

YORK WATER CO  
Form 10-Q  
August 07, 2009

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2009

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 0-690

THE YORK WATER COMPANY  
(Exact name of registrant as specified in its charter)

PENNSYLVANIA  
(State or other jurisdiction of incorporation or organization)

23-1242500  
(I.R.S. Employer Identification No.)

130 EAST MARKET STREET, YORK, PENNSYLVANIA  
(Address of principal executive offices)

17401  
(Zip Code)

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

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 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 ☒

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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      ýNO

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common stock, No par value

11,434,721 Shares outstanding  
as of August 7, 2009

## THE YORK WATER COMPANY

## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements

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

|                                                                     | Jun. 30, 2009 | Dec. 31, 2008 |
|---------------------------------------------------------------------|---------------|---------------|
| <b>ASSETS</b>                                                       |               |               |
| UTILITY PLANT, at original cost                                     | \$ 257,918    | \$ 246,613    |
| Plant acquisition adjustments                                       | (2,758)       | (1,364)       |
| Accumulated depreciation                                            | (36,964)      | (34,429)      |
| Net utility plant                                                   | 218,196       | 210,820       |
| <b>OTHER PHYSICAL PROPERTY:</b>                                     |               |               |
| Less accumulated depreciation of \$166 in 2009<br>and \$162 in 2008 | 559           | 562           |
| <b>CURRENT ASSETS:</b>                                              |               |               |
| Restricted cash-compensating balance                                | 500           | -             |
| Receivables, less reserves of \$212 in 2009 and \$195 in 2008       | 3,469         | 3,243         |
| Unbilled revenues                                                   | 2,274         | 2,687         |
| Recoverable income taxes                                            | 319           | 131           |
| Materials and supplies inventories, at cost                         | 723           | 741           |
| Prepaid expenses                                                    | 542           | 412           |
| Deferred income taxes                                               | 145           | 133           |
| Total current assets                                                | 7,972         | 7,347         |
| <b>OTHER LONG-TERM ASSETS:</b>                                      |               |               |
| Deferred debt expense                                               | 1,956         | 2,013         |
| Notes receivable                                                    | 510           | 536           |
| Deferred regulatory assets                                          | 15,211        | 15,972        |
| Other                                                               | 3,261         | 3,192         |
| Total long-term assets                                              | 20,938        | 21,713        |
| Total Assets                                                        | \$ 247,665    | \$ 240,442    |

The accompanying notes are an integral part of these statements.

## THE YORK WATER COMPANY

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

Jun. 30, 2009

Dec. 31, 2008

## STOCKHOLDERS' EQUITY AND LIABILITIES

## COMMON STOCKHOLDERS' EQUITY:

Common stock, no par value, authorized 46,500,000 shares,

|    |        |    |        |
|----|--------|----|--------|
| \$ | 58,667 | \$ | 57,875 |
|----|--------|----|--------|

issued and outstanding 11,432,211 shares in 2009

and 11,367,248 shares in 2008

|                   |        |        |
|-------------------|--------|--------|
| Retained earnings | 12,430 | 11,891 |
|-------------------|--------|--------|

|                                   |        |        |
|-----------------------------------|--------|--------|
| Total common stockholders' equity | 71,097 | 69,766 |
|-----------------------------------|--------|--------|

PREFERRED STOCK, authorized 500,000 shares,  
no shares issued

|   |   |
|---|---|
| - | - |
|---|---|

LONG-TERM DEBT, excluding current portion

|        |        |
|--------|--------|
| 82,154 | 83,612 |
|--------|--------|

## COMMITMENTS

|   |   |
|---|---|
| - | - |
|---|---|

## CURRENT LIABILITIES:

|                       |        |       |
|-----------------------|--------|-------|
| Short-term borrowings | 10,000 | 6,000 |
|-----------------------|--------|-------|

|                                   |       |       |
|-----------------------------------|-------|-------|
| Current portion of long-term debt | 4,341 | 2,741 |
|-----------------------------------|-------|-------|

|                  |       |       |
|------------------|-------|-------|
| Accounts payable | 2,253 | 2,011 |
|------------------|-------|-------|

|                   |       |       |
|-------------------|-------|-------|
| Dividends payable | 1,206 | 1,192 |
|-------------------|-------|-------|

|               |    |    |
|---------------|----|----|
| Accrued taxes | 15 | 75 |
|---------------|----|----|

|                  |       |       |
|------------------|-------|-------|
| Accrued interest | 1,020 | 1,080 |
|------------------|-------|-------|

|                        |       |       |
|------------------------|-------|-------|
| Other accrued expenses | 1,461 | 1,097 |
|------------------------|-------|-------|

|                           |        |        |
|---------------------------|--------|--------|
| Total current liabilities | 20,296 | 14,196 |
|---------------------------|--------|--------|

## DEFERRED CREDITS:

|                                      |        |        |
|--------------------------------------|--------|--------|
| Customers' advances for construction | 17,791 | 18,258 |
|--------------------------------------|--------|--------|

|                       |        |        |
|-----------------------|--------|--------|
| Deferred income taxes | 21,104 | 19,549 |
|-----------------------|--------|--------|

|                            |       |       |
|----------------------------|-------|-------|
| Deferred employee benefits | 9,915 | 9,758 |
|----------------------------|-------|-------|

|                        |       |       |
|------------------------|-------|-------|
| Other deferred credits | 1,874 | 2,789 |
|------------------------|-------|-------|

|                        |        |        |
|------------------------|--------|--------|
| Total deferred credits | 50,684 | 50,354 |
|------------------------|--------|--------|

|                                      |        |        |
|--------------------------------------|--------|--------|
| Contributions in aid of construction | 23,434 | 22,514 |
|--------------------------------------|--------|--------|

|                                            |            |            |
|--------------------------------------------|------------|------------|
| Total Stockholders' Equity and Liabilities | \$ 247,665 | \$ 240,442 |
|--------------------------------------------|------------|------------|

The accompanying notes are an integral part of these statements.

## THE YORK WATER COMPANY

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

|                                              | Three Months<br>Ended June 30 |          | Six Months<br>Ended June 30 |          |
|----------------------------------------------|-------------------------------|----------|-----------------------------|----------|
|                                              | 2009                          | 2008     | 2009                        | 2008     |
| <b>WATER OPERATING REVENUES:</b>             |                               |          |                             |          |
| Residential                                  | \$ 5,832                      | \$ 4,952 | \$ 11,365                   | \$ 9,688 |
| Commercial and industrial                    | 2,659                         | 2,259    | 5,181                       | 4,408    |
| Other                                        | 719                           | 651      | 1,438                       | 1,272    |
|                                              | 9,210                         | 7,862    | 17,984                      | 15,368   |
| <b>OPERATING EXPENSES:</b>                   |                               |          |                             |          |
| Operation and maintenance                    | 1,723                         | 1,705    | 3,520                       | 3,330    |
| Administrative and general                   | 1,712                         | 1,596    | 3,563                       | 3,358    |
| Depreciation and amortization                | 1,090                         | 886      | 2,159                       | 1,772    |
| Taxes other than income taxes                | 457                           | 342      | 543                         | 583      |
|                                              | 4,982                         | 4,529    | 9,785                       | 9,043    |
| Operating income                             | 4,228                         | 3,333    | 8,199                       | 6,325    |
| <b>OTHER INCOME (EXPENSES):</b>              |                               |          |                             |          |
| Interest on debt                             | (1,262)                       | (1,147)  | (2,533)                     | (2,313)  |
| Allowance for funds used during construction | 37                            | 152      | 135                         | 324      |
| Other income (expenses), net                 | 81                            | 7        | (260)                       | (136)    |
|                                              | (1,144)                       | (988)    | (2,658)                     | (2,125)  |
| Income before income taxes                   | 3,084                         | 2,345    | 5,541                       | 4,200    |
| Federal and state income taxes               | 1,171                         | 825      | 2,131                       | 1,474    |
| Net income                                   | \$ 1,913                      | \$ 1,520 | \$ 3,410                    | \$ 2,726 |
| Basic Earnings Per Share                     | \$ 0.17                       | \$ 0.13  | \$ 0.30                     | \$ 0.24  |
| Cash Dividends Declared Per Share            | \$ 0.126                      | \$ 0.121 | \$ 0.252                    | \$ 0.242 |

The accompanying notes are an integral part of these statements.



## THE YORK WATER COMPANY

Statements of Common Stockholders' Equity and Comprehensive Income (Unaudited)  
(In thousands of dollars, except per share amounts)  
For the Periods Ended June 30, 2009 and 2008

|                                                                                                               | Common<br>Stock | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Total     |
|---------------------------------------------------------------------------------------------------------------|-----------------|----------------------|-----------------------------------------------------------|-----------|
| Balance, December 31, 2008                                                                                    | \$ 57,875       | \$ 11,891            | \$ -                                                      | \$ 69,766 |
| Net income                                                                                                    | -               | 3,410                | -                                                         | 3,410     |
| Dividends (\$.252 per share)                                                                                  | -               | (2,871)              | -                                                         | (2,871)   |
| Issuance of common stock under<br>dividend reinvestment, direct<br>stock and<br>employee stock purchase plans | 792             | -                    | -                                                         | 792       |
| Balance, June 30, 2009                                                                                        | \$ 58,667       | \$ 12,430            | \$ -                                                      | \$ 71,097 |

|                                                                                              | Common<br>Stock | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Total     |
|----------------------------------------------------------------------------------------------|-----------------|----------------------|-----------------------------------------------------------|-----------|
| Balance, December 31, 2007                                                                   | \$ 56,566       | \$ 10,986            | \$ (280)                                                  | \$ 67,272 |
| Net income                                                                                   | -               | 2,726                | -                                                         | 2,726     |
| Other comprehensive income:                                                                  |                 |                      |                                                           |           |
| Unrealized loss on interest rate<br>swap, net                                                | -               | -                    | (24)                                                      | (24)      |
| Comprehensive income                                                                         |                 |                      |                                                           | 2,702     |
| Dividends (\$.242 per share)                                                                 | -               | (2,729)              | -                                                         | (2,729)   |
| Issuance of common stock under<br>dividend reinvestment and<br>employee stock purchase plans | 501             | -                    | -                                                         | 501       |
| Balance, June 30, 2008                                                                       | \$ 57,067       | \$ 10,983            | \$ (304)                                                  | \$ 67,746 |

The accompanying notes are an integral part of these statements.

## THE YORK WATER COMPANY

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

|                                                                                                                                            | 2009 | Six Months<br>Ended June 30 | 2008     |
|--------------------------------------------------------------------------------------------------------------------------------------------|------|-----------------------------|----------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                                                                               |      |                             |          |
| Net income                                                                                                                                 | \$   | 3,410                       | \$ 2,726 |
| Adjustments to reconcile net income to net cash<br>provided by operating activities:                                                       |      |                             |          |
| Depreciation and amortization                                                                                                              |      | 2,159                       | 1,772    |
| Increase in deferred income taxes                                                                                                          |      | 1,365                       | 703      |
| Other                                                                                                                                      |      | 18                          | (89)     |
| Changes in assets and liabilities:                                                                                                         |      |                             |          |
| (Increase) decrease in accounts<br>receivable, unbilled revenues and<br>recoverable income taxes                                           |      | (100)                       | 39       |
| Increase in materials and supplies<br>and prepaid expenses                                                                                 |      | (112)                       | (171)    |
| Increase in accounts payable,<br>accrued expenses, regulatory<br>and other liabilities, and deferred<br>employee benefits and credits      |      | 911                         | 961      |
| Increase (decrease) in accrued<br>interest and taxes                                                                                       |      | (120)                       | 1        |
| Increase in regulatory and other<br>assets                                                                                                 |      | (24)                        | (405)    |
| Net cash provided by operating<br>activities                                                                                               |      | 7,507                       | 5,537    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                                                                               |      |                             |          |
| Utility plant additions, including debt portion of<br>allowance for funds used during<br>construction of \$75 in 2009 and<br>\$187 in 2008 |      | (6,371)                     | (9,155)  |
| Acquisitions of water systems                                                                                                              |      | (2,165)                     | -        |
| Increase in compensating balance                                                                                                           |      | (500)                       | -        |
| Decrease in notes receivable                                                                                                               |      | 26                          | 51       |
| Net cash used in investing activities                                                                                                      |      | (9,010)                     | (9,104)  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                                                                               |      |                             |          |
| Customers' advances for construction and contributions<br>in aid of construction                                                           |      | 200                         | 436      |
| Repayments of customer advances                                                                                                            |      | (627)                       | (809)    |
| Proceeds of long-term debt issues                                                                                                          |      | 13,185                      | 22,076   |
| Repayments of long-term debt                                                                                                               |      | (13,043)                    | (19,522) |
| Borrowings under short-term line of credit agreements                                                                                      |      | 4,000                       | 3,000    |
| Changes in cash overdraft position                                                                                                         |      | (147)                       | 605      |



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|                                                    |          |          |
|----------------------------------------------------|----------|----------|
| Issuance of common stock                           | 792      | 501      |
| Dividends paid                                     | (2,857)  | (2,720)  |
| Net cash provided by financing activities          | 1,503    | 3,567    |
| Net change in cash and cash equivalents            | -        | -        |
| Cash and cash equivalents at beginning of period   | -        | -        |
| Cash and cash equivalents at end of period         | \$ -     | \$ -     |
| Supplemental disclosures of cash flow information: |          |          |
| Cash paid during the period for:                   |          |          |
| Interest, net of amounts capitalized               | \$ 2,479 | \$ 2,139 |
| Income taxes                                       | 789      | 745      |

Supplemental schedule of non-cash investing and financing activities:

Accounts payable includes \$1,014 in 2009 and \$1,867 in 2008 for the construction of utility plant.

Accounts payable and other deferred credits includes \$61 in 2009 and \$137 in 2008 for the acquisition of water systems.

Contributions in aid of construction includes \$51 in 2008 of contributed land.

The accompanying notes are an integral part of these statements.

THE YORK WATER COMPANY

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

1. Basis of Presentation

The interim financial statements are unaudited but, in the opinion of management, reflect all adjustments, consisting of only normal recurring accruals, necessary for a fair presentation of results for such periods. Because the financial statements cover an interim period, they do not include all disclosures and notes normally provided in annual financial statements, and therefore, should be read in conjunction with the financial statements and notes thereto contained in the Company's Annual Report to Shareholders for the year ended December 31, 2008.

Operating results for the three and six month periods ended June 30, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009.

The Company has evaluated events and transactions occurring subsequent to the balance sheet date of June 30, 2009 through August 7, 2009, the date of issuance of the financial statements included herein. There were no events subsequent to these financial statements.

2. Basic Earnings Per Share

Basic earnings per share for the three months ended June 30, 2009 and 2008 were based on weighted average shares outstanding of 11,410,981 and 11,282,337, respectively.

Basic earnings per share for the six months ended June 30, 2009 and 2008 were based on weighted average shares outstanding of 11,392,658 and 11,276,436, respectively.

Since the Company has no common stock equivalents outstanding, there are no diluted earnings per share.

3. Reclassification

Certain 2008 amounts have been reclassified to conform to the 2009 presentation. Such reclassifications had no effect on financial position, net income, stockholders' equity and comprehensive income statement or cash flow category reporting.

4. Vacation Accrual

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 salaries and wages expense of \$257 under Statement of Financial Accounting Standards (SFAS) No. 43, "Accounting for Compensated Absences." The additional accrual, amounting to \$152 after taxes, represents an error correction from prior periods. The correction was deemed to be immaterial to prior period financials and immaterial to both the trend in net income and projected annual net income for 2009.

5. Capital Commitments

In connection with the construction of a new standpipe in Thomasville, Jackson Township, Pennsylvania, the Company settled its remaining capital commitment of \$980 during the second quarter of 2009.



## 6. Pensions

## Components of Net Periodic Pension Cost

|                                    | Three Months Ended<br>June 30 |        | Six Months Ended<br>June 30 |        |
|------------------------------------|-------------------------------|--------|-----------------------------|--------|
|                                    | 2009                          | 2008   | 2009                        | 2008   |
| Service Cost                       | \$ 190                        | \$ 155 | \$ 397                      | \$ 309 |
| Interest Cost                      | 315                           | 302    | 655                         | 604    |
| Expected return on plan assets     | (237)                         | (298)  | (472)                       | (596)  |
| Amortization of loss               | 89                            | 3      | 202                         | 6      |
| Amortization of prior service cost | 5                             | 5      | 9                           | 9      |
| Rate-regulated adjustment          | (4)                           | 33     | (100)                       | 68     |
| Net periodic pension expense       | \$ 358                        | \$ 200 | \$ 691                      | \$ 400 |

## Employer Contributions

The Company previously disclosed in its financial statements for the year ended December 31, 2008 that it expected to contribute \$1,218 to its pension plans in 2009. The Company now plans to contribute \$1,383 to its pension plans in 2009. As of June 30, 2009, a contribution of \$230 had been made. The Company expects to contribute the remaining \$1,153 over the next two quarters of 2009.

## 7. 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 manage interest rate risk associated with the Company's \$12,000 variable-rate debt issue. 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 (\$12,000) is not exchanged. The interest rate swap agreement is classified as a financial derivative used for non-trading activities. Under the interest rate swap, the Company pays the swap counterparty a fixed rate of 3.16% on the notional amount. The counterparty pays the Company a variable rate based on a percentage of LIBOR (59%) on the notional amount. The Company's net payment rate on the swap was 2.93% during the three months ended June 30, 2009 and 2.87% during the six months ended June 30, 2009. The intent is for the variable rate received from the swap counterparty to approximate the variable rate the Company pays to bondholders on its variable rate debt issue, resulting in a fixed rate being paid to the swap counterparty and reducing the Company's interest rate risk.

The interest rate swap agreement contains provisions that require the Company to maintain a credit rating of at least BBB- with Standard & Poor's. If the Company's rating were to fall below this rating, it would be in violation of these provisions, and the counterparty to the derivative could request immediate payment if the derivative was in a liability position. The Company's interest rate swap was in a liability position as of June 30, 2009. If a violation were triggered on June 30, 2009, the Company could be required to pay the counterparty approximately \$1,347.

SFAS No. 133, "Accounting for Derivatives and Hedging Activities," as amended, requires companies to recognize all derivative instruments as either assets or liabilities at fair value in the statement of financial position. In accordance with SFAS No. 133, the interest rate swap is recorded on the balance sheet in other deferred credits at fair value (see Note 8). Prior to October 1, 2008, the Company used hedge accounting to record its swap transactions. The effective portion of the gain or loss on a derivative designated and qualifying as a cash flow hedging instrument was initially reported as a component of other comprehensive income and subsequently reclassified into earnings as interest expense in the same period or periods during which the hedged transaction affected earnings. The ineffective portion

of the gain or loss on the derivative instrument was recognized in earnings.

Beginning October 1, 2008, the Company began using 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 now recorded as a regulatory asset. Based on current ratemaking treatment, the Company expects the unrealized gains and losses to be recognized in rates as a component of interest expense as the swap settlements occur. Swap settlements are recorded in the income statement with the hedged item as interest expense. During the three months ended June 30, 2009, \$88 was reclassified from regulatory assets to interest expense as a result of swap settlements. During the six months ended June 30, 2009, \$199 was reclassified from regulatory assets to interest expense as a result of swap settlements. The overall swap result was a gain of \$574 for the three months ended June 30, 2009 and a gain of \$706 for the six months ended June 30, 2009. The Company expects to reclassify \$331 from regulatory assets to interest expense as a result of swap settlements over the next 12 months.

The interest rate swap will expire on October 1, 2029. Other than the interest rate swap, the Company has no other derivative instruments.

#### 8. Fair Value Measurements

SFAS No. 157, "Fair Value Measurements," establishes a fair value hierarchy which indicates the extent to which inputs used in measuring fair value are observable in the market. Level 1 inputs include quoted prices for identical instruments and are the most observable. Level 2 inputs include quoted prices for similar assets and observable inputs such as interest rates, commodity rates and yield curves. Level 3 inputs are not observable in the market and include management's own judgments about the assumptions market participants would use in pricing the asset or liability.

The Company has recorded its interest rate swap liability at fair value in accordance with SFAS No. 157. The liability is recorded under the caption "Other deferred credits" on the balance sheet. The table below illustrates the fair value of the interest rate swap as of the end of the reporting period.

| (\$ in 000s)       |               | Fair Value Measurements<br>at Reporting Date Using |                                   |
|--------------------|---------------|----------------------------------------------------|-----------------------------------|
| Description        | June 30, 2009 | Significant                                        | Other Observable Inputs (Level 2) |
| Interest Rate Swap | \$1,162       |                                                    | \$1,162                           |

Fair values are measured as the present value of all expected future cash flows based on the LIBOR-based swap yield curve as of the date of the valuation. These inputs to this calculation are deemed to be level 2 inputs. The balance sheet carrying value reflects the Company's credit quality as of June 30, 2009. The rate used in discounting all prospective cash flows anticipated to be made under this swap reflected a representation of the yield to maturity for 30-year debt on utilities rated A- as of June 30, 2009. The use of the Company's credit quality resulted in a reduction in the swap liability of \$185 as of June 30, 2009. The fair value of the swap reflecting the Company's credit quality as of December 31, 2008 is shown in the table below.

| (\$ in 000s)       |                   | Fair Value Measurements<br>at Reporting Date Using |                                   |
|--------------------|-------------------|----------------------------------------------------|-----------------------------------|
| Description        | December 31, 2008 | Significant                                        | Other Observable Inputs (Level 2) |
| Interest Rate Swap | \$2,037           |                                                    | \$2,037                           |

The carrying amount of current assets and liabilities that are considered financial instruments approximates their fair value as of the dates presented. The Company's long-term debt (including current maturities), with a carrying value of \$86,495 as of June 30, 2009, and \$86,353 as of December 31, 2008, had an estimated fair value of approximately \$91,000 and \$89,000, respectively. The estimated fair value of debt was calculated in accordance with SFAS No. 157, using a discounted cash flow technique that incorporates a market interest yield curve with adjustments for duration and risk profile. The Company considered its A- credit rating in determining the yield curve, and in accordance with EITF 08-5, did not factor in third party credit enhancements including bond insurance on the 2004 PEDFA Series A and 2006 Industrial Development Authority issues, and the letter of credit on the 2008 PEDFA Series A issue.

The Company's customers' advances for construction and notes receivable have carrying values at June 30, 2009 of \$17,791 and \$510, respectively. At December 31, 2008, customers' advances for construction and notes receivable had carrying values of \$18,258 and \$536, respectively. The relative fair values of these amounts cannot be accurately estimated since the timing of future payment streams is dependent upon several factors, including new customer connections, customer consumption levels and future rate increases.

## 9. Long-Term Debt

|                                                                                                                                    | As of<br>Jun. 30,<br>2009 | As of<br>Dec. 31,<br>2008 |
|------------------------------------------------------------------------------------------------------------------------------------|---------------------------|---------------------------|
| 3.60% Industrial Development Authority<br>Revenue Refunding Bonds, Series 1994, due 2009                                           | \$ -                      | \$ 2,700                  |
| 3.75% Industrial Development Authority<br>Revenue Refunding Bonds, Series 1995, due 2010                                           | 4,300                     | 4,300                     |
| 4.05% Pennsylvania Economic Development Financing Authority<br>Exempt Facilities Revenue Bonds, Series A, due 2016                 | 2,350                     | 2,350                     |
| 5.00% Pennsylvania Economic Development Financing Authority<br>Exempt Facilities Revenue Bonds, Series A, due 2016                 | 4,950                     | 4,950                     |
| 10.17% Senior Notes, Series A, due 2019                                                                                            | 6,000                     | 6,000                     |
| 9.60% Senior Notes, Series B, due 2019                                                                                             | 5,000                     | 5,000                     |
| 1.00% Pennvest Loan, due 2019                                                                                                      | 435                       | 455                       |
| 10.05% Senior Notes, Series C, due 2020                                                                                            | 6,500                     | 6,500                     |
| 8.43% Senior Notes, Series D, due 2022                                                                                             | 7,500                     | 7,500                     |
| 4.75% Industrial Development Authority<br>Revenue Bonds, Series 2006, due 2036                                                     | 10,500                    | 10,500                    |
| Variable Rate Pennsylvania Economic Development Financing Authority<br>Exempt Facilities Revenue Bonds, Series A of 2008, due 2029 | 12,000                    | 12,000                    |
| 6.00% Pennsylvania Economic Development Financing Authority<br>Exempt Facilities Revenue Bonds, Series B, due 2038                 | 15,000                    | 15,000                    |
| Committed Lines of Credit, due 2011                                                                                                | 11,960                    | 9,098                     |
| Total long-term debt                                                                                                               | 86,495                    | 86,353                    |
| Less current maturities                                                                                                            | (4,341)                   | (2,741)                   |
| Long-term portion                                                                                                                  | \$ 82,154                 | \$ 83,612                 |

The 3.60% Industrial Development Authority Revenue Refunding Bonds, Series 1994, had a mandatory tender date of May 15, 2009. The Company retired the \$2,700 bonds using funds available under its lines of credit. The 3.75% Industrial Development Authority Revenue Refunding Bonds, Series 1995, have a mandatory tender date of June 1, 2010. The Company currently plans to meet its \$4,300 obligation using funds available under its lines of credit or potential debt and equity issuances.





In January 2009, the Company's \$7,500 line of credit, which was payable on demand, was renegotiated to an \$11,000 committed line of credit with a maturity date of May 31, 2010. Borrowings outstanding under this line of credit were shown as a component of long-term debt during the first quarter. During the second quarter, the balances were reclassified to short-term borrowings because the maturity date is now less than one year away. The interest rate on this newly committed facility is LIBOR plus 1.50%, and the agreement requires a compensating balance of \$500.

#### 10. Acquisitions

On May 16, 2007, the Company announced that it had entered into an agreement to acquire the water system of West Manheim Township in York County, Pennsylvania. The Company began serving the customers of West Manheim Township in December 2008 through an interconnection with its current distribution system. Closing on this acquisition took place in January 2009. 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 will amortize it over the remaining life of the underlying assets as required by the Pennsylvania Public Utility Commission (PPUC).

On November 24, 2008, the Company completed the acquisition of the water facilities of Asbury Pointe Water Company in York County, Pennsylvania. The Company acquired and is using Asbury Pointe's distribution system through an interconnection with its current distribution system. This acquisition resulted in the addition of approximately 250 customers and the purchase price was approximately \$242, which is less than the depreciated original cost of the assets. The Company recorded a negative acquisition adjustment of approximately \$207 as of December 31, 2008. Additional acquisition expenditures during the first quarter of 2009 of approximately \$22 resulted in a reduction of the negative acquisition adjustment to \$185. The Company will amortize the negative acquisition adjustment over the remaining life of the underlying assets as required by the PPUC.

On July 20, 2009, the Company announced that it will acquire the water system of Beaver Creek Village in Adams County, PA. The Company plans to construct a water main which will interconnect with Beaver Creek's existing distribution facilities. The expected purchase price is \$70. This acquisition will result in the addition of approximately 167 customers and is expected to be completed in the fourth quarter of 2009.

#### 11. Rate Matters

From time to time, the Company files applications for rate increases with the PPUC and is granted rate relief as a result of such requests. The most recent rate request was filed by the Company on May 16, 2008 and sought an increase of \$7,086, which would have represented a 19.6% increase in rates. Effective October 9, 2008, the PPUC authorized an increase in rates designed to produce approximately \$5,950 in additional annual revenues. The Company does not expect to file a base rate increase request in 2009.

#### 12. Compensating Balance Requirement

The Company is required to maintain a demand deposit account with an average monthly balance of \$500 in order to retain one of its committed lines of credit. The use of the funds in the account in excess of the \$500 is not restricted in any way.

### 13. Impact of Recent Accounting Pronouncements

In November 2008, the 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"). Under the proposed roadmap, the Company may be required to prepare financial statements in accordance with IFRS as early as 2014. The SEC will make a determination in 2011 regarding the mandatory adoption of IFRS. 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 December 2008, the FASB issued FSP FAS 132(R)-1, "Employers' Disclosures about Postretirement Benefit Plan Assets." This FSP amends SFAS 132(R), "Employers' Disclosures about Pensions and Other Postretirement Benefits," to provide guidance on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan. The disclosures about plan assets required by this FSP shall be provided for fiscal years ending after December 15, 2009. The Company is currently reviewing the effect this new pronouncement will have on its financial statements.

In April 2009, the FASB issued FSP No. FAS 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly (FSP FAS 157-4)." FASB Statement 157, "Fair Value Measurements," defines fair value as the price that would be received to sell the asset or transfer the liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. FSP FAS 157-4 provides additional guidance on determining when the volume and level of activity for the asset or liability has significantly decreased. The FSP also includes guidance on identifying circumstances when a transaction may not be considered orderly. This FSP is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. An entity early adopting FSP FAS 157-4 must also early adopt FSP FAS 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments." The Company reviewed this statement for applicability and determined that it did not have a material impact on its results of operation or financial position as of and for the period ended June 30, 2009.

In April 2009, the FASB issued FSP No. FAS 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments," (FSP FAS 115-2 and FAS 124-2). FSP FAS 115-2 and FAS 124-2 clarify the interaction of the factors that should be considered when determining whether a debt security is other-than-temporarily impaired. This FSP is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. An entity early adopting FSP FAS 115-2 and FAS 124-2 must also early adopt FSP FAS 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly." The Company reviewed this statement for applicability and determined that it did not have a material impact on its results of operation or financial position as of and for the period ended June 30, 2009.

In April 2009, the FASB issued FSP No. FAS 107-1 and Accounting Principles Board (APB) 28-1, "Interim Disclosures about Fair Value of Financial Instruments," (FSP FAS 107-1 and APB 28-1). FSP FAS 107-1 and APB 28-1 amends FASB Statement No. 107, "Disclosures about Fair Value of Financial Instruments," to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This FSP also amends APB Opinion No. 28, "Interim Financial Reporting," to require those disclosures in summarized financial information at interim reporting periods. This FSP is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. An entity early adopting FSP FAS 107-1 and APB 28-1 must also early adopt FSP FAS 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly" and FSP FAS 115-2 and FAS 124-2, "Recognition and

Presentation of Other-Than-Temporary Impairments.” The Company adopted this standard April 1, 2009 and has provided the required additional disclosures in Note 8 to the financial statements included herein.

In April 2009, the FASB issued FSP No. FAS 141R-1, "Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies." The standard requires the initial recognition and measurement of a contingency acquired as part of a business combination at fair value at the acquisition date. This standard is effective for annual periods beginning after December 15, 2008. The Company adopted this statement January 1, 2009 and determined that it did not have a material impact on the Company's financial statements.

In May 2009, the FASB issued SFAS No. 165, "Subsequent Events." The statement requires management to evaluate subsequent events through the date the financial statements are issued or the financial statements are available to be issued. It is based on the same principles as those that currently exist in the auditing standards. It does, however, replace the terms "Type I" and "Type II" subsequent events with "recognized" and "non-recognized" subsequent events. The standard also requires an entity to disclose the date through which it evaluated subsequent events. This standard is effective for interim and annual periods ending after June 15, 2009. The Company adopted this standard April 1, 2009 and incorporated the required disclosures into Note 1 to the financial statements included herein.

In June 2009, the FASB issued SFAS No. 166, "Accounting for Transfers of Financial Assets—an amendment of FASB Statement No. 140." The standard requires more information about transfers of financial assets, including securitization transactions, and where companies have continuing exposure to the risks related to transferred financial assets. This standard is effective for fiscal years beginning after November 15, 2009. This statement is not expected to have an impact on the Company's financial statements.

In June 2009, the FASB issued SFAS No. 167, "Amendments to FASB Interpretation No. 46(R), Consolidation of Variable Interest Entities." The standard changes how a company determines when an entity that is insufficiently capitalized or is not controlled through voting or similar rights should be consolidated. This standard is effective for fiscal years beginning after November 15, 2009. This statement is not expected to have an impact on the Company's financial statements.

In June 2009, the FASB issued SFAS No. 168, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles—a replacement of FASB Statement No. 162." The FASB Accounting Standards Codification (Codification) will become the source of authoritative U.S. generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. On the effective date of this Statement, the Codification will supersede all then-existing non-SEC accounting and reporting standards. All other non-grandfathered, non-SEC accounting literature not included in the Codification will no longer be authoritative. This Statement is effective for financial statements issued for interim and annual periods ending after September 15, 2009. This statement is not expected to have an impact on the Company's financial statements.

## 14. Other Comprehensive Income

|                                                                                                 | Three Months<br>Ended June 30 |          |
|-------------------------------------------------------------------------------------------------|-------------------------------|----------|
|                                                                                                 | 2009                          | 2008     |
| Net Income                                                                                      | \$ 1,913                      | \$ 1,520 |
| Unrealized gain on interest rate swap, net of \$121 income<br>tax in 2008                       | -                             | 177      |
| Reclassification adjustment for amounts recognized in income,<br>net of \$21 income tax in 2008 | -                             | 30       |
|                                                                                                 | -                             | 207      |
| Comprehensive income                                                                            | \$ 1,913                      | \$ 1,727 |

|                                                                                                 | Six Months<br>Ended June 30 |          |
|-------------------------------------------------------------------------------------------------|-----------------------------|----------|
|                                                                                                 | 2009                        | 2008     |
| Net Income                                                                                      | \$ 3,410                    | \$ 2,726 |
| Unrealized loss on interest rate swap, net of (\$53) income<br>tax in 2008                      | -                           | (78)     |
| Reclassification adjustment for amounts recognized in income,<br>net of \$37 income tax in 2008 | -                           | 54       |
|                                                                                                 | -                           | (24)     |
| Comprehensive income                                                                            | \$ 3,410                    | \$ 2,702 |

Item 2. Management's Discussion and Analysis of  
Financial Condition and Results of Operations  
(In thousands of dollars, except per share amounts)

Forward-looking Statements

This report on Form 10-Q contains certain matters which are not historical facts, but which are forward-looking statements. Words such as "may," "should," "believe," "anticipate," "estimate," "expect," "intend," "plan" and similar expressions are intended to identify forward-looking statements. The Company intends for these forward-looking statements to qualify for safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. These forward-looking statements include certain information relating to the Company's business strategy; statements including, but not limited to:

- expected profitability and results of operations;
- 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 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 any public announcement when forward-looking statements in this 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;
- the ability to obtain financing; and
- other matters set forth in Item 1A, "Risk Factors" of the Company's Annual Report on Form 10-K for 2008.

## General Information

The business of the Company is to impound, purify to meet or exceed safe drinking water standards and distribute water. The Company operates entirely 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 June 30, 2009, the Company's average daily availability was 35.0 million gallons, and daily consumption was approximately 18.2 million gallons. The Company's service territory had an estimated population of 176,000 as of December 31, 2008. 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, barbells and motorcycles.

The Company's business is somewhat dependent on weather conditions, particularly the amount of rainfall. The Company has minimum customer charges in place that are intended to cover fixed costs of operations under all likely weather conditions; however, reduced water consumption and a sluggish economy have combined to reduce per capita consumption by industrial and residential customers by approximately 3.7% during the first six months of 2009 compared to the first six months of 2008.

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 regulatory authorities 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.

## Results of Operations

### Three Months Ended June 30, 2009 Compared With Three Months Ended June 30, 2008

Net income for the second quarter of 2009 was \$1,913, an increase of \$393, or 25.9%, from net income of \$1,520 for the same period of 2008. The primary contributing factor to the increase was higher water revenues which were partially offset by increased depreciation, pension cost and interest expense.

Water operating revenues for the three months ended June 30, 2009 increased \$1,348, or 17.1%, from \$7,862 for the three months ended June 30, 2008 to \$9,210 for the corresponding 2009 period. The primary reasons for the increase in revenues were a rate increase effective October 9, 2008 and growth in the customer base. The average number of customers served in the second quarter of 2009 increased as compared to the same period in 2008 by 2,569 customers, from 59,239 to 61,808 customers. Approximately 2,050 of the additional customers were due to the Asbury Pointe and West Manheim acquisitions. The total per capita volume of water sold in the second quarter of 2009 decreased compared to the corresponding 2008 period by approximately 4.6%. Reduced consumption is attributed to a sluggish economy and reduced water consumption by our customers.





Operating expenses for the second quarter of 2009 increased \$453, or 10.0%, from \$4,529 for the second quarter of 2008 to \$4,982 for the corresponding 2009 period. The increase was primarily due to higher depreciation of \$204 due to increased plant investment, increased pension expense of \$158, higher capital stock expenses of \$107 due primarily to the reclassification of the first quarter Educational Improvement Tax Credit (EITC) to charitable contributions in other income (expenses), increased distribution system maintenance expense of \$74 and higher chemical costs, rate case expense and power costs aggregating approximately \$72. The increase was partially offset by lower salary and wage expenses, reduced health insurance costs, lower transportation expense, reduced legal fees, higher capitalized overhead and lower software support costs aggregating approximately \$162.

Interest expense on debt for the second quarter of 2009 increased \$115, or 10.0%, from \$1,147 for the second quarter of 2008 to \$1,262 for the corresponding 2009 period. Interest on the Company's long-term debt increased by \$223 due to an increase in the amount of long-term debt outstanding due to new debt issued on October 15, 2008 in the aggregate principal amount of \$15,000 at an interest rate of 6%. Interest on the Company's lines of credit decreased by \$59 due to lower interest rates. The average interest rate on the lines of credit was 1.51% for the quarter ended June 30, 2009 compared to 3.34% for the quarter ended June 30, 2008. The average debt outstanding under the lines of credit was \$20,494 for the second quarter of 2009 and \$15,713 for the second quarter of 2008. Lower interest on the \$12,000 variable rate bonds also contributed approximately \$37 to the decreased expenses. Other long-term interest decreased \$12.

Allowance for funds used during construction decreased \$115, from \$152 in the second quarter of 2008 to \$37 in the 2009 period, due to a planned lower volume of eligible construction. Eligible 2008 construction expenditures included an investment in a large water treatment replacement and expansion project that was placed in service in December, 2008.

Other income (expenses), net for the second quarter of 2009 reflects decreased expenses of \$74 as compared to the same period of 2008. The decrease was primarily due to reduced charitable contributions of \$137 due to the reclassification of the EITC mentioned above. Increased supplemental retirement and other expenses aggregating approximately \$63 offset the reduced expenses.

Federal and state income taxes for the second quarter of 2009 increased by \$346, or 41.9%, compared to the same period of 2008, primarily due to an increase in taxable income. The Company's effective tax rate was 38.0% in the second quarter of 2009 and 35.2% in the second quarter of 2008. The increase in the effective tax rate was due to bonus depreciation initially being taxable for state tax purposes and additional taxes payable on our Deferred Compensation plans.

#### Six Months Ended June 30, 2009 Compared With Six Months Ended June 30, 2008

Net income for the first six months of 2009 was \$3,410, an increase of \$684, or 25.1%, from net income of \$2,726 for the same period of 2008. The primary contributing factor to the increase was higher water revenues which were partially offset by increased depreciation, pension cost, salary and wage expense and interest expense.

Water operating revenues for the six months ended June 30, 2009 increased \$2,616, or 17.0%, from \$15,368 for the six months ended June 30, 2008 to \$17,984 for the corresponding 2009 period. The primary reasons for the increase in revenues were a rate increase effective October 9, 2008 and growth in the customer base. The average number of customers served in the first six months of 2009 increased as compared to the same period in 2008 by 2,593 customers, from 59,123 to 61,716 customers. Approximately 2,050 of the additional customers were due to the Asbury Pointe and West Manheim acquisitions. Throughout the first half of 2009, the Company experienced a 3.7% decline in per capita consumption, of which the largest decline occurred in the residential and industrial categories. The reduction is attributed to a sluggish economy and reduced water consumption by our customers. The

Company expects revenues to continue at a higher rate than last year as a result of the new customers acquired at the end of 2008, and the full year's impact of the rate increase granted in October 2008. Drought warnings or restrictions as well as regulatory actions could impact results in future quarters.

Operating expenses for the first six months of 2009 increased \$742, or 8.2%, from \$9,043 for the first six months of 2008 to \$9,785 for the corresponding 2009 period. The increase was primarily due to higher depreciation of \$387 due to increased plant investment, increased pension expense of \$291, higher salary and wage expense of \$218 due mainly to the increased vacation accrual discussed in Note 4 and increased power costs, rate case expense, chemical costs, banking fees and other expenses aggregating approximately \$78. The increase was partially offset by reduced health insurance costs, lower software support costs, higher capitalized overhead and lower transportation expense aggregating approximately \$232. Depreciation and pension expenses are expected to continue at a higher rate throughout 2009.

Interest expense on debt for the first six months of 2009 increased \$220, or 9.5%, from \$2,313 for the first six months of 2008 to \$2,533 for the corresponding 2009 period. Interest on the Company's long-term debt increased by \$448 due to an increase in the amount of long-term debt outstanding due to new debt issued on October 15, 2008 in the aggregate principal amount of \$15,000 at an interest rate of 6%. Interest on the Company's lines of credit decreased by \$153 due to lower interest rates. The average interest rate on the lines of credit was 1.36% for the first six months ended June 30, 2009 compared to 3.89% for the six months ended June 30, 2008. The average debt outstanding under the lines of credit was \$18,706 for the first six months of 2009 and \$14,242 for the corresponding period of 2008. Lower interest on the \$12,000 variable rate bonds also contributed approximately \$63 to the decreased expenses. Other long-term interest decreased \$12.

Allowance for funds used during construction decreased \$189, from \$324 for the first six months of 2008 to \$135 in the 2009 period, due to a planned lower volume of eligible construction. Eligible 2008 construction expenditures included an investment in a large water treatment replacement and expansion project that was placed in service in December, 2008.

Other income (expenses), net for the first six months of 2009 reflects increased expenses of \$124 as compared to the same period of 2008. The increase was primarily due to increased supplemental retirement expenses of \$88 and other expenses aggregating approximately \$36.

Federal and state income taxes for the first six months of 2009 increased by \$657, or 44.6%, compared to the same period of 2008, primarily due to an increase in taxable income. The Company's effective tax rate was 38.5% in the first six months of 2009 and 35.1% in the corresponding 2008 period. The increase in the effective tax rate was due to taxable gains on the surrender of life insurance policies, bonus depreciation initially being taxable for state tax purposes and additional taxes payable on our Deferred Compensation plans.

#### Rate Matters

See Note 11 to the Financial Statements.

#### Acquisitions

See Note 10 to the Financial Statements.

#### Liquidity and Capital Resources

For the six months ended June 30, 2009, the Company invested \$6,371 in construction expenditures for routine items as well as an additional standpipe and booster station and various replacements of aging infrastructure. In addition to construction projects, the Company invested approximately \$2,165 for the acquisition of West Manheim and additional expenditures relating to the Asbury Pointe water system. The Company was able to fund operating activities and construction expenditures using internally-generated funds, borrowings against the Company's lines of credit, proceeds from the issuance of common stock under its dividend reinvestment and direct stock purchase and

sale plan and employee stock purchase plan, or ESPP, and customer advances.

The Company anticipates construction expenditures for the remainder of 2009 of approximately \$8,635. In addition to routine transmission and distribution projects and the Beaver Creek acquisition and main extension, a portion of the anticipated expenditures will be for various replacements of aging infrastructure. The Company intends to use internally-generated funds for at least half of the anticipated construction and fund the remainder through line of credit borrowings, customer advances and contributions, proceeds from stock issuances through internal plans, subscriptions or public offerings, the Distribution System Improvement Charge (DSIC) and potential debt issuances. The condition of the stock market and the availability of credit will play a major role in how funds will be raised for the remainder of the year.

#### Internally-generated Funds

The amount of internally-generated funds available for operations and construction depends on our ability to obtain timely and adequate rate relief, our customers' water usage, weather conditions, customer growth and controlled expenses. In the first six months of 2009, we generated \$7,507 internally as compared to \$5,537 in the first six months of 2008. A successful rate increase request, the addition of approximately 2,600 customers and increased depreciation and deferred income taxes, which are non-cash expenses, helped to increase cash flow from operating activities. In addition to internally-generated funds, we used our bank lines of credit to help fund operations and construction.

#### Credit Lines

As of June 30, 2009, the Company maintained unsecured lines of credit aggregating \$33,000 with three banks. One line of credit includes a \$4,000 portion which is payable upon demand and carries an interest rate of 4.00% or LIBOR plus 0.70%, whichever is greater, and a \$13,000 committed portion with a revolving 2-year maturity (currently May 2011), which currently carries an interest rate of LIBOR plus 0.70%. The Company had \$11,960 in outstanding borrowings under the committed portion and no on-demand borrowings under this line of credit as of June 30, 2009. The second line of credit, in the amount of \$11,000, is a committed line of credit, which matures in May 2010 and carries an interest rate of LIBOR plus 1.50%. This line of credit has a compensating balance requirement of \$500. The Company had \$9,000 in outstanding borrowings under this line of credit as of June 30, 2009. The third line of credit, in the amount of \$5,000, is a committed line of credit, which matures in April 2010 and carries an interest rate of LIBOR plus 2.00%. The Company had \$1,000 in outstanding borrowings under this line of credit as of June 30, 2009. The weighted average interest rate on line of credit borrowings as of June 30, 2009 was 1.41% compared to 3.11% as of June 30, 2008.

#### Long-term Debt

The Company's loan agreements contain various covenants and restrictions. To the Company's knowledge, the Company is currently in compliance with all of these covenants and restrictions. See Note 4 to the Company's Annual Report to Shareholders for the year ended December 31, 2008 for additional information regarding these restrictions.

The 3.60% Industrial Development Authority Revenue Refunding Bonds, Series 1994, had a mandatory tender date of May 15, 2009. The Company retired the \$2,700 bonds using funds available under its lines of credit. The 3.75% Industrial Development Authority Revenue Refunding Bonds, Series 1995, have a mandatory tender date of June 1, 2010. The Company currently plans to meet its \$4,300 obligation using funds available under its lines of credit or potential debt and equity issuances.

#### Common Stock

Common stockholders' equity as a percent of the total capitalization, defined as total common stockholders' equity plus long-term debt (including current maturities), was 45.1% as of June 30, 2009, compared with 44.7% as of December 31, 2008. It is the Company's intent to achieve and maintain a ratio near fifty percent. Economic conditions in 2008 caused us to modify our plans to issue common stock due to a reduced stock price, the potential inability to raise the needed funds and the prospect of further dilution to our stock value. We are currently evaluating the possibility of an equity offering in 2009. We filed a Registration Statement on Form S-3 with the Securities and

Exchange Commission on April 28, 2009 under the “shelf” provisions of the Securities Act of 1933. This will allow us to issue shares of the Company’s common stock over the next couple of years when market conditions are favorable.

#### Credit Rating

On March 26, 2009, Standard and Poor's affirmed the Company's credit rating at A-, with a stable outlook. Our ability to maintain this rating depends, among other things, on adequate and timely rate relief, which we have been successful in obtaining, and our ability to fund capital expenditures in a balanced manner using both debt and equity. For the remainder of 2009, our objectives will be to maximize our funds provided by operations and increase the equity component of total capitalization.

#### Critical Accounting Estimates

The methods, estimates and judgments we use in applying our accounting policies have a significant impact on the results we report in our financial statements. Our accounting policies require us to make subjective judgments because of the need to make estimates of matters that are inherently uncertain. Our most critical accounting estimates include: regulatory assets and liabilities, revenue recognition and accounting for our pension plans. There has been no significant change in our accounting estimates or the method of estimation during the quarter ended June 30, 2009.

#### 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 does not engage in trading or risk management activities, with the exception of the interest rate swap agreement discussed in Note 7 to the financial statements, does not use derivative financial instruments for speculative trading purposes, has no lease obligations, no guarantees and does not have material transactions involving related parties.

#### Impact of Recent Accounting Pronouncements

See Note 13 to the Financial Statements.

#### Item 3. Quantitative and Qualitative Disclosures About Market Risk

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 does not engage in trading or risk management activities with the exception of an interest rate swap agreement, described below, does not use derivative financial instruments for speculative trading purposes, has no lease obligations, and does not have material transactions involving related parties.

The Company's operations are exposed to market risks primarily as a result of changes in interest rates. This exposure to these market risks relates to the Company's debt obligations under its lines of credit. As of July 2009, the Company has lines of credit with maximum availability of \$33,000 with three banks. One such line of credit includes a \$4,000 portion, which is payable upon demand and carries an interest rate of 4.00% , or LIBOR plus 0.70%, whichever is greater, and a \$13,000 committed portion with a revolving 2-year maturity (currently May 2011), which currently carries an interest rate of LIBOR plus 0.70%. The Company had \$11,960 in outstanding borrowings under the committed portion and no on-demand borrowings under this line of credit as of June 30, 2009. The second line of credit, in the amount of \$11,000, is a committed line of credit, which matures in May 2010 and carries an interest rate of LIBOR plus 1.50%. This line of credit has a compensating balance requirement of \$500 (see Note 12 to the financial statements included herein). The Company had \$9,000 in outstanding borrowings under this line of credit as of June 30, 2009. The third line of credit, in the amount of \$5,000, is a committed line of credit, which matures in April 2010 and carries an interest rate of LIBOR plus 2.00%. The Company had \$1,000 in outstanding borrowings

under this line of credit as of June 30, 2009. All lines of credit are unsecured. The weighted average interest rate on line of credit borrowings as of June 30, 2009 was 1.41%. Other than lines of credit, the Company has long-term fixed rate debt obligations as shown in Note 9 to the Financial Statements included herein and a variable rate Pennsylvania Economic Development Financing Authority (PEDFA) loan agreement described below.



In May 2008, the PEDFA, issued \$12,000 aggregate principal amount of PEDFA Exempt Facilities Revenue Bonds, Series A (the "Series A Bonds"). 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. The interest rate under this loan agreement averaged 0.59% during the quarter ended June 30, 2009 and 0.64% during the six months ended June 30, 2009. 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 rate received on the swap should approximate the variable rate we pay on the PEDFA Series A Bond Issue, thereby minimizing our risk. See Note 7 to the financial statements included herein for additional information regarding the interest rate swap.

In addition to the interest rate swap agreement, the Company entered into a Reimbursement, Credit and Security Agreement with PNC Bank, National Association ("the bank"), dated as of May 1, 2008, in order to enhance the marketability of the variable rate bonds and to keep the interest rate on the bonds low. 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 is reviewed annually for a possible one-year extension. The Company's responsibility under this agreement is to reimburse the bank on a timely basis for interest payments made to the bondholders and for any tendered bonds that could not be remarketed. The Company has fourteen months from the time bonds are tendered to reimburse the bank. If the direct pay letter of credit is not renewed, the Company would be required to pay the bank immediately for any tendered bonds. In addition, the interest rate swap agreement would terminate causing a potential payment by the Company to the counterparty. Both the letter of credit and the swap agreement can potentially be transferred upon this type of event.

#### Item 4. Controls and Procedures

##### (a) Evaluation of Disclosure Controls and Procedures

The Company's management, with the participation of the Company's President and Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based upon this evaluation, the Company's President and Chief Executive Officer along with the Chief Financial Officer concluded that the Company's disclosure controls and procedures as of the end of the period covered by this report are functioning effectively to provide reasonable assurance that the information required to be disclosed by the Company in reports filed under the Securities Exchange Act of 1934 is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) accumulated and communicated to the Company's management, including the President and Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding disclosure.

##### (b) Change in Internal Control over Financial Reporting

No change in the Company's internal control over financial reporting occurred during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## Part II – OTHER INFORMATION

## Item 4. Submission of Matters to a Vote of Security Holders

The Annual Meeting of the Shareholders of The York Water Company was convened May 4, 2009 at the Strand Capital Performing Arts Center, 50 North George Street, in the City of York, Pennsylvania, at 1:00 P.M. for the purpose of taking action upon the following proposals:

- (1) To elect four (4) Directors to three-year terms of office.

The actions taken by the Shareholders concerning the election of Directors are as follows:

|            | Votes for Each Nominee | Votes Withheld for Each Nominee |
|------------|------------------------|---------------------------------|
| George Hay |                        |                                 |
| Kain, III  | 7,434,908votes         | 1,261,763votes                  |
| George W.  |                        |                                 |
| Hodges     | 7,443,712votes         | 1,252,960votes                  |
| Michael W. |                        |                                 |
| Gang       | 7,302,687votes         | 1,393,985votes                  |
| Jeffrey R. |                        |                                 |
| Hines      | 7,456,885votes         | 1,239,787votes                  |

The following Directors' terms of office continued after the Annual Meeting:

|                   |                   |
|-------------------|-------------------|
| Cynthia A. Dotzel | John L. Finlayson |
| William T. Morris | Thomas C. Norris  |
| Jeffrey S. Osman  | Ernest J. Waters  |

- (2) To appoint Beard Miller Company LLP as independent public accountants to audit the financial statements of the Company for the year 2009.

The actions taken by the Shareholders concerning the appointment of Beard Miller Company LLP independent accountants are as follows:

|              |                 |
|--------------|-----------------|
| For Approval | 8,564,795Shares |
| Against      | 101,783Shares   |
| Approval     |                 |
| Abstaining   | 30,093Shares    |
| From Voting  |                 |
| Broker       | -Shares         |
| Non-vote     |                 |

Item 6.

Exhibits

Exhibit No. Description

- 3 Amended and Restated Articles of Incorporation. Incorporated herein by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 30, 2006.
- 3.1 Statement with Respect to Shares of a Domestic Corporation establishing the designation of Series B Junior Participating Preferred Shares as a series of the Series Preferred Stock of the Company. Incorporated herein by reference to Exhibit 4.1 of the Company's Current Report on Form 8-K filed with the SEC on January 26, 2009.
- 3.2 By-Laws. Incorporated herein by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 24, 2007.
- 31.1 Certification of Chief Executive Officer, pursuant to Rule 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934.
- 31.2 Certification of Chief Financial Officer, pursuant to Rule 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934.
- 32.1 Certification of Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

THE YORK WATER COMPANY

Date: August 7, 2009

By: /s/Jeffrey R. Hines  
Jeffrey R. Hines  
Principal Executive Officer

Date: August 7, 2009

By: /s/Kathleen M. Miller  
Kathleen M. Miller  
Principal Financial and Accounting  
Officer

EXHIBIT INDEX

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