

YORK WATER CO  
Form 10-K  
March 11, 2014

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

FORM 10-K  
(Mark One)

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

For the fiscal year ended December 31,  
2013

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

For the transition period from  
\_\_\_\_\_ to \_\_\_\_\_

Commission file number 001-34245  
THE YORK WATER COMPANY  
(Exact name of registrant as specified in  
its charter)

PENNSYLVANIA            23-1242500  
(State or other jurisdiction        (I.R.S.  
of incorporation or                    Employer  
organization)                        Identification  
    No.)

130 EAST MARKET  
STREET, YORK,            17401  
PENNSYLVANIA  
(Address of principal                (Zip Code)  
executive offices)

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

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

None  
(Title of Each Class)                (Name of  
Each  
Exchange on  
Which

Registered)

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

COMMON STOCK, NO PAR VALUE

(Title of Class)

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

YES  NO

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

YES  NO

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

YES  NO

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

YES  NO

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

Indicate by check mark whether the registrant is a large accelerated filer, an

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

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

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

YES  NO

The aggregate market value of the Common Stock, no par value, held by nonaffiliates of the registrant on June 30, 2013 was \$245,469,828.

As of March 10, 2014 there were 12,997,632 shares of Common Stock, no par value, outstanding.

#### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Company's 2014 Annual Meeting of Shareholders are incorporated by reference into Part I and Part III.

---

TABLE OF CONTENTS

<u>Forward-Looking Statements</u>	<u>3</u>
PART I	
<u>Item 1. Business</u>	<u>4</u>
<u>Item 1A. Risk Factors</u>	<u>7</u>
<u>Item 1B. Unresolved Staff Comments</u>	<u>11</u>
<u>Item 2. Properties</u>	<u>12</u>
<u>Item 3. Legal Proceedings</u>	<u>13</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>13</u>
PART II	
<u>Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>14</u>
<u>Item 6. Select Financial Data</u>	<u>16</u>
<u>Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation</u>	<u>17</u>
<u>Item 7A. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>25</u>
<u>Item 8. Financial Statements and Supplementary Data</u>	<u>27</u>
<u>Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>51</u>
<u>Item 9A. Controls and Procedures</u>	<u>51</u>
<u>Item 9B. Other Information</u>	<u>53</u>
PART III	
<u>Item 10. Directors, Executive Officers and Corporate Governance</u>	<u>53</u>
<u>Item 11. Executive Compensation</u>	<u>54</u>
<u>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>54</u>
<u>Item 13. Certain Relationships and Related Transactions, and Director Independence</u>	<u>54</u>
<u>Item 14. Principal Accounting Fees and Services</u>	<u>54</u>
PART IV	
<u>Item 15. Exhibits and Financial Statement Schedules</u>	<u>55</u>
<u>Signatures</u>	<u>57</u>
<u>Index to Exhibits</u>	<u>58</u>

## FORWARD-LOOKING STATEMENTS

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

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

The forward-looking statements in this Annual Report reflect what the Company currently anticipates will happen.

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

- changes in weather, including drought conditions or extended periods of heavy rainfall;
- 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, including the tax code;
- the ability to obtain permits for expansion projects;
- material changes in demand from customers, including the impact of conservation efforts which may impact the demand of customers for water;
- changes in economic and business conditions, including interest rates, which are less favorable than expected;
- changes in, or unanticipated, capital requirements;
- the impact of acquisitions;
- changes in accounting pronouncements;
- changes in the Company's credit rating or the market price of its common stock;
- the ability to obtain financing; and
- other matters set forth in Item 1A, "Risk Factors" of this Annual Report.

[Table of Contents](#)

Page 3

---

THE YORK WATER COMPANY

PART I

Item 1. Business.

The York Water Company (the "Company") is the oldest investor-owned water utility in the United States and is duly organized under the laws of the Commonwealth of Pennsylvania. The Company has operated continuously since 1816. The primary business of the Company is to impound, purify to meet or exceed safe drinking water standards and distribute water. The Company also operated a single wastewater collection and treatment system in 2013. A second wastewater collection and treatment system was acquired in February 2014. The Company operates within its franchised territory, which covers 39 municipalities within York County, Pennsylvania and eight 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 the bulk of 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. 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. The Company also owns two wells which are capable of providing a safe yield of approximately 100,000 gallons per day to supply water to its customers in Carroll Valley, Adams County. As of December 31, 2013, the Company's average daily availability was 35.0 million gallons, and average daily consumption was approximately 19.1 million gallons. The Company's service territory had an estimated population of 190,000 as of December 31, 2013. Industry within the Company's service territory is diversified, manufacturing such items as fixtures and furniture, electrical machinery, food products, paper, ordnance units, textile products, air conditioning systems, laundry detergent, barbells and motorcycles.

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

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

The Company has agreements with several municipalities to provide sewer billing services. In 2012, the Company began a service line protection program on a targeted basis in order to further diversify its business. Under this optional program, customers pay a fixed monthly fee, and the Company will repair or replace damaged customer service lines, as needed, subject to an annual maximum dollar amount. The Company plans to expand its program in

2014.

Table of Contents

Page 4

---

## Competition

As a regulated utility, the Company operates within an exclusive franchised territory that is substantially free from direct competition with other public utilities, municipalities and other entities. Although the Company has been granted an exclusive franchise for each of its existing community water and wastewater systems, the ability of the Company to expand or acquire new service territories may be affected by currently unknown competitors obtaining franchises to surrounding systems by application or acquisition. These competitors may include other investor-owned utilities, nearby municipally-owned utilities and sometimes from strategic or financial purchasers seeking to enter or expand in the water and wastewater industry. The addition of new service territory and the acquisition of other utilities are generally subject to review and approval by the PPUC.

## Water and Wastewater Quality and Environmental Regulations

Provisions of water and wastewater service are subject to regulation under the federal Safe Drinking Water Act, the Clean Water Act and related state laws, and under federal and state regulations issued under these laws. In addition, the Company is subject to federal and state laws and other regulations relating to solid waste disposal, dam safety and other aspects of its operations.

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

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

The federal Groundwater Rule became effective December 1, 2009 with implementation for community water supplies serving between 100 and 500 customers before April 1, 2012. This rule requires additional testing of water from well sources, and under certain circumstances requires demonstration and maintenance of effective disinfection. The Company holds a public water supply permit issued by the DEP, which establishes the groundwater source operating conditions for its two wells, including demonstrated 4-log treatment of viruses. Concurrent with the acquisition of the Carroll Valley Water System in 2012, the Company made certain modifications in order to demonstrate 4-log treatment of viruses. With these modifications and its water supply permit, the Company is compliant with the federal Groundwater Rule.

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

The DEP monitors the quality of wastewater discharge effluent under the provisions of the National Pollutant Discharge Elimination System, or NPDES. The Company submits monthly reports to the DEP showing the results of its daily effluent monitoring and removal of sludge and biosolids. The Company is not aware of any significant environmental remediation costs necessary from the handling and disposal of waste material from its wastewater operations.



## Edgar Filing: YORK WATER CO - Form 10-K

The DEP and the Susquehanna River Basin Commission, or SRBC, regulate the amount of water withdrawn from streams in the watershed to assure that sufficient quantities are available to meet the needs of the Company and other regulated users. Through its Division of Dam Safety, the DEP regulates the operation and maintenance of the Company's impounding dams. The Company routinely inspects its dams and prepares annual reports of their condition as required by DEP regulations. The DEP reviews these reports and inspects the Company's dams annually. The DEP most recently inspected the Company's dams in July 2013 and noted no significant violations.

[Table of Contents](#)

Page 5

---

Edgar Filing: YORK WATER CO - Form 10-K

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

The Company engaged a professional engineer to analyze the spillway capacities at the Lake Williams and Lake Redman dams and validate the DEP's recommended flood design for the dams. Management presented the results of the study to the DEP in December 2004, and DEP then requested that the Company submit a proposed schedule for the actions to address the spillway capacities. Thereafter, the Company retained an engineering firm to prepare preliminary designs for increasing the spillway capacities to pass the PMF through armoring the dams with roller compacted concrete. Management met with the DEP in September 2006 to review the preliminary design and discuss scheduling, permitting, and construction requirements. The Company is currently completing preliminary work on the dams as well as the final design and the permitting process. The Company expects to begin armoring one of the dams between 2016 and 2017. The second dam is expected to be armored in a year or two following the first dam armoring. The cost to armor each dam is expected to be approximately \$5 million.

Capital expenditures and operating costs required as a result of water quality standards and environmental requirements have been traditionally recognized by state public utility commissions as appropriate for inclusion in establishing rates. The capital expenditures currently required as a result of water quality standards and environmental requirements have been budgeted in the Company's capital program and represent less than 10% of its expected total capital expenditures over the next 5 years. The Company is currently in compliance with wastewater environmental standards and does not anticipate any major capital expenditures for its current wastewater business.

#### Growth

During the five year period ended December 31, 2013, the Company maintained growth in the number of customers and distribution facilities.

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

(In thousands of dollars)	For the Years Ended December 31,				
	2013	2012	2011	2010	2009
Revenues					
Residential	\$26,796	\$26,114	\$25,693	\$24,478	\$23,299
Commercial and industrial	12,299	12,114	11,820	11,440	10,734
Other	3,288	3,219	3,116	3,087	3,010
Total	\$42,383	\$41,447	\$40,629	\$39,005	\$37,043
Average daily water consumption (gallons per day)	19,094,000	18,553,000	18,465,000	18,875,000	18,233,000
Miles of water mains at year-end	945	940	929	925	922
Additional water distribution mains installed/acquired (ft.)	28,051	59,653	17,212	19,886	200,439
Wastewater collection mains acquired (ft.)	-	14,820	-	-	-
Number of customers at year-end	64,118	63,779	62,738	62,505	62,186
Population served at year-end	190,000	189,000	187,000	182,000	180,000

Table of Contents

Page 6

---

Executive Officers of the Registrant

The Company presently has 105 full time employees including the officers detailed in the information set forth under the caption "Executive Officers of the Company" of the 2014 Proxy Statement incorporated herein by reference.

Available Information

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

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

Bonnie J. Rexroth	The York Water Company (717) 845-3601
Investor Relations Administrator	130 East Market Street (800) 750-5561
	York, PA 17401 <a href="mailto:bonnier@yorkwater.com">bonnier@yorkwater.com</a>

Item 1A. Risk Factors.

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

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

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

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

Various federal, state and local authorities regulate many aspects of our business. Among the most important of these regulations are those relating to the quality of water we supply our customers, water allocation rights and the quality of the effluent we discharge from our wastewater treatment facility. Government authorities continually review these regulations, particularly the drinking water quality regulations, and may propose new or more restrictive requirements in the future. We are required to perform water and wastewater quality tests that are monitored by the PPUC, the EPA, and the DEP, for the detection of certain chemicals and compounds in our water and effluent. If new or more

restrictive limitations on permissible levels of substances and contaminants in our water and wastewater are imposed, we may not be able to adequately predict the costs necessary to meet regulatory standards. If we are unable to recover the cost of implementing new water and wastewater treatment procedures in response to more restrictive quality regulations through our rates that we charge our customers, or if we fail to comply with such regulations, it could have a material adverse effect on our financial condition and results of operations.

[Table of Contents](#)

Page 7

---

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

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

Demand for our water during the warmer months is generally greater than during cooler months due primarily to additional requirements for water in connection with cooling systems, swimming pools, irrigation systems and other outside water use. Throughout the year, and particularly during typically warmer months, demand will vary with temperature and rainfall levels. If temperatures during the typically warmer months are cooler than expected, or there is more rainfall than expected, the demand for our water may decrease and adversely affect our revenues.

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

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

General economic conditions may affect our financial condition and results of operations.

A general economic downturn may lead to a number of impacts on our business that may affect our financial condition and results of operations. Such impacts may include: a reduction in discretionary and recreational water use by our residential water customers, particularly during the summer months when such discretionary usage is normally at its highest; a decline in usage by industrial and commercial customers as a result of decreased business activity; an increased incidence of customers' inability to pay or delays in paying their utility bills, or an increase in customer bankruptcies, which may lead to higher bad debt expense and reduced cash flow; a lower customer growth rate due to a decline in new housing starts; and a decline in the number of active customers due to housing vacancies or abandonments. A deterioration in general economic conditions may also lead to an investment market downturn, which may result in our pension plans' asset market values suffering a decline and significant volatility. A decline in our pension plans' asset market values could increase our required cash contributions to these plans and pension expense in subsequent years.

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

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

Table of Contents

Page 8

---

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

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

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

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

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

Computers and the Internet have led to increased company productivity and improved customer service.

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

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

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

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

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

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

We face competition from other water suppliers for acquisitions, which may limit our growth opportunities. Furthermore, even after we have been the successful bidder in an acquisition, competing water suppliers may



challenge our application for extending our franchise territory to cover the target company's market. Finally, third parties either supplying water on a contract basis to municipalities or entering into agreements to operate municipal water systems might adversely affect our business by winning contracts that may be beneficial to us. If we are unable to compete successfully with other water suppliers for these acquisitions, franchise territories and contracts, it may impede our expansion goals and adversely affect our profitability.

[Table of Contents](#)

Page 9

---

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

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

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

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

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

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

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

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

Work stoppages and other labor relations matters could adversely affect our operating results.

Approximately one-third of our workforce is unionized under a contract with a labor union. In light of rising costs for healthcare and retirement benefits, contract negotiations in the future may be difficult. We are subject to a risk of work stoppages and other labor actions as we negotiate with the union to address these issues, which could affect our business, financial condition, and results of operations. Although we believe we have a good relationship with our union workforce and have a strike contingency plan, we cannot be assured that issues with our labor force will be resolved favorably to us in the future or that we will not experience work stoppages.

Table of Contents

Page 10

---

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

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

Because of the limited volume of trading in our common stock, a sale of a significant number of shares of our common stock in the open market could cause our stock price to decline.

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

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

Wastewater operations entail significant risks and may impose significant costs.

Wastewater collection and treatment and septage pumping and sludge hauling involve various unique risks. If collection or treatment systems fail or do not operate properly, or if there is a spill, untreated or partially treated wastewater could discharge onto property or into nearby streams and rivers, causing various damages and injuries, including environmental damage. These risks are most acute during periods of substantial rainfall or flooding, which are the main causes of sewer overflow and system failure. Liabilities resulting from such damages and injuries could materially and adversely affect our business, financial condition, and results of operations.

We are subject to market and interest rate risk on our \$12,000,000 variable interest rate debt issue.

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

The holders of the \$12,000,000 variable rate Pennsylvania Economic Development Financing Authority (PEDFA) Series A Bonds may tender their bonds at any time. When the bonds are tendered, they are subject to an annual remarketing agreement, pursuant to which a remarketing agent attempts to remarket the tendered bonds pursuant to the terms of the Indenture. In order to keep variable interest rates down and to enhance the marketability of the Series A Bonds, the Company entered into a Reimbursement, Credit and Security Agreement with PNC Bank, National Association ("the Bank") dated as of May 1, 2008. This agreement provides for a direct pay letter of credit issued by the Bank to the trustee for the Series A Bonds. The letter of credit expires May 6, 2015 and is reviewed annually for a possible one-year extension. The Bank is responsible for providing the trustee with funds for the timely payment of the principal and interest on the Series A Bonds and for the purchase price of the Series A Bonds that have been tendered or deemed tendered for purchase and have not been remarketed. If the Bank is unable to meet its obligations,

the Company would be required to buy any bonds which had been tendered.

Item 1B. Unresolved Staff Comments.

None.

[Table of Contents](#)

Page 11

---

## Item 2. Properties.

### Source of Water Supply

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

In addition to the two impounding dams, the Company owns a 15-mile pipeline from the Susquehanna River to Lake Redman that provides access to a supply of an additional 12.0 million gallons of water per day. As of December 31, 2013, the Company's present average daily availability was 35.0 million gallons, and daily consumption was approximately 19.1 million gallons.

The Company also owns two wells which are used to supply water to its customers in Carroll Valley, Adams County, Pennsylvania. The wells are capable of providing a safe yield of approximately 100,000 gallons per day with a current average daily consumption of 12,000 gallons per day.

### Pumping Stations

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

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

### Treatment Facilities

The Company's water filtration plant is located in Spring Garden Township about one-half mile south of the City of York. Water at this plant is filtered through twelve dual media filters having a stated capacity of 31.0 million gallons per day with a maximum supply of 42.0 million gallons per day for short periods if necessary. Based on an average daily consumption in 2013 of approximately 19.1 million gallons, the Company believes the pumping and filtering facilities are adequate to meet present and anticipated demands. In 2005, the Company performed a capacity study of the filtration plant, and in 2007, began upgrading the facility to increase capacity for future growth. The current phase of the upgrade, replacement of the filter media, began in 2013 and is expected to continue over the next several years.

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

The Company's two wastewater treatment facilities are located in East Manchester and Lower Windsor Townships. The two wastewater treatment plants are each small, packaged, extended aeration activated sludge facilities with a combined average daily flow capacity of 167,000 gallons. With a projected maximum daily demand of 77,000

gallons, the plants' flow paths offer both capacity and redundancy for high flow events and potential growth.

Table of Contents

Page 12

---

## Distribution and Collection

The distribution system of the Company has approximately 945 miles of water main lines which range in diameter from 2 inches to 36 inches. The distribution system includes 29 booster stations and 31 standpipes and reservoirs capable of storing approximately 58.0 million gallons of potable water. All booster stations are equipped with at least two pumps for protection in case of mechanical failure. Following a deliberate study of customer demand and pumping capacity, the Company installed standby generators at all critical booster stations to provide emergency power in the event of an electric utility interruption.

The two wastewater collection systems of the Company have a combined approximate 38,270 feet of 6 inch and 8 inch gravity collection mains and 4,800 feet of 6" pressure force main along with 3 sewage pumping stations each rated at 80 gallons per minute.

## Other Properties

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

The administrative and executive offices of the Company are located in one three-story and one two-story brick and masonry buildings, containing a total of approximately 21,861 square feet, in the City of York, Pennsylvania.

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

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

## Item 3. Legal Proceedings.

There are no material legal proceedings involving the Company.

## Item 4. Mine Safety Disclosures.

Not applicable.

## Table of Contents

Page 13

---



## PART II

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

## Market for Common Stock and Dividends

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

	2013			2012		
	High	Low	Dividend*	High	Low	Dividend*
1 <sup>st</sup> Quarter	\$19.24	\$17.62	\$0.1383	\$18.43	\$17.00	\$0.1336
2 <sup>nd</sup> Quarter	19.64	17.86	0.1383	17.89	16.94	0.1336
3 <sup>rd</sup> Quarter	21.99	18.92	0.1383	18.49	17.51	0.1336
4 <sup>th</sup> Quarter	22.00	19.70	0.1431	18.49	16.75	0.1383

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

Prices listed in the above table are sales prices as listed on the NASDAQ Global Select Market. Shareholders of record (excluding individual participants in securities positions listings) as of December 31, 2013 numbered approximately 2,023.

## Dividend Policy

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

The dividend paid on the Company's common stock on January 15, 2014 was the 572<sup>nd</sup> consecutive dividend paid by the Company. The Company has paid consecutive dividends for its entire history, since 1816. The policy of the Company's Board of Directors is currently to pay cash dividends on a quarterly basis. The dividend rate has been increased annually for seventeen consecutive years. The Company's Board of Directors declared dividend number 573 in the amount of \$0.1431 per share at its January 2014 meeting. The dividend is payable on April 15, 2014 to shareholders of record as of February 28, 2014. Future cash dividends will be dependent upon the Company's earnings, financial condition, capital demands and other factors and will be determined by the Company's Board of Directors. See Note 4 to the Company's financial statements included herein for restrictions on dividend payments.

## Purchases of Equity Securities by the Company

The Company did not repurchase any of its securities during the fourth quarter of 2013.

Table of Contents

Page 14

---

## Performance Graph

The following line graph presents the annual and cumulative total shareholder return for The York Water Company Common Stock over a five-year period from 2008 through 2013, based on the market price of the Common Stock and assuming reinvestment of dividends, compared with the cumulative total shareholder return of companies in the S&P 500 Index and a peer group made up of publicly traded water utilities, also assuming reinvestment of dividends. The peer group companies include: American States, American Water, Aqua America, Artesian Resources, California Water Service, Connecticut Water, Middlesex Water and San Jose Water. American Water was added to the peer group in 2013 as it completed its fifth year as a publicly traded water utility. The line graph shows the peer group as it existed in 2012 and in 2013 for comparison purposes.

## Table of Contents

Page 15

---

## Item 6. Selected Financial Data.

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

For the Year	Summary of Operations				
	2013	2012	2011	2010	2009
Operating revenues	\$42,383	\$41,447	\$40,629	\$39,005	\$37,043
Operating expenses	21,622	20,874	20,754	19,238	19,655
Operating income	20,761	20,573	19,875	19,767	17,388
Interest expense	5,162	5,144	5,155	4,795	4,780
Other income (expenses), net	(133 )	(520 )	(677 )	(465 )	(517 )
Income before income taxes	15,466	14,909	14,043	14,507	12,091
Income taxes	5,812	5,606	4,959	5,578	4,579
Net income	\$9,654	\$9,303	\$9,084	\$8,929	\$7,512
Per Share of Common Stock					
Book value	\$7.98	\$7.73	\$7.45	\$7.19	\$6.92
Basic earnings per share	0.75	0.72	0.71	0.71	0.64
Cash dividends declared per share	0.5580	0.5391	0.5266	0.5150	0.5060
Weighted average number of shares outstanding during the year	12,928,040	12,847,160	12,734,420	12,626,660	11,695,155
Utility Plant					
Original cost, net of acquisition adjustments	\$298,670	\$289,579	\$278,344	\$269,856	\$259,839
Construction expenditures	9,852	11,543	9,472	10,541	12,535
Other					
Total assets	\$282,529	\$282,490	\$274,219	\$259,931	\$248,837
Long-term debt including current portion	84,928	84,975	85,017	85,173	77,568

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

[Table of Contents](#)

Page 16

---

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

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

Overview

The York Water Company (the "Company") is the oldest investor-owned water utility in the United States, operated continuously since 1816. The Company also operates two wastewater collection and treatment systems. The Company is a purely regulated water and wastewater utility. Profitability is largely dependent on water revenues.

Due to the size of the Company and the limited geographic diversity of its service territory, weather conditions, particularly rainfall, economic, and market conditions can have an adverse affect on revenues. Market conditions and the economy in general continue to recover very slowly from the recession. As a result, there was very little organic growth in the customer base and existing customers reduced their water usage. In 2013, total water usage per customer declined by 1.5% compared to 2012, due to an above average amount of rainfall and conservation efforts by customers.

The Company increased revenues in 2013 compared to 2012 due to the collection of the distribution system improvement charge (DSIC) and growth in the customer base through acquisitions. The DSIC allows the Company to add a charge to customers' bills for qualified replacement costs of certain infrastructure without submitting a rate filing.

The Company's business does not require large amounts of working capital and is not dependent on any single customer or a very few customers for a material portion of its business. In 2013, operating revenue was derived from the following sources and in the following percentages: residential, 63%; commercial and industrial, 29%; and other, 8% which is primarily from the provision for fire service. The customer mix helps to reduce volatility in consumption.

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

The Company has entered into agreements with several municipalities to provide sewer billing services. In 2012, the Company began a service line protection program as a pilot program. Opportunities to expand both initiatives are being pursued to further diversify the business.

Performance Measures

Company management uses financial measures including operating revenues, net income, earnings per share and return on equity to evaluate its financial performance. Additional statistical measures including number of customers, customer complaint rate, annual customer rates and the efficiency ratio are used to evaluate performance quality.

These measures are calculated on a regular basis and compared with historical information, budget and the other publicly-traded water and wastewater companies.

The Company's performance in 2013 was strong under the above measures. Increased rates from the collection of the DSIC and increases in the number of customers mostly as a result of acquisitions resulted in higher revenue and offset the higher operating expenses and income taxes recorded in 2013. The overall effect was an increase in net income in 2013 over 2012 of 3.8% and a return on year end common equity of 9.3%, which was consistent with 2012.

Table of Contents



The efficiency ratio, which is calculated as net income divided by revenues, is used by management to evaluate its ability to control expenses. Over the five previous years, the Company's ratio averaged 21.5%. In 2013, the ratio was higher than the average at 22.8% due to the higher net income resulting from higher revenue and controlled expenses. Management is confident that its ratio will again exceed that of its peers. Management continues to look for ways to decrease expenses and increase efficiency as well as to file for rate increases promptly when needed.

## Results of Operations

### 2013 Compared with 2012

Net income for 2013 was \$9,654, an increase of \$351, or 3.8%, from net income of \$9,303 for 2012. The primary contributing factors to the increase in net income were higher operating revenues and lower employee retirement expense which were partially offset by higher depreciation.

Operating revenues for the year increased \$936, or 2.3%, from \$41,447 for 2012 to \$42,383 for 2013. The primary reasons for the increase were the distribution surcharge, the addition of wastewater revenues and an increase in water customers. The distribution surcharge added \$862 to revenues and wastewater revenues added \$62 during 2013 as compared to 2012. The average number of water customers served in 2013 increased as compared to 2012 by 598 customers, from 63,176 to 63,774 customers, primarily due to acquisitions. The increase in revenues was partially offset by reduced per capita consumption of 1.5% for 2013 compared to 2012. Industrial per capita consumption increased, but residential and commercial per capita consumption decreased. The Company expects revenues for 2014 to increase due to an increase in rates effective February 28, 2014, and an increase in the number of water and wastewater customers due to recently announced acquisitions. Other regulatory actions and weather patterns could impact results.

Operating expenses for the year increased \$748, or 3.6%, from \$20,874 for 2012 to \$21,622 for 2013. The increase was primarily due to higher depreciation expense of approximately \$574 and increased power expense of \$201 due to the Company's participation in electric curtailment programs in 2013 not repeated in 2012. Also adding to the increase were higher health insurance expenses of \$69, increased wastewater systems expense of \$55 and higher payment processing fees of \$52. The increase was partially offset by the absence of \$82 in rate case expense, lower capital stock taxes of \$75 and lower power supply costs of \$52. Other expenses increased by a net of \$6. The Company expects depreciation expense to continue to rise in 2014 due to investment in utility plant, and other operating expenses to increase at a moderate rate as costs to maintain and extend the distribution system continue to rise and as additional water and wastewater systems are acquired.

Interest expense on debt for 2013 decreased \$5, or 0.1%, from \$5,249 for 2012 to \$5,244 for 2013. The decrease was primarily due to lower long-term debt outstanding and lower variable interest rates. During 2013 and 2012, there were no borrowings under the lines of credit. Interest expense for 2014 is expected to remain consistent with 2013 or decrease if bonds that are eligible to be called are refinanced at lower rates.

Allowance for funds used during construction decreased \$23, from \$105 for 2012 to \$82 in 2013, due to a lower volume of eligible construction. Allowance for funds used during construction is expected to show a modest increase in 2014 based on a projected increase in the amount of construction expenditures.

Other income (expenses), net for 2013 reflects decreased expenses of \$387 as compared to the same period of 2012. The net change was primarily due to lower employee retirement expense of approximately \$434 due to an increase in the discount rate and higher income on life insurance policies of approximately \$15. Other non-operating expenses and contributions aggregating approximately \$62 increased as compared to the same period of 2012. In 2014, other income (expenses) will be largely determined by the change in market returns and discount rates for retirement programs and related assets.

Income taxes for 2013 increased \$206, or 3.7%, compared to 2012 due to higher taxable income. The Company's effective tax rate was 37.6% for both 2012 and 2013. The Company expects the effective tax rate to decrease in 2014 due to the required implementation of the Internal Revenue Service, or IRS, tangible property regulations. See the Deferred Income Taxes and Uncertain Tax Positions section included herein for additional details.

Table of Contents

Page 18

---

## 2012 Compared with 2011

Net income for 2012 was \$9,303, an increase of \$219, or 2.4%, from net income of \$9,084 for 2011. The primary contributing factors to the increase in net income were higher operating revenues and lower expenses for power, the provision for doubtful accounts, tank remediation and life insurance. The increased income was partially offset by higher expenses for income taxes, depreciation, salary and wage, and distribution system maintenance, and reduced capitalized overhead.

Operating revenues for the year increased \$818, or 2.0%, from \$40,629 for 2011 to \$41,447 for 2012. The primary reasons for the increase were the DISC and an increase in customers. The DSIC added an additional \$583 to revenues during 2012 as compared to 2011. The average number of customers served in 2012 increased as compared to 2011 by 596 customers, from 62,677 to 63,273 customers. The increase in revenues was partially offset by a 1.3% decrease in the total per capita volume of water sold in 2012 as compared with 2011. Commercial per capita consumption increased, but residential and industrial per capita consumption decreased.

Operating expenses for the year increased \$120, or 0.6%, from \$20,754 for 2011 to \$20,874 for 2012. The increase was primarily due to higher depreciation expense of approximately \$265, increased salary and wage expense of approximately \$161, reduced capitalized overhead of approximately \$148 and increased distribution system maintenance expense of approximately \$119. Other expenses increased approximately \$29. The increase was partially offset by reduced power expense of approximately \$255 due primarily to credits for voluntary electric curtailment events in which the Company participated, a lower provision for doubtful accounts of approximately \$179 due to a prior year adjustment for additional inactive accounts and reduced expense of approximately \$168 for the prior year tank remediation project.

Interest on debt for 2012 decreased \$5, or 0.1%, from \$5,254 for 2011 to \$5,249 for 2012. The decrease was primarily due to lower long-term debt outstanding and lower variable interest rates. During 2012 and 2011, there were no borrowings under the lines of credit.

Allowance for funds used during construction increased \$6, from \$99 for 2011 to \$105 in 2012, due to a higher volume of eligible construction.

Other income (expenses), net for 2012 reflects decreased expenses of \$157 as compared to the same period of 2011. The net change was primarily due to lower employee retirement expense of approximately \$101 due to a smaller impact from the decline in the discount rate in 2012 as compared to 2011 and lower expense on life insurance policies of approximately \$55 as the value of retirement assets increased in 2012 as compared to 2011. The increase in value was partially offset by life insurance proceeds which benefited 2011 and were not repeated in 2012. Other expenses aggregating approximately \$1 also decreased as compared to the same period of 2011.

Income taxes for 2012 increased \$647, or 13.0%, compared to 2011. The Company's effective tax rate was 37.6% for 2012 and 35.3% for 2011. The higher effective tax rate in 2012 and the resulting increase in taxes were primarily due to the deductibility of bonus depreciation for state purposes in 2011, which was not available in 2012. Taxes on higher income also added to the increase.

## Rate Developments

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

Effective January 1, 2014, the Company's tariff included a distribution surcharge on revenues of 4.87%. The surcharge reset to zero when the new base rates took effect on February 28, 2014.

## Table of Contents





## Acquisitions

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

On February 7, 2014, the Company completed the acquisition of the wastewater facilities of the East Prospect Borough Authority in York County, Pennsylvania. The Company began operating the existing collection and treatment facilities and serving approximately 400 wastewater customers on February 8, 2014.

On October 8, 2013, the Company signed an agreement to purchase the wastewater assets of SYC WWTP, L.P. in Shrewsbury and Springfield Townships, York County, Pennsylvania. Completion of the acquisition is contingent upon receiving approval from all required regulatory authorities. Closing is expected in the second quarter of 2014 at which time the Company will add approximately 30 commercial and industrial wastewater customers.

On January 6, 2014, the Company signed an agreement to purchase the water assets of Forest Lakes Water Association in York County, Pennsylvania. Completion of the acquisition is contingent upon receiving approval from all required regulatory authorities. The Company expects to begin serving approximately 70 new customers through an interconnection with its current distribution system in the second quarter of 2014.

On January 10, 2014, the Company signed an agreement to purchase the Lincoln Estates Mobile Home Park water assets of Rupa, Inc. and Lincoln Development Co. in Adams County, Pennsylvania. Completion of the acquisition is contingent upon receiving approval from all required regulatory authorities. The Company expects to begin serving approximately 200 new customers as a satellite system in the second quarter of 2014.

The two new wastewater agreements signed in 2013 more than triple the size of the Company's wastewater business. In total, these acquisitions are expected to be immaterial to total company results. The Company is also pursuing other bulk water contracts and acquisitions in and around its service territory to help offset further declines in per capita water consumption.

## Capital Expenditures

During 2013, the Company invested \$9,852 in construction expenditures for routine items and upgrades to its water treatment facilities as well as various replacements of aging infrastructure. The Company replaced and relined over 41,000 feet of main in 2013. In addition, the Company invested \$28 in the acquisition of a water system during 2013. The Company was able to fund construction expenditures and acquisitions using cash on hand, internally-generated funds, customer advances and proceeds from its stock purchase plans. See Note 5 to the Company's financial statements included herein.

The Company anticipates construction and acquisition expenditures for 2014 and 2015 of approximately \$12,500 and \$16,900, respectively, exclusive of any potential acquisitions. In addition to routine transmission and distribution projects, a portion of the anticipated 2014 and 2015 expenditures will be for additional main extensions, further upgrades to water and wastewater treatment facilities, an additional pumping station, and various replacements of aging infrastructure. The Company intends to use primarily cash on hand and internally-generated funds for its anticipated 2014 and 2015 construction and fund the remainder through line of credit borrowings, proceeds from its stock purchase plans and customer advances and contributions (see Note 1 to the Company's financial statements included herein). Customer advances and contributions are expected to account for less than 5% of funding requirements in 2014 and 2015. Potential debt and equity offerings may be utilized if required. The Company believes it will have adequate credit facilities and access to the capital markets, if necessary during 2014, to fund anticipated construction and acquisition expenditures.

## Table of Contents



## Liquidity and Capital Resources

### Cash

The Company manages its cash through a cash management account that is directly connected to a line of credit.

Excess cash generated automatically pays down outstanding borrowings under the line of credit arrangement. If there are no outstanding borrowings, the cash is used as an earnings credit to reduce banking fees. Likewise, if additional funds are needed beyond what is generated internally for payroll, to pay suppliers, or for debt service, funds are automatically borrowed under the line of credit. The Company has accumulated a cash balance of \$7,565 as of December 31, 2013 through higher funds from operations primarily due to lower cash required for income taxes as a result of bonus depreciation. In addition, less cash was needed as a result of lower than expected capital expenditures.

The Company expects the cash balance to decline in 2014 based on higher expected capital expenditures, the potential buyback of stock under the share repurchase program offset by lower income tax payments from implementation of the IRS tangible property regulations. After the cash balance is fully utilized, the cash management facility is expected to provide the necessary liquidity and funding for the Company's operations, capital expenditures, acquisitions and potential buybacks of stock under the share repurchase program for the foreseeable future.

### Accounts Receivable

The accounts receivable balance tends to follow the change in revenues but is also affected by the timeliness of payments by customers and the level of the reserve for doubtful accounts. The Company has seen an improvement in the timeliness of payments by its customers resulting in a decrease in accounts receivable despite an increase in revenues. A reserve is maintained at a level considered adequate to provide for losses that can be reasonably anticipated based on inactive accounts with outstanding balances. Management periodically evaluates the adequacy of the reserve based on past experience, agings of the receivables, adverse situations that may affect a customer's ability to pay, current economic conditions, and other relevant factors. If the status of these factors deteriorates, the Company may incur additional expenses for uncollectible accounts and experience a reduction in its internally-generated funds. The Company made a one-time adjustment during the second quarter of 2011 to the allowance and corresponding provision for doubtful accounts for inactive accounts that were written off during the second half of 2011. The amount of the adjustment was not considered material to the financial statements. No further adjustments were required in 2012 or 2013 or are expected in 2014.

### Internally-generated Funds

The amount of internally-generated funds available for operations and construction depends on the Company's ability to obtain timely and adequate rate relief, changes in regulations, customers' water usage, weather conditions, customer growth and controlled expenses. In 2013, the Company generated \$18,438 internally as compared to \$16,422 in 2012 and \$17,474 in 2011. Higher operating revenues from the collection of the distribution surcharge, increased depreciation, which is a non-cash expense, and lower income taxes paid in 2013 increased cash flow from operating activities.

### Credit Lines

Historically, the Company has borrowed \$15,000 to \$20,000 under its lines of credit before refinancing with long-term debt or equity capital. As of December 31, 2013, the Company maintained unsecured lines of credit aggregating \$29,000 with three banks at interest rates ranging from LIBOR plus 1.20% to LIBOR plus 1.50%. The Company had no outstanding borrowings under any of its lines of credit as of December 31, 2013. The Company plans to renew a \$5,000 line of credit that expires in June 2014 under similar terms and conditions.

The Company has taken steps to manage the risk of reduced credit availability such as maintaining committed lines of credit that cannot be called on demand and obtaining a 2-year revolving maturity on its larger facilities. There is no guarantee that the Company will be able to obtain sufficient lines of credit with favorable terms in the future. In addition, if the Company is unable to refinance its line of credit borrowings with long-term debt or equity when necessary, it may have to eliminate or postpone capital expenditures. Management believes the Company will have adequate capacity under its current lines of credit to meet financing needs throughout 2014.

Long-term Debt

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

Table of Contents

Page 21

---

The Pennsylvania Economic Development Financing Authority, or PEDFA, Series 2008B bonds are currently callable. The Company may refinance these bonds to take advantage of lower interest rates before maturity. The PEDFA Series 2004A bonds become callable on April 1, 2014. The Company will look to refinance these bonds at the best possible rates on or before April 2016.

The Company's debt (long-term debt plus current portion of long-term debt) as a percentage of the total capitalization, defined as total common stockholders' equity plus long-term debt (including current portion of long-term debt), was 45.1% as of December 31, 2013, compared with 46.0% as of December 31, 2012. The Company will likely allow the debt percentage to trend upward until it approaches fifty percent before matching increasing debt with additional equity. A debt to total capitalization ratio between forty-five and fifty percent has historically been acceptable to the PPUC in rate filings. Due to its recent ability to generate and retain more cash internally, the Company has been able to keep its ratio below fifty percent. See Note 4 to the Company's financial statements included herein for the details of its long-term debt outstanding as of December 31, 2013.

#### Deferred Income Taxes and Uncertain Tax Positions

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

The Company has a substantial deferred income tax asset primarily due to the differences between the book and tax balances of the pension and deferred compensation plans although the balance declined in 2013 due to an increase in the discount rate. The Company does not believe a valuation allowance is required due to the expected generation of future taxable income during the periods in which those temporary differences become deductible. The Company has determined there are no uncertain tax positions that require recognition as of December 31, 2013.

The Company is currently evaluating the impact of the IRS regulations that allow an alternative method for determining how capital expenditures can be treated for federal tax purposes, allowing certain expenditures that were historically considered as capital for tax purposes to now be eligible to be deducted on federal tax returns as expenses. In addition, a catch up repair tax deduction, retroactive for a number of prior years is permitted to be deducted on its 2014 federal tax return. Under the accounting standards regarding rate-regulated activities, this change may lower the effective tax rate of the Company which would lower income tax expense and increase net income.

#### Common Stock

Common stockholders' equity as a percent of the total capitalization was 54.9% as of December 31, 2013, compared with 54.0% as of December 31, 2012. The volume of share repurchases could reduce this percentage in the future. It is the Company's intent to target a ratio between fifty and fifty-five percent.

#### Credit Rating

On April 24, 2013, Standard & Poor's affirmed the Company's credit rating at A-, with a stable outlook and adequate liquidity. The Company's ability to maintain its credit rating depends, among other things, on adequate and timely rate relief, which it has been successful in obtaining, its ability to fund capital expenditures in a balanced manner using both debt and equity and its ability to generate cash flow. In 2014, the Company's objectives are to continue to maximize its funds provided by operations and maintain a strong capital structure.

#### Dividends

During 2013, the Company's dividend payout ratios relative to net income and net cash provided by operating activities were 74.7% and 38.8%, respectively. During 2012, the Company's dividend payout ratios relative to net income and net cash provided by operating activities were 74.5% and 41.8%, respectively. During the fourth quarter of 2013, the Board of Directors increased the dividend by 3.5% from \$0.1383 per share to \$0.1431 per share per

quarter. This was the seventeenth consecutive annual dividend increase and the 198th consecutive year of paying dividends.

Table of Contents

Page 22

---

The Company's Board of Directors declared a dividend in the amount of \$0.1431 per share at its January 2014 meeting. The dividend is payable on April 15, 2014 to shareholders of record as of February 28, 2014. While the Company expects to maintain this dividend amount in 2014, future dividends will be dependent upon the Company's earnings, financial condition, capital demands and other factors and will be determined by the Company's Board of Directors. See Note 4 to the Company's financial statements included herein for restrictions on dividend payments.

#### Inflation

The Company is affected by inflation, most notably by the continually increasing costs incurred to maintain and expand its service capacity. The cumulative effect of inflation results in significantly higher facility replacement costs which must be recovered from future cash flows. The ability of the Company to recover this increased investment in facilities is dependent upon future rate increases, which are subject to approval by the PPUC. The Company can provide no assurances that its rate increases will be approved by the PPUC; and, if approved, the Company cannot guarantee that these rate increases will be granted in a timely or sufficient manner to cover the investments and expenses for which the rate increase was sought.

#### Contractual Obligations

The following summarizes the Company's contractual obligations by period as of December 31, 2013:

	Payments due by period				
	Total	Less than 1 Year	Years 2 and 3	Years 4 and 5	More than 5 Years
Long-term debt obligations (a)	\$84,928	\$43	\$19,387	\$88	\$65,410
Interest on long-term debt (b)	69,974	4,862	9,467	9,036	46,609
Purchase obligations (c)	1,769	1,769	-	-	-
Defined benefit obligations (d)	6,782	2,182	4,600	-	-
Deferred employee benefits (e)	4,987	255	511	469	3,752
Other deferred credits (f)	1,837	362	616	325	534
Total	\$170,277	\$9,473	\$34,581	\$9,918	\$116,305

Represents debt maturities including current maturities. Included in the table is a potential payment of \$12,000 in Year 2 on the variable rate bonds which would only be due if the bonds were unable to be remarketed. There is currently no such indication of this happening.

Excludes interest on the \$12,000 variable rate debt as these payments cannot be reasonably estimated. The interest rate on this issue is reset weekly by the remarketing agent based on then current market conditions.

Represents an approximation of open purchase orders at year end.

Represents contributions expected to be made to qualified defined benefit plans. The contribution may increase if the minimum required contribution as calculated under Employee Retirement Income Security Act (ERISA) standards is higher than this amount. The contribution is also dependent upon the amount recovered in rates charged to customers. The amount of required contributions in year 4 and thereafter is not currently determinable.



Represents the obligations under the Company's Supplemental Retirement and Deferred Compensation Plans for (e) executives.

(f) Represents the estimated settlement payments to be made under the Company's interest rate swap contract.

Table of Contents

Page 23

---

In addition to these obligations, the Company makes refunds on Customers' Advances for Construction over a specific period of time based on operating revenues related to developer-installed water mains or as new customers are connected to and take service from such mains. The refund amounts are not included in the above table because the timing cannot be accurately estimated. Portions of these refund amounts are payable annually through 2024 and amounts not paid by the contract expiration dates become non-refundable and are transferred to Contributions in Aid of Construction.

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

#### Environmental Matters

In November 2011, during a routine tank cleaning, the Company discovered a small amount of mercury in the bottom of the tank. The tank was not in service at the time of the discovery and remains out of service. A number of tests were performed to confirm no mercury entered the water supply and no employees or contractors present during the discovery were impacted. The tank will remain out of service until it is confirmed that it is approved for service by the DEP. No disruption of service to any customers has occurred or is expected to occur. The Company incurred total costs of \$186 through December 31, 2013, none of which were in 2013. Recent tests have shown the tank is in compliance with safe drinking water standards and the Company has requested permission to place the tank back into service from the DEP. If the DEP does not approve based on the testing completed, other options will be reviewed, including a project to reline and strengthen the interior of the tank through capital expenditures.

#### Critical Accounting Estimates

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

#### Regulatory Assets and Liabilities

Generally accepted accounting principles define accounting standards for companies whose rates are established by or are subject to approval by an independent third-party regulator. In accordance with the accounting standards, the Company defers costs and credits on its balance sheet as regulatory assets and liabilities when it is probable that these costs and credits will be recognized in the rate-making process in a period different from when the costs and credits were incurred. These deferred amounts are then recognized in the statement of income in the period in which they are reflected in customer rates. If the Company later finds that these assets and liabilities cannot be included in rate-making, they are adjusted appropriately. See Note 1 for additional details regarding regulatory assets and liabilities.

#### Revenue Recognition

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

#### Table of Contents

Page 24

---

### Pension Accounting

Accounting for defined benefit pension plans requires estimates of future compensation increases, mortality, the discount rate, and expected return on plan assets as well as other variables. These variables are reviewed annually with the Company's pension actuary. The Company selected its December 31, 2013 and 2012 discount rates based on the Citigroup Pension Liability Index. This index uses the Citigroup spot rates for durations out to 30 years and matches them to expected disbursements from the plan over the long term. The Company believes this index most appropriately matches its pension obligations. The present values of the Company's future pension obligations were determined using a discount rate of 4.65% at December 31, 2013 and 3.75% at December 31, 2012.

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

The Company's estimate of the expected return on plan assets is primarily based on the historic returns and projected future returns of the asset classes represented in its plans. The target allocation of pension assets is 50% to 70% equity securities, 30% to 50% fixed income securities, 0% to 20% alternatives and 0% to 10% cash reserves. The Company used 7% as its estimate of expected return on assets in both 2013 and 2012. If the Company were to reduce the expected return, its liability would increase, but its expense would again remain unchanged because the expense is equal to the Company's contribution to the plans. The additional expense would instead be recorded as an increase to regulatory assets.

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

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

### Off-Balance Sheet Transactions

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

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

The Company's operations are exposed to market risks primarily as a result of changes in interest rates under its lines of credit. As of February 2014, the Company has unsecured lines of credit with three banks having a combined maximum availability of \$29,000. The first line of credit, in the amount of \$13,000, is a committed line of credit with a revolving 2-year maturity (currently May 2015), and carries an interest rate of LIBOR plus 1.20%. The second line of credit, in the amount of \$11,000, is a committed line of credit, which matures in May 2015 and carries an interest rate of LIBOR plus 1.25%. The third line of credit, in the amount of \$5,000, is a committed line of credit, which matures in June 2014 and carries an interest rate of LIBOR plus 1.50%. The Company had no outstanding borrowings

under any of its lines of credit as of December 31, 2013. Other than lines of credit, the Company has long-term fixed rate debt obligations as discussed in Note 4 to the financial statements included herein and a variable rate PEDFA loan agreement described below.

[Table of Contents](#)

Page 25

---

Edgar Filing: YORK WATER CO - Form 10-K

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

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

Liabilities	Expected Maturity Date							Fair Value
	2014	2015	2016	2017	2018	Thereafter	Total	
Long-term debt:								
Fixed Rate	\$43	\$43	\$7,344	\$44	\$44	\$65,410	\$72,928	\$82,000
Average interest rate	1.00%	1.00%	4.67%	1.00%	1.00%	6.91%	6.67%	
Variable Rate	-	\$12,000	-	-	-	-	\$12,000	\$12,000
Average interest rate	0.09%	0.09%	-	-	-	-	0.09%	

Interest Rate Derivatives	Expected Maturity Date							Fair Value
	2014	2015	2016	2017	2018	Thereafter	Total	
Interest Rate Swap – Notional Value \$12,000								\$1,641
Variable to Fixed *	\$362	\$341	\$275	\$189	\$136	\$534	\$1,837	
Average pay rate	3.16%	3.16%	3.16%	3.16%	3.16%	3.16%	3.16%	
Average receive rate	0.13%	0.32%	0.87%	1.58%	2.05%	2.75%	2.19%	

\*Represents undiscounted net payments.

The variable rate portion of the liabilities section of the table includes the \$12,000 variable rate loan potentially due in 2015, as the underlying bonds could be tendered at any time. If all of the bonds were tendered and could not be remarketed, the earliest that the Company would have to buy them back would be fourteen months from the date of notification. As of the date of this report, there had been no such notification. If the bonds are able to be remarketed as intended for the term of the bonds, the loan will be due in October 2029. The interest rate of 0.09% on the \$12,000 variable rate loan represents the rate paid to bondholders for the PEDFA Series A issue at December 31, 2013. This rate is used for 2014 and 2015, but it may not be indicative of the actual rate.

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

Table of Contents

Page 26

---

Item 8. Financial Statements and Supplementary Data.

THE YORK WATER COMPANY

Board of Directors and Stockholders of  
The York Water Company

We have audited the accompanying balance sheets of The York Water Company (the "Company") as of December 31, 2013 and 2012, and the related statements of income, common stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2013. In connection with our audits of the financial statements, we also have audited the financial statement schedule listed in the Index at Item 15(2). These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The York Water Company as of December 31, 2013 and 2012, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2013 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respect, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), The York Water Company's internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control—Integrated Framework (1992 framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 11, 2014 expressed an unqualified opinion.

/s/ParenteBeard LLC

York, Pennsylvania

March 11, 2014

Table of Contents

Page 27

---

## THE YORK WATER COMPANY

## Balance Sheets

(In thousands of dollars, except per share amounts)

	Dec. 31, 2013	Dec. 31, 2012
<b>ASSETS</b>		
UTILITY PLANT, at original cost	\$ 301,570	\$ 292,483
Plant acquisition adjustments	(2,900 )	(2,904 )
Accumulated depreciation	(54,433 )	(50,040 )
Net utility plant	244,237	239,539
<b>OTHER PHYSICAL PROPERTY:</b>		
Net of accumulated depreciation of \$240 in 2013 and \$219 in 2012	763	776
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	7,565	4,012
Restricted cash	95	-
Accounts receivable, net of reserves of \$320 in 2013 and \$305 in 2012	3,772	4,038
Unbilled revenues	2,286	2,322
Materials and supplies inventories, at cost	722	728
Prepaid expenses	573	337
Deferred income taxes	219	208
Total current assets	15,232	11,645
<b>OTHER LONG-TERM ASSETS:</b>		
Deferred debt expense	2,187	2,291
Notes receivable	306	338
Deferred regulatory assets	16,123	23,835
Restricted cash-compensating balance	-	500
Other assets	3,681	3,566
Total other long-term assets	22,297	30,530
<b>Total Assets</b>	<b>\$ 282,529</b>	<b>\$ 282,490</b>