

YORK WATER CO
Form 10-Q
November 09, 2006

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

FORM 10-Q

**QUARTERLY REPORT UNDER SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934**

For Quarter ended **September 30, 2006**

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)

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

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 checkmark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer

Accelerated Filer

Non-accelerated Filer

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

YES

NO

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

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Common stock, No par value

10,445,826 Shares outstanding
as of November 9, 2006

THE YORK WATER COMPANY

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

| | (Unaudited) | |
|--|----------------------|----------------------|
| | As of | As of |
| | Sept 30, 2006 | Dec. 31, 2005 |
| ASSETS | | |
| UTILITY PLANT, at original cost | \$ 199,374 | \$ 182,868 |
| Plant acquisition adjustments | (1,088) | (1,112) |
| Accumulated depreciation | (28,713) | (26,982) |
| Net utility plant | 169,573 | 154,774 |
| OTHER PHYSICAL PROPERTY: | | |
| Less accumulated depreciation of \$136 in 2006 and \$129 in 2005 | 571 | 527 |
| CURRENT ASSETS: | | |
| Receivables, less reserves of \$163 in 2006 and \$135 in 2005 | 2,469 | 2,202 |
| Unbilled revenues | 2,572 | 1,580 |
| Recoverable income taxes | - | 59 |
| Materials and supplies, at cost | 820 | 843 |
| Prepaid expenses | 591 | 348 |
| Deferred income taxes | 113 | 92 |
| Total current assets | 6,565 | 5,124 |
| OTHER LONG-TERM ASSETS: | | |
| Deferred debt expense | 713 | 761 |
| Notes receivable | 2,030 | 2,196 |
| Deferred regulatory assets | 6,683 | 5,747 |
| Other | 3,315 | 3,167 |
| Total long-term assets | 12,741 | 11,871 |
| Total Assets | \$ 189,450 | \$ 172,296 |

The accompanying notes are an integral part of these statements.

THE YORK WATER COMPANY**Consolidated Balance Sheets**
(In thousands of dollars, except per share amounts)

| | (Unaudited) | |
|--|----------------------|----------------------|
| | As of | As of |
| | Sept 30, 2006 | Dec. 31, 2005 |
| STOCKHOLDERS' EQUITY AND LIABILITIES | | |
| COMMON STOCKHOLDERS' EQUITY: | | |
| Common stock, no par value, authorized 46,500,000 shares, | \$ 42,809 | \$ 42,015 |
| issued and outstanding 10,445,826 shares in 2006 and 10,399,995 shares in 2005 | | |
| Retained earnings | 9,597 | 8,633 |
| Accumulated other comprehensive loss | (103) | (233) |
| Total common stockholders' equity | 52,303 | 50,415 |
| PREFERRED STOCK, authorized 500,000 shares, no shares issued | - | - |
| LONG-TERM DEBT, excluding current portion | 39,805 | 39,835 |
| COMMITMENTS | | |
| CURRENT LIABILITIES: | | |
| Short-term borrowings | 16,967 | 7,292 |
| Current portion of long-term debt | 12,040 | 12,039 |
| Accounts payable | 4,061 | 2,641 |
| Dividends payable | 929 | 927 |
| Accrued taxes | 505 | 89 |
| Accrued interest | 490 | 786 |
| Deferred regulatory liabilities | 113 | 92 |
| Other accrued expenses | 837 | 784 |
| Total current liabilities | 35,942 | 24,650 |
| DEFERRED CREDITS: | | |
| Customers' advances for construction | 25,923 | 23,704 |
| Contributions in aid of construction | 15,278 | 14,995 |
| Deferred income taxes | 13,541 | 12,339 |
| Deferred investment tax credits | 1,053 | 1,082 |
| Deferred regulatory liabilities | 757 | 779 |
| Deferred employee benefits | 4,486 | 3,885 |
| Other deferred credits | 362 | 612 |
| Total deferred credits | 61,400 | 57,396 |
| Total Stockholders' Equity and Liabilities | \$ 189,450 | \$ 172,296 |

The accompanying notes are an integral part of these statements.

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THE YORK WATER COMPANY**Consolidated Statements of Income**
(In thousands of dollars, except per share amounts)

| | (Unaudited) | | (Unaudited) | |
|--|---------------------------|-----------------|---------------------------|-----------------|
| | Three Months | | Nine Months | |
| | Ended September 30 | | Ended September 30 | |
| | 2006 | 2005 | 2006 | 2005 |
| WATER OPERATING REVENUES: | | | | |
| Residential | \$ 4,851 | \$ 4,488 | \$ 13,390 | \$ 12,570 |
| Commercial and industrial | 2,263 | 2,205 | 6,277 | 6,038 |
| Other | 551 | 514 | 1,628 | 1,527 |
| | 7,665 | 7,207 | 21,295 | 20,135 |
| OPERATING EXPENSES: | | | | |
| Operation and maintenance | 1,617 | 1,388 | 4,459 | 3,935 |
| Administrative and general | 1,483 | 1,382 | 4,351 | 4,088 |
| Depreciation and amortization | 621 | 589 | 1,890 | 1,766 |
| Taxes other than income taxes | 268 | 213 | 815 | 688 |
| | 3,989 | 3,572 | 11,515 | 10,477 |
| Operating income | 3,676 | 3,635 | 9,780 | 9,658 |
| OTHER INCOME (EXPENSES): | | | | |
| Interest on long-term debt | (857) | (853) | (2,569) | (2,612) |
| Interest on short-term debt | (221) | (45) | (490) | (54) |
| Allowance for funds used during construction | 90 | 48 | 181 | 110 |
| Other income (expenses), net | 15 | 3 | (15) | (41) |
| | (973) | (847) | (2,893) | (2,597) |
| Income before income taxes | 2,703 | 2,788 | 6,887 | 7,061 |
| Federal and state income taxes | 964 | 1,053 | 2,423 | 2,618 |
| Net income | \$ 1,739 | \$ 1,735 | \$ 4,464 | \$ 4,443 |
| Basic Earnings Per Share | \$ 0.17 | \$ 0.17 | \$ 0.43 | \$ 0.43 |
| Cash Dividends Declared Per Share | \$ 0.112 | \$ 0.104 | \$ 0.336 | \$ 0.312 |

The accompanying notes are an integral part of these statements.

THE YORK WATER COMPANY

Consolidated Statements of Common Stockholders' Equity and Comprehensive Income
(In thousands of dollars, except per share amounts)
(Unaudited)

| | Common Stock | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total |
|---|-------------------------|------------------------------|--|--------------|
| Balance, December 31, 2005 | \$ 42,015 | \$ 8,633 | \$ (233) | \$ 50,415 |
| Net income | - | 4,464 | - | 4,464 |
| Other comprehensive income: | | | | |
| Unrealized gain on interest rate swap, net | - | - | 130 | 130 |
| Comprehensive income | | | | 4,594 |
| Dividends (\$.336 per share) | | (3,500) | - | (3,500) |
| Issuance of common stock under dividend reinvestment plan | 718 | - | - | 718 |
| Issuance of common stock under employee stock purchase plan | 76 | - | - | 76 |
| Balance, September 30, 2006 | \$ 42,809 | \$ 9,597 | \$ (103) | \$ 52,303 |

| | Common Stock | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total |
|---|-------------------------|------------------------------|--|--------------|
| Balance, December 31, 2004 | \$ 41,014 | \$ 7,192 | \$ (169) | \$ 48,037 |
| Net income | - | 4,443 | - | 4,443 |
| Other comprehensive income: | | | | |
| Unrealized loss on interest rate swap, net | - | - | (101) | (101) |
| Comprehensive income | | | | 4,342 |
| Dividends (\$.312 per share) | | (3,229) | - | (3,229) |
| Issuance of common stock under dividend reinvestment plan | 668 | - | - | 668 |
| Issuance of common stock under employee stock purchase plan | 69 | - | - | 69 |
| Balance, September 30, 2005 | \$ 41,751 | \$ 8,406 | \$ (270) | \$ 49,887 |

The accompanying notes are an integral part of these statements.

THE YORK WATER COMPANY**Consolidated Statements of Cash Flows**
(In thousands of dollars, except per share amounts)

| | (Unaudited) | (Unaudited) |
|--|-----------------------|-----------------------|
| | Nine Months | Nine Months |
| | Ended | Ended |
| | Sept. 30, 2006 | Sept. 30, 2005 |

CASH FLOWS FROM OPERATING ACTIVITIES:

| | | |
|--|----------|----------|
| Net income | \$ 4,464 | \$ 4,443 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 1,890 | 1,766 |
| Amortization of deferred income | (95) | (95) |
| Equity portion of AFUDC | (80) | (48) |
| Unrealized gain on swap transaction | (6) | (4) |
| Provision for losses on accounts receivable | 119 | 98 |
| Increase in deferred income taxes | 760 | 321 |
| Changes in assets and liabilities: | | |
| Increase in accounts receivable, unbilled revenues and recoverable income taxes | (1,319) | (576) |
| (Increase) decrease in materials and supplies | 23 | (210) |
| Increase in prepaid expenses and prepaid pension costs | (823) | (95) |
| Increase in accounts payable, accrued expenses, regulatory and other liabilities, and deferred employee benefits and credits | 874 | 1,300 |
| Increase (decrease) in accrued interest and taxes | 120 | (445) |
| (Increase) decrease in regulatory and other assets | (472) | 11 |
| Net cash provided by operating activities | 5,455 | 6,466 |

CASH FLOWS FROM INVESTING ACTIVITIES:

| | | |
|---|----------|----------|
| Utility plant additions, including allowance for funds used during construction of \$101 in 2006 and \$61 in 2005 | (15,153) | (10,622) |
| Acquisitions of water systems, net | - | (1,963) |
| Decrease in notes receivable | 166 | 1 |
| Net cash used in investing activities | (14,987) | (12,584) |

CASH FLOWS FROM FINANCING ACTIVITIES:

| | | |
|---|---------|-------|
| Customers' advances for construction and contributions in aid of construction | 3,861 | 4,394 |
| Repayments of customer advances | (1,264) | (891) |
| Debt issuance costs | (7) | (35) |
| Repayments of long-term debt | (29) | (29) |
| Borrowings under line-of-credit agreements | 19,442 | 9,985 |

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| | | |
|---|---------|---------|
| Repayments under line-of-credit agreements | (9,767) | (4,988) |
| Issuance of common stock under dividend reinvestment plan | 718 | 667 |
| Issuance of common stock under employee stock purchase plan | 76 | 69 |
| Dividends paid | (3,498) | (3,218) |
| Net cash provided by financing activities | 9,532 | 5,954 |
| Net change in cash and cash equivalents | - | (164) |
| Cash and cash equivalents at beginning of period | - | 164 |
| Cash and cash equivalents at end of period | \$ - | \$ 0 |

Supplemental disclosures of cash flow information:

Cash paid during the period for:

| | | |
|--------------------------------------|----------|----------|
| Interest, net of amounts capitalized | \$ 3,191 | \$ 2,869 |
| Income taxes | 1,169 | 2,272 |

Supplemental schedule of non cash investing and financing activities:

Accounts payable includes \$1,498 in 2006 and \$1,683 in 2005 for the construction of utility plant.

Accounts payable and other deferred credits includes \$256 in 2006 for the acquisition of water systems.

The change in notes receivable includes (\$5) in 2005 offset by like amounts of customer advances.

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 consolidated 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 consolidated 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 consolidated financial statements and notes thereto contained in the Company's Annual Report to Shareholders for the year ended December 31, 2005.

Operating results for the three and nine month periods ended September 30, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006.

2. **Basic Earnings Per Share**

Basic earnings per share for the three months ended September 30, 2006 and 2005 were based on weighted average shares outstanding of 10,432,225 and 10,368,507, respectively.

Basic earnings per share for the nine months ended September 30, 2006 and 2005 were based on weighted average shares outstanding of 10,416,984 and 10,351,253, respectively.

Since the Company has no common stock equivalents outstanding, there is no required calculation for diluted earnings per share.

3. **Reclassification**

Certain 2005 amounts have been reclassified to conform to the 2006 presentation. Such reclassifications had no effect on net income.

4. **Capital Commitments**

As of September 30, 2006 the Company had committed a total of \$4.5 million for a new meter reading system to be completed in early 2007. As of the end of the quarter, \$0.5 million remained to be incurred.

The Company announced the acquisition of the Abbottstown Borough Water System during the first quarter of 2006 at a purchase price of approximately \$0.9 million. Settlement on this acquisition is expected to take place in December 2006.

5. **Pensions****Components of Net Periodic Pension Cost**

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---------------------------------------|------------------------------------|--------|-----------------------------------|--------|
| | 2006 | 2005 | 2006 | 2005 |
| Service Cost | \$ 171 | \$ 147 | \$ 513 | \$ 440 |
| Interest Cost | 265 | 254 | 794 | 763 |
| Expected return on plan assets | (248) | (240) | (745) | (720) |
| Amortization of loss | 56 | 37 | 169 | 111 |
| Amortization of prior service cost | 67 | 70 | 201 | 209 |
| Rate-regulated adjustment | (184) | (155) | (580) | (465) |
| Net periodic pension expense | \$ 127 | \$ 113 | \$ 352 | \$ 338 |

Employer Contributions

The Company previously disclosed in its financial statements for the year ended December 31, 2005 that it expected to contribute \$450 to its pension plans in 2006. As of September 30, 2006, the Company plans to contribute \$552, but has made no contributions as of the end of the third quarter. The Company expects to make the \$552 contribution in the fourth quarter of 2006.

6. **Interest Rate Swap Agreement**

The Company utilizes an interest rate swap agreement to convert its variable-rate debt to a fixed rate (cash flow hedge). The effective portion of the gain or loss on a derivative designated and qualifying as a cash flow hedging instrument is initially reported as a component of other comprehensive income and subsequently reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. The cumulative ineffective portion of the gain or loss on the derivative instrument, if any, is recognized currently in earnings. As of September 30, 2006, there was no cumulative ineffectiveness on the Company's interest rate swap.

7. **Other Comprehensive Income**

| | Three Months Ended September 30 | |
|---|------------------------------------|-----------|
| | 2006 | 2005 |
| Net Income | \$ 1,739 | \$ 1,735 |
| Unrealized gain (loss) on interest rate swap, net of (\$184) income tax in 2006, and \$151 income tax in 2005 | (270) | 222 |
| Reclassification adjustment for amounts recognized in income, net of \$13 income tax in 2005 | - (270) | 18 240 |
| Comprehensive income | \$ 1,469 | \$ 1,975 |

| | Nine Months Ended September 30 | |
|---|-----------------------------------|-------------|
| | 2006 | 2005 |
| Net Income | \$ 4,464 | \$ 4,443 |
| Unrealized gain (loss) on interest rate swap, net of \$81 income tax in 2006, and (\$118) income tax in 2005 | 119 | (172) |
| Reclassification adjustment for amounts recognized in income, net of \$8 income tax in 2006, and \$49 income tax in 2005 | 11 130 | 71 (101) |
| Comprehensive income | \$ 4,594 | \$ 4,342 |

8. **Stock Split**

On August 28, 2006, the Company's Board of Directors declared a three-for-two split of its common stock in the nature of a stock dividend. The split was effected on September 11, 2006 to shareholders of record as of September 1, 2006. One additional share of common stock was issued for every two shares issued and outstanding as of September 1, 2006. Accordingly, the financial statements as well as share and per share amounts in this report have been restated to reflect the stock split.

9. Long-Term Debt

| | As of Sept. 30, 2006 | As of Dec. 31, 2005 |
|---|----------------------------|---------------------------|
| 3.6% Industrial Development Authority Revenue Refunding Bonds, Series 1994, due 2009 | \$2,700 | \$2,700 |
| 3.75% Industrial Development Authority Revenue Refunding Bonds, Series 1995, due 2010 | 4,300 | 4,300 |
| 4.05% Pennsylvania Economic Development Financing Authority Exempt Facilities Revenue Bonds, Series A, due 2016 | 2,350 | 2,350 |
| 5.0% Pennsylvania Economic Development Financing Authority Exempt Facilities Revenue Bonds, Series A, due 2016 | 4,950 | 4,950 |
| 10.17% Senior Notes, Series A, due 2019 | 6,000 | 6,000 |
| 9.6% Senior Notes, Series B, due 2019 | 5,000 | 5,000 |
| 1.0% Pennvest Loan, due 2019 | 545 | 574 |
| 10.05% Senior Notes, Series C, due 2020 | 6,500 | 6,500 |
| 8.43% Senior Notes, Series D, due 2022 | 7,500 | 7,500 |
| Variable Rate Pennsylvania Economic Development Financing Authority Exempt Facilities Revenue Bonds, Series B, due 2029 | 12,000 | 12,000 |
| Total long-term debt | 51,845 | 51,874 |
| Less current maturities | (12,040) | (12,039) |
| Long-term portion | \$39,805 | \$39,835 |

On October 27, 2006 the York County Industrial Development Authority (YCIDA) issued \$10.5 million Exempt Facilities Revenue Bonds Series 2006 for the benefit of the Company. The YCIDA then loaned the proceeds of the offering to the Company pursuant to a loan agreement. The loan agreement provides for a \$10.5 million loan bearing interest at 4.75%. The bonds and the related loan will mature on October 1, 2036. The loan agreement contains various covenants and restrictions. The Company is currently in compliance with these restrictions.

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

Certain statements contained herein and elsewhere in this Form 10-Q which are not historical facts are forward-looking statements under Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements, which generally are preceded by, followed by, or include the words "believes," "expects," "anticipates," "plans," or similar expressions, address among other things:

- various federal and state regulations concerning water quality and environmental standards;
- the adequacy of approved rates to allow for a fair rate of return on the investment in utility plant;
 - the timeliness of rate relief;
 - quantity of rainfall and temperature;
 - industrial demand;
 - financing costs;
 - energy rates;
- consummation of capital markets transactions to finance capital expenditure projects; and
 - environmental and water quality regulations.

The statements are based on a number of assumptions concerning future events, many of which are outside the Company's control. The Company cautions that a number of important factors could cause the actual results to differ materially from those expressed in any forward-looking statements made on behalf of the Company. The Company undertakes no obligation to update or revise forward-looking statements, whether as a result of new information, future events or otherwise.

General Information

The business of the Company is to impound, purify and distribute water. The Company operates entirely within its franchised territory, which covers 34 municipalities within York County, Pennsylvania and four 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, and rate setting. The Company must obtain PPUC approval before changing any of the aforementioned procedures. 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 89.0 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 water per day. As of September 30, 2006, the Company's average daily availability was approximately 35.0 million gallons, and consumption was approximately 19.1 million gallons daily. The Company's service territory has an estimated population of 165,000. 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; however, minimum customer charges are in place, and the Company expects to cover its 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 our ability to obtain rate increases from regulatory authorities in a timely manner and in an adequate amount, and increasing volumes of water sold through increased consumption and increases in the number of customers served.

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Results of Operations

Three Months Ended September 30, 2006 Compared
With Three Months Ended September 30, 2005

Net income for the third quarter of 2006 was \$1,739, an increase of \$4, from net income of \$1,735 for the same period of 2005. Higher water operating revenues were the primary contributing factor and were partially offset by increased operating and short-term interest expenses.

Water operating revenues for the three months ended September 30, 2006 increased \$458, or 6.4%, from \$7,207 for the three months ended September 30, 2005 to \$7,665 for the corresponding 2006 period. Increases in our revenues are generally dependent on our ability to obtain rate increases from regulatory authorities and increasing our volumes of water sold through increased consumption and increases in the number of customers served. The average number of customers served in the third quarter of 2006 increased as compared to the same period in 2005 by 2,304 customers, from 54,828 to 57,132 customers due to growth in our service territory and our acquisition of Spring Grove Water Company on July 6, 2005. Despite this increase in customers, the total per capita volume of water sold in the third quarter of 2006 decreased compared to the corresponding 2005 period due to reduced consumption in our service territory.

Operating expenses for the third quarter of 2006 increased \$417, or 11.7%, from \$3,572 for the third quarter of 2005 to \$3,989 for the corresponding 2006 period. Higher salaries due to higher wages and additional employees of approximately \$114, increased distribution system maintenance of approximately \$80, higher realty and payroll tax expenses aggregating approximately \$59, increased internal controls expenses of approximately \$56, increased chemical expenses of approximately \$35 and higher depreciation expense of approximately \$32 due to increased plant investment were the principal reasons for the increase. Higher shareholder, health insurance and pension expenses aggregating approximately \$53 and increased power costs due to higher rates and additional facilities of approximately \$26 also contributed to the increase. The increase was partially offset by reduced rate case, 401k and postage expenses aggregating approximately \$44.

Interest expense on short-term debt for the third quarter of 2006 was \$176 higher than the same period in 2005 due to an increase in short-term borrowings. The average short-term debt outstanding was \$13,471 for the third quarter of 2006 and \$3,963 for the third quarter of 2005.

Allowance for funds used during construction increased \$42, from \$48 in the third quarter of 2005 to \$90 in the 2006 period, due to an increase in construction expenditures that were eligible for interest.

Other income, net increased by \$12 in 2006 as compared to 2005 primarily due to a decrease in supplemental retirement expenses.

Federal and state income taxes decreased by \$89, or 8.5%, due to lower taxable income and the qualified domestic production deduction. The Company's effective tax rate was 35.7% in the third quarter of 2006 and 37.8% in the third quarter of 2005.

Nine Months Ended September 30, 2006 Compared
With Nine Months Ended September 30, 2005

Net income for the first nine months of 2006 was \$4,464, an increase of \$21, or 0.5%, from net income of \$4,443 for the same period of 2005. Higher water operating revenues partially offset by increased operating expenses and higher short-term interest expenses were the primary contributing factors.

Water operating revenues for the nine months ended September 30, 2006 increased \$1,160, or 5.8%, from \$20,135 for the nine months ended September 30, 2005 to \$21,295 for the corresponding 2006 period. Increases in our revenues are generally dependent on our ability to obtain rate increases from regulatory authorities and increasing our volumes of water sold through increased consumption and increases in the number of customers served. The average number of customers served in the first nine months of 2006 increased as compared to the same period in 2005 by 2,419 customers, from 54,012 to 56,431 customers due to growth in our service territory and the Spring Grove acquisition. Despite this increase in customers, the total per capita volume of water sold in the first three quarters of 2006 decreased compared to the corresponding 2005 period due to reduced consumption in our service territory.

Operating expenses for the nine months of 2006 increased \$1,038, or 9.9%, from \$10,477 for the nine months of 2005 to \$11,515 for the corresponding 2006 period. Higher salaries due to wage increases and additional employees of approximately \$328, higher depreciation expense of \$124 due to increased plant investment, increased distribution system maintenance of approximately \$121, higher transportation expenses due to additional vehicles and increased gas prices of approximately \$77 and increased internal control expenses of approximately \$74 were the principal reasons for the increase. Higher chemical costs, software training and conversion expenses, electric costs, shareholder expenses, realty taxes, capital stock taxes and payroll taxes aggregating approximately \$317 also contributed to the increase. The increase was partially offset by lower rate case expense and reduced hydrant expenses primarily due to capitalization and higher indirect costs capitalized aggregating \$151.

Interest expense on long-term debt for the first nine months of 2006 was \$43 lower than the same period in 2005 primarily due to the remarketing of the Company's 6.0% Industrial Development Authority Revenue Refunding Bonds, Series 1995, and the interest rate being redetermined to 3.75% on June 1, 2005.

Interest expense on short-term debt for the first nine months of 2006 was \$436 higher than the same period in 2005 due to an increase in short-term borrowings. The average short-term debt outstanding was \$10,760 for the first nine months of 2006 and \$1,587 for the first nine months of 2005.

Allowance for funds used during construction increased \$71, from \$110 as of September 2005 to \$181 as of September 2006, due to an increase in construction expenditures that were eligible for interest.

Other expenses, net decreased by \$26 in 2006 as compared to 2005 primarily due to decreased contributions and lower supplemental retirement expenses aggregating \$71. The decrease was partially offset by higher non-operating property maintenance expenses of approximately \$24.

Federal and state income taxes decreased by \$195, or 7.4%, due to reduced taxable income and the qualified domestic production deduction. The Company's effective tax rate was 35.2% in the first nine months of 2006 and 37.1% in the first nine months of 2005.

Rate Developments

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 April 27, 2006, and sought an increase of \$4.5 million, which would represent a 16.0% increase in rates. Effective September 15, 2006, the PPUC authorized an increase in rates designed to produce approximately \$2,600,000 in additional annual revenues, which represents an increase of 9.2% in the Company's rates.

Acquisitions

On February 2, 2006, the Company announced an agreement to acquire the water system of Abbottstown Borough which serves approximately 400 customers in Adams County, Pennsylvania. Following the acquisition, the Company will serve the customers of the Borough by using York Water's fully filtered and treated water supply. This treated supply will be provided through a main which is being constructed by the Company to interconnect with the Borough's existing distribution facilities. The interconnection is expected to be completed in December, 2006. The estimated acquisition cost of \$0.9 million will be funded through internally generated funds and short-term borrowings.

To date, the Company has obtained the required Pennsylvania Department of Transportation permit and stream crossing and construction permits from the Pennsylvania Department of Environmental Protection. The PPUC approved the acquisition on July 20, 2006. Construction of the water main and standpipe is nearly complete while construction of the booster station continues.

Liquidity and Capital Resources

As of September 30, 2006, current liabilities exceeded current assets by \$29,377. The excess was primarily due to the classification of the \$12.0 million aggregate principal amount of PEDFA Exempt Facilities Revenue Bonds, Series B of 2004 as current because the bondholders can tender their bonds at any time. The Company believes the bonds would be successfully remarketed if tendered. In addition, the Company had \$16,967 in short-term borrowings under its lines of credit as of September 30, 2006. The short-term borrowings were incurred to fund operations, acquisitions and construction expenditures. The Company maintains lines of credit aggregating \$22,500. Loans granted under these lines of credit bear interest at LIBOR plus 0.70 to 0.875%. The weighted average interest rate on short-term borrowings at September 30, 2006 was 6.09%. The lines of credit are unsecured and payable upon demand. The Company is not required to maintain compensating balances on its lines of credit.

On October 27, 2006 the York County Industrial Development Authority (YCIDA) issued \$10.5 million Exempt Facilities Revenue Bonds Series 2006 for the benefit of the Company. The YCIDA then loaned the proceeds of the offering to the Company pursuant to a loan agreement. The loan agreement provides for a \$10.5 million loan bearing interest at 4.75%. The bonds and the related loan will mature on October 1, 2036. The loan agreement contains various covenants and restrictions. The Company is currently in compliance with these restrictions.

On October 10, 2006, the Company filed a registration statement with the Securities and Exchange Commission relating to its proposed offering of 600,000 shares of common stock. The registration statement relating to these securities has not yet become effective, and the Company may not sell or accept offers to buy prior to the time the registration statement becomes effective. Furthermore, even if the registration statement is declared effective, the Company can give no assurances that prevailing market conditions will permit the sale of any or all of the 600,000 shares on terms acceptable to the Company.

During the first nine months of 2006, net cash provided by operations and financing activities equaled net cash used in investing activities. The Company anticipates that this will continue to be the case during the remainder of 2006. Borrowings against the Company's lines of credit, proceeds from the issuance of common stock under its dividend reinvestment plan (stock issued in lieu of cash dividends), or DRIP, and employee stock purchase plan, or ESPP, customer advances, the proceeds of the YCIDA loan described above and, depending on market conditions, proceeds from the planned common stock offering described above will be used to satisfy the need for additional cash.

During the first nine months of 2006, the Company incurred \$16,731 of construction expenditures. Approximately \$3,681, or 22%, of the expenditures were for the automated meter reading system and the enterprise software system. An additional \$3,309, or 20%, was for the main extension to Abbottstown and the construction of various standpipes. The remaining expenditures were for routine distribution system expenditures. The Company financed such

expenditures through internally generated funds, customers' advances, short-term borrowings, and proceeds from the issuance of common stock under its DRIP and ESPP. The Company anticipates construction expenditures for the remainder of 2006 of approximately \$1,251, primarily for projects relating to the Company's transmission and distribution systems, the aforementioned continuing projects and certain construction expenses related to the Abbottstown acquisition. The Company plans to finance these future expenditures using internally-generated funds, short-term borrowings, customer advances, proceeds from the issuance of common stock under the DRIP and ESPP, the proceeds of the YCIDA loan described above and, depending on market conditions, proceeds from the planned common stock offering described above.

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The Company, like all other businesses, 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 revenue 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.

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, the determination of the remaining life of our assets, revenue recognition and the discount rate used in our pension plan calculations. There has been no significant change in our accounting estimates or the method of estimation during the quarter ended September 30, 2006.

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 previously mentioned, does not use derivative financial instruments for speculative trading purposes, has no lease obligations and does not have material transactions involving related parties.

Impact of Recent Accounting Pronouncements

In February 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 155, "Accounting for Certain Hybrid Financial Instruments - An Amendment of FASB Statements No. 133 and 140." SFAS No. 155 permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative, clarifies which interest-only strips and principal-only strips are not subject to the requirements of Statement 133, establishes a requirement to evaluate interests in securitized financial assets for derivatives, clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives, and amends Statement 140 to eliminate the prohibition on a qualifying special-purpose entity from holding derivatives. This statement is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. The Company is currently evaluating this standard for consideration in future financings.

In March 2006, The FASB issued SFAS No. 156, "Accounting for Servicing of Financial Assets," to simplify accounting for separately recognized servicing assets and servicing liabilities. SFAS No. 156 amends SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities." Additionally, SFAS No. 156 permits, but does not require, an entity to choose either the amortization method or the fair value measurement method for measuring each class of separately recognized servicing assets and servicing liabilities. SFAS No. 156 applies to all separately recognized servicing assets and liabilities acquired or issued after the beginning of an entity's fiscal year that begins after September 15, 2006. The Company is currently evaluating this standard for its effects on future financial position and results of operations.

In June 2006, the EITF reached consensus on Issue 05-1, "Accounting for the Conversion of an Instrument that Became Convertible upon the Issuer's Exercise of a Call Option." This consensus requires an assessment of the substance of a conversion right at issuance as to whether it is considered reasonably possible that the conversion right will become exercisable absent the issuer's call. If so, the conversion upon call is accounted for as a conversion with no gain or loss, if not, then the conversion is accounted for as an extinguishment with a gain or loss. This consensus is not expected to have an impact on the Company's financial position or results of operations.

In July, the FASB issued FASB Staff Position (FSP) No. FAS 13-2, "Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction," to provide guidance to a lessor in a transaction classified as a leveraged lease in accordance with SFAS No. 13, "Accounting for Leases." FSP No. FAS 13-2 amends SFAS No. 13 to require a lessor to recalculate a leveraged lease to reflect a change or projected change in the timing of the realization of tax benefits generated by that lease. This FSP will apply to fiscal years beginning after December 15, 2006 and is not expected to have an impact on the Company's financial position or results of operations.

In July, the FASB issued FASB Interpretation (FIN) No. 48, "Accounting for Uncertainty in Income Taxes." FIN No. 48 prescribes (a) a consistent recognition threshold and (b) a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and provides guidance on derecognition, classification, interest and penalties, accounting, disclosure and transition. The Company is currently reviewing its tax positions to determine if they meet the recognition and measurement test of FIN No. 48. This interpretation is effective for fiscal years beginning after December 15, 2006.

In September, the FASB issued SFAS No. 157, "Fair Value Measurements," to eliminate the diversity in practice that exists due to the different definitions of fair value and the limited guidance for applying those definitions. SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price), as opposed to the price that would be paid to acquire the asset or received to assume the liability at the measurement date (an entry price). SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Earlier application is encouraged. The Company is currently evaluating this standard for its effects on future financial position and results of operations.

In September, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans." SFAS No. 158 requires (1) recognition of the funded status of a benefit plan in the balance sheet, (2) recognition in other comprehensive income of gains or losses and prior service costs or credits arising during the period but which are not included as components of periodic benefit cost, (3) measurement of defined benefit plan assets and obligations as of the balance sheet date, and (4) disclosure of additional information about the effects on periodic benefit cost for the following fiscal year arising from delayed recognition in the current period. The requirements to recognize the funded status of a plan and to comply with disclosure provisions are effective as of the end of the fiscal year that ends after December 15, 2006. The requirement to measure plan assets and benefit obligations as of the balance sheet date is effective for fiscal years ending after December 15, 2008. The Company will adopt this standard as of December 31, 2006. The Company is currently evaluating this standard for its effects on future financial position and results of operations.

In October, the FASB issued FSP No. FAS 123(R) - 5 and FSP No. FAS 123(R) - 6 amending guidance and providing technical corrections to SFAS No. 123(R). The additional FSP's had no impact on the Company's financial statements as SFAS No. 123(R) did not apply to the Company.

In October, the FASB issued FSP No. FAS 126-1, "Applicability of Certain Disclosure and Interim Reporting Requirements for Obligors for Conduit Debt Securities," to amend previous authoritative accounting literature to clarify that conduit obligors for conduit debt securities traded in a public market meet the definition of a public entity

or enterprise. FSP No. FAS 126-1 applies to financial statements for fiscal periods beginning after December 15, 2006, and may also be applied retrospectively to all prior periods. This FSP is expected to have no impact on the Company's financial position or results of operations.

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. The Company has lines of credit for up to \$22.5 million with two banks, under which there were borrowings of approximately \$17.0 million outstanding as of September 30, 2006. Loans granted under these lines bear interest based upon LIBOR plus 0.70 to 0.875 percent. The weighted average interest rate on short-term borrowings outstanding at September 30, 2006 was 6.09%. A 25-basis point increase in LIBOR would cause additional short-term interest expense of approximately \$42 on an annual basis. Other than lines of credit, the Company has long-term fixed rate debt obligations and a variable-rate long-term debt obligation, the Pennsylvania Economic Development Financing Authority, or the PEDFA, Series B issue.

In December 2004, the PEDFA issued \$12.0 million aggregate principal amount of PEDFA Exempt Facilities Revenue Bonds, Series B. 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 on the loan as of September 30, 2006 was 3.85%. In connection with the loan agreement, the Company entered into an interest rate swap transaction that results in the Company's floating rate obligation becoming substantially a fixed rate obligation. The purpose of the interest rate swap is to manage the Company's exposure to fluctuations in the interest rate. For a more detailed discussion, see the "Liquidity and Capital Resources" section of "Management's Discussion and Analysis of Financial Condition and Results of Operations" of our 2005 Annual Report to Shareholders.

The \$12.0 million PEDFA Series B bonds can be tendered at any time. When the bonds are tendered they are subject to an annual remarketing agreement. As additional security, the Company also has a Standby Bond Purchase Agreement (also known as a liquidity facility) whereby bonds which can not be remarketed are purchased by a financial institution. The Standby Bond Purchase Agreement is also renewed annually. As a result, the \$12.0 million obligation was classified as current maturities of long-term debt. The Company believes the bonds would be successfully remarketed if tendered.

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 quarterly 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

As previously disclosed, we had identified a material weakness in our billing function. This material weakness was eliminated during the third quarter of 2005 by instituting interim measures, such as additional verification and reconciliation as well as enhanced physical security. During the third quarter of 2006, we implemented several modules of the Oracle enterprise software system to further improve our internal controls in this function. In particular, the billing module allows us to segregate many of the duties that were previously performed by a single department. In addition, we believe a fully-integrated software billing system provides for greater efficiencies, more insight into operations, and increased reliance on systematic controls rather than manual controls.

Part II - OTHER INFORMATION

Item 6.

Exhibits

The following Part 1 exhibits are attached to this report:

- 3.1 Amended and Restated Articles of Incorporation of The York Water Company (incorporated herein by reference to Exhibit 3.1 of the Company's current report on Form 8-K as filed with the Securities and Exchange Commission on August 30, 2006).
- 3.2 By-Laws of The York Water Company (incorporated herein by reference to Exhibit 3.2 of the Company's current report on Form 8-K as filed with the Securities and Exchange Commission on August 30, 2006).
- 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: November 9, 2006

By: /s/ Jeffrey S. Osman
Jeffrey S. Osman
Principal Executive Officer

Date: November 9, 2006

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