

OUR
PRESENT
Growth



IS THE
Foundation
FOR OUR
FUTURE

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*The York Water Company
experienced another significant year
of growth in 2005 – the 190th year
of business for the oldest investor-
owned water utility in the United States.*

*The original two miles of wooden water
main served 321 customers in 1816.*

*Today The York Water Company
supplies approximately 19 million
gallons of water every day to over
161,000 people in 34 communities in
York County. Through strong leadership,
partnerships, acquisitions, and a
continued dedication to providing
quality service, company performance
in 2005 was excellent. Growth is
expected to continue into the future,
supplying more customers with
“That good York water.”*

Growth





On December 28, 2005, officers, key employees and associates of the Company presided over the NASDAQ Stock Market closing to celebrate 190 years of service to our customers, 190 years of consecutive dividends to our shareholders, and the five-year anniversary of our listing on NASDAQ.

Photo (c) Copyright 2005, The Nasdaq Stock Market, Inc. Reprinted with permission

Dear Shareholders,

The Company's recent growth is a story of an organization that sets its sights on achieving the most ambitious goals. We believe in setting aggressive goals that surpass previous performance levels and working hard to achieve them. We expect to meet our long-term objectives. Our operating principles are sound, our strategy is clear, and our future is bright.



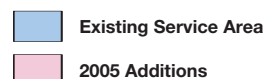
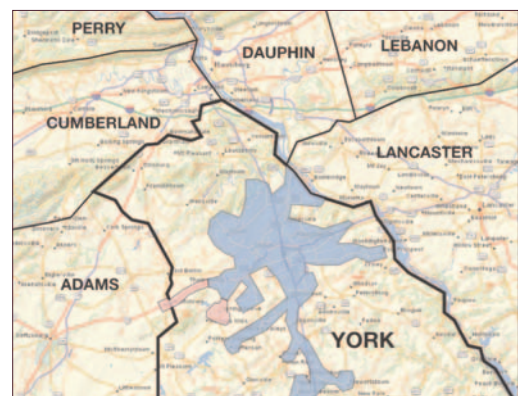
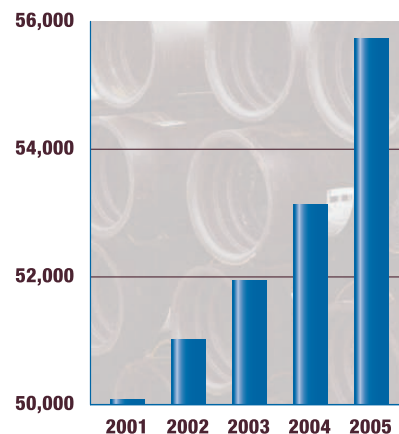
Jeffrey S. Osman
President and
Chief Executive Officer

Growth Through Acquisitions



2005 was the busiest period for acquisitions in the Company's history. The Company made four acquisitions during the last twelve months which will significantly bolster our operating revenues and customer base.

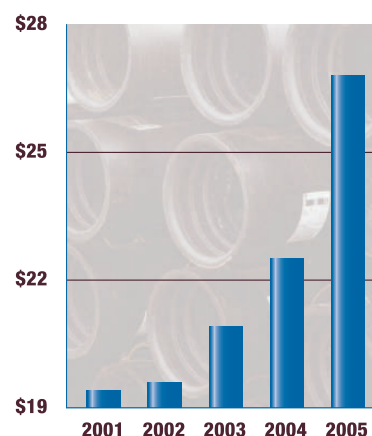
These acquisitions were "tuck-in" that have been or will be fully integrated into our current operations. We have not lost our appetite for growth and will continue to pursue expansion through acquisitions.

CUSTOMERS

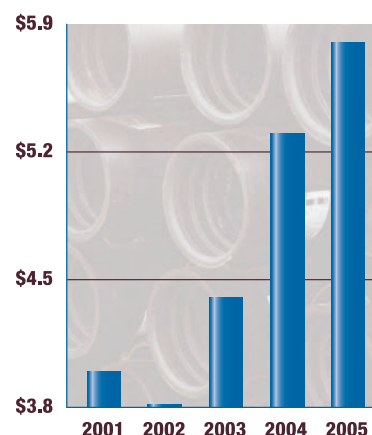
Financial Growth

The past several years have been a period of remarkable financial growth for the Company. We again achieved record operating revenues, operating income, net income and earnings per share. Sales grew by 19.1% to \$26.8 million; operating income increased 29.1% to \$12.8 million. Our earnings rose by 10.0% to \$5.8 million and earnings per share increased to \$0.84 per share. Thanks to another strong performance, we were able to increase returns to shareholders by raising our dividends for the ninth straight year. In November, we increased our quarterly dividend 7.7% from \$.156 per share to \$.168 per share, reflecting our improved financial performance and underscoring our confidence in our future plans. We are improving our margins and laying a secure financial foundation.

OPERATING REVENUES



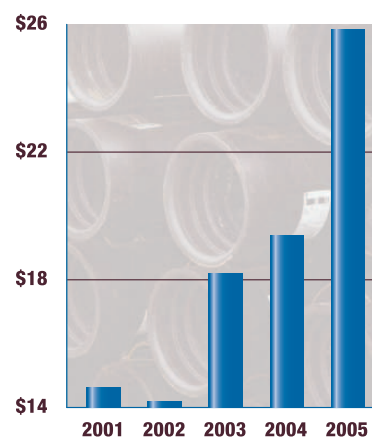
NET INCOME (millions)



Growth in Shareholder Value

Our shareholders experienced a considerable increase in shareholder value during 2005. The market price of our common stock increased \$6.45 per share to \$25.85, or a 33.2% increase. This increase together with a \$0.636 per share in dividends paid during the year brought the total annualized return to 36.5%.

PER SHARE VALUE



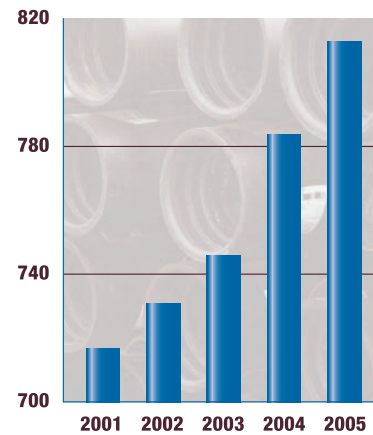




Growth | in Ability to Serve

The Company is committed to making the necessary investment in facilities and human capital to reliably provide "That good York water" to our existing and future customers. Our priority will continue to be ensuring the availability of pure water and excellent service to our customers.

MILES OF MAIN



Growth | in Spirit

Our employees represent an impressive combination of talent and experience. We provide an environment in which they are encouraged to think and act independently. They are engaged in the Company's affairs and are excited about the opportunity to learn new skills, face new challenges, better serve our customers, and share in the Company's promising future. Our recent excellent performance is a testament to their effort and dedication.

Sincerely,

Jeffrey S. Osman
President and Chief Executive Officer



In 2005, we lost our friend and associate, Frank Motter. Frank had been a Director of the Company from March 1979 through August 2000, and a Director Emeritus from August 2000 until his death. His counsel, guidance and friendship will be sorely missed.

Highlights of Our 190th Year*(In thousands of dollars, except per share amounts)***Summary of Operations****For the Year****2005****2004****2003****2002****2001**

Water operating revenue.....	\$ 26,805	\$ 22,504	\$ 20,889	\$ 19,553	\$ 19,403
Operating expenses.....	<u>14,017</u>	<u>12,595</u>	<u>11,555</u>	<u>11,220</u>	<u>10,468</u>
Operating income.....	12,788	9,909	9,334	8,333	8,935
Interest expense.....	3,423	2,132	2,523	2,692	2,856
Gain on sale of land.....	—	743	—	—	—
Other income (expenses), net	<u>(149)</u>	<u>(168)</u>	<u>12</u>	<u>183</u>	<u>160</u>
Income before income taxes.....	9,216	8,352	6,823	5,824	6,239
Income taxes.....	<u>3,383</u>	<u>3,051</u>	<u>2,375</u>	<u>2,034</u>	<u>2,233</u>
Net income	\$ 5,833	\$ 5,301	\$ 4,448	\$ 3,790	\$ 4,006

Per Share of Common Stock

Book value	\$ 7.27	\$ 6.98	\$ 6.08	\$ 5.85	\$ 5.69
Basic earnings per share84	.80	.70	.60	.65
Dividends ⁽¹⁾636	.591	.550	.525	.505
Weighted average number of shares outstanding during the year.....	6,906,249	6,625,224	6,386,460	6,330,394	6,153,250

Utility Plant

Original cost, net of acquisition adj ...	\$ 181,756	\$ 163,701	\$ 138,314	\$ 127,117	\$ 121,109
Construction expenditures	15,553	25,981	11,527	6,310	7,096

Other

Total assets.....	\$ 172,296	\$ 156,066	\$ 127,508	\$ 118,408	\$ 113,351
Long-term debt including current maturities	51,874	51,913	32,652	32,690	32,728

⁽¹⁾ Cash dividends per share reflect dividends declared on shares outstanding at each dividend date.*For Management's Discussion and Analysis of Financial Condition and Results of Operations, Please Refer to Page 10.*

Market for Common Stock and Dividends

The common stock of The York Water Company is traded on the Nasdaq National Market (Symbol "YORW").

Quarterly price ranges and cash dividends per share for the last two years follow:

	2005			2004		
	High	Low	Dividend*	High	Low	Dividend*
1st Quarter	\$20.49	\$17.50	\$0.156	\$20.74	\$18.03	\$0.145
2nd Quarter	22.84	18.11	0.156	21.04	18.44	0.145
3rd Quarter	26.81	21.14	0.156	18.99	16.50	0.145
4th Quarter	26.81	20.62	0.168	20.00	16.87	0.156

* Cash dividends per share reflect dividends declared on shares actually outstanding at each dividend date.
(Refer to Note 4 to the Financial Statements for a description of the restriction on the declaration and payment of cash dividends.)

Prices are sales prices listed on NASDAQ.

Shareholders of record (excluding individual participants in securities positions listings) as of December 31, 2005 numbered approximately 1,449.

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 Common Stock on January 13, 2006 was the 540th consecutive dividend paid by the Company. The Company has paid consecutive dividends for its entire history, since 1816. The policy of our Board of Directors has been to pay cash dividends on a quarterly basis at a target rate of 75% of earnings. The dividend rate has been increased annually for nine consecutive years. 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.

Financial Reports and Investor Relations

Shareholders may request, without charge, copies of the Company's financial reports including Annual Reports and Forms 8-K, 10-K and 10-Q. Such requests, as well as other investor relations inquiries, should be addressed to:

Kathleen M. Miller — Chief Financial Officer

The York Water Company
Box 15089, York, PA 17405-7089

(717) 845-3601
(800) 750-5561
kathym@yorkwater.com

YORW on the Internet

For information about the Company, please visit us at: www.yorkwater.com.

The Annual Report can be found on the Company's website at: www.yorkwater.com.

Management's Discussion & Analysis*of Financial Condition and Results of Operations (In thousands of dollars, except per share amounts)***FORWARD-LOOKING STATEMENTS**

This Annual Report contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including statements made with respect to the results of operations and businesses of the Company. Words such as "may," "should," "believe," "anticipate," "estimate," "expect," "intend," "plan" and similar expressions are intended to identify forward-looking statements. Forward-looking statements include certain information relating to the Company's business strategy, including the markets in which it operates, the services it provides, its plans for construction, its expansion of its service territories, the Company's pipeline project to the Susquehanna River, water usage by its customers and its plans to invest in new technologies. These forward-looking statements are based upon management's current plans, expectations, estimates and assumptions and are subject to a number of risks and

uncertainties that could significantly affect current plans, anticipated actions and the Company's financial condition and results of operations. Factors that may cause actual results to differ materially from those discussed in such forward-looking statements include, among others, the following possibilities: (i) weather conditions, particularly the amount of rainfall; (ii) the level of commercial and industrial business activity within the Company's service territory; (iii) construction of new housing within the Company's service territory; (iv) governmental regulation affecting the Company's rates and service obligations; (v) general economic and business conditions, including interest rates, which are less favorable than expected; and (vi) other matters set forth in Item 1A, "Risk Factors," of the Company's Annual Report on Form 10-K for the year ended December 31, 2005. The Company does not intend to update these cautionary statements.

GENERAL INFORMATION

The business of the Company is to impound, purify and distribute water. The Company operates entirely within its franchised territory, which covers 34 municipalities within York County, Pennsylvania. The Company is regulated by the Pennsylvania Public Utility Commission, or PPUC, in the areas of billing, payment procedures, dispute processing, terminations, service territory, and rate setting. The Company must obtain PPUC approval before changing any of the aforementioned procedures. Water service is supplied through the Company's own distribution system. The Company obtains its water supply from the south branch and east branch of the Codorus Creek, which drains an area of approximately 117 square miles. The Company has two reservoirs, Lake Williams and Lake Redman, which together hold up to approximately 2.23 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 million gallons of water per day. As of December 31, 2005, the Company's present average

daily availability was 35 million gallons, and consumption was approximately 18.7 million gallons daily. The Company's service territory had an estimated population of 161,000. Industry within the Company's service territory is diversified, manufacturing such items as fixtures and furniture, electrical machinery, food products, paper, ordnance units, textile products, air conditioning systems, barbells and motorcycles.

The Company's business does not require large amounts of working capital and is not dependent on any single customer or a very few customers. Operating revenue is derived from the following sources and in the following percentages: residential, 62%; commercial and industrial, 30%; and other, 8%, which is primarily from the provision for fire service. Increases in revenues are generally dependent on our ability to obtain rate increases from regulatory authorities in a timely manner and in an adequate amount, and increasing volumes of water sold through increased consumption and increases in the number of customers served.

During the five year period ended December 31, 2005, the Company has maintained an increasing growth in number of customers and distribution facilities as demonstrated by the following chart:

	2005	2004	2003	2002	2001
Average daily consumption (gallons per day)	18,657,000	18,116,000	17,498,000	17,901,000	19,734,000
Miles of mains at year-end	813	784	746	731	717
Additional distribution/transmission mains installed (ft.)	150,939	200,740	79,988	72,121	77,923
Number of customers at year-end	55,731	53,134	51,916	51,023	50,079
Population served at year-end	161,000	158,000	156,000	153,000	149,000

Results of Operations

2005 COMPARED WITH 2004

Net income for 2005 was \$5,833, an increase of \$532, or 10.0%, compared to net income of \$5,301 for 2004. Increased water revenues were the primary contributing factor. Higher operating expenses, reduced allowance for funds used during construction and the absence of a gain on the sale of land partially offset the increase.

Water operating revenues for the year increased \$4,301, or 19.1%, from \$22,504 for 2004 to \$26,805 for 2005. Increases in revenues are generally dependent on our ability to obtain rate increases from regulatory authorities and increasing our volumes of water sold through increased consumption and increases in the number of customers served. A 15.9% rate increase effective November 9, 2004 accounted for approximately \$3,172, or 73.8%, of the increase in water operating revenues for 2005. The average number of customers served in 2005 increased as compared to 2004 by 1,893, from 52,517 to 54,410 customers. This increase in customers, along with increased usage by our existing customers resulted in increased consumption in 2005. The total per capita volume of water sold increased 1.8% compared to 2004. The Company expects revenues to continue to increase as a result of increases to the customer base both within our current service area and through acquisitions. In addition, the Company currently plans to file for a rate increase in March of 2006. Drought warnings or restrictions as well as regulatory actions could impact our results.

Operating expenses for the year increased \$1,422, or 11.3%, from \$12,595 for 2004 to \$14,017 for 2005. Higher depreciation expense of approximately \$422 due to increased plant investment (in particular, the investment associated with the Susquehanna River Pipeline completed in 2004), higher wage expenses of approximately \$221, increased pension expense of approximately \$178, higher health and general insurance premiums of approximately \$113, increased customer and shareholder expenses of approximately \$107, higher water treatment costs of approximately \$95, system implementation expenses of approximately \$66 and increased reservoir and pumping station maintenance expenses, banking fees, fees for our corporate bond rating, bad debt and rate case expenses aggregating approximately \$127 were the principal reasons for the increase. Increased capitalized expenses, the absence of

permitting expenses and lower capital stock taxes partially offset the increase by approximately \$124. Operating expenses should continue to increase at a moderate level as costs to serve additional customers and to extend our distribution system continue to rise.

Interest expense on long-term debt increased \$447, or 14.8%, from \$3,023 for 2004 to \$3,470 for 2005 due to an increase in amounts outstanding. The Company issued tax-exempt debt through the Pennsylvania Economic Development Financing Authority, or the PEDFA, in the amount of \$7.3 million in April 2004 and \$12.0 million in December 2004. The tax-exempt debt was issued primarily to pay down short-term debt incurred to fund the Susquehanna River Pipeline Project. The increase was partially offset by savings of approximately \$56 on the remarketed 1995 Series Industrial Development Authority Bonds.

Interest expense on short-term debt decreased \$40, or 23.1%, from \$174 for 2004 to \$134 for 2005 due to a decrease in short-term borrowings. The average short-term debt outstanding in 2005 and 2004 was \$2.7 million and \$7.0 million, respectively. Most of the 2004 short-term debt outstanding was incurred to fund the Susquehanna River Pipeline Project which was completed in 2004.

Allowance for funds used during construction decreased \$884 from \$1,065 for 2004 to \$181 for 2005. A decreased allowance on the costs associated with the Susquehanna River Pipeline Project of approximately \$852 accounted for the majority of the decrease.

A gain of \$743 was recorded in the first quarter of 2004 for the sale of land. No significant land sales or other unusual events occurred in 2005.

Other expense, net decreased by \$19 in 2005 as compared to 2004 primarily due to the absence of a termination settlement of approximately \$144 offset by increased supplemental retirement expenses of approximately \$123.

Federal and state income taxes increased by \$332, or 10.9%, due to an increase in pre-tax income. The effective tax rates for 2005 and 2004 were 36.7% and 36.5%, respectively.

2004 COMPARED WITH 2003

Net income for 2004 was \$5,301, an increase of \$853, or 19.2%, compared to net income of \$4,448 for 2003. Increased water revenues, allowance for funds used during construction and an after-tax gain on the sale of land were the primary contributing factors. Higher operating expenses partially offset the increase.

Management's Discussion & Analysis*of Financial Condition and Results of Operations (In thousands of dollars, except per share amounts)***2004 COMPARED WITH 2003 (CONTINUED)**

Water operating revenues for the year increased \$1,615, or 7.7%, from \$20,889 for 2003 to \$22,504 for 2004. Increases in revenues are generally dependent on our ability to obtain rate increases from regulatory authorities and increasing our volumes of water sold through increased consumption and increases in the number of customers served. An 8.5% rate increase effective June 26, 2003 and a 15.9% rate increase effective November 9, 2004 accounted for approximately \$1,337, or 82.7%, of the increase in water operating revenues for 2004. The average number of customers served in 2004 increased as compared to 2003 by 1,088, from 51,429 to 52,517 customers. This increase in customers, along with increased usage by our existing customers resulted in increased consumption in 2004. Per capita consumption is highly dependent on weather conditions. Significant rainfall during the year kept consumption from reaching expected levels. The total per capita volume of water sold increased 0.6% compared to 2003.

Operating expenses for the year increased \$1,040, or 9.0%, from \$11,555 for 2003 to \$12,595 for 2004. Higher depreciation expense of approximately \$163 due to increased plant investment, higher health and general insurance premiums of approximately \$130, higher wage expenses and directors' fees of approximately \$314, permitting expenses of approximately \$37, increased distribution facilities maintenance expenses (in part related to security) of approximately \$84, increased contractual accounting services of approximately \$98, increased banking fees and fees for our corporate bond rating of approximately \$36, higher pension expense of approximately \$44 and higher capital stock and payroll taxes of approximately \$59 were the principal reasons for the increase. Lower legal and other professional services expense of approximately \$19 partially offset the increase.

Interest expense on long-term debt increased \$264, or 9.6%, from \$2,759 for 2003 to \$3,023 for 2004 due to an increase in amounts outstanding. The Company issued tax-exempt debt through the Pennsylvania Economic Development Financing Authority, or the PEDFA, in the amount of \$7.3 million in April 2004 and \$12.0 million in December 2004. The tax-exempt debt was issued primarily to pay down short-term debt incurred to fund the Susquehanna River Pipeline Project.

Interest expense on short-term debt increased \$90, or 107.5%, from \$84 for 2003 to \$174 for 2004 due to an increase in short-term borrowings. The average short-term debt outstanding in 2004 and 2003 was \$7.0 million and \$3.7 million, respectively. Most of the 2004 short-term debt outstanding was incurred to fund the Susquehanna River Pipeline Project.

Allowance for funds used during construction increased \$745 from \$320 for 2003 to \$1,065 for 2004. An increased allowance on the costs associated with the Susquehanna River Pipeline Project of approximately \$702 accounted for the majority of the increase.

A gain of \$743 was recorded in the first quarter of 2004 for the sale of land. No other significant land sales or other unusual events are planned at this time. As a result, additional earnings such as these should not be expected in future periods.

Other income (expense), net decreased by \$180 in 2004 as compared to 2003 primarily due to a termination settlement of approximately \$144, reduced interest income on water district notes of approximately \$41 and increased charitable contributions of approximately \$35. The decrease in other income was partially offset by lower supplemental retirement expenses of approximately \$53.

Federal and state income taxes increased by \$676, or 28.5%, due to an increase in pre-tax income. The effective tax rates for 2004 and 2003 were 36.5% and 34.8%, respectively.

RATE DEVELOPMENTS

From time to time the Company files applications for rate increases with the PPUC and is granted rate relief as a result of such requests. The most recent rate request was filed by the Company on April 28, 2004 seeking an increase of \$4.9 million, which would have represented a 22.1% increase in rates. On September 30, 2004, the PPUC authorized an increase in rates designed to produce approximately \$3.5 million in additional annual operating revenues, which represents an increase of 15.9%. The rate increase became effective on November 9, 2004 when the Susquehanna River Pipeline became operational. The Company currently plans to file its next rate increase request in March 2006.

ACQUISITIONS

On July 6, 2005, the Company acquired 100% of the capital stock of Spring Grove Water Company for a purchase price of approximately \$973. Of the total price, \$645 was paid from borrowings under the Company's lines of credit. Up to \$328 may be paid to the former owner in installments based on the amount of water such former owner purchases from the Company over the 60-month period following the closing. As of December 31, 2005, the Company had made installment payments totaling approximately \$25. The acquired company provides water service to 21 customers just outside the Borough of Spring Grove. The acquisition included assets with a book value of \$284 and assumed liabilities of \$25. The Company recorded an acquisition adjustment of \$715 and intends to ask the PPUC to amortize these costs over the remaining life of the acquired assets.

Also on July 6, 2005, the Company acquired the water utility assets of Spring Grove Borough for a purchase price of approximately \$1,312, which is less than the depreciated original cost of these assets. The Company recorded a negative acquisition adjustment of \$514 and intends to ask the PPUC to amortize this credit over the remaining life of the acquired assets. The Company used borrowings under its lines of credit to fund this purchase. This acquisition added approximately 850 customers.

On November 15, 2005, the Company acquired the Mountain View Water Company. In lieu of an actual payment for the system, the Company is required to extend its distribution system to connect to the Mountain View system and provide facility upgrades for the Mountain View system as well. Such projects are currently in process. This acquisition will add approximately 260 customers when the entire system is in place.

The Company began to include the operating results of the acquired systems in its consolidated operating results on the acquisition dates. The results have been immaterial to total company results.

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2005, current liabilities exceeded current assets by \$19,526. The excess was primarily due to the classification of the \$12.0 million aggregate principal

amount of PEDFA Exempt Facilities Revenue Bonds, Series B of 2004 as current because the bondholders can tender their bonds at any time. The Company believes the bonds would be successfully remarketed if tendered. In addition, the Company had \$7,292 in short-term borrowings under its lines of credit as of December 31, 2005. The short-term borrowings were incurred to fund acquisitions and construction expenditures. The Company maintains lines of credit aggregating \$30.5 million. Loans granted under these lines of credit bear interest at LIBOR plus 0.70% to 1.25%. The weighted average interest rate on short-term borrowings at December 31, 2005 was 5.07%. All lines of credit are unsecured and payable upon demand. The Company is not required to maintain compensating balances on its lines of credit.

During 2005, net cash used in investing activities exceeded net cash provided by operating and financing activities by \$164. The Company anticipates that during 2006 net cash used in investing activities will equal net cash provided by operating and financing activities. Internally-generated funds, borrowings against the Company's lines of credit, proceeds from the issuance of common stock under its dividend reinvestment plan (stock issued in lieu of cash dividends), or DRIP, and employee stock purchase plan, or ESPP, customer advances, and potential long-term debt and common stock issues will be used to satisfy the need for additional cash.

During 2005, the Company incurred \$15,553 of construction expenditures. Approximately \$5,401, or 35%, of the expenditures were for the Susquehanna River Pipeline Project, an automated meter reading system and an enterprise software system. The remaining expenditures were for routine distribution system expenditures. The Company financed such expenditures through internally generated funds, customers' advances, short-term borrowings, proceeds from the issuance of common stock under its DRIP and ESPP and proceeds remaining from its December 2004 tax-exempt bond issuance. The Company anticipates construction expenditures for 2006 and 2007 of approximately \$17.2 million and \$9.6 million, respectively. In addition to transmission and distribution projects, a portion of the 2006 and 2007 expenditures is for the upgrade of our automated meter reading technology and the Abbottstown Borough water acquisition (see Note 13 to the financial statements). The Company plans to finance these future expenditures using internally-generated funds, short-term borrowings, customer advances, proceeds from the

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

LIQUIDITY AND CAPITAL RESOURCES (CONTINUED)

issuance of common stock under the DRIP and ESPP, and potential long-term debt and common stock issues.

On December 9, 2004 the PEDFA issued \$12.0 million aggregate principal amount of PEDFA Exempt Facilities Revenue Bonds, Series B of 2004 for our benefit pursuant to the terms of a trust indenture, dated as of December 1, 2004, between the PEDFA and Manufacturers and Traders Trust Company, as trustee. The PEDFA then loaned the proceeds of the offering of the Series B Bonds to us pursuant to a loan agreement, dated as of December 1, 2004, between us and the PEDFA. The loan agreement provides for a \$12.0 million loan with a maturity date of October 1, 2029. Amounts outstanding under the loan agreement are our direct general obligations. The proceeds of the loan could only be used to pay, or reimburse us for, costs associated with the Susquehanna River Pipeline Project. We used the proceeds of the loan, net of issuance costs, to pay down short-term borrowings incurred to fund costs related to the Project.

Borrowings under the loan agreement bear interest at a variable rate as determined by PNC Capital Markets, as Remarketing Agent, on a periodic basis elected by us. We have currently elected that the interest rate be determined on a weekly basis. The Remarketing Agent determines the interest rate based on then current market conditions in order to determine the lowest interest rate which would cause the Series B Bonds to have a market value equal to the principal amount thereof plus accrued interest thereon. As of December 31, 2005, the interest rate under the loan agreement was 3.60%.

In connection with the issuance of bonds, the Company entered into an interest rate swap transaction with a counterparty in the notional principal amount of \$12.0 million. The interest rate swap agreement provides that, beginning in December 2004 and thereafter on a monthly basis, the Company pays the counterparty a fixed interest rate of 3.16% on the notional amount. In exchange, the counterparty will pay on a monthly basis to the Company a floating interest rate (based on 59% of the U.S. Dollar one-month LIBOR rate) on the notional amount. The swap agreement expires on October 1, 2029. The purpose of the interest rate swap is to manage the Company's exposure to fluctuations in prevailing interest rates.

The Company's 6.0% Industrial Development Authority Revenue Refunding Bonds, Series 1995, had a mandatory tender date of June 1, 2005. The bonds were remarketed and the interest rate redetermined to 3.75% on June 1, 2005. Under the terms of the bonds, existing bond holders were permitted to retain their bonds at the 3.75% interest rate. All bonds not retained by current bond holders were remarketed. The newly issued bonds will mature on June 1, 2010.

DIVIDENDS

During 2005, the Company's dividend payout ratios relative to net income and cash provided by operating activities were 75.3% and 46.6% respectively. During the fourth quarter of 2005, the Board of Directors increased the dividend by 7.7% from 15.6 cents per share to 16.8 cents per share per quarter. This was the ninth consecutive annual dividend increase and the 190th consecutive year of paying dividends. While the Company expects to maintain this dividend amount in 2006, 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.

COMMON STOCKHOLDERS' EQUITY

Common stockholders' equity as a percent of the total capitalization (including current maturities of long-term debt) was 49.3% as of December 31, 2005 compared with 48.1% as of December 31, 2004. It is the Company's intent to maintain a debt to equity ratio near fifty percent.

INFLATION

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

CONTRACTUAL OBLIGATIONS

The following summarizes the Company's contractual obligations by period as of December 31, 2005:

	Payments Due by Period						
	TOTAL	2006	2007	2008	2009	2010	THEREAFTER
Long-term debt obligations (a)	\$ 51,874	\$ 12,039	\$ 40	\$ 40	\$ 2,741	\$ 4,341	\$ 32,673
Interest on long-term debt (b)	40,403	2,983	2,982	2,982	2,920	2,790	25,746
Short-term Borrowings (c)	7,292	7,292	—	—	—	—	—
Purchase obligations (d)	2,980	2,230	750	—	—	—	—
Defined Benefit Obligations (e)	450	450	—	—	—	—	—
Deferred Employee Benefits (f)	3,990	188	160	206	207	177	3,052
Total	\$ 106,989	\$ 25,182	\$ 3,932	\$ 3,228	\$ 5,868	\$ 7,308	\$ 61,471

- (a) Represents debt maturities including current maturities. 2006 payments include \$12.0 million variable rate bonds which could be tendered at any time. The Company believes it would be able to remarket all tendered bonds.
- (b) Excludes interest on variable rate debt and interest rate swap payments as these payments cannot be reasonably estimated.
- (c) Represents principal payments only. Interest payments cannot be reasonably estimated as they vary based on the Libor rate.
- (d) Represents obligations under contracts relating to the new meter reading system and the new enterprise software system.
- (e) Represents contributions expected to be made to qualified defined benefit plans. The amount of required contributions in 2007 and thereafter is not currently determinable.
- (f) Represents the obligations under the Company's Supplemental Retirement and Deferred Compensation Plans for executives.

In addition to these obligations, we make refunds on Customers' Advances for Construction over a specific period of time based on operating revenues related to developer-installed water mains or as new customers are connected to and take service from such mains. 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 2016 and amounts not paid by the contract expiration dates become non-refundable and are transferred to Contributions in Aid of Construction.

CRITICAL ACCOUNTING ESTIMATES

The methods, estimates and judgments we use in applying our accounting policies have a significant impact on the results we report in our financial statements. Our accounting policies require us to make subjective judgments because of the need to make estimates of matters that are inherently uncertain. Our most critical accounting estimates include: regulatory assets and liabilities, the determination of the remaining life of our assets, revenue recognition and the discount rate used in our pension plan calculations.

Regulatory Assets and Liabilities

SFAS No. 71 stipulates generally accepted accounting principles for companies whose rates are established by or

are subject to approval by an independent third-party regulator. In accordance with SFAS No. 71, we defer costs and credits on the balance sheet as regulatory assets and liabilities when it is probable that these costs and credits will be recognized in the rate-making process in a period different from when the costs and credits were incurred. If we later find that these assets and liabilities cannot be included in rate-making, they are adjusted appropriately.

Determination of Remaining Lives

In connection with the determination of the remaining life of the Company's assets, the Company is required to estimate the book depreciation reserve and annual

Management's Discussion & Analysis*of Financial Condition and Results of Operations (In thousands of dollars, except per share amounts)***CRITICAL ACCOUNTING ESTIMATES (CONTINUED)**

depreciation accruals related to its utility plant. The Company performs service life studies by assembling and compiling historical data related to utility plant, analyzing such data to obtain historical trends of survivor characteristics, and interpreting the data to form judgments of service life characteristics. The PPUC reviews and approves the Company's determination of the remaining life of the Company's assets.

Revenue Recognition

Revenues include amounts billed to metered customers on a cycle basis and unbilled amounts based on estimated usage from the latest meter reading to the end of the accounting period. The unbilled revenue amount is recorded as a current asset on the balance sheet. Based on historical experience, we believe our estimate of unbilled revenues is reasonable.

Determination of Discount Rate

In connection with the discount rate used in our pension disclosure, the Company selected a 5.5% discount rate as of December 31, 2005 based on the Moody's AA bond rate. This rate was selected to approximate the rate that would be used if the obligations were to be settled by purchasing annuities from an insurance carrier. This is consistent with the methodology used to select discount rates in the past.

Other critical accounting estimates are discussed in the 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 does not engage in trading or risk management activities with the exception of the interest rate swap agreement previously mentioned, does not use derivative financial instruments for speculative trading purposes, has no lease obligations, and does not have material transactions involving related parties.

IMPACT OF RECENT ACCOUNTING PRONOUNCEMENTS

In November 2004, the Financial Accounting Standards Board ("FASB") approved Statement of Financial Accounting Standards ("SFAS") No. 151, "Inventory Costs - An Amendment of ARB No. 43, Chapter 4." SFAS No. 151 requires the exclusion of certain costs from inventories and the allocation of fixed production overheads to inventories to be based on the normal capacity of the production facilities. SFAS No. 151 is effective for fiscal periods beginning after June 15, 2005. This standard was adopted by the Company in 2005 and it did not have a material impact on its results of operations or financial position.

In November 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets - An Amendment of APB Opinion No. 29." SFAS No. 153 eliminates the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. SFAS No. 153 specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS No. 153 is effective for fiscal periods beginning after June 15, 2005. The Company adopted this standard and it did not have a material impact on its results of operations or financial position.

In December 2004, the FASB approved SFAS No. 123 (Revised 2004), "Share-Based Payment" with additional guidance provided throughout 2005. This statement is a revision of FASB Statement No. 123, "Accounting for Stock-Based Compensation", and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees". This statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based transactions. The statement requires companies to begin expensing equity-based awards in the first interim period of the fiscal year beginning after December 15, 2005. This statement will have no impact on the Company's financial position or results of operations.

In December 2004, the FASB issued FSP 109-1, "Application of FASB Statement No. 109, Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004." Under FSP 109-1, the deduction for qualified domestic production activities should be treated as a reduction of the income tax provision in the period as realized. The Company

adopted this statement in 2005 and has recorded an estimate for its effects which reduced the provision for income taxes by approximately \$43 in 2005.

In March 2005, the FASB issued Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations," an interpretation of FASB Statement No. 143 which clarifies that an entity is required to recognize a liability for the fair value of conditional asset retirement obligations if the fair value can be reasonably estimated. This interpretation is effective for fiscal years ending after December 15, 2005. The adoption of this interpretation did not have a material impact on the Company's financial position or results of operations.

In March 2005, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin ("SAB") 107 regarding the interaction between SFAS No. 123 (revised 2004), Share-Based Payment and certain SEC rules and regulations and provided the staff's views regarding the valuation of share-based payment arrangements for public companies. This SAB is effective when SFAS No. 123 is first adopted, but will have no impact on the Company's financial position or results of operations.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections - a replacement of APB Opinion No. 20 and FASB Statement No. 3." This Statement requires retrospective application to prior periods' financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. This Statement applies to all voluntary changes in accounting principle and those changes required by an accounting pronouncement if there are no specific transition provisions. Previous to this Statement, the cumulative effect of the change in accounting principle was included as an adjustment to net income in the period of the change. This standard is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company believes this statement will not have a material impact on its results of operations or financial position.

In September 2005, the Emerging Issues Task Force (EITF) reached a consensus on Issue No. 04-13,

"Accounting for Purchases and Sales of Inventory with the Same Counterparty." An entity may sell inventory to another entity from which it also purchases inventory to be sold in the same line of business. The inventory purchase and sales transactions may be pursuant to a single arrangement or separate arrangements, and the inventory purchased or sold may be in the form of raw materials, work-in-process (WIP), or finished goods. The consensus related to two issues regarding APB Opinion No. 29, "Accounting for Nonmonetary Transactions." This consensus is effective for new arrangements entered into, or modifications or renegotiations of existing arrangements, beginning in the first interim or annual reporting period beginning after March 15, 2006. This consensus is not expected to impact the Company's financial position or the results of operations.

In October 2005, the FASB issued Staff Position FAS 13-1, "Accounting for Rental Costs Incurred during a Construction Period." Under this position, rental costs associated with operating leases that are incurred during a construction period shall be recognized as rental expense and cannot be capitalized. This position is effective for the first interim or annual reporting period beginning after December 15, 2005. Adoption of this position will not have a material impact on the Company's financial position or results of operations.

In November 2005, the FASB published FASB Staff Position Nos. FAS 115-1 and FAS 124-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments," to give guidance on determining when investments in certain debt and equity securities are considered impaired, whether that impairment is other than temporary, and on measuring such impairment loss. The guidance amends FASB SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," and SFAS No. 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations," as well as APB Opinion No. 18: "The Equity Method of Accounting for Investments in Common Stock." Staff Positions FAS 115-1 and FAS 124-1 will apply to reporting periods beginning after December 15, 2005. The adoption of these positions is not expected to have a material impact on the Company's financial position or results of operations.

Management's Report

on Internal Control Over Financial Reporting



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

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

Management evaluated the Company's internal control over financial reporting as of December 31, 2005. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control-Integrated Framework (COSO). As a result of this assessment and based on the criteria in the COSO framework, management has concluded that the Company's internal control over financial reporting was effective.

The Company's independent auditors, Beard Miller Company LLP, have audited management's assessment of the Company's internal control over financial reporting. Their opinion on management's assessment and their opinions on the effectiveness of the Company's internal control over financial reporting and on the Company's financial statements appear on the following pages of this annual report.

Jeffrey S. Osman
Chairman, Chief Executive Officer

Kathleen M. Miller
Chief Financial Officer

March 13, 2006

TO THE BOARD OF DIRECTORS AND STOCKHOLDERS THE YORK WATER COMPANY

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that The York Water Company maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The York Water Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

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

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in

accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

In our opinion, management's assessment that The York Water Company maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, The York Water Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets and the related consolidated statements of income, common stockholders' equity and comprehensive income, and cash flows of The York Water Company and Subsidiary, and our report dated March 13, 2006 expressed an unqualified opinion.

Beard Miller Company LLP

Beard Miller Company LLP
York, Pennsylvania
March 13, 2006



TO THE BOARD OF DIRECTORS AND STOCKHOLDERS THE YORK WATER COMPANY

We have audited the accompanying consolidated balance sheets of The York Water Company and Subsidiary as of December 31, 2005 and 2004, and the related consolidated statements of income, common stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2005. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of The York Water Company and Subsidiary as of December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of The York Water Company's internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 13, 2006 expressed an unqualified opinion on management's assessment of internal control over financial reporting and an unqualified opinion on the effectiveness of internal control over financial reporting.

Beard Miller Company LLP

Beard Miller Company LLP
York, Pennsylvania
March 13, 2006

Consolidated Balance Sheets

(In thousands of dollars, except per share amounts)

	AS OF DECEMBER 31	
	2005	2004
Assets		
Utility Plant , at original cost	\$ 182,868	\$ 165,048
Plant acquisition adjustments	(1,112)	(1,347)
Accumulated depreciation	(26,982)	(24,247)
Net utility plant	154,774	139,454
Other Physical Property:		
Less accumulated depreciation of \$129 in 2005 and \$122 in 2004	527	507
Current Assets:		
Cash and cash equivalents	—	164
Receivables, less reserves of \$135 in 2005 and \$130 in 2004	2,866	2,600
Unbilled revenues	916	1,108
Recoverable income taxes	59	—
Materials and supplies, at cost	843	693
Prepaid expenses	348	373
Deferred income taxes	92	89
Total current assets	5,124	5,027
Other Long-Term Assets:		
Prepaid pension cost	—	680
Deferred debt expense	761	797
Notes receivable	2,196	2,241
Deferred regulatory assets	5,747	4,460
Other	3,167	2,900
Total long-term assets	11,871	11,078
Total Assets	\$ 172,296	\$ 156,066
Stockholders' Equity and Liabilities		
Common Stockholders' Equity:		
Common stock, no par value, authorized 31,000,000 shares, issued and outstanding		
6,933,330 shares in 2005 and 6,887,047 shares in 2004	\$ 42,015	\$ 41,014
Retained earnings	8,633	7,192
Accumulated other comprehensive loss	(233)	(169)
Total common stockholders' equity	50,415	48,037
Preferred stock , authorized 500,000 shares, no shares issued	—	—
Long-term debt , excluding current portion	39,835	35,574
Commitments		
Current Liabilities:		
Short-term borrowings	7,292	—
Current portion of long-term debt	12,039	16,339
Accounts payable	2,641	1,798
Dividends payable	927	846
Accrued taxes	89	591
Accrued interest	786	761
Deferred regulatory liabilities	92	89
Other accrued expenses	784	741
Total current liabilities	24,650	21,165
Deferred Credits:		
Customers' advances for construction	23,704	20,575
Contributions in aid of construction	14,995	14,067
Deferred income taxes	12,339	11,412
Deferred investment tax credits	1,082	1,121
Deferred regulatory liabilities	779	801
Deferred employee benefits	3,885	3,017
Other deferred credits	612	297
Total deferred credits	57,396	51,290
Total Stockholders' Equity and Liabilities	\$ 172,296	\$ 156,066

The accompanying notes are an integral part of these statements.

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

	YEAR ENDED DECEMBER 31		
	2005	2004	2003
Water Operating Revenues:			
Residential	\$ 16,737	\$ 13,789	\$ 12,574
Commercial and industrial	7,995	6,893	6,598
Other	2,073	1,822	1,717
	<u>26,805</u>	<u>22,504</u>	<u>20,889</u>
Operating Expenses:			
Operation and maintenance	5,298	4,975	4,659
Administrative and general	5,432	4,759	4,253
Depreciation and amortization	2,364	1,942	1,779
Taxes other than income taxes	923	919	864
	<u>14,017</u>	<u>12,595</u>	<u>11,555</u>
Operating income	<u>12,788</u>	<u>9,909</u>	<u>9,334</u>
Other Income (Expenses):			
Interest on long-term debt	(3,470)	(3,023)	(2,759)
Interest on short-term debt	(134)	(174)	(84)
Allowance for funds used during construction	181	1,065	320
Gain on sale of land	—	743	—
Other income (expenses), net	(149)	(168)	12
	<u>(3,572)</u>	<u>(1,557)</u>	<u>(2,511)</u>
Income before income taxes	<u>9,216</u>	<u>8,352</u>	<u>6,823</u>
Federal and state income taxes	<u>3,383</u>	<u>3,051</u>	<u>2,375</u>
Net income	<u>\$ 5,833</u>	<u>\$ 5,301</u>	<u>\$ 4,448</u>
Basic Earnings Per Share	<u>\$ 0.84</u>	<u>\$ 0.80</u>	<u>\$ 0.70</u>
Cash Dividends Declared Per Share	<u>\$ 0.636</u>	<u>\$ 0.591</u>	<u>\$ 0.550</u>

The accompanying notes are an integral part of these statements.

Consolidated Statements of Common Stockholders' Equity and Comprehensive Income

For the Years Ended December 31, 2005, 2004 and 2003 (In thousands of dollars, except per share amounts)

	COMMON STOCK	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE LOSS	TOTAL
Balance, December 31, 2002.....	\$ 32,331	\$ 4,885	\$ —	\$ 37,216
Net income	—	4,448	—	4,448
Dividends (\$.550 per share).....	—	(3,512)	—	(3,512)
Issuance of common stock under dividend reinvestment plan	821	—	—	821
Issuance of common stock under employee stock purchase plan	83	—	—	83
Balance, December 31, 2003.....	<u>33,235</u>	<u>5,821</u>	<u>—</u>	<u>39,056</u>
Net income	—	5,301	—	5,301
Other comprehensive loss:				
Unrealized loss on interest rate swap, net of \$121 income tax	—	—	(177)	(177)
Reclassification adjustment for amounts recognized in income, net of \$5 income tax	—	—	8	8
Comprehensive income.....				5,132
Dividends (\$.591 per share).....	—	(3,930)	—	(3,930)
Issuance of 415,000 shares of common stock	6,832	—	—	6,832
Issuance of common stock under dividend reinvestment plan	861	—	—	861
Issuance of common stock under employee stock purchase plan	86	—	—	86
Balance, December 31, 2004.....	<u>41,014</u>	<u>7,192</u>	<u>(169)</u>	<u>48,037</u>
Net income	—	5,833	—	5,833
Other comprehensive loss:				
Unrealized loss on interest rate swap, net of \$101 income tax	—	—	(148)	(148)
Reclassification adjustment for amounts recognized in income, net of \$57 income tax	—	—	84	84
Comprehensive income.....				5,769
Dividends (\$.636 per share).....	—	(4,392)	—	(4,392)
Issuance of common stock under dividend reinvestment plan	903	—	—	903
Issuance of common stock under employee stock purchase plan	98	—	—	98
Balance, December 31, 2005.....	<u>\$ 42,015</u>	<u>\$ 8,633</u>	<u>\$ (233)</u>	<u>\$ 50,415</u>

The accompanying notes are an integral part of these statements.

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

	YEAR ENDED DECEMBER 31		
	2005	2004	2003
Cash Flows from Operating Activities:			
Net income	\$ 5,833	\$ 5,301	\$ 4,448
Adjustments to reconcile net income to net cash provided by operating activities:			
Gain on sale of land.....	—	(743)	—
Depreciation and amortization.....	2,364	1,942	1,779
Amortization of deferred income	(126)	(127)	(130)
Equity portion of AFUDC	(80)	(186)	(141)
Unrealized (gain) loss on swap transaction	(7)	13	—
Provision for losses on accounts receivable	128	99	97
Increase in deferred income taxes	688	1,870	1,207
Changes in assets and liabilities:			
Increase in accounts receivable, unbilled revenues and recoverable income taxes.....	(261)	(644)	(422)
Increase in materials and supplies	(150)	(101)	(112)
(Increase) decrease in prepaid expenses and prepaid pension costs.....	(598)	(706)	31
Increase (decrease) in accounts payable, accrued expenses, regulatory and other liabilities and deferred employee benefits and credits	1,954	1,452	(1,195)
Increase (decrease) in accrued interest and taxes.....	(477)	312	333
(Increase) decrease in regulatory and other assets	(12)	(920)	877
Net cash provided by operating activities	9,256	7,562	6,772
Cash Flows from Investing Activities:			
Utility plant additions, including allowance for funds used during construction of \$101 in 2005, \$879 in 2004 and \$179 in 2003	(15,562)	(25,689)	(10,252)
Acquisitions of water systems, net	(1,994)	—	—
Proceeds from sale of land.....	—	792	—
Decrease in notes receivable.....	41	18	176
Net cash used in investing activities.....	(17,515)	(24,879)	(10,076)
Cash Flows from Financing Activities:			
Customers' advances for construction and contributions in aid of construction...	5,328	2,436	1,985
Repayments of customer advances.....	(1,141)	(490)	(515)
Borrowings of long-term debt	—	19,300	—
Debt issuance costs	(35)	(549)	—
Repayments of long-term debt	(39)	(39)	(38)
Borrowings under line-of-credit agreements.....	16,978	38,950	14,939
Repayments under line-of-credit agreements	(9,686)	(46,103)	(10,524)
Issuance of 415,000 shares of common stock	—	6,832	—
Issuance of common stock under dividend reinvestment plan	903	861	821
Issuance of common stock under employee stock purchase plan	98	86	83
Dividends paid	(4,311)	(3,803)	(3,447)
Net cash provided by financing activities	8,095	17,481	3,304
Net change in cash and cash equivalents	(164)	164	—
Cash and cash equivalents at beginning of year	164	—	—
Cash and cash equivalents at end of year	\$ —	\$ 164	\$ —
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest, net of amounts capitalized	\$ 3,473	\$ 2,228	\$ 2,663
Income taxes	3,027	1,003	839

Supplemental schedule of non cash investing and financing activities:

Accounts payable includes \$1,223 in 2005, \$1,312 in 2004 and \$1,206 in 2003 for the construction of utility plant.

Accounts payable and other deferred credits includes \$303 in 2005 for the acquisition of water systems.

The change in notes receivable includes (\$4) in 2005 and \$1,600 in 2004 offset by like amounts of customer advances.

The accompanying notes are an integral part of these statements.

1. ACCOUNTING POLICIES

The business of The York Water Company is to impound, purify and distribute water. The Company operates entirely within its franchised territory located in York County, Pennsylvania, and is subject to regulation by the PPUC.

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

Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiary. All intercompany accounts and transactions have been eliminated.

Utility Plant and Depreciation

The cost of additions includes contracted cost, direct labor and fringe benefits, materials, overhead and, for certain utility plant, allowance for funds used during construction. Water systems acquired are recorded at estimated original cost of utility plant when first devoted to utility service and the applicable depreciation is recorded to accumulated depreciation. The difference between the estimated original cost less applicable accumulated depreciation, and the purchase price is recorded as an acquisition adjustment within utility plant. At December 31, 2005 and 2004, utility plant includes a credit acquisition adjustment of \$1,112 and \$1,347, respectively. The acquisition of Spring Grove Borough assets and the Spring Grove Water Company yielded a positive acquisition adjustment of \$201. The Company will ask the PPUC to amortize this additional adjustment in its 2006 rate filing. The remaining net acquisition adjustment is being amortized over the remaining life of the respective assets. Amortization amounted to \$34 in 2005 and 2004.

Upon normal retirement of depreciable property, the estimated or actual cost of the asset is credited to the utility plant account, and such amounts, together with the cost of removal less salvage value, are charged to the reserve for depreciation. To the extent the Company recovers cost of removal or other retirement costs through rates after the retirement costs are incurred, a regulatory asset is reported. Gains or losses from abnormal retirements are reflected in income currently.

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

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

UTILITY PLANT ASSET CATEGORY	DECEMBER 31, 2005	DECEMBER 31, 2004	APPROXIMATE RANGE OF REMAINING LIVES
Mains and accessories	\$ 93,105	\$ 87,352	10-87 yrs
Services, meters, and hydrants	37,934	33,244	20-52 yrs
Operations structures, reservoirs and water tanks	31,663	25,007	14-63 yrs
Pumping and purification equipment	7,416	5,893	7-34 yrs
Office, transportation and operating equipment	3,766	3,559	1-21 yrs
Land and other non-depreciable assets	2,687	2,451	—
Utility plant in service	176,571	157,506	
Construction work in progress	6,297	7,542	—
Total Utility Plant	<u>\$182,868</u>	<u>\$165,048</u>	

The effective rate of depreciation was 1.82% in 2005, 1.74% in 2004, and 1.81% in 2003 on average utility plant, net of customers' advances and contributions. Larger depreciation provisions are deducted for tax purposes.

Notes to Financial Statements*(In thousands of dollars, except per share amounts)***Deferred Debt Expense**

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

Regulatory Assets and Liabilities

The Company is subject to the provisions of Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation." SFAS No. 71 provides for the recognition of regulatory assets and liabilities as allowed by regulators for costs or credits that are reflected in current rates or are considered probable of being included in future rates. The regulatory assets or liabilities are then relieved as the cost or credit is reflected in rates. Regulatory assets represent costs that are expected to be fully recovered from customers in future rates while regulatory liabilities represent amounts that are expected to be refunded to customers in future rates. These deferred costs have been excluded from rate base and, therefore, the Company is not earning a return on the unamortized balances.

of a plan amendment and a decline in the discount rate used for pension obligations. The additional minimum liability represents the excess of the accumulated benefit obligation over the fair market value of the assets. Both are expected to be recovered in future years as additional contributions are made. The recovery period is dependent on contributions made to the plans and the discount rate used to value the obligations. Neither of these factors can be reasonably projected.

The regulatory asset for utility plant retirement costs, including cost of removal, represents costs already incurred that are expected to be recovered over a five year period in rates. Rate case filing expenses are deferred and amortized over a period of 1-2 years.

Regulatory liabilities relate mainly to deferred investment tax credits, and additionally to deferred taxes related to postretirement benefits and bad debts. These liabilities will be given back to customers in rates as tax deductions occur over the next 1-50 years.

Other Assets

Other assets consist mainly of the cash value of life insurance policies held as funding for the Company's supplemental retirement and deferred compensation programs.

Revenues

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

Customers' Advances for Construction

Advances are received from customers for construction of utility plant and are refundable as operating revenues are earned and any notes receivable have been paid after the completion of construction. After all refunds to which the customer is entitled are made, any remaining balance is transferred to contributions in aid of construction. From 1986 – 1996 when customer advances were taxable income to the Company, we collected additional funds from customers to cover the taxes. These funds were recorded as a liability and are being amortized as deferred income over the tax life of the underlying assets.

	DECEMBER 31, 2005	2004	REMAINING RECOVERY PERIODS
ASSETS			
Income taxes	\$1,924	\$1,787	Various
Postretirement benefits	3,414	2,099	Various
Utility plant retirement costs	348	363	5 years
Rate case filing expense	61	211	1-2 years
	<u>\$5,747</u>	<u>\$4,460</u>	
LIABILITIES			
Income taxes	<u>\$ 871</u>	<u>\$ 890</u>	1-50 years

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

Postretirement benefits include both deferred pension expense in excess of contributions made to the plans, and an additional minimum liability for pensions as a result

Contributions in Aid of Construction

Contributions in aid of construction include direct contributions and the portion of customers' advances for construction, which become nonrefundable. Transfers to other accounts may not be made without approval of the PPUC.

Comprehensive Income

Accounting principles generally accepted in the United States of America require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on interest rate swaps, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income.

Interest Rate Swap Agreement

The Company utilizes an interest rate swap agreement to convert a portion of its variable-rate debt to a fixed rate (cash flow hedge). Interest rate swaps are contracts in which a series of interest rate flows are exchanged over a prescribed period. The notional amount on which the interest payments are based is not exchanged.

As a derivative, the interest rate swap is recorded on the balance sheet in other deferred credits at fair value. The effective portion of the gain or loss on a derivative designated and qualifying as a cash flow hedging instrument is initially reported as a component of other comprehensive income and subsequently reclassified into earnings as interest expense in the same period or periods during which the hedged transaction affects earnings. The ineffective portion of the gain or loss on the derivative instrument, which has been minimal to date, is recognized currently in earnings. During the twelve months ending December 31, 2006, the Company expects to reclassify \$39 (net of tax) from other comprehensive loss to earnings as an expense. The interest rate swap will expire on October 1, 2029.

Interest rate derivative financial instruments receive hedge accounting treatment only if they are designated as a hedge and are expected to be, and are, effective in substantially reducing interest

rate risk arising from the assets and liabilities identified as exposing the Company to risk. Those derivative financial instruments that do not meet the hedging criteria discussed below would be classified as trading activities and would be recorded at fair value with changes in fair value recorded in income. Derivative hedge contracts must meet specific effectiveness tests (i.e., over time the change in their fair values or cash flows due to the designated hedge risk must be within 80 to 125 percent of the opposite change in the fair values or cash flows of the hedged assets or liabilities). Further, if the underlying financial instrument differs from the hedged asset or liability, there must be a clear economic relationship between the prices of the two financial instruments. If periodic assessment indicates derivatives no longer provide an effective hedge, the derivative contracts would be closed out and settled or classified as a trading activity.

Income Taxes

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

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

Investment tax credits have been deferred and are being amortized to income over the average estimated service lives of the related assets. As of December 31, 2005 and 2004, deferred investment tax credits amounted to \$1,082 and \$1,121, respectively.

Notes to Financial Statements*(In thousands of dollars, except per share amounts)***Accounts Receivable**

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

Notes Receivable

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

Pension Plans

The Company has defined benefit pension plans covering substantially all of its employees. The benefits are based on years of service and the employee's compensation before retirement. The Company also has a savings plan pursuant to the provisions of Section 401(k) of the Internal Revenue Code. The plan covers substantially all of its employees.

Allowance for Funds Used During Construction

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

of plant constructed. The PPUC approved rate of 10.04% was used for 2005 and 2003. The Company used a blended AFUDC rate in 2004 due to its financing of the Susquehanna River Pipeline Project with tax-exempt debt. The tax-exempt borrowing rate was used for pipeline construction costs which were financed with the tax-exempt debt, and the PPUC approved rate of 10.04% was used for the remainder of construction costs during 2004. AFUDC is recovered through water rates as utility plant is depreciated.

Statements of Cash Flows

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

Use of Estimates in the Preparation of Financial Statements

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

Reclassifications

Certain 2003 and 2004 amounts have been reclassified to conform to the 2005 presentation. Such reclassifications had no effect on net income.

Impact of Recent Accounting Pronouncements

In November 2004, the Financial Accounting Standards Board ("FASB") approved Statement of Financial Accounting Standards ("SFAS") No. 151, "Inventory Costs - An Amendment of ARB No. 43, Chapter 4." SFAS No. 151 requires the exclusion of certain costs from inventories and the allocation of fixed production overheads to inventories to be based on the

normal capacity of the production facilities. SFAS No. 151 is effective for fiscal periods beginning after June 15, 2005. This standard was adopted by the Company in 2005 and it did not have a material impact on its results of operations or financial position.

In November 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets - An Amendment of APB Opinion No. 29." SFAS No. 153 eliminates the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. SFAS No. 153 specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS No. 153 is effective for fiscal periods beginning after June 15, 2005. The Company adopted this standard and it did not have a material impact on its results of operations or financial position.

In December 2004, the FASB approved SFAS No. 123 (Revised 2004), "Share-Based Payment" with additional guidance provided throughout 2005. This statement is a revision of FASB Statement No. 123, "Accounting for Stock-Based Compensation", and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees". This statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based transactions. The statement requires companies to begin expensing equity-based awards in the first interim period of the fiscal year beginning after December 15, 2005. This statement will have no impact on the Company's financial position or results of operations.

In December 2004, the FASB issued FSP 109-1, "Application of FASB Statement No. 109, Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004." Under FSP 109-1, the deduction for qualified domestic production activities should be treated as a reduction of the income tax provision in the period as realized. The Company adopted this statement in 2005 and has recorded an estimate for its effects which reduced the provision for income taxes by approximately \$43 in 2005.

In March 2005, the FASB issued Interpretation No. 47, "Accounting for Conditional Asset Retirement

Obligations," an interpretation of FASB Statement No. 143 which clarifies that an entity is required to recognize a liability for the fair value of conditional asset retirement obligations if the fair value can be reasonably estimated. This interpretation is effective for fiscal years ending after December 15, 2005.

The adoption of this interpretation did not have a material impact on the Company's financial position or results of operations.

In March 2005, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin ("SAB") 107 regarding the interaction between SFAS No. 123 (revised 2004), Share-Based Payment and certain SEC rules and regulations and provided the staff's views regarding the valuation of share-based payment arrangements for public companies. This SAB is effective when SFAS No. 123 is first adopted, but will have no impact on the Company's financial position or results of operations.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections - a replacement of APB Opinion No. 20 and FASB Statement No. 3." This Statement requires retrospective application to prior periods' financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. This Statement applies to all voluntary changes in accounting principle and those changes required by an accounting pronouncement if there are no specific transition provisions. Previous to this Statement, the cumulative effect of the change in accounting principle was included as an adjustment to net income in the period of the change. This standard is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company believes this statement will not have a material impact on its results of operations or financial position.

In September 2005, the Emerging Issues Task Force (EITF) reached a consensus on Issue No. 04-13, "Accounting for Purchases and Sales of Inventory with the Same Counterparty." An entity may sell inventory to another entity from which it also purchases inventory to be sold in the same line of business. The inventory purchase and sales transactions may be pursuant to a single arrangement or separate arrangements, and the

Notes to Financial Statements*(In thousands of dollars, except per share amounts)***Impact of Recent****Accounting Pronouncements (continued)**

inventory purchased or sold may be in the form of raw materials, work-in-process (WIP), or finished goods. The consensus related to two issues regarding APB Opinion No. 29, "Accounting for Nonmonetary Transactions." This consensus is effective for new arrangements entered into, or modifications or renegotiations of existing arrangements, beginning in the first interim or annual reporting period beginning after March 15, 2006. This consensus is not expected to impact the Company's financial position or the results of operations.

In October 2005, the FASB issued Staff Position FAS 13-1, "Accounting for Rental Costs Incurred during a Construction Period." Under this position, rental costs associated with operating leases that are incurred during a construction period shall be recognized as rental expense and cannot be capitalized. This position is effective for the first interim or annual reporting period beginning after December 15, 2005. Adoption of this position will not have a material impact on the Company's financial position or results of operations.

In November 2005, the FASB published FASB Staff Position Nos. FAS 115-1 and FAS 124-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments," to give guidance on determining when investments in certain debt and equity securities are considered impaired, whether that impairment is other than temporary, and on measuring such impairment loss. The guidance amends FASB SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," and SFAS No. 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations," as well as APB Opinion No. 18: "The Equity Method of Accounting for Investments in Common Stock." Staff Positions FAS 115-1 and FAS 124-1 will apply to reporting periods beginning after December 15, 2005. The adoption of these positions is not expected to have a material impact on the Company's financial position or results of operations.

2. ACQUISITIONS

On July 6, 2005, the Company acquired 100% of the capital stock of Spring Grove Water Company for a purchase price of approximately \$973. Of the total price, \$645 was paid from borrowings under the Company's lines of credit. Up to \$328 may be paid to the former owner in installments based on the amount of water such former owner purchases from the Company over the 60-month period following the closing. As of December 31, 2005, the Company had made installment payments totaling approximately \$25. The acquired company provides water service to 21 customers just outside the Borough of Spring Grove. The acquisition included assets with a book value of \$284 and assumed liabilities of \$25. The Company recorded an acquisition adjustment of \$715 and intends to ask the PPUC to amortize these costs over the remaining life of the acquired assets.

Also on July 6, 2005, the Company acquired the water utility assets of Spring Grove Borough for a purchase price of approximately \$1,312, which is less than the depreciated original cost of these assets. The Company recorded a negative acquisition adjustment of \$514 and intends to ask the PPUC to amortize this credit over the remaining life of the acquired assets. The Company used borrowings under its lines of credit to fund this purchase. This acquisition added approximately 850 customers.

On November 15, 2005, the Company acquired the Mountain View Water Company. In lieu of an actual payment for the system, the Company is required to extend its distribution system to connect to the Mountain View system and provide facility upgrades for the Mountain View system as well. Such projects are currently in process. This acquisition will add approximately 260 customers when the entire system is in place.

The Company began to include the operating results of the acquired systems in its consolidated operating results on the acquisition dates. The results have been immaterial to total company results.

Notes to Financial Statements

(In thousands of dollars, except per share amounts)

3. INCOME TAXES

The provisions for income taxes consist of:

	2005	2004	2003
Federal current	\$ 1,979	\$ 716	\$ 725
State current.....	716	465	443
Federal deferred	807	1,848	1,250
State deferred.....	(80)	67	(6)
Federal investment tax credit, net of current utilization.....	(39)	(45)	(37)
Total income taxes.....	<u>\$ 3,383</u>	<u>\$ 3,051</u>	<u>\$ 2,375</u>

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

	2005	2004	2003
Statutory Federal tax provision	\$ 3,133	\$ 2,839	\$ 2,320
State income taxes, net of Federal benefit	420	351	288
Tax-exempt interest	(67)	(67)	(81)
Amortization of investment tax credit	(39)	(45)	(38)
Cash value of life insurance	(28)	(41)	(29)
Domestic production deduction.....	(36)	-	-
Other, net.....	-	14	(85)
Total income taxes.....	<u>\$ 3,383</u>	<u>\$ 3,051</u>	<u>\$ 2,375</u>

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities as of December 31, 2005 and 2004 are summarized in the following table:

	2005	2004
Deferred tax assets:		
Reserve for doubtful accounts	\$ 55	\$ 53
Deferred compensation	888	835
Customers' advances and contributions	303	355
Alternative minimum tax credit carryforward	-	417
Deferred taxes associated with the gross-up of revenues necessary to in rates, the effect of temporary differences	354	361
Investment tax credit.....	439	455
Unrealized loss on interest rate swap	159	115
Costs deducted for book, not for tax.....	34	28
Total deferred tax assets	2,232	2,619
Deferred tax liabilities:		
Accelerated depreciation.....	12,629	11,827
Prepaid pension.....	887	887
Deferred taxes associated with the gross-up of revenues necessary to recover, in rates, the effect of temporary differences.....	781	725
Costs deducted for tax, not for book.....	182	503
Total deferred tax liabilities	14,479	13,942
Net deferred tax liability.....	<u>\$ 12,247</u>	<u>\$ 11,323</u>
Reflected on balance sheets as:		
Current deferred tax asset.....	\$ (92)	\$ (89)
Noncurrent deferred tax liability	12,339	11,412
Net deferred tax liability.....	<u>\$ 12,247</u>	<u>\$ 11,323</u>

No valuation allowance is required for deferred tax assets as of December 31, 2005 and 2004. In assessing the soundness of deferred tax assets, management considers whether it is more likely than not that, some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and the current regulatory environment, management believes it is more likely than not the Company will realize the benefits of these deductible differences.

Notes to Financial Statements

(In thousands of dollars, except per share amounts)



4. LONG-TERM DEBT AND SHORT-TERM BORROWINGS

Long-term debt as of December 31, 2005 and 2004 is summarized in the following table:

	2005	2004
3.60% Industrial Development Authority Revenue Refunding Bonds, Series 1994, due 2009 ..	2,700	2,700
6.00% Industrial Development Authority Revenue Refunding Bonds, Series 1995, due 2010 ..	–	4,300
3.75% Industrial Development Authority Revenue Refunding Bonds, Series 1995, due 2010 ..	4,300	–
4.05% PEDFA Exempt Facilities Revenue Bonds, Series A, due 2016	2,350	2,350
5.00% PEDFA Exempt Facilities Revenue Bonds, Series A, due 2016	4,950	4,950
10.17% Senior Notes, Series A, due 2019	6,000	6,000
9.60% Senior Notes, Series B, due 2019	5,000	5,000
1.00% Pennvest Loan, due 2019	574	613
10.05% Senior Notes, Series C, due 2020	6,500	6,500
8.43% Senior Notes, Series D, due 2022	7,500	7,500
Variable Rate PEDFA Exempt Facilities Revenue Bonds, Series B, due 2029	12,000	12,000
Total long-term debt	51,874	51,913
Less current maturities	(12,039)	(16,339)
Long-term portion	<u>\$39,835</u>	<u>\$35,574</u>

Payments due by period:

2006	2007	2008	2009	2010
\$12,039	\$40	\$40	\$2,741	\$4,341

2006 payments include \$12.0 million variable rate bonds which could be tendered at any time. The Company believes it will be able to remarket all tendered bonds.

On April 1, 2004, the Pennsylvania Economic Development Financing Authority, or the PEDFA, issued \$7.3 million aggregate principal amount of Pennsylvania Economic Development Financing Authority Exempt Facilities Revenue Bonds, Series A of 2004 for the benefit of the Company. The PEDFA then loaned the proceeds of the offering to the Company pursuant to a loan agreement. The loan agreement provides for a \$4.95 million loan bearing interest at 5.00% and a \$2.35 million loan bearing interest at 4.05%. The bonds and the related loans will mature on April 1, 2016. The loan agreement contains various covenants and restrictions. We believe that we are currently in compliance with all of these restrictions. The bonds were issued as part of the financing plan for the Susquehanna River Pipeline Project. The proceeds, net of issuance costs, were used to pay down short-term borrowings related to the Project.

On December 9, 2004 the Pennsylvania Economic Development Financing Authority, or the PEDFA, issued \$12.0 million aggregate principal amount of PEDFA Exempt Facilities Revenue Bonds, Series B of 2004 for our benefit pursuant to the terms of a trust indenture, dated as of December 1, 2004, between the PEDFA and Manufacturers and Traders Trust Company, as trustee. The PEDFA then loaned the proceeds of the offering of the Series B Bonds to us pursuant to a loan agreement, dated as of December 1, 2004, between us and the PEDFA. The loan agreement provides for a \$12.0 million loan with a maturity date of October 1, 2029. Amounts outstanding under the loan agreement are our direct general obligations. The proceeds of the loan were used to pay down short-term borrowings incurred to fund costs related to the Susquehanna River Pipeline Project.

Borrowings under the loan agreement bear interest at a variable rate as determined by PNC Capital Markets, as Remarketing Agent, on a periodic basis elected by us. We have currently elected that the interest rate be determined on a weekly basis. The Remarketing Agent determines the interest rate based on then current market conditions in order to determine the lowest interest rate which would cause the Series B Bonds to have a market value equal to the principal amount thereof plus accrued interest thereon. As of December 31, 2005, the interest rate under the loan agreement was 3.60%.

Holders of the Series B Bonds have the option to tender their bonds at any time. Further, the Series B Bonds are subject to mandatory tender if we elect to change the interest rate determination period or the liquidity facility expires or terminates (as defined in the Indenture). When the bonds are tendered they are subject to an annual remarketing agreement. The Remarketing Agent will attempt to remarket any Series B Bonds tendered pursuant to the terms of the Indenture. As additional security, the Company also has a Standby Bond Purchase Agreement (also known as a liquidity facility) whereby bonds which cannot be remarketed are purchased by a financial institution. The Standby Bond Purchase Agreement is also renewed annually. If the Remarketing Agent is unable to remarket all or any portion of any bonds tendered or if the liquidity facility expires and is not replaced, we will be required to pay the purchase price of such bonds, which would be equal to 100% of the principal amount thereof plus accrued interest.

We may elect to have the Series B Bonds redeemed, in whole or in part, on any date that interest is payable for a redemption price equal to 100% of the principal amount thereof plus accrued interest to the date of redemption. The Series B Bonds are also subject to mandatory redemption for the same redemption price in the event that the Internal Revenue Service determines that the interest payable on the Series B Bonds is includable in gross income of the holders of the bonds for federal tax purposes.

In connection with the \$12.0 million loan agreement, mentioned above, we entered into an interest rate swap with PNC Bank, National Association in order to hedge against interest rate fluctuations due to the variable interest rate under the terms of the loan agreement. Pursuant to the terms of the interest rate swap, we are obligated periodically to pay an amount based on a fixed interest rate, and we will receive an amount based on a variable rate. The variable rate is based on a percentage of the one-month LIBOR. By entering into the interest rate swap, we have effectively fixed the interest rate that we will pay on all amounts outstanding under the loan agreement at 3.16% per annum. The interest rate swap will terminate on the maturity date of the Series B Bonds (which is the same date as the maturity date of the loan under the loan agreement), unless sooner terminated pursuant to its terms. In the event the interest rate swap terminates prior to the maturity date of the Series B Bonds, either we or PNC Bank may be required to make a

termination payment to the other based on market conditions at such time. Notwithstanding the terms of the swap agreement, we are ultimately obligated for all amounts due and payable under the loan agreement. The effective date of the swap transaction was December 9, 2004.

Interest rate swap agreements derive their value from underlying interest rates. These transactions involve both credit and market risk. The notional amounts are amounts on which calculations, payments, and the value of the derivative are based. Notional amounts do not represent direct credit exposure. Direct credit exposure is limited to the net difference between the calculated amounts to be received and paid, if any. Such difference, which represents the fair value of the swap, is reflected on the Company's balance sheet.

The Company is exposed to credit-related losses in the event of nonperformance by the counterparty to the agreement. The Company controls the credit risk of its financial contracts through credit approvals, limits and monitoring procedures, and does not expect the counterparty to fail its obligations.

The 6.0% Industrial Development Authority Revenue Refunding Bonds, Series 1995, had a mandatory tender date of June 1, 2005. The bonds were remarketed and the interest rate re-determined to 3.75% on June 1, 2005. Under the terms of the bonds, existing bond holders were permitted to retain their bonds at the 3.75% interest rate. All bonds not retained by current bond holders were remarketed. The newly issued bonds will mature on June 1, 2010.

The terms of the debt agreements limit in some cases the Company's ability to borrow additional funds, to prepay its borrowings and include certain restrictions with respect to declaration and payment of cash dividends and acquisition of the Company's stock. Under the terms of the most restrictive agreements, the Company cannot borrow in excess of 60% of its utility plant, and cumulative payments for dividends and acquisition of stock since December 31, 1982 may not exceed \$1.5 million plus net income since that date. As of December 31, 2005, none of the earnings retained in the business are restricted under these provisions. One of the notes also requires a pledge of \$800 of receivables as security for the loan.

The Company maintains unsecured lines of credit aggregating \$30.5 million with four banks. Loans granted under these lines as of December 31, 2005 bear interest

Notes to Financial Statements*(In thousands of dollars, except per share amounts)***LONG-TERM DEBT (CONTINUED)**

based on LIBOR plus 0.70% to 1.25%. There were \$7,292 of short-term borrowings as of December 31, 2005 and none as of December 31, 2004. The weighted average interest rate on short-term borrowings outstanding as of December 31, 2005 was 5.07%. All of the lines of credit are payable upon demand. The Company is not required to maintain compensating balances and there are no commitment fees on its lines of credit.

5. COMMON STOCK AND EARNINGS PER SHARE

Earnings per share are based upon the weighted average number of shares outstanding of 6,906,249 in 2005, 6,625,224 in 2004 and 6,386,460 in 2003. The Company does not have dilutive securities outstanding.

Under the employee stock purchase plan, all full-time employees who have been employed at least six consecutive months may purchase shares of the Company's common stock through payroll deductions limited to 10% of gross compensation. The purchase price is 95% of the fair market value (as defined). Shares issued during 2005, 2004 and 2003 were 4,562, 4,809 and 5,000, respectively. As of December 31, 2005, 46,449 authorized shares remain unissued under the plan.

Under the optional dividend reinvestment plan, holders of the Company's common stock may purchase additional shares. The purchase price is 95% of the fair market value (as defined). Shares issued during 2005, 2004, and 2003 were 41,721, 48,010 and 49,427, respectively. As of December 31, 2005, 719,813 authorized shares remain unissued under the plan.

On July 21, 2004, the Company closed an underwritten public offering of 415,000 shares of its common stock. Janney Montgomery Scott LLC was the sole underwriter in the offering. The Company received net proceeds in the offering, after deducting offering expenses and underwriter's discounts and commissions, of approximately \$6.8 million. The net proceeds were used to repay a portion of the Company's short-term indebtedness under its revolving credit facilities primarily incurred to finance the Susquehanna River Pipeline Project.

6. EMPLOYEE BENEFIT PLANS

The Company maintains two defined benefit pension plans covering substantially all of its employees. The benefits are based upon years of service and compensation over the last five years of service. The Company's funding policy is to contribute annually the amount permitted by the PPUC to be collected from customers in rates, but in no case less than the minimum required contribution.

The following table sets forth the plans' funded status and amounts recognized in the Company's balance sheets as of December 31, 2005 and 2004. The measurement of assets and obligations of the plans is as of December 31, 2005 and 2004.

Obligations and Funded Status At December 31	2005	2004
Change in Benefit Obligation		
Pension benefit obligation beginning of year	\$ 17,744	\$ 14,889
Service cost	587	504
Interest cost	1,018	992
Amendments	—	575
Actuarial loss	932	1,556
Benefit payments	(773)	(772)
Pension benefit obligation end of year	<u>19,508</u>	<u>17,744</u>
Change in Plan Assets		
Fair value of plan assets beginning of year	13,934	13,353
Actual return on plan assets	812	1,081
Employer contributions	450	272
Benefits paid	(773)	(772)
Fair value of plan assets end of year	<u>14,423</u>	<u>13,934</u>
Funded Status of Plan		
Funded status	(5,085)	(3,810)
Unrecognized net prior service cost	606	884
Unrecognized net loss	<u>4,981</u>	<u>4,047</u>
Net amount recognized as follows	<u>\$ 502</u>	<u>\$ 1,121</u>

Notes to Financial Statements

(In thousands of dollars, except per share amounts)

The net pension asset is recognized in the accompanying balance sheets as follows:

	Pension Benefits	
	2005	2004
Prepaid pension cost	\$ —	\$ 680
Deferred employee benefits	(1,836)	(1,109)
Other assets (intangible)	606	514
Regulatory asset	1,732	1,036
Net amount recognized	<u>\$ 502</u>	<u>\$ 1,121</u>

Net periodic benefit cost for 2005, 2004 and 2003 included the following components:

	2005	2004	2003
Service cost	\$ 587	\$ 503	\$ 383
Interest cost	1,017	992	881
Expected return on plan assets	(961)	(917)	(833)
Amortization of loss	147	130	128
Amortization of prior service cost	279	279	31
Rate-regulated adjustment	(619)	(715)	(348)
Net periodic benefit cost	<u>\$ 450</u>	<u>\$ 272</u>	<u>\$ 242</u>

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

Weighted-average assumptions used to determine benefit obligations at December 31:

	2005	2004
Discount rate	5.50%	5.90%
Rate of compensation increase	5.00%	5.00%

Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31:

	2005	2004	2003
Discount rate	5.90%	6.25%	6.75%
Expected long-term return on plan assets	7.00%	7.00%	7.00%
Rate of compensation increase	5.00%	5.00%	5.00%

The selected long-term rate of return on plan assets (7.0%) was primarily based on the asset allocation of the Plan's assets (approximately 55% to 60% equity securities and 40% to 45% debt securities). Analysis of the historic returns of these asset classes and projections of expected future returns were considered in setting the long-term rate of return. Review of the Plan asset's actual performance for the past 10 years was also made and the average return over this period is approximately 100 basis points higher than the rate selected.

The Company's pension plans' weighted-average asset allocations at December 31, 2005 and 2004, by asset category are as follows:

Asset Category	Plan Assets at December 31	
	2005	2004
Equity securities	59%	57%
Debt securities	40%	42%
Other	1%	1%
Total	<u>100%</u>	<u>100%</u>

The investment objective of the Company's defined benefit pension plans is that of Balanced Growth. Our weighted-average target asset allocations are 60% equity securities and 40% debt securities. Our investment performance objectives are to exceed the annual rate of inflation as measured by the Consumer Price Index by 3%, and to exceed the annualized total return of specified benchmarks applicable to the funds within the asset categories.

Further guidelines within equity securities include: (1) holdings in any one company cannot exceed 5% of the portfolio; (2) a minimum of 20 individual stocks must be included in the domestic stock portfolio; (3) a minimum of 30 individual stocks must be included in the international stock portfolio; (4) equity holdings in any one industry cannot exceed 20-25% of the portfolio; and (5) only U.S.-denominated currency securities are permitted.

As far as debt securities are concerned, the following must be adhered to: (1) fixed income holdings in a single issuer are limited to 5% of the portfolio; (2) acceptable investments include money market securities, U.S. Government and its agencies and sponsored entities' securities, mortgage-backed and asset backed securities, and corporate securities; (3) purchases must be limited to investment grade or higher; (4) non-U.S. dollar denominated securities are not permissible; and (5) high risk derivatives are prohibited.

Notes to Financial Statements

(In thousands of dollars, except per share amounts)



EMPLOYEE BENEFIT PLANS (CONTINUED)

Equity securities include York Water Company common stock in the amounts of \$330 (2.3% of total plan assets) and \$248 (1.8% of total plan assets) at December 31, 2005 and 2004, respectively.

The Company currently expects to contribute \$450 to its pension plans in 2006.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid in each of the next five years and the subsequent five years in the aggregate:

2006	\$ 885
2007	878
2008	1,022
2009	1,051
2010	1,054
2011-2015	5,800

As of December 31, 2005, the Company had an additional minimum liability of \$1,732 associated with its defined benefit plans. The additional minimum liability is a result of the accumulated benefit obligation exceeding the fair value of plan assets and results in the establishment of a regulatory asset, as the Company anticipates recovery of the future, increased pension expense through customer rates. An additional minimum liability of \$1,036 was initially recorded in 2004 as a result of a plan amendment and a decrease in the assumed discount rate. The amendment to the pension plans eliminated the early retirement penalty for retiring employees who have reached age 62 and have completed at least 25 years of service. Prior to the amendment, retiring employees were subject to an early retirement penalty if they retired prior to age 65. The increased additional minimum pension liability of \$696 recorded in 2005 was primarily due to a further decrease in the assumed discount rate.

The accumulated benefit obligation was \$16,259 and \$14,783 at December 31, 2005 and 2004, respectively. As of December 31, 2005, both of our plans had benefit obligations in excess of plan assets. The following table shows the accumulated benefit obligation, the projected benefit obligation and the fair value of plan assets for each plan:

General and Administrative Plan

2005

2004

Accumulated benefit obligation	\$ 10,334	\$ 9,363
Projected benefit obligation	12,348	11,206
Fair value of plan assets	8,597	8,254

Union-Represented Plan

2005

2004

Accumulated benefit obligation	\$ 5,925	\$ 5,420
Projected benefit obligation	7,160	6,538
Fair value of plan assets	5,826	5,680

The Company has a savings plan pursuant to the provisions of section 401(k) of the Internal Revenue Code. The plan provides for elective employee contributions of up to 15% of compensation and Company matching contributions of 65% of the participant's contribution, up to a maximum annual Company contribution of \$2 for each employee. The Company's contributions to the plan amounted to \$118 in 2005, \$99 in 2004, and \$94 in 2003.

The Company has non-qualified deferred compensation agreements with certain members of senior management. The future commitments under these arrangements are offset by corporate-owned life insurance policies. At December 31, 2005 and 2004, the present value of the future obligations was approximately \$2.2 million and \$2.0 million, respectively. The insurance policies included in other assets had a total cash value of approximately \$2.5 million and \$2.3 million, respectively, at December 31, 2005 and 2004. The Company's expenses under the plans amounted to \$236 in 2005, \$113 in 2004 and \$166 in 2003.

7. RATE INCREASES

The Company increased rates as approved by the PPUC in June 2003 (8.5%). The rates became effective June 26, 2003 and were designed to produce approximately \$1.7 million in additional annual operating revenues. The Company subsequently increased rates as approved by the PPUC in September 2004 (15.9%). The new rates became effective November 9, 2004 and were designed to produce approximately \$3.5 million in additional annual operating revenues. The next increase request is projected to be filed in March 2006.

8. NOTES RECEIVABLE AND CUSTOMERS' ADVANCES FOR CONSTRUCTION

The Company has entered into agreements with four municipalities to extend water service into newly formed water districts. The Company loaned funds to the municipalities to cover the costs related to the projects. The municipalities concurrently advanced these funds back to the Company in the form of customers' advances for construction. The municipalities are required by enacted ordinance to charge application fees and water revenue surcharges (fees) to customers connected to the system, which are remitted to the Company. The note principal and the related customer advance are reduced periodically as operating revenues are earned by the Company from customers connected to the system and refunds of advances are made. There is no due date for the notes or expiration date for the advances.

The Company has recorded interest income of \$198 in 2005, \$198 in 2004, and \$236 in 2003. Interest rates on the notes vary from Libor plus 1.00% (5.54% at year-end 2005) to 7.5%.

Included in the accompanying balance sheets at December 31, 2005 and 2004 were the following amounts related to these projects.

	2005	2004
Notes receivable, including interest	\$2,196	\$2,241
Customers' advances for construction	2,558	2,641

During the second quarter of 2004, the Company offset notes receivable in the amount of \$212 against the related advances for construction based on its determination that the principal recoverable from note holders was less than the recorded amount, and the fact that advances are not fully refundable to the extent that payments are not received on the notes. Also during the second quarter of 2004, due to increased construction activity resulting in the collection of application fees and surcharges to recoup construction costs, the Company reinstated notes receivable in the amount of \$388 which had been offset against the related advances for construction during the second quarter of 2002. During the fourth quarter of 2004, the Company completed an additional main extension for a municipality. A note receivable and the corresponding customer advance in the amount of \$1,424 were recorded. None of these events affected net income.

The Company has other customers' advances for construction totaling \$21,146 and \$17,934 at December 31, 2005 and 2004, respectively.

9. COMMITMENTS

Based on its capital budget, the Company plans to spend approximately \$17.2 million in 2006, \$9.6 million in 2007 and \$12.7 million in 2008 on acquisitions and construction. These capital expenditures are net of amounts financed by customer advances. The Company plans to finance ongoing capital expenditures with internally generated funds, short-term borrowings, long-term debt issues, common stock subscriptions or offerings and proceeds from the issuance of common stock under its dividend reinvestment plan (stock issued in lieu of cash dividends) and employee stock purchase plan.

The Company has remaining capital commitments with regard to the automated meter reading project and the enterprise software. Of the total committed of approximately \$6.6 million, \$3.0 million (included above) remains to be spent as of December 31, 2005.

As of December 31, 2005, the Company employed 97 full time people, 40 under union contract. The current contract was ratified during 2003 and expires in 2007.

Notes to Financial Statements*(In thousands of dollars, except per share amounts)***COMMITMENTS (CONTINUED)**

The Company is involved in certain legal and administrative proceedings before various courts and governmental agencies concerning water service and other matters. The Company expects that the ultimate disposition of these proceedings will not have a material effect on the Company's financial position, results of operations and cash flows.

The Company's customers' advances for construction and notes receivable have carrying values at December 31, 2005 of \$23,704 and \$2,196, respectively. At December 31, 2004, customers' advances for construction and notes receivable had carrying values of \$20,575 and \$2,241, respectively. The relative fair values of these amounts cannot be accurately estimated since the timing of future payment streams is dependent upon several factors, including new customer connections, customer consumption levels and future rate increases.

10. FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair value of financial instruments has been determined based on available market information and appropriate valuation methodologies. However, considerable judgment is necessarily required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the Company might realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value.

The carrying amount of current assets and liabilities that are considered financial instruments approximates their fair value as of the dates presented. The Company's long-term debt, with a carrying value of \$51,874 at December 31, 2005, and \$51,913 at December 31, 2004 had an estimated fair value of approximately \$62,000 and \$64,000 in 2005 and 2004, respectively. The weighted average rates used to calculate the fair value were based on a multiple of the 5, 10, 15 and 20-year Municipal bond yields. The 2005 rates ranged from 4.22% to 5.33% and the 2004 rates ranged from 3.50% to 5.39%.

The interest rate swap is being carried at its fair value. The fair value of the swap was a loss of \$398 as of December 31, 2005 and \$297 as of December 31, 2004, as reported in other comprehensive loss. Fair values relating to derivative instruments reflect the estimated amounts that the Company would receive or pay to terminate the contracts as of December 31, 2005 and December 31, 2004, based on estimated future cash flows.

11. SHAREHOLDER RIGHTS PLAN

On January 25, 1999, the Company's Board of Directors approved a Shareholder Rights Plan designed to protect the Company's shareholders in the event of an unsolicited, unfair offer to acquire the Company. Each outstanding common share is entitled to one Right, which is evidenced by the common share certificate. In the event any person acquires 15% or more of the outstanding common shares or commences a tender or exchange offer which, if consummated, would result in a person owning 15% or more of the outstanding common shares, the Rights will begin to trade independently from the common shares, and would entitle the holder to purchase a number of common shares having approximately twice the value of the exercise price of the Rights. If the Company is involved in a merger or other business combination at any time after the Rights become exercisable, the Rights will entitle the holder to acquire a number of shares of the acquiring company having approximately twice the value of the exercise price of the Rights. The Rights are redeemable by the Company at a redemption price of \$0.01 per Right at any time before the Rights become exercisable. The Rights will expire on January 24, 2009, unless previously redeemed.

12. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

2005	FIRST	SECOND	THIRD	FOURTH	YEAR
Water operating revenue	\$6,235	\$6,694	\$7,207	\$6,669	\$26,805
Utility operating income	2,832	3,192	3,635	3,129	12,788
Net income	1,230	1,478	1,735	1,390	5,833
Basic earnings per share	.18	.21	.25	.20	.84
Dividends per share	.156	.156	.156	.168	.636

2004	FIRST	SECOND	THIRD	FOURTH	YEAR
Water operating revenue	\$5,363	\$5,498	\$5,569	\$6,074	\$22,504
Utility operating income	2,353	2,366	2,410	2,780	9,909
Net income*	1,577	1,050	1,239	1,435	5,301
Basic earnings per share	.25	.16	.18	.21	.80
Dividends per share	.145	.145	.145	.156	.591

*First quarter net income includes an after tax gain on the sale of land of approximately \$467.

13. SUBSEQUENT EVENTS

On February 2, 2006, the Company announced that it entered into an agreement to acquire the water system of Abbottstown Borough which serves approximately 400 customers in Adams County, Pennsylvania. The agreement is subject to the approval of the Pennsylvania Public Utility Commission and the Pennsylvania Department of Environmental Protection. The estimated acquisition cost of \$0.9 million will be funded through internally generated funds and short-term borrowings.

Following the acquisition, the Company will serve the customers of the Borough by using its fully filtered and treated water supply. This treated water supply will be provided through a main which will be constructed by the Company to interconnect with the Borough's existing distribution facilities. The interconnection is expected to be completed by September 1, 2006.

Supplemental Information (Unaudited)*(In thousands of dollars, except per share amounts)*

Selected Financial Data	YEARS ENDED DECEMBER 31		
	2005	2004	2003
Income			
Operating Revenues	\$26,805	\$22,504	\$20,889
Operating Expenses	\$14,017	\$12,595	\$11,555
Operating Income	\$12,788	\$9,909	\$9,334
Interest and Debt Expense	\$3,423	\$2,132	\$2,523
Net Income	\$5,833	\$5,301	\$4,448
Percent Change in Net Income Compared to Prior Year	10.0%	19.2%	17.4%
Common Stock Dividends	\$4,392	\$3,930	\$3,512
Dividend Payout Ratio	75%	74%	79%
Weighted Average Common Shares Outstanding	6,906,249	6,625,224	6,386,460
Basic Earnings Per Weighted Average Common Share	\$0.84	\$0.80	\$0.70
Number of Common Shares Outstanding	6,933,330	6,887,047	6,419,230
ROE on Year End Common Equity	11.6%	11.0%	11.4%
Common Stock Dividends Per Share	\$0.636	\$0.591	\$0.550
Net Cash Flows From Operating Activities	\$9,256	\$7,562	\$6,772
Balance Sheet			
Common Stockholders' Equity	\$50,415	\$48,037	\$39,056
Long-Term Debt Including Current Maturities	\$51,874	\$51,913	\$32,652
Total Capitalization	\$102,289	\$99,950	\$71,708
Percent Common Stockholders' Equity	49%	48%	54%
Percent Long-Term Debt	51%	52%	46%
Net Utility Plant	\$154,774	\$139,454	\$115,724
Operating Data			
Revenue Class			
Residential	\$16,737	\$13,789	\$12,574
Commercial and Industrial	\$7,995	\$6,893	\$6,598
Other	\$2,073	\$1,822	\$1,717
Total Operating Revenues	\$26,805	\$22,504	\$20,889
Construction Expenditures	\$15,553	\$25,981	\$11,527
Other Operating Data			
Number of Customers	55,731	53,134	51,916
Number of Employees	97	95	92
Common Shareholders	1,449	1,459	1,392
Book Value Per Common Share	\$7.27	\$6.98	\$6.08
Market Value at Year End	\$25.85	\$19.40	\$18.20
Market Value to Book Value	356%	278%	299%
P/E Ratio	30.8	24.3	26.0



2002	2001	2000	1999	1998	1997	1996	1995
\$19,553	\$19,403	\$18,481	\$17,511	\$17,137	\$16,997	\$15,721	\$15,449
\$11,220	\$10,468	\$10,008	\$10,255	\$9,721	\$9,679	\$9,223	\$10,539
\$8,333	\$8,935	\$8,473	\$7,256	\$7,416	\$7,318	\$6,498	\$4,910
\$2,692	\$2,856	\$2,798	\$2,644	\$2,674	\$2,707	\$2,893	\$2,739
\$3,790	\$4,006	\$3,758	\$3,154	\$3,135	\$3,120	\$2,760	\$2,312
-5.4%	6.6%	19.2%	0.6%	0.5%	13.0%	19.4%	-5.4%
\$3,323	\$3,126	\$2,950	\$2,824	\$2,745	\$2,650	\$2,377	\$2,277
88%	78%	78%	90%	88%	85%	86%	98%
6,330,394	6,153,250	6,021,350	5,980,534	5,902,570	5,824,938	5,255,128	5,060,760
\$0.60	\$0.65	\$0.63	\$0.53	\$0.53	\$0.54	\$0.53	\$0.46
6,364,803	6,308,664	6,085,466	5,978,182	5,959,444	5,869,564	5,801,048	5,098,992
10.2%	11.2%	11.6%	10.2%	10.3%	10.7%	9.9%	10.6%
\$0.525	\$0.505	\$0.490	\$0.473	\$0.465	\$0.455	\$0.450	\$0.450
\$6,172	\$6,734	\$6,371	\$5,450	\$6,171	\$5,071	\$4,261	\$2,900
\$37,216	\$35,892	\$32,438	\$30,830	\$30,380	\$29,151	\$28,003	\$21,772
\$32,690	\$32,728	\$32,765	\$32,800	\$32,000	\$32,000	\$32,000	\$32,000
\$69,906	\$68,620	\$65,203	\$63,630	\$62,380	\$61,151	\$60,003	\$53,772
53%	52%	50%	48%	49%	48%	47%	40%
47%	48%	50%	52%	51%	52%	53%	60%
\$106,217	\$101,753	\$96,434	\$91,725	\$86,401	\$83,155	\$80,334	\$76,820
\$11,527	\$11,571	\$10,980	\$10,199	\$10,016	\$9,975	\$9,273	\$8,896
\$6,385	\$6,265	\$6,033	\$6,004	\$5,888	\$5,850	\$5,332	\$5,521
\$1,641	\$1,567	\$1,468	\$1,308	\$1,233	\$1,172	\$1,116	\$1,032
\$19,553	\$19,403	\$18,481	\$17,511	\$17,137	\$16,997	\$15,721	\$15,449
\$6,310	\$7,096	\$6,414	\$7,050	\$4,990	\$4,501	\$4,937	\$5,257
51,023	50,079	49,195	48,144	47,173	46,458	45,800	44,879
89	90	90	90	91	90	91	90
1,353	1,327	1,307	1,364	1,325	1,334	1,281	1,217
\$5.85	\$5.69	\$5.33	\$5.16	\$5.10	\$4.97	\$4.83	\$4.27
\$14.20	\$14.63	\$9.00	\$8.38	\$9.63	\$10.38	\$8.41	\$8.47
243%	257%	169%	162%	189%	209%	174%	198%
23.7	22.5	14.3	16.0	18.2	19.4	16.0	18.4

Directors, Officers, & Key Employees

Board of Directors

Chloé R. Eichelberger, ^{(2) (3)} Age 71
Director Since September 15, 1995

Owner/President/Chief Executive Officer,
Chloé Eichelberger Textiles, Inc.,
Dyeing and Finishing Fabrics,
September 1987 to date



Chloé R. Eichelberger



John L. Finlayson

John L. Finlayson, ^{(1) (2) (3)} Age 65
Director Since September 2, 1993

Vice President-Finance and Administration,
Susquehanna Pfaltzgraff Co.,
Manufacturing, Retailing,
Radio Stations, Cable TV,
August 1978 to date

Michael W. Gang, Esq., ⁽¹⁾ Age 55
Director Since January 22, 1996

Partner/Attorney,
Post & Schell PC,
Attorneys at Law,
October 2005 to date

Partner/Attorney,
Morgan, Lewis & Bockius, LLP,
Counselors at Law,
October 1984 to October 2005

Post & Schell PC is counsel to the Company



Michael W. Gang, Esq.



George W. Hodges

George W. Hodges, ^{(2) (3)} Age 55
Director Since June 26, 2002

Office of the President,
The Wolf Organization, Inc.,
Distributor of Building Products,
January 1986 to date

George Hay Kain, III, ⁽³⁾ Age 57
Director Since August 25, 1986

Consultant,
December 2004 to date
Sole Practitioner, Attorney at Law
April 1982 to December 2003



George Hay Kain, III



Thomas C. Norris

Thomas C. Norris, ^{(2) (3)} Age 67
Director Since June 26, 2000

Retired, Chairman of the Board,
P. H. Glatfelter Company,
Paper Manufacturer,
May 2000 to date

Chairman of the Board,
P. H. Glatfelter Company,
July 1998 to May 2000

(1) Member of the Executive Committee

(2) Member of the Audit Committee

(3) Member of the Compensation and Nomination Committee



William T. Morris, P.E.

William T. Morris, P.E., ⁽¹⁾ Age 68
 Director Since April 19, 1978
 Chairman of the Board,
 The York Water Company,
 November 2001 to date
 President and Chief Executive Officer,
 The York Water Company,
 May 1995 to December 2002



Irvin S. Naylor

Irvin S. Naylor, ⁽¹⁾ Age 70
 Director Since October 31, 1960
 Vice Chairman of the Board,
 The York Water Company,
 May 2000 to date
 Chairman of the Board,
 The York Water Company,
 September 1993 to May 2000
 President/Owner, Snow Time, Inc.,
 Owns and Operates Ski Areas,
 June 1964 to date



Jeffrey S. Osman

Jeffrey S. Osman, ⁽¹⁾ Age 63
 Director Since July 23, 2001
 President and
 Chief Executive Officer,
 January 2003 to date
 Vice President-Finance and
 Secretary-Treasurer,
 The York Water Company,
 May 1995 to December 2002

Directors Emeriti

Josephine S. Appell

Horace Keesey III

Robert E. Skold

Officers & Key Employees

Jeffrey S. Osman, Age 63
 President and Chief
 Executive Officer

Vernon L. Bracey, Age 44
 Vice President-
 Customer Service

Duane R. Close, Age 60
 Vice President-Operations

Jeffrey R. Hines, P.E., Age 44
 Vice President-Engineering
 and Secretary

Bruce C. McIntosh, Age 53
 Vice President-
 Human Resources

Kathleen M. Miller, Age 43
 Chief Financial Officer
 and Treasurer

Stock Exchange Listing

The Company's common shares trade
 on the Nasdaq National Market.

The trading symbol is "YORW".

Transfer Agent & Registrar

American Stock Transfer & Trust Company

59 Maiden Lane
 New York, NY 10273-0923
 (800) 937-5449
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Health and Safety

The Company strives to provide a healthy and safe work environment. During 2005, employees achieved significant levels of success in these areas. Many departments continue to extend multiple year records of no loss time injuries. Company wide, we continue to be about one-half the national water industry accident rate.

Diversity

The Company also strives to provide a diverse work environment and diversity in our work force. We continue to seek out and employ qualified employees reflective of the demographics of the geographic area we serve. The Company believes that diversity in the procurement process is a vital necessity in providing for the long-term needs of our operations and our customers. Diversity maximizes the number of vendors available to support our operations, and provides us with needed services.

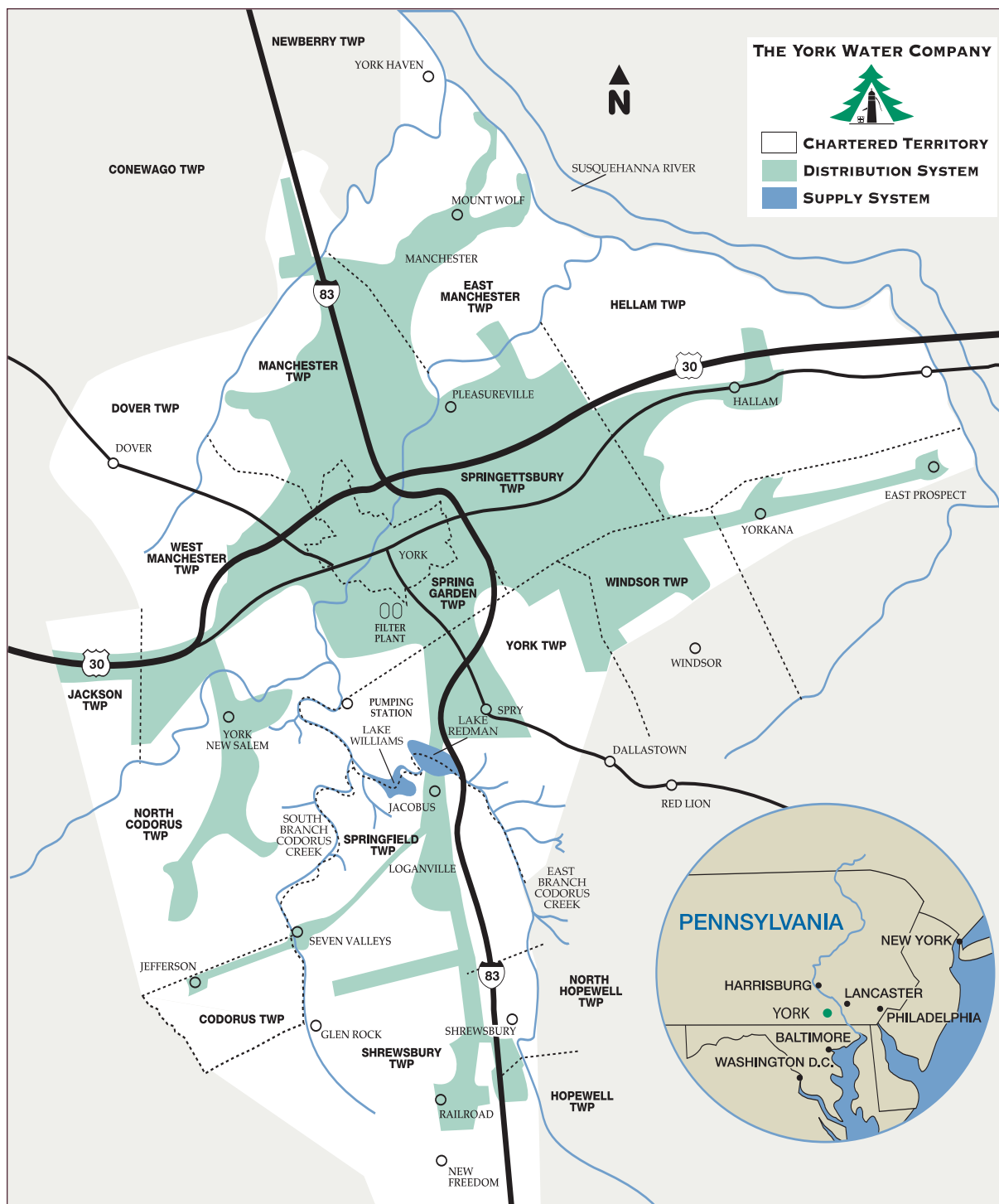
Independent Auditors

Beard Miller Company LLP

Suite 200
 221 West Philadelphia Street
 York, PA 17401

Chartered Territory

Distribution and Supply System







"That good York water"
SINCE 1816

The York Water Company

130 East Market Street, York, Pennsylvania 17401