December 31		
	2011	2010	2009
WATER OPERATING REVENUES:			
Residential	\$25,693	\$24,478	\$23,299
Commercial and industrial	11,820	11,440	10,734
Other	3,116	3,087	3,010
	40,629	39,005	37,043
OPERATING EXPENSES:			
Operation and maintenance	7,333	6,760	7,067
Administrative and general	7,309	6,725	7,101
Depreciation and amortization	4,905	4,592	4,412
Taxes other than income taxes	1,207	1,161	1,075
	20,754	19,238	19,655
Operating income	19,875	19,767	17,388
OTHER INCOME (EXPENSES):			
Interest on debt	(5,254)	(4,906)	(4,990)
Allowance for funds used during construction	99	111	210
Other income (expenses), net	(677)	(465)	(517)
	(5,832)	(5,260)	(5,297)
Income before income taxes	14,043	14,507	12,091
Income taxes	4,959	5,578	4,579
Net Income	\$9,084	\$8,929	\$7,512
Basic Earnings Per Share	\$0.71	\$0.71	\$0.64
Cash Dividends Declared Per Share	\$0.5266	\$0.5150	\$0.5060

The accompanying notes are an integral part of these statements.

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THE YORK WATER COMPANY

Statements of Common Stockholders' Equity
(In thousands of dollars, except per share amounts)
For the Years Ended December 31, 2011, 2010 and 2009

	Common Stock Shares	Common Stock Amount	Retained Earnings	Total
Balance, December 31, 2008	11,367,248	\$57,875	\$11,891	\$69,766
Net income	-	-	7,512	7,512
Dividends (\$0.5060 per share)	-	-	(6,050)	(6,050)
Issuance of common stock	1,070,000	14,094	-	14,094
Issuance of common stock under dividend reinvestment, direct stock and employee stock purchase plans	121,476	1,600	-	1,600
Balance, December 31, 2009	12,558,724	73,569	13,353	86,922
Net income	-	-	8,929	8,929
Dividends (\$0.5150 per share)	-	-	(6,506)	(6,506)
Issuance of common stock under dividend reinvestment, direct stock and employee stock purchase plans	133,330	1,912	-	1,912
Balance, December 31, 2010	12,692,054	75,481	15,776	91,257
Net income	-	-	9,084	9,084
Dividends (\$0.5266 per share)	-	-	(6,708)	(6,708)
Issuance of common stock under dividend reinvestment, direct stock and employee stock purchase plans	99,617	1,632	-	1,632
Balance, December 31, 2011	12,791,671	\$77,113	\$18,152	\$95,265

The accompanying notes are an integral part of these statements.

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THE YORK WATER COMPANY

Statements of Cash Flows
(In thousands of dollars, except per share amounts)

	Year Ended December 31		
	2011	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$9,084	\$8,929	\$7,512
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	4,905	4,592	4,412
Increase in deferred income taxes	3,189	2,591	2,515
Other	378	99	39
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable and unbilled revenues	(172)	(1,106)	309
(Increase) decrease in recoverable income taxes	(176)	(21)	64
Increase in materials and supplies, prepaid expenses, regulatory and other assets	(1,300)	(614)	(135)
Increase in accounts payable, accrued compensation and benefits, accrued expenses, deferred employee benefits, and other deferred credits	1,569	701	680
Increase (decrease) in accrued interest and taxes	(3)	(416)	405
Net cash provided by operating activities	17,474	14,755	15,801
CASH FLOWS FROM INVESTING ACTIVITIES:			
Utility plant additions, including debt portion of allowance for funds used during construction of \$55 in 2011, \$62 in 2010 and \$117 in 2009	(9,472)	(10,541)	(12,535)
Acquisitions of water systems	-	-	(2,236)
Increase in compensating balance	-	-	(500)
Decrease in notes receivable	39	69	60
Net cash used in investing activities	(9,433)	(10,472)	(15,211)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Customers' advances for construction and contributions in aid of construction	124	428	443
Repayments of customer advances	(295)	(544)	(926)
Proceeds of long-term debt issues	-	39,491	23,659
Debt issuance costs	-	(703)	-
Repayments of long-term debt	(156)	(34,886)	(32,444)
Borrowings under short-term line of credit agreements	-	(2,000)	(1,000)
Changes in cash overdraft position	-	(195)	(167)
Issuance of common stock	1,632	1,912	15,694
Dividends paid	(6,667)	(6,459)	(5,849)
Net cash used in financing activities	(5,362)	(2,956)	(590)

Net change in cash and cash equivalents	2,679	1,327	-
Cash and cash equivalents at beginning of period	1,327	-	-
Cash and cash equivalents at end of period	\$4,006	\$1,327	\$-

Supplemental disclosures of cash flow information:

Cash paid during the period for:

Interest, net of amounts capitalized	\$5,202	\$4,797	\$4,911
Income taxes	1,625	3,513	1,284

Supplemental schedule of non-cash investing and financing activities:

Accounts payable includes \$600 in 2011, \$726 in 2010 and \$292 in 2009 for the construction of utility plant.

Accounts payable and other deferred credits includes \$19 in 2009 for the acquisition of water systems.

Short-term line of credit borrowings amounting to \$3,000 were reclassified as long-term borrowings in 2010.

The accompanying notes are an integral part of these statements.

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Notes to Financial Statements

(In thousands of dollars, except per share amounts)

1. Significant Accounting Policies

The business of The York Water Company is to impound, purify and distribute water. The Company operates within its franchised territory located in York and Adams Counties, Pennsylvania, and is subject to regulation by the Pennsylvania Public Utility Commission, or PPUC.

The following summarizes the significant accounting policies employed by The York Water Company.

Utility Plant and Depreciation

The cost of additions includes contracted cost, direct labor and fringe benefits, materials, overhead and, for certain utility plant, allowance for funds used during construction. In accordance with regulatory accounting requirements, 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 as permitted by the PPUC. At December 31, 2011 and 2010, utility plant includes a credit acquisition adjustment of \$2,658 and \$2,709, respectively. The net acquisition adjustment is being amortized over the remaining life of the respective assets. Amortization amounted to \$50 in 2011, \$50 in 2010, and \$49 in 2009.

Upon normal retirement of depreciable property, the estimated or actual cost of the asset is credited to the utility plant account, and such amounts, together with the cost of removal less salvage value, are charged to the reserve for 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 reported. Gains or losses from abnormal retirements are reflected in income currently.

The Company charges to maintenance expense the cost of repairs and replacements and renewals of minor items of property. Maintenance of transportation equipment is charged to clearing accounts and apportioned therefrom in a manner similar to depreciation. The cost of replacements, renewals and betterments of units of property is capitalized to the utility plant accounts.

The straight-line remaining life method is used to compute depreciation on utility plant cost, exclusive of land and land rights. Annual provisions for depreciation of transportation and mechanical equipment included in utility plant are computed on a straight-line basis over the estimated service lives. Such provisions are charged to clearing accounts and apportioned therefrom to operating expenses and other accounts in accordance with the Uniform System of Accounts as prescribed by the PPUC.

The following remaining lives are used for financial reporting purposes:

Utility Plant Asset Category	December 31,		Approximate range of remaining lives
	2011	2010	
Mains and accessories	\$146,290	\$142,162	13 – 84 years
Services, meters and hydrants	56,731	54,970	21 – 53 years
Operations structures, reservoirs and water tanks	41,435	40,387	7 – 68 years
Pumping and purification equipment	21,585	20,563	5 – 26 years
Office, transportation and operating equipment	9,786	9,424	3- 23 years

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Land and other non-depreciable assets	2,980	2,973	-
Utility plant in service	278,807	270,479	-
Construction work in progress	2,195	2,086	-
Total Utility Plant	\$281,002	\$272,565	-

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The effective rate of depreciation was 2.11% in 2011, 2.06% in 2010, and 2.10% in 2009 on average utility plant, net of customers' advances and contributions. Larger depreciation provisions resulting from allowable accelerated methods are deducted for tax purposes.

Cash and Cash Equivalents

For the purposes of the statements of cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents except for those instruments earmarked to fund construction expenditures or repay long-term debt.

The Company periodically maintains cash balances in major financial institutions in excess of federally insured limit by the Federal Deposit Insurance Corporation (FDIC). The Company has not experienced any losses and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Accounts Receivable

Accounts receivable are stated at outstanding balances, less a reserve for doubtful accounts. The reserve for doubtful accounts is established through provisions charged against income. Accounts deemed to be uncollectible are charged against the reserve and subsequent recoveries, if any, are credited to the reserve. The reserve for doubtful accounts is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. Management's periodic evaluation of the adequacy of the reserve is based on past experience, agings of the receivables, adverse situations that may affect a customer's ability to pay, current economic conditions, and other relevant factors. This evaluation is inherently subjective. Unpaid balances remaining after the stated payment terms are considered past due.

Revenues

Revenues include amounts billed to customers on a cycle basis and unbilled amounts based on actual and estimated usage from the latest meter reading to the end of the accounting period.

Materials and Supplies Inventories

Materials and supplies inventories are stated at cost. Costs are determined using the average cost method.

Deferred Debt Expense

Deferred debt expense is amortized on a straight-line basis over the term of the related debt.

Notes Receivable

Notes receivable are recorded at cost and represent amounts due from various municipalities for construction of water mains into their particular municipality. Management, considering current information and events regarding the borrowers' ability to repay their obligations, considers a note to be impaired when it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the note agreement. When a note is considered to be impaired, the carrying value of the note is written down. The amount of the impairment is measured based on the present value of expected future cash flows discounted at the note's effective interest rate.

Regulatory Assets and Liabilities

The Company is subject to the provisions of generally accepted accounting principles regarding rate-regulated entities. The professional standards provide for the recognition of regulatory assets and liabilities as allowed by regulators for costs or credits that are reflected in current customer 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. 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. These deferred costs have been excluded from the Company's rate base and, therefore, no return is being earned on the unamortized balances.

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Regulatory assets and liabilities are comprised of the following:

	December 31, 2011	2010	Remaining Recovery Periods
Assets			
Income taxes	\$5,174	\$4,008	Various
Postretirement benefits	13,949	9,454	10-20 years
Unrealized swap losses	2,811	1,310	1-18 years
Utility plant retirement costs	1,098	843	5 years
Rate case filing expenses	82	206	1 year
	\$23,114	\$15,821	
Liabilities			
Income taxes	\$875	\$830	1-50 years

Certain items giving rise to deferred state income taxes, as well as a portion of deferred federal income taxes related primarily to differences between book and tax depreciation expense, are recognized for ratemaking purposes on a cash or flow-through basis and will be recovered in rates as they reverse.

Postretirement benefits include (a) deferred pension expense in excess of contributions made to the plans, and (b) the underfunded status of the pension plans. The underfunded status represents the excess of the projected benefit obligation over the fair market value of the assets. Both are expected to be recovered in future years as additional contributions are made or market conditions improve. The recovery period is dependent on contributions made to the plans, plan asset performance and the discount rate used to value the obligations. The period is estimated at between 10 and 20 years.

The Company uses regulatory accounting treatment to defer the mark-to-market unrealized gains and losses on its interest rate swap to reflect that the gain or loss is included in the ratemaking formula when the transaction actually settles. The value of the swap as of the balance sheet date is recorded as part of other deferred credits. Realized gains or losses on the swap will be recorded as interest expense in the statement of income over its remaining life of 18 years.

The regulatory asset for utility plant retirement costs, including cost of removal, represents costs already incurred which are expected to be recovered over a five-year period in rates, through depreciation expense. Rate case filing expenses are deferred and amortized over its remaining life of one year.

Regulatory liabilities relate mainly to deferred investment tax credits, and additionally to deferred taxes related to postretirement death benefits and bad debts. These liabilities will be given back to customers in rates as tax deductions occur over the next 1-50 years. Regulatory liabilities are part of other accrued expenses and other deferred credits on the balance sheets.

Other Assets

Other assets consist mainly of the cash value of life insurance policies held as an investment by the Company for reimbursement of costs and benefits associated with its supplemental retirement and deferred compensation programs.

Customers' Advances for Construction

Customer advances are cash payments from developers, municipalities, customers or builders for construction of utility plant, and are refundable upon completion of construction, as operating revenues are earned. If the Company loaned funds for construction to the customer, the refund amount is credited to the note receivable rather than paid out in cash. After all refunds to which the customer is entitled are made, any remaining balance is transferred to

contributions in aid of construction. From 1986 to 1996 when customer advances were taxable income to the Company, additional funds were collected from customers to cover the taxes. Those funds were recorded as a liability within Customer Advances and are being amortized as deferred income over the tax life of the underlying assets.

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Contributions in Aid of Construction

Contributions in Aid of Construction is composed of (i) direct, non-refundable contributions from developers, customers or builders for construction of water infrastructure and (ii) customer advances that have become non-refundable. Contributions in aid of construction are deducted from the Company's rate base, and therefore, no return is earned on property financed with contributions. The PPUC requires that contributions received remain on the Company's balance sheet indefinitely as a long-term liability.

Interest Rate Swap Agreement

The Company is exposed to certain risks relating to its ongoing business operations. The primary risk managed by using derivative instruments is interest rate risk. The Company utilizes an interest rate swap agreement to convert a portion of its variable-rate debt to a fixed rate. The Company had designated the interest rate swap agreement as a cash flow hedge. Interest rate swaps are contracts in which a series of interest rate cash flows are exchanged over a prescribed period. The notional amount on which the interest payments are based is not exchanged. The interest rate swap agreement is classified as a financial derivative used for non-trading activities.

The professional standards regarding accounting for derivatives and hedging activities requires companies to recognize all derivative instruments as either assets or liabilities at fair value on the balance sheet. In accordance with the standards, the interest rate swap is recorded on the balance sheet in other deferred credits at fair value.

The Company uses regulatory accounting treatment rather than hedge accounting to defer the unrealized gains and losses on its interest rate swap. Instead of the effective portion being recorded as other comprehensive income and the ineffective portion being recognized in earnings, the entire unrealized swap value is recorded as a regulatory asset. Based on current ratemaking treatment, the Company expects the gains and losses to be recognized in rates and in interest expense as the swap settlements occur. Swap settlements are recorded in the income statement with the hedged item as interest expense. During the year ended December 31, 2011, \$363 was reclassified from regulatory assets to interest expense as a result of swap settlements. The overall swap result was a loss of \$1,864 for the year ended December 31, 2011. During the twelve months ending December 31, 2012, the Company expects to reclassify \$349 (before tax) from regulatory assets to interest expense.

The interest rate swap will expire on October 1, 2029.

Income Taxes

Certain income and expense items are accounted for in different time periods for financial reporting than for income tax reporting purposes.

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. To the extent such income taxes increase or decrease future rates, an offsetting regulatory asset or liability has been recorded.

Investment tax credits have been deferred and are being amortized to income over the average estimated service lives of the related assets. As of December 31, 2011 and 2010, deferred investment tax credits amounted to \$851 and \$890, respectively.

Allowance for Funds Used During Construction

Allowance for funds used during construction (AFUDC) represents the estimated cost of funds used for construction purposes during the period of construction. These costs are reflected as non-cash income during the construction

period and as an addition to the cost of plant constructed. AFUDC includes the net cost of borrowed funds and a rate of return on other funds. The PPUC approved rate of 10.04% was applied for 2011, 2010 and 2009. AFUDC is recovered through water rates as utility plant is depreciated.

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Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain 2010 and 2009 amounts have been reclassified to conform to the 2011 presentation. Such reclassifications had no effect on net income, the statement of common stockholders' equity, or the statement of cash flow category reporting.

During the first quarter of 2009, the Company determined that it had understated the amount of accrued vacation recorded in its financial statements. As a result, the Company recorded additional salary and wage expense of \$257 in accordance with the professional standards regarding accounting for compensated absences. The additional accrual, amounting to \$152 after taxes, represents an error correction from prior periods.

Impact of Recent Accounting Pronouncements

In November 2008, the Securities and Exchange Commission (SEC) released a proposed roadmap regarding the potential use by U.S. issuers of financial statements prepared in accordance with International Financial Reporting Standards (IFRS). IFRS is a comprehensive series of accounting standards published by the International Accounting Standards Board (IASB). In February 2010, the SEC expressed support for a single set of high-quality globally accepted accounting standards and established a work plan that sets forth specific areas and factors before transitioning to IFRS. The SEC stated its intent to make a determination in 2011 regarding the mandatory adoption of IFRS, but that date has been delayed until at least 2012. There is an expectation that any decision to adopt IFRS would allow issuers four to five years to prepare for the transition. The Company is currently assessing the impact that this potential change would have on its financial statements, and it will continue to monitor the development of the potential implementation of IFRS.

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2011-04, "Fair Value Measurement (Topic 820) — Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs" (ASU 2011-04). This update results in common principles and requirements for measuring fair value and for disclosing information about fair value measurements in accordance with U.S. GAAP and IFRSs. The amendments in this update generally represent clarifications of Topic 820, but also include some instances where a particular principle or requirement for measuring fair value or disclosing information about fair value measurements has changed. This update is effective for interim and annual periods beginning after December 15, 2011. This update is not expected to have an impact on the Company's financial statements.

2. Acquisitions

On January 9, 2009, the Company completed the acquisition of the water system of West Manheim Township in York County, Pennsylvania. The Company had begun serving the customers of West Manheim Township in December 2008 through an interconnection with its current distribution system. This acquisition resulted in the addition of 1,800 customers at a purchase price of approximately \$2,075, which is less than the depreciated original cost of the assets. The Company recorded a negative acquisition adjustment of approximately \$1,440 and is amortizing it over the remaining life of the underlying assets.

On November 12, 2009, the Company completed the acquisition of the water system of Beaver Creek Village in Adams County, Pennsylvania. The Company acquired and is using Beaver Creek Village's distribution facilities through an interconnection with its current distribution system. This acquisition resulted in the addition of 167

customers at a purchase price of approximately \$70, which is less than the depreciated original cost of the assets. The Company recorded a negative acquisition adjustment of approximately \$26 and is amortizing it over the remaining life of the underlying assets.

The Company began to include the operating results of the Beaver Creek Village acquisition in its operating results on the acquisition date. The West Manheim acquisition was included in operating results prior to the closing date as indicated above. The results have been immaterial to total company results.

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3. Income Taxes

The provisions for income taxes consist of:

	2011	2010	2009
Federal current	\$1,357	\$1,872	\$1,176
State current	413	1,115	888
Federal deferred	3,291	2,645	2,564
State deferred	(63)	(16)	(10)
Federal investment tax credit, net of current utilization	(39)	(38)	(39)
Total income taxes	\$4,959	\$5,578	\$4,579

A reconciliation of the statutory Federal tax provision (34%) to the total provision follows:

	2011	2010	2009
Statutory Federal tax provision	\$4,775	\$4,933	\$4,111
State income taxes, net of Federal benefit	231	725	579
Tax-exempt interest	(32)	(37)	(39)
Amortization of investment tax credit	(39)	(38)	(39)
Cash value of life insurance	90	70	68
Domestic production deduction	(115)	(127)	(79)
Other, net	49	52	(22)
Total income taxes	\$4,959	\$5,578	\$4,579

The tax effects of temporary differences between book and tax balances that give rise to significant portions of the deferred tax assets and deferred tax liabilities as of December 31, 2011 and 2010 are summarized in the following table:

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	2011	2010
Deferred tax assets:		
Reserve for doubtful accounts	\$135	\$99
Compensated absences	190	188
Deferred compensation	1,234	1,091
Customers' advances and contributions	57	81
Deferred taxes associated with the gross-up of revenues necessary to return, in rates, the effect of temporary differences	119	90
Pensions	4,776	2,951
Contributions carryover	36	-
Costs deducted for book, not for tax	39	33
Total deferred tax assets	6,586	4,533
Deferred tax liabilities:		
Accelerated depreciation	27,850	23,673
Investment tax credit	505	529
Deferred taxes associated with the gross-up of revenues necessary to recover, in rates, the effect of temporary differences	1,864	1,379
Tax effect of pension regulatory asset		