

THE YORK WATER COMPANY 2006 *Annual Report*

{ *Beyond Growth* }

A COMMITMENT TO STEWARDSHIP



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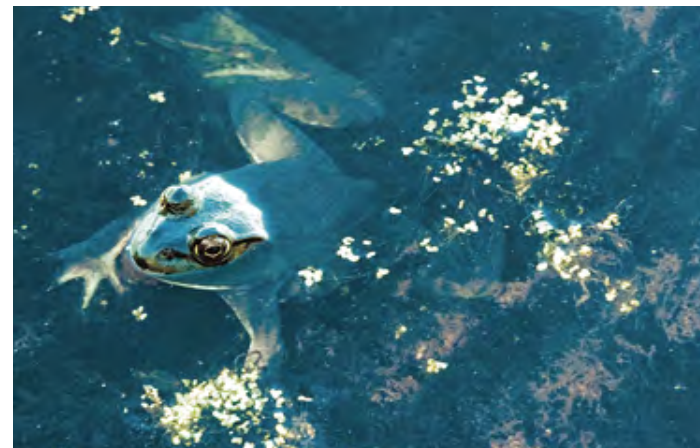
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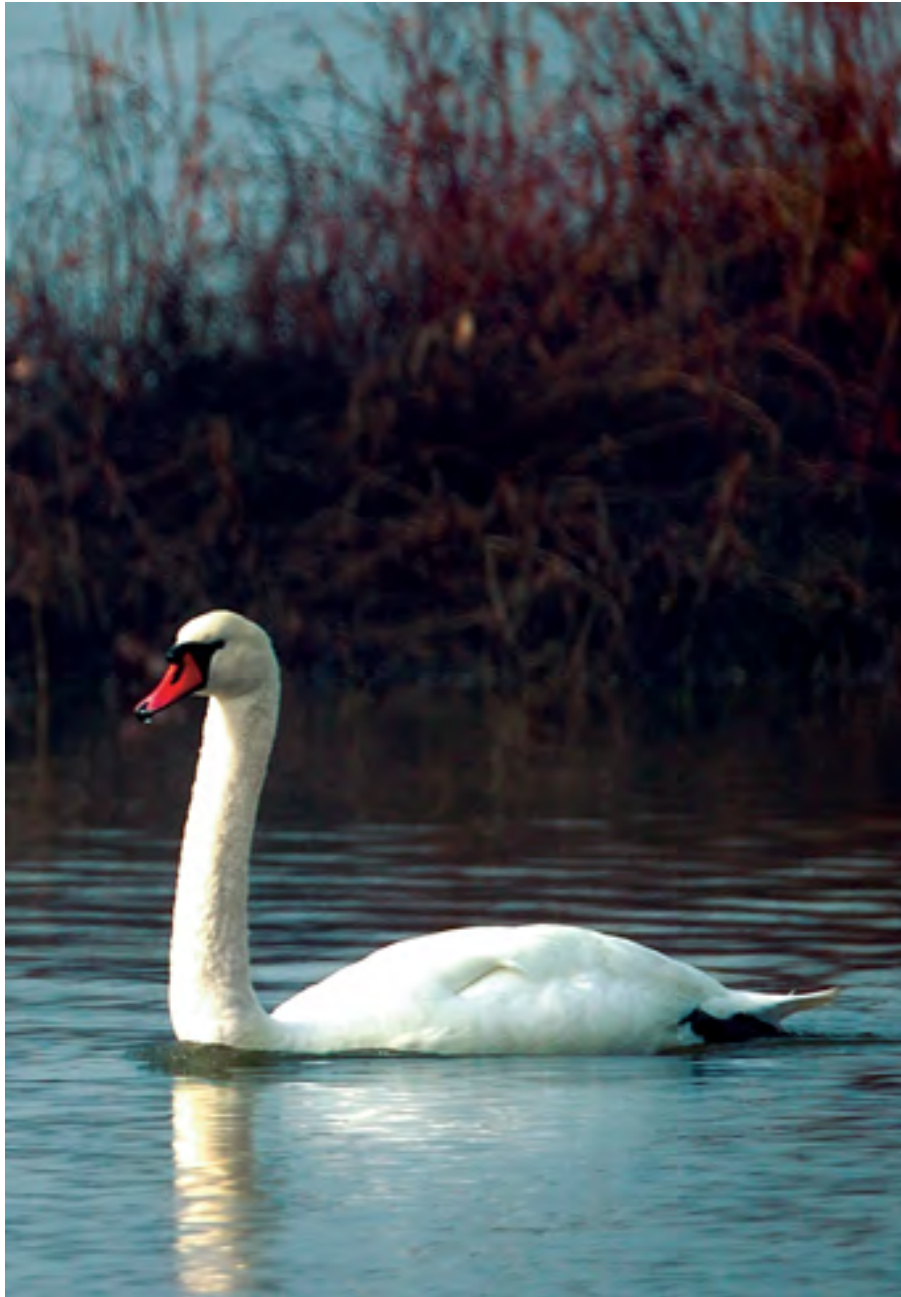
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{ *Beyond Growth* } A COMMITMENT TO STEWARDSHIP



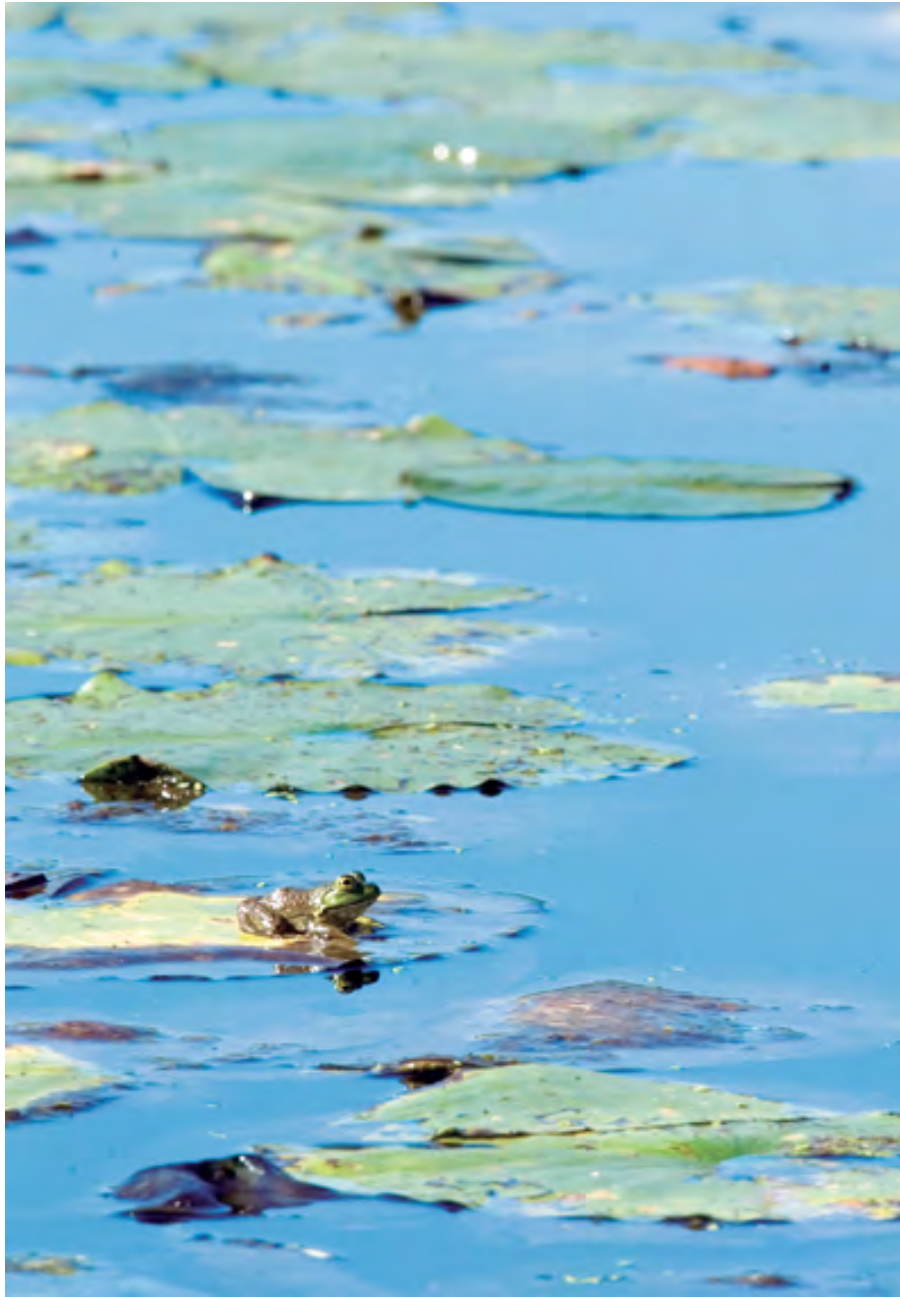
The *stewardship* of our reservoir lands and waters began with the completion of the Lake Williams dam in 1912. The lands and waters encompassing Lake Redman were added in 1967.

Kain Park is home to many species of birds, fish, flora, fauna, and important natural ecosystems, which are pictured in this report. Our abiding commitment to wildlife and wild places has resulted in nearly half a century of successful conservation.



The York Water Company's *commitment* to the practices of sound environmental management is an integral part of our philosophy and culture.

Protecting the environment is a hallmark of our 191-year history.

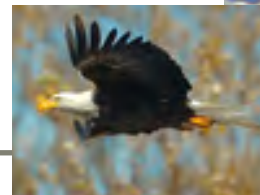


With the founding of William H. Kain County Park in 1976, The York Water Company now controls over 1,600 acres of wildlife habitat and public recreation lands. These resources are provided not just for Company customers, but for everyone.



The York Water Company has a long tradition of enlightened environmental management practices. This *commitment to stewardship* has enhanced the quality of life for our friends, neighbors, and for future generations.

Strong Performance:



DEAR SHAREHOLDERS,

By every measure, 2006 was an outstanding year for York Water. We continued the significant momentum that has been built over the last several years.

We again achieved record operating revenues, operating income, net income and earnings per share. We continued to expand our franchise by growing the number of customers served to 57,578.



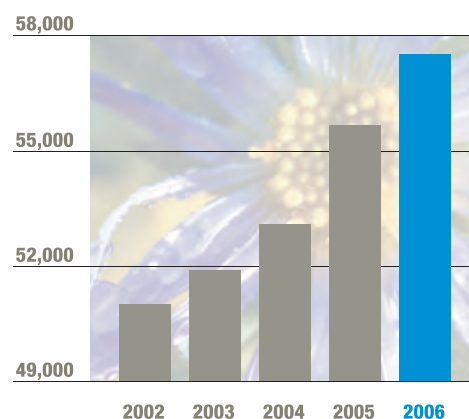
Jeffrey S. Osman
President and
Chief Executive Officer

Sales grew by 6.9% to \$28.7 million; operating income increased to \$12.9 million. Our earnings rose by 4.4% to \$6.1 million and earnings per share increased to \$0.58.

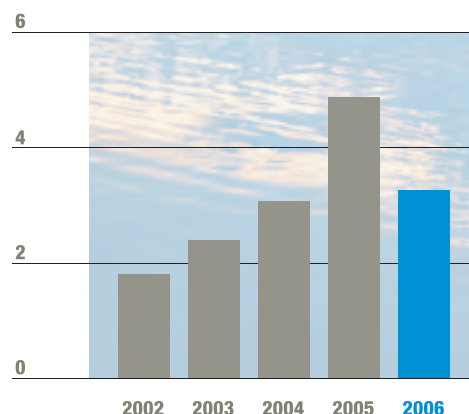
In line with our objective to maintain regular dividend increases, we raised the quarterly dividend rate by 5% during the year. The Company has raised its dividend for ten consecutive years. In addition, we completed a three-for-two stock split to increase the number of shares outstanding and make our shares more affordable to more investors.



Customers



Customer Growth (%)





The wildlife, water and other nature images in this annual report were photographed at Lake Williams and Lake Redman reservoir lands and waters, the Susquehanna River and other sources of ***"That good York water."***



Creating Value for Shareholders:

Again, our shareholders experienced an increase in shareholder value during 2006. The market price of our common stock increased \$0.65 per share to \$17.88, or a 3.8% increase. This increase, together with a \$0.454 per share in dividends paid during the year, brought the total annualized return to 6.4%.

On December 1, 2006, the Company closed an underwritten public offering of 741,250 shares of its common stock. The Company received net proceeds in the offering of approximately \$11 million.

Talented and Experienced Employees

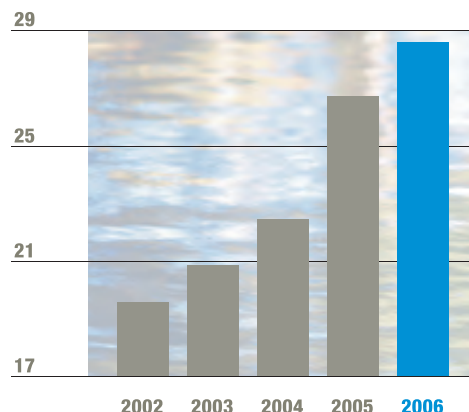
Of course, all of this has been achieved through the dedicated efforts of our employees. I am extremely proud of the way our people respond and overcome the challenges before them. There is excitement, energy and competence throughout our employees that keeps this Company growing and thriving, constantly breaking new ground and exploring new territory.

Business Environment and Outlook

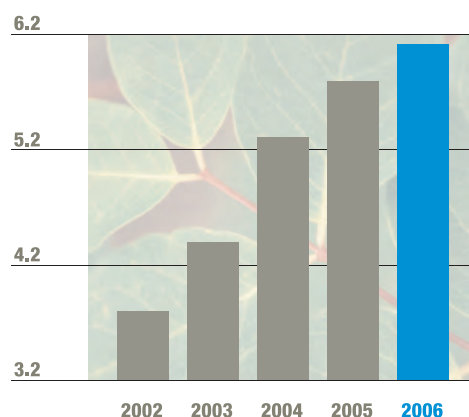
On January 5, 2007, we closed on our latest acquisition, the Borough of Abbottstown water system. This acquisition marks the Company's first entry into the growing Adams County region, one of the fastest growing regions in Pennsylvania. We expect that Adams County will provide growth opportunities for York Water for years to come.

In addition to our entry into Adams County, our service territory in York County exhibited excellent growth during 2006. The Company has enjoyed the benefit of customers, who work in the greater Baltimore-Washington metropolitan area, moving into the Company's service territory. We believe that the factors contributing to this growth will continue in the future.

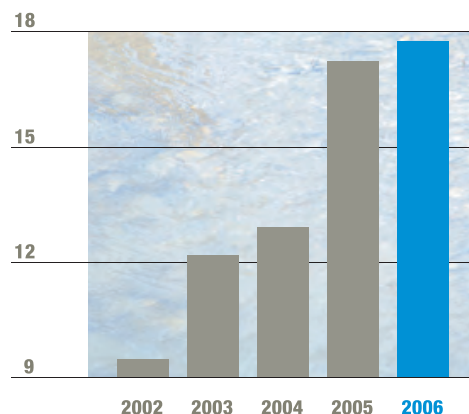
Operating Revenues
(millions)



Net Income
(millions)



Per Share Value
(Restated for 3 for 2 split)







Highlights of Our 191st Year

(In thousands of dollars, except per share amounts)

Summary of Operations

For the Year

2006

2005

2004

2003

2002

Water operating revenue.....	\$ 28,658	\$ 26,805	\$ 22,504	\$ 20,889	\$ 19,553
Operating expenses.....	<u>15,754</u>	<u>14,017</u>	<u>12,595</u>	<u>11,555</u>	<u>11,220</u>
Operating income.....	12,904	12,788	9,909	9,334	8,333
Interest expense.....	3,727	3,423	2,132	2,523	2,692
Gain on sale of land.....	—	—	743	—	—
Other income (expenses), net	<u>110</u>	<u>(149)</u>	<u>(168)</u>	<u>12</u>	<u>183</u>
Income before income taxes.....	9,287	9,216	8,352	6,823	5,824
Income taxes.....	<u>3,196</u>	<u>3,383</u>	<u>3,051</u>	<u>2,375</u>	<u>2,034</u>
Net income	\$ 6,091	\$ 5,833	\$ 5,301	\$ 4,448	\$ 3,790

Per Share of Common Stock

Book value.....	\$ 5.84	\$ 4.85	\$ 4.65	\$ 4.05	\$ 3.90
Basic earnings per share58	.56	.53	.46	.40
Dividends.....	.454	.424	.394	.367	.350
Weighted average number of shares outstanding during the year.....	10,475,173	10,359,374	9,937,836	9,579,690	9,495,591

Utility Plant

Original cost, net of acquisition adj....	\$ 202,020	\$ 181,756	\$ 163,701	\$ 138,314	\$ 127,117
Construction expenditures	21,682	15,553	25,981	11,527	6,310

Other

Total assets	\$ 196,064	\$ 172,296	\$ 156,066	\$ 127,508	\$ 118,408
Long-term debt including current maturities	62,335	51,874	51,913	32,652	32,690

Share and per share amounts have been restated to reflect the three-for-two stock split effected September 11, 2006.

For Management's Discussion and Analysis of Financial Condition and Results of Operations, please refer to page 9.



Shareholder Information

Market for Common Stock and Dividends

The common stock of The York Water Company is traded on the NASDAQ Global Select Market (Symbol "YORW").

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

	2006			2005		
	High	Low	Dividend*	High	Low	Dividend*
1st Quarter	\$18.67	\$15.33	\$0.112	\$13.66	\$11.67	\$0.104
2nd Quarter	20.99	15.92	0.112	15.23	12.07	0.104
3rd Quarter	20.69	15.72	0.112	17.87	14.09	0.104
4th Quarter	20.35	17.50	0.118	17.87	13.75	0.112

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

Per share amounts have been restated to reflect the three-for-two stock split effected September 11, 2006.

(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, 2006 numbered approximately 1,463.

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 16, 2007 was the 544th 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 is currently to pay cash dividends on a quarterly basis. The dividend rate has been increased annually for ten 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 filed with the Securities and Exchange Commission (SEC). Such requests, as well as other investor relations inquiries, should be addressed to:

Kathleen M. Miller — Chief Financial Officer

The York Water Company
P.O. 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 as well as reports filed with the SEC can be found on the Company's website at: www.yorkwater.com.



Management's Discussion & Analysis of Financial Condition & Results of Operations

(In thousands of dollars, except per share amounts)

FORWARD-LOOKING STATEMENTS

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

- expected profitability and results of operations;
- goals, priorities and plans for, and cost of, growth and expansion;
- strategic initiatives;
- availability of water supply;
- water usage by customers; and
- ability to pay dividends on common stock and the rate of those dividends.

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

- changes in weather, including drought conditions;
- levels of rate relief granted;
- the level of commercial and industrial business activity within the Company's service territory;
- construction of new housing within the Company's service territory and increases in population;
- changes in government policies or regulations;
- the ability to obtain permits for expansion projects;
- material changes in demand from customers, including the impact of conservation efforts which may impact the demand of customers for water;
- changes in economic and business conditions, including interest rates, which are less favorable than expected; and
- 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, 2006.



Management's Discussion & Analysis of Financial Condition & Results of Operations

(In thousands of dollars, except per share amounts)

GENERAL INFORMATION

The Company is the oldest investor-owned water utility in the United States and is duly organized under the laws of the Commonwealth of Pennsylvania. The Company has operated continuously since 1816. The business of the Company is to impound, purify and distribute water. The Company operates within its franchised territory, which covers 34 municipalities within York County, Pennsylvania and four municipalities within Adams County, Pennsylvania. The Company is regulated by the Pennsylvania Public Utility Commission, or PPUC, in the areas of billing, payment procedures, dispute processing, terminations, service territory and rate setting. The Company must obtain PPUC approval before changing any of the aforementioned procedures. Water service is supplied through the Company's own distribution system. The Company obtains its water supply from 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 2.2 billion gallons of water. The Company has a 15-mile pipeline from the Susquehanna River to

Lake Redman which provides access to an additional supply of 12.0 million gallons of water per day. As of December 31, 2006, the Company's present average daily availability was 35.0 million gallons, and daily consumption was approximately 18.8 million gallons. The Company's service territory had an estimated population of 166,000 as of December 31, 2006. 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. In 2006, operating revenue was derived from the following sources and in the following percentages: residential, 63%; commercial and industrial, 30%; and other, 7%, which is primarily from the provision for fire service. Increases in revenues are generally dependent on the Company's ability to obtain rate increases from regulatory authorities in a timely manner and in adequate amounts and to increase volumes of water sold through increased consumption and increases in the number of customers served.

During the five year period ended December 31, 2006, the Company has maintained an increasing growth in number of customers and distribution facilities as demonstrated by the following chart:

	2006	2005	2004	2003	2002
Average daily consumption (gallons per day)	18,769,000	18,657,000	18,116,000	17,498,000	17,901,000
Miles of mains at year-end	840	804	780	739	731
Additional distribution/transmission mains installed (ft.)	178,384	126,962	211,836	44,986	72,121
Number of customers at year-end	57,578	55,731	53,134	51,916	51,023
Population served at year-end	166,000	161,000	158,000	156,000	153,000



Management's Discussion & Analysis of Financial Condition & Results of Operations

(In thousands of dollars, except per share amounts)

Results of Operations

2006 COMPARED WITH 2005

Net income for 2006 was \$6,091, an increase of \$258, or 4.4%, compared to net income of \$5,833 for 2005. Increased water revenues were the primary contributing factor. An increased allowance for funds used during construction, decreased supplemental retirement expenses and a lower effective tax rate also added to the increase. Higher operating expenses and higher short-term interest expenses partially offset the increase.

Water operating revenues for the year increased \$1,853, or 6.9%, from \$26,805 for 2005 to \$28,658 for 2006. A 9.2% rate increase effective September 15, 2006 accounted for approximately \$719, or 38.8%, of the increase in water operating revenues for 2006. The average number of customers served in 2006 increased as compared to 2005 by 2,287, from 54,410 to 56,697 customers due to growth in the Company's service territory and the Spring Grove and Mountain View acquisitions in July and November 2005, respectively. Despite this increase in customers, the total per capita volume of water sold in 2006 decreased compared to 2005 due to reduced consumption in the service territory. The Company expects revenues to continue to increase as a result of increases to the customer base within its current service area. The Company also seeks opportunities to make strategic acquisitions from time to time. In 2007, the Company will continue to benefit from the September 2006 rate increase. Drought warnings or restrictions as well as regulatory actions could impact results, however.

Operating expenses for the year increased \$1,737, or 12.4%, from \$14,017 for 2005 to \$15,754 for 2006. Higher salaries due to wage increases and additional employees of approximately \$458, increased software training, conversion and support expenses of approximately \$184, higher internal control expenses of approximately \$171, higher depreciation expense of \$155 due to increased plant investment, increased distribution system maintenance of approximately \$132 and higher transportation expenses due to additional vehicles and increased gas prices of approximately \$116 were the principal reasons for the increase. Higher pension expense, payroll taxes, electric costs, bad debt expense, shareholder expenses and chemical costs aggregating approximately \$512 also contributed to the increase. The increase was

partially offset by lower rate case expense, reduced hydrant expenses due to inventorying additional parts and higher capitalization of indirect costs aggregating \$173. Internal controls expenses are expected to level off in 2007, while depreciation expenses are expected to rise due to the level of plant investment in 2006 and pension expense is expected to rise due to an increased contribution to the plans in 2007. Other 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 \$80, or 2.3%, from \$3,470 for 2005 to \$3,550 for 2006, due primarily to an increase in amounts outstanding. The Company issued tax-exempt debt through the York County Industrial Development Authority, or YCIDA, in the amount of \$10.5 million in October 2006. The proceeds of the bond issue were used to pay down a portion of the Company's short-term borrowings. The increase was partially offset by the remarketing of the Company's 6.0% Industrial Development Authority Revenue Refunding Bonds, Series 1995, and the interest rate being redetermined to 3.75% on June 1, 2005.

Interest expense on short-term debt increased \$481, from \$134 for 2005 to \$615 for 2006 due to an increase in short-term borrowings used to fund operations and construction expenditures. The average short-term debt outstanding in 2006 and 2005 was \$10.5 million and \$2.7 million, respectively.

Allowance for funds used during construction increased \$257 from \$181 for 2005 to \$438 for 2006 due to an increase in construction expenditures that were eligible for interest, including expenditures for the main extension to Abbottstown and the enterprise software system.

Other income (expenses), net increased by \$259 in 2006 as compared to 2005 primarily due to reduced supplemental retirement expenses of approximately \$225 due to an increase in the discount rate. Lower contributions and increased interest income on water district notes receivable aggregating approximately \$81 also added to the increase. Higher non-operating property maintenance expenses of approximately \$28 partially offset the increase.

Federal and state income taxes decreased by \$187, or 5.5%. The effective tax rate declined from 36.7% in 2005 to 34.4% in 2006 due to the qualified domestic production deduction.



Management's Discussion & Analysis of Financial Condition & Results of Operations

(In thousands of dollars, except per share amounts)

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.

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.

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.

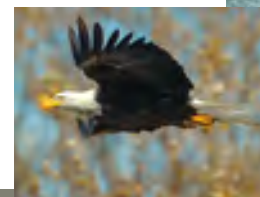
A gain of \$743 was recorded in the first quarter of 2004 for the sale of land. No significant land sales or other unusual events occurred in 2005.

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.

RATE DEVELOPMENTS

From time to time the Company files applications for rate increases with the PPUC and is granted rate relief as a result of such requests. The most recent rate request was filed by the Company on April 27, 2006, and sought an increase of \$4.5 million, which would represent a 16.0% increase in rates. Effective September 15, 2006, the PPUC authorized an increase in rates designed to produce approximately \$2.6 million in additional annual revenues, which represents an increase of 9.2% in the Company's rates. The Company does not expect to file a rate increase request in 2007.



Management's Discussion & Analysis of Financial Condition & Results of Operations

(In thousands of dollars, except per share amounts)

ACQUISITIONS

On February 2, 2006, the Company announced an agreement to acquire the water system of Abbottstown Borough which served approximately 400 customers in Adams County, Pennsylvania. The acquisition was approved by the PPUC on July 20, 2006. The Company then constructed a water main, a standpipe and a booster station in order to serve the customers of the Borough by using York Water's fully filtered and treated water supply. The constructed water main was interconnected with the Borough's existing distribution facilities in December 2006.

On January 5, 2007, the Company closed the acquisition of the water system of Abbottstown Borough. The purchase price of approximately \$0.9 million is less than the depreciated original cost of these assets. The Company will record a negative acquisition adjustment of approximately \$131 and will amortize this credit over the remaining life of the acquired assets. The purchase was funded through internally generated funds and short-term borrowings. The Company began serving the customers of Abbottstown Borough in January 2007.

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2006, current assets exceeded current liabilities by \$775. During the fourth quarter of 2006, all short-term borrowings were refinanced with the proceeds of a long-term debt issuance and a common stock offering (described below). In addition, the Company renegotiated its standby bond purchase agreement (liquidity facility) associated with the Pennsylvania Economic Development Financing Authority (PEDFA) Exempt Facilities Revenue Bonds, Series B of 2004 to extend for a period of two years rather than one year. The bondholders of this debt issue are permitted to tender their bonds at any time. The Company has an annual remarketing agreement in place if this should happen which provides for the remarketing agent to re-sell the bonds. The standby bond purchase agreement becomes effective if the remarketing agent is unable to re-sell the bonds. The agreement provides for a financial institution to purchase the bonds. During the time the financial institution owns the bonds, they may be

sold by the institution or the remarketing agent. If the bonds are not sold within 6 months, the Company must begin to buy back the bonds in monthly installments over a five-year period. Since the Company may be required to buy a portion of the bonds back after 6 months, part of the \$12.0 million debt issue, \$1.2 million, is classified as short-term. The remaining \$10.8 million is classified as long-term because it would not be payable within one year, and the standby bond purchase agreement is now effective longer than one year.

The Company maintains lines of credit aggregating \$20.5 million. Loans granted under these lines of credit bear interest at LIBOR plus 0.700% to 0.875%. The lines of credit are unsecured and payable upon demand. The Company is not required to maintain compensating balances on its lines of credit. As of December 31, 2006 there were no outstanding borrowings under these agreements.

On October 27, 2006 the YCIDA issued \$10.5 million Exempt Facilities Revenue Bonds Series 2006 for the benefit of the Company. The YCIDA then loaned the proceeds of the offering to the Company pursuant to a loan agreement. The loan agreement provides for a \$10.5 million loan bearing interest at 4.75%. The bonds and the related loan will mature on October 1, 2036. The loan agreement contains various covenants and restrictions. The Company is in compliance with these restrictions. The proceeds of the loan were used to pay down a portion of the Company's short-term borrowings.

In December, 2006 the Company closed an underwritten public offering of 645,000 shares and an over-allotment of 94,750 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 \$12.5 million. The net proceeds were used to repay the Company's remaining short-term borrowings and to fund operations and capital expenditures. The issuance of these shares late in the year will likely cause dilution of basic earnings per share in 2007.

During 2006, net cash provided by operating activities and financing activities equaled net cash used in investing activities. The Company anticipates that during 2007 this will continue to be the case. Internally-generated funds, borrowings against the Company's lines of credit, proceeds



Management's Discussion & Analysis of Financial Condition & Results of Operations

(In thousands of dollars, except per share amounts)

LIQUIDITY AND CAPITAL RESOURCES (CONTINUED)

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 and customer advances will be used to satisfy the need for additional cash.

During 2006, the Company incurred \$21,682 of construction expenditures. Approximately \$4,260, or 20%, of the expenditures were for the automated meter reading system and the enterprise software system. An additional \$4,507, or 21%, was for the main, standpipe and booster station for Abbottstown and the western portion of our service territory, and the remaining expenditures were for routine distribution system expenditures including the addition of various standpipes. 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, the proceeds of the YCIDA loan described above and proceeds from the December 2006 common stock offering described above. The Company anticipates construction expenditures for 2007 and 2008 of approximately \$13.9 million and \$16.3 million, respectively. In addition to routine transmission and distribution projects, a portion of the anticipated 2007 and 2008 expenditures will be for an addition to the Company's distribution facility, additional standpipes, upgrades to water treatment facilities and various replacements of aging infrastructure. The Company plans to finance these future expenditures using internally-generated funds, short-term borrowings, customer advances, proceeds from the issuance of common stock under the DRIP and ESPP, and the distribution surcharge allowed by the PPUC. The distribution surcharge allows the Company to add a charge to customers' bills for qualified replacement costs of certain infrastructure without submitting a rate filing.

fourth quarter of 2006, the Board of Directors increased the dividend by 5.4% from 11.2 cents per share to 11.8 cents per share per quarter. This was the tenth consecutive annual dividend increase and the 191st consecutive year of paying dividends. While the Company expects to maintain this dividend amount in 2007, 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

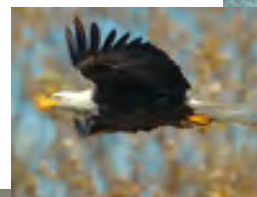
Common stockholders' equity as a percent of the total capitalization (including current maturities of long-term debt) was 51.2% as of December 31, 2006 compared with 49.3% as of December 31, 2005. It is the Company's intent to maintain a debt to equity ratio near fifty percent.

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.

DIVIDENDS

During 2006, the Company's dividend payout ratios relative to net income and cash provided by operating activities were 79.1% and 65.7% respectively. During the



Management's Discussion & Analysis of Financial Condition & Results of Operations

(In thousands of dollars, except per share amounts)

CONTRACTUAL OBLIGATIONS

The following summarizes the Company's contractual obligations by period as of December 31, 2006:

	Payments Due by Period						
	TOTAL	2007	2008	2009	2010	2011	THEREAFTER
Long-term debt obligations (a)	\$ 62,335	\$ 1,240	\$ 2,440	\$ 5,141	\$ 6,741	\$ 2,441	\$ 44,332
Interest on long-term debt (b)	51,069	3,481	3,480	3,419	3,288	3,221	34,180
Purchase obligations (c)	254	254	—	—	—	—	—
Defined benefit obligations (d)	800	800	—	—	—	—	—
Deferred employee benefits (e)	3,986	161	209	209	179	212	3,016
Total	\$ 118,444	\$ 5,936	\$ 6,129	\$ 8,769	\$ 10,208	\$ 5,874	\$ 81,528

- (a) Represents debt maturities including current maturities. Included in the table are payments of \$1.2 million in 2007, \$2.4 million annually in 2008-2011, and \$1.2 million in 2012 on the \$12.0 million variable rate bonds which could be tendered at any time. The Company believes it would be able to remarket any tendered bonds and would not have to buy them back before maturity in 2029.
- (b) Excludes interest on variable rate debt and interest rate swap payments as these payments cannot be reasonably estimated. These payments are expected to be in the \$380 to \$500 range annually through 2029.
- (c) Represents obligations under contracts relating to the new meter reading system and the new enterprise software system.
- (d) Represents contributions expected to be made to qualified defined benefit plans. The amount of required contributions in 2008 and thereafter is not currently determinable.
- (e) Represents the obligations under the Company's Supplemental Retirement and Deferred Compensation Plans for executives.

In addition to these obligations, the Company makes refunds on Customers' Advances for Construction over a specific period of time based on operating revenues related to developer-installed water mains or as new customers are connected to and take service from such mains. The refund amounts are not included in the above table because the timing cannot be accurately estimated. Portions of these refund amounts are payable annually through 2017 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, revenue recognition and accounting for our pension plans.

Regulatory Assets and Liabilities

SFAS No. 71 defines 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, the Company defers costs and credits on its balance sheet as regulatory assets and liabilities when it is probable that these costs and credits will be recognized in the rate-making process in a period different from when the costs and credits were incurred. These deferred amounts are then recognized in the income statement in the period in which they are reflected in customer rates. If the Company later finds that these assets and liabilities cannot be included in rate-making, they are adjusted appropriately. See Note 1 for additional details regarding regulatory assets and liabilities.



Management's Discussion & Analysis of Financial Condition & Results of Operations

(In thousands of dollars, except per share amounts)

CRITICAL ACCOUNTING ESTIMATES (CONTINUED)

Revenue Recognition

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

Pension Accounting

Accounting for defined benefit pension plans requires estimates of future compensation increases, mortality, the discount rate, and expected return on plan assets as well as other variables. The Company selected its December 31, 2006 discount rate based on the Citigroup Pension Liability Index. This index uses the Citigroup spot rates for durations out to 30 years and matches them to expected disbursements from the plan over the long term. The Company believes this index most appropriately matches its pension obligations. The Company's December 31, 2005 discount rate was based on the Moody's AA bond rate. Both indices produced similar results for 2006. The present values of the Company's future pension obligations were determined using a discount rate of 5.90% at December 31, 2006 and 5.50% at December 31, 2005.

Choosing a lower discount rate normally increases the amount of pension expense and the corresponding liability. In the case of the Company, a 25 basis point reduction in the discount rate would increase its liability by \$651, but would not have an impact on its pension expense. The PPUC, in a previous rate settlement, agreed to grant recovery of the Company's contribution to the pension plans in customer rates. As a result, under SFAS No. 71, expense in excess of the Company's pension plan contribution is deferred as a regulatory asset and will be expensed as contributions are made to the plans and the contributions are recovered in customer rates. Therefore, changes in the discount rate affect regulatory assets rather than pension expense.

The Company's estimate of the expected return on plan assets was primarily based on the historic returns and

projected future returns of the asset classes represented in its plans. Approximately 60% of pension assets are equity securities and 40% are debt securities. The Company used 7% as its estimate of expected return on assets in both 2005 and 2006. If the Company were to reduce the expected return by 25 basis points to 6.75%, its liability would increase by \$35, but its expense would again remain unchanged because the expense is equal to the Company's contribution to the plans. The additional expense would instead be recorded as an increase to regulatory assets.

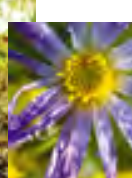
Other critical accounting estimates are discussed in the Significant Accounting Policies Note to the Financial Statements.

OFF-BALANCE SHEET TRANSACTIONS

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

IMPACT OF RECENT ACCOUNTING PRONOUNCEMENTS

In February 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 155, "Accounting for Certain Hybrid Financial Instruments – An Amendment of FASB Statements No. 133 and 140." SFAS No. 155 permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative, clarifies which interest-only strips and principal-only strips are not subject to the requirements of Statement 133, establishes a requirement to evaluate interests in securitized financial assets for derivatives, clarifies that concentrations of credit risk in the form of



Management's Discussion & Analysis of Financial Condition & Results of Operations

(In thousands of dollars, except per share amounts)

subordination are not embedded derivatives, and amends Statement 140 to eliminate the prohibition on a qualifying special-purpose entity from holding derivatives. This statement is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. The Company adopted this statement in January 2007. Based on current financial instruments, there will be no effect on the Company's financial position or results of operations.

In March 2006, the FASB issued SFAS No. 156, "Accounting for Servicing of Financial Assets," to simplify accounting for separately recognized servicing assets and servicing liabilities. SFAS No. 156 amends SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities." Additionally, SFAS No. 156 permits, but does not require, an entity to choose either the amortization method or the fair value measurement method for measuring each class of separately recognized servicing assets and servicing liabilities. SFAS No. 156 applies to all separately recognized servicing assets and liabilities acquired or issued after the beginning of an entity's fiscal year that begins after September 15, 2006. The Company adopted this statement in January 2007 and it had no impact on the Company's financial position or results of operations.

In July 2006, the FASB issued FASB Staff Position (FSP) No. FAS 13-2, "Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction," to provide guidance to a lessor in a transaction classified as a leveraged lease in accordance with SFAS No. 13, "Accounting for Leases." FSP No. FAS 13-2 amends SFAS No. 13 to require a lessor to recalculate a leveraged lease to reflect a change or projected change in the timing of the realization of tax benefits generated by that lease. This FSP applies to fiscal years beginning after December 15, 2006. The Company adopted this position in January 2007 and it had no impact on financial position or results of operations.

In July 2006, the FASB issued FASB Interpretation (FIN) No. 48, "Accounting for Uncertainty in Income Taxes." FIN No. 48 prescribes (a) a consistent recognition threshold and (b) a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and provides guidance on derecognition, classification, interest and penalties, accounting, disclosure and transition. This interpretation is effective for

fiscal years beginning after December 15, 2006. The Company evaluated and adopted this interpretation in January 2007 concluding that no uncertain tax positions meeting the recognition and measurement test of FIN No. 48 were required.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements," to eliminate the diversity in practice that exists due to the different definitions of fair value and the limited guidance for applying those definitions. SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price), as opposed to the price that would be paid to acquire the asset or received to assume the liability at the measurement date (an entry price). SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Earlier application is encouraged. The Company is currently evaluating this standard for its effects on future financial position and results of operations.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans." SFAS No. 158 requires (1) recognition of the funded status of a benefit plan in the balance sheet, (2) recognition in other comprehensive income of gains or losses and prior service costs or credits arising during the period but which are not included as components of periodic benefit cost, (3) measurement of defined benefit plan assets and obligations as of the balance sheet date, and (4) disclosure of additional information about the effects on periodic benefit cost for the following fiscal year arising from delayed recognition in the current period. The requirements to recognize the funded status of a plan and to comply with disclosure provisions are effective as of the end of the fiscal year that ends after December 15, 2006. The requirement to measure plan assets and benefit obligations as of the balance sheet date is effective for fiscal years ending after December 15, 2008. The Company adopted this standard as of December 31, 2006 and has accordingly reported the unfunded status of its defined benefit pension plans as well as the required disclosures. The effects can be seen in Note 6 of this report. The requirement to measure plan assets and benefit obligations as of the balance sheet date, effective after December 15, 2008 will have no impact, as the Company's plans are already measured at the balance sheet date.



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.

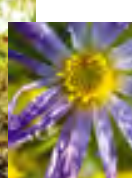
Management evaluated the Company's internal control over financial reporting as of December 31, 2006. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control-Integrated Framework* (COSO). As a result of this assessment and based on the criteria in the COSO framework, management has concluded that, as of December 31, 2006, 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
President, Chief Executive Officer

Kathleen M. Miller
Chief Financial Officer

March 12, 2007



Report of Independent Registered Public Accounting Firm

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, 2006, 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, 2006, 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, 2006, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the balance sheets and the related statements of income, common stockholders' equity and comprehensive income, and cash flows of The York Water Company, and our report dated March 12, 2007 expressed an unqualified opinion.

Beard Miller Company LLP

Beard Miller Company LLP
York, Pennsylvania
March 12, 2007



Report of Independent Registered Public Accounting Firm

TO THE BOARD OF DIRECTORS AND STOCKHOLDERS THE YORK WATER COMPANY

We have audited the accompanying balance sheets of The York Water Company as of December 31, 2006 and 2005, and the related 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, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 financial statements referred to above present fairly, in all material respects, the financial position of The York Water Company as

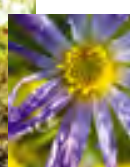
of December 31, 2006 and 2005, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 6 to the financial statements, the Company changed its method of accounting for defined benefit pension plans in 2006.

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, 2006, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 12, 2007 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 12, 2007



Balance Sheets

(In thousands of dollars, except per share amounts)

Assets

	As of DECEMBER 31	
	2006	2005
Utility Plant , at original cost.....	\$ 203,101	\$ 182,868
Plant acquisition adjustments.....	(1,081)	(1,112)
Accumulated depreciation	(28,220)	(26,982)
Net utility plant	<u>173,800</u>	<u>154,774</u>

Other Physical Property:

Less accumulated depreciation of \$138 in 2006 and \$129 in 2005	569	527
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Current Assets:

Receivables, less reserves of \$173 in 2006 and \$135 in 2005	2,304	2,202
Unbilled revenues	2,536	1,580
Recoverable income taxes.....	520	59
Materials and supplies inventories, at cost	820	843
Prepaid expenses	400	348
Deferred income taxes.....	118	92
Total current assets	<u>6,698</u>	<u>5,124</u>

Other Long-Term Assets:

Deferred debt expense	1,263	761
Notes receivable.....	1,941	2,196
Deferred regulatory assets.....	8,993	5,747
Other.....	2,800	3,167
Total long-term assets	<u>14,997</u>	<u>11,871</u>

Total Assets

<u>\$ 196,064</u>	<u>\$ 172,296</u>
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Stockholders' Equity and Liabilities

Common Stockholders' Equity:

Common stock, no par value, authorized 46,500,000 shares, issued and outstanding 11,201,119 shares in 2006 and 10,399,995 shares in 2005	\$ 55,558	\$ 42,015
Retained earnings.....	9,904	8,633
Accumulated other comprehensive loss	(101)	(233)
Total common stockholders' equity	<u>65,361</u>	<u>50,415</u>

Preferred stock , authorized 500,000 shares, no shares issued	-	-
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Long-term debt , excluding current portion	61,095	39,835
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Commitments

Current Liabilities:

Short-term borrowings.....	-	7,292
Current portion of long-term debt	1,240	12,039
Accounts payable	1,627	2,641
Dividends payable	1,075	927
Accrued taxes.....	70	89
Accrued interest	916	786
Deferred regulatory liabilities	118	92
Other accrued expenses	877	784
Total current liabilities	<u>5,923</u>	<u>24,650</u>

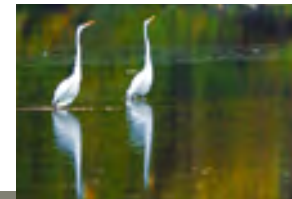
Deferred Credits:

Customers' advances for construction.....	25,221	23,704
Contributions in aid of construction.....	15,952	14,995
Deferred income taxes.....	14,485	12,339
Deferred investment tax credits	1,044	1,082
Deferred regulatory liabilities	749	779
Deferred employee benefits	5,891	3,885
Other deferred credits.....	343	612
Total deferred credits	<u>63,685</u>	<u>57,396</u>

Total Stockholders' Equity and Liabilities

<u>\$ 196,064</u>	<u>\$ 172,296</u>
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The accompanying notes are an integral part of these statements.



Statements of Income

(In thousands of dollars, except per share amounts)

	YEAR ENDED DECEMBER 31		
	2006	2005	2004
Water Operating Revenues:			
Residential	\$ 17,972	\$ 16,737	\$ 13,789
Commercial and industrial	8,497	8,009	6,893
Other	2,189	2,059	1,822
	<u>28,658</u>	<u>26,805</u>	<u>22,504</u>
Operating Expenses:			
Operation and maintenance	5,976	5,298	4,975
Administrative and general	6,174	5,432	4,759
Depreciation and amortization	2,522	2,364	1,942
Taxes other than income taxes	1,082	923	919
	<u>15,754</u>	<u>14,017</u>	<u>12,595</u>
Operating income	<u>12,904</u>	<u>12,788</u>	<u>9,909</u>
Other Income (Expenses):			
Interest on long-term debt	(3,550)	(3,470)	(3,023)
Interest on short-term debt	(615)	(134)	(174)
Allowance for funds used during construction	438	181	1,065
Gain on sale of land	—	—	743
Other income (expenses), net	110	(149)	(168)
	<u>(3,617)</u>	<u>(3,572)</u>	<u>(1,557)</u>
Income before income taxes	9,287	9,216	8,352
Federal and state income taxes	<u>3,196</u>	<u>3,383</u>	<u>3,051</u>
Net Income	<u>\$ 6,091</u>	<u>\$ 5,833</u>	<u>\$ 5,301</u>
Basic Earnings Per Common Share	<u>\$ 0.58</u>	<u>\$ 0.56</u>	<u>\$ 0.53</u>
Cash Dividends Declared Per Common Share	<u>\$ 0.454</u>	<u>\$ 0.424</u>	<u>\$ 0.394</u>

The accompanying notes are an integral part of these statements.



Statements of Common Stockholders' Equity and Comprehensive Income

For the Years Ended December 31, 2006, 2005 and 2004 (In thousands of dollars, except per share amounts)

	COMMON STOCK	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TOTAL
Balance, December 31, 2003	\$ 33,235	\$ 5,821	\$ —	\$ 39,056
Net income	—	5,301	—	5,301
Other comprehensive income (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 (\$.394 per share).....	—	(3,930)	—	(3,930)
Issuance of 622,500 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 income (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 (\$.424 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>
Net income	—	6,091	—	6,091
Other comprehensive income (loss):				
Unrealized gain on interest rate swap, net of \$82 income tax	—	—	120	120
Reclassification adjustment for amounts recognized in income, net of \$8 income tax	—	—	12	12
Comprehensive income.....				6,223
Dividends (\$.454 per share).....	—	(4,820)	—	(4,820)
Issuance of 739,750 shares common stock ...	12,482	—	—	12,482
Issuance of common stock under dividend reinvestment plan.....	963	—	—	963
Issuance of common stock under employee stock purchase plan.....	98	—	—	98
Balance, December 31, 2006	<u>\$ 55,558</u>	<u>\$ 9,904</u>	<u>\$ (101)</u>	<u>\$ 65,361</u>

The accompanying notes are an integral part of these statements.



Statements of Cash Flows

(In thousands of dollars, except per share amounts)

	YEAR ENDED DECEMBER 31		
	2006	2005	2004
Cash Flows from Operating Activities:			
Net income	\$ 6,091	\$ 5,833	\$ 5,301
Adjustments to reconcile net income to net cash provided by operating activities:			
Gain on sale of land.....	—	—	(743)
Depreciation and amortization.....	2,522	2,364	1,942
Increase in deferred income taxes	1,496	688	1,870
Other	(115)	(85)	(201)
Changes in assets and liabilities:			
Increase in accounts receivable, unbilled revenues and recoverable income taxes.....	(1,729)	(261)	(644)
(Increase) decrease in materials and supplies	23	(150)	(101)
Increase in prepaid expenses and prepaid pension costs	(2,717)	(598)	(706)
Increase in accounts payable, accrued expenses, regulatory and other liabilities and deferred employee benefits and credits.....	1,504	1,149	1,560
Increase (decrease) in accrued interest and taxes.....	111	(477)	312
Increase in regulatory and other assets	(70)	(12)	(920)
Net cash provided by operating activities	7,116	8,451	7,670
Cash Flows from Investing Activities:			
Utility plant additions, including allowance for funds used during construction of \$245 in 2006, \$101 in 2005 and \$879 in 2004	(20,678)	(15,562)	(25,689)
Acquisitions of water systems, net.....	—	(1,994)	—
Proceeds from sale of land.....	—	—	792
Decrease in notes receivable.....	255	41	18
Net cash used in investing activities.....	(20,423)	(17,515)	(24,879)
Cash Flows from Financing Activities:			
Customers' advances for construction and contributions in aid of construction...	4,065	5,328	2,436
Repayments of customer advances	(1,465)	(1,141)	(490)
Proceeds (issuance costs) of long-term debt	9,920	(35)	18,751
Repayments of long-term debt	(39)	(39)	(39)
Borrowings (repayments) under line-of-credit agreements.....	(7,292)	7,292	(7,153)
Changes in cash overdraft position.....	(753)	805	(108)
Proceeds from issuance of common stock.....	12,482	—	6,832
Issuance of common stock under dividend reinvestment plan	963	903	861
Issuance of common stock under employee stock purchase plan	98	98	86
Dividends paid	(4,672)	(4,311)	(3,803)
Net cash provided by financing activities	13,307	8,900	17,373
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.....	\$ 3,815	\$ 3,473	\$ 2,228
Income taxes	2,174	3,027	1,003

Supplemental schedule of non-cash investing and financing activities:

Accounts payable includes \$900 in 2006, \$1,223 in 2005 and \$1,312 in 2004 for the construction of utility plant.

Accounts payable and other deferred credits includes \$239 in 2006 and \$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.



Notes to Financial Statements

(In thousands of dollars, except per share amounts)

1. SIGNIFICANT ACCOUNTING POLICIES

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

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

Consolidation

During 2006, the Company's only subsidiary, Spring Grove Water Company, was merged with The York Water Company creating one entity.

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, 2006 and 2005, utility plant includes a credit acquisition adjustment of \$1,081 and \$1,112, respectively. The net acquisition adjustment is being amortized over the remaining life of the respective assets. Amortization amounted to \$31 in 2006 and \$34 in 2005. In 2006, the Company began to amortize the positive acquisition adjustment which resulted from the 2005 Spring Grove acquisitions.

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, 2006	December 31, 2005	Approximate range of remaining lives
Mains and accessories	\$102,743	\$ 93,105	11-85 yrs
Services, meters and hydrants	42,447	37,934	21-53 yrs
Operations structures, reservoirs and water tanks	33,677	31,663	12-66 yrs
Pumping and purification equipment	7,428	7,416	9-34 yrs
Office, transportation and operating equipment	7,458	3,766	0-23 yrs
Land and other non-depreciable assets	<u>2,690</u>	<u>2,687</u>	—
Utility plant in service	196,443	176,571	
Construction work in progress	<u>6,658</u>	<u>6,297</u>	—
Total Utility Plant	<u>\$203,101</u>	<u>\$182,868</u>	

The effective rate of depreciation was 1.72% in 2006, 1.82% in 2005, and 1.74% in 2004 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)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Revenues

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

Deferred Debt Expense

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

Notes Receivable

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

Regulatory Assets and Liabilities

The Company is subject to the provisions of 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 customer rates or are considered probable of being included in future rates. The regulatory assets or liabilities are then relieved as the cost or credit is reflected in rates. Regulatory assets represent costs that are expected to be fully recovered from customers in future rates while regulatory liabilities represent amounts that are expected to be refunded to customers in future rates. These deferred costs have been excluded from the Company's rate base and, therefore, no return is being earned on the unamortized balances.

Regulatory assets and liabilities are comprised of the following:

	December 31, 2006	2005	Remaining Recovery Periods
ASSETS			
Income taxes	\$2,415	\$1,924	Various
Postretirement benefits	6,079	3,414	10-20 years
Utility plant retirement costs	338	348	5 years
Rate case filing expense	161	61	1-2 years
	<u>\$8,993</u>	<u>\$5,747</u>	
LIABILITIES			
Income taxes	<u>\$ 867</u>	<u>\$ 871</u>	1-50 years

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

Postretirement benefits include (a) deferred pension expense in excess of contributions made to the plans, and (b) the underfunded status of the pension plans (2006) or minimum pension liability (2005). The underfunded status represents the excess of the projected benefit obligation over the fair market value of the assets, and the minimum pension liability represents the excess of the accumulated benefit obligation over the fair market value



Notes to Financial Statements

(In thousands of dollars, except per share amounts)

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. The period is estimated at between 10 and 20 years.

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 death benefits and bad debts. These liabilities will be given back to customers in rates as tax deductions occur over the next 1-50 years.

Materials and Supplies Inventories

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

Other Assets

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

Customers' Advances for Construction

Customer advances are cash payments from developers, municipalities, customers or builders for construction of utility plant and are refundable 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, additional funds were collected from customers to cover the taxes. Those funds were recorded as a liability within Customer Advances and are being amortized as deferred income over the tax life of the underlying assets.

Contributions in Aid of Construction

Contributions in Aid of Construction is composed of (i) direct, non-refundable contributions from developers, customers or builders for construction of water

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

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. The Company has designated the interest rate swap agreement as a cash flow hedge. Interest rate swaps are contracts in which a series of interest rate cash flows are exchanged over a prescribed period. The notional amount on which the interest payments are based is not exchanged.

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, 2007, the Company expects to reclassify \$5 (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



Notes to Financial Statements

(In thousands of dollars, except per share amounts)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Interest Rate Swap Agreement (continued)

assets and liabilities identified as exposing the Company to risk. Those derivative financial instruments that do not meet the hedging criteria 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, 2006 and 2005, deferred investment tax credits amounted to \$1,044 and \$1,082, respectively.

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 2006 and 2005. 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.

Cash and Cash Equivalents

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

The Company had a book overdraft of \$52 and \$805 at December 31, 2006 and 2005, respectively. The book overdraft represents outstanding checks and other items which had not cleared the bank as of the end of the period. The overdraft is included in accounts payable on the balance sheet and the change in overdraft position is recorded as a financing activity on the statement of cash flows.

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.



Notes to Financial Statements

(In thousands of dollars, except per share amounts)

Reclassifications

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

Impact of Recent Accounting Pronouncements

In February 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 155, "Accounting for Certain Hybrid Financial Instruments – An Amendment of FASB Statements No. 133 and 140." SFAS No. 155 permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative, clarifies which interest-only strips and principal-only strips are not subject to the requirements of Statement 133, establishes a requirement to evaluate interests in securitized financial assets for derivatives, clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives, and amends Statement 140 to eliminate the prohibition on a qualifying special-purpose entity from holding derivatives. This statement is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. The Company adopted this statement in January 2007. Based on current financial instruments, there will be no effect on the Company's financial position or results of operations.

In March 2006, the FASB issued SFAS No. 156, "Accounting for Servicing of Financial Assets," to simplify accounting for separately recognized servicing assets and servicing liabilities. SFAS No. 156 amends SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities." Additionally, SFAS No. 156 permits, but does not require, an entity to choose either the amortization method or the fair value measurement method for measuring each class of separately recognized servicing assets and servicing liabilities. SFAS No. 156 applies to all separately recognized servicing assets and liabilities acquired or issued after the beginning of an entity's fiscal year that begins after September 15, 2006. The Company adopted this statement in January 2007 and it had no impact on the Company's financial position or results of operations.

In July 2006, the FASB issued FASB Staff Position (FSP) No. FAS 13-2, "Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction," to provide guidance to a lessor in a transaction classified as a leveraged lease in accordance with SFAS No. 13, "Accounting for Leases." FSP No. FAS 13-2 amends SFAS No. 13 to require a lessor to recalculate a leveraged lease to reflect a change or projected change in the timing of the realization of tax benefits generated by that lease. This FSP applies to fiscal years beginning after December 15, 2006. The Company adopted this position in January 2007 and it had no impact on financial position or results of operations.

In July 2006, the FASB issued FASB Interpretation (FIN) No. 48, "Accounting for Uncertainty in Income Taxes." FIN No. 48 prescribes (a) a consistent recognition threshold and (b) a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and provides guidance on derecognition, classification, interest and penalties, accounting, disclosure and transition. This interpretation is effective for fiscal years beginning after December 15, 2006. The Company evaluated and adopted this interpretation in January 2007 concluding that no uncertain tax positions meeting the recognition and measurement test of FIN No. 48 were required.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements," to eliminate the diversity in practice that exists due to the different definitions of fair value and the limited guidance for applying those definitions. SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price), as opposed to the price that would be paid to acquire the asset or received to assume the liability at the measurement date (an entry price). SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Earlier application is encouraged. The Company is currently evaluating this standard for its effects on future financial position and results of operations.



Notes to Financial Statements

(In thousands of dollars, except per share amounts)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impact of Recent Accounting Pronouncements (continued)

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans." SFAS No. 158 requires (1) recognition of the funded status of a benefit plan in the balance sheet, (2) recognition in other comprehensive income of gains or losses and prior service costs or credits arising during the period but which are not included as components of periodic benefit cost, (3) measurement of defined benefit plan assets and obligations as of the balance sheet date, and (4) disclosure of additional information about the effects on periodic benefit cost for the following fiscal year arising from delayed recognition in the current period. The requirements to recognize the funded status of a plan and to comply with disclosure provisions are effective as of the end of the fiscal year that ends after December 15, 2006. The requirement to measure plan assets and benefit obligations as of the balance sheet date is effective for fiscal years ending after December 15, 2008. The Company adopted this standard as of December 31, 2006 and has accordingly reported the unfunded status of its defined benefit pension plans as well as the required disclosures. The effects can be seen in Note 6 of this report. The requirement to measure plan assets and benefit obligations as of the balance sheet date, effective after December 15, 2008 will have no impact, as the Company's plans are already measured at the balance sheet date.

2. ACQUISITIONS

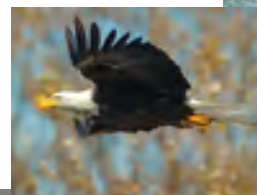
On July 6, 2005, the Company acquired 100% of the capital stock of Spring Grove Water Company for a purchase price of approximately \$973. Of the total price, \$645 was paid from borrowings under the Company's lines of credit. Up to \$328 may be paid to the former owner in installments based on the amount of water such former owner purchases from the Company over the 60-month period following the closing. As of December 31, 2006, the Company had made installment payments totaling approximately \$89. The acquired company provided 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 is amortizing 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 is amortizing 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 extended its distribution system to connect to the Mountain View system and provided facility upgrades for the Mountain View system as well. This acquisition added approximately 260 customers.

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

Please see Note 13 for a subsequent acquisition.



Notes to Financial Statements

(In thousands of dollars, except per share amounts)

3. INCOME TAXES

The provisions for income taxes consist of:

	2006	2005	2004
Federal current	\$ 1,295	\$ 1,979	\$ 716
State current	404	716	465
Federal deferred	1,507	807	1,848
State deferred	28	(80)	67
Federal investment tax credit, net of current utilization	(38)	(39)	(45)
Total income taxes	<u>\$ 3,196</u>	<u>\$ 3,383</u>	<u>\$ 3,051</u>

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

	2006	2005	2004
Statutory Federal tax provision	\$ 3,158	\$ 3,133	\$ 2,839
State income taxes, net of Federal benefit	285	420	351
Tax-exempt interest	(75)	(67)	(67)
Amortization of investment tax credit	(39)	(39)	(45)
Cash value of life insurance	(34)	(28)	(41)
Domestic production deduction	(42)	(36)	-
Other, net	(57)	-	14
Total income taxes	<u>\$ 3,196</u>	<u>\$ 3,383</u>	<u>\$ 3,051</u>

The tax effects of temporary differences between book and tax balances that give rise to significant portions of the deferred tax assets and deferred tax liabilities as of December 31, 2006 and 2005 are summarized in the following table:

	2006	2005
Deferred tax assets:		
Reserve for doubtful accounts	\$ 70	\$ 55
Deferred compensation	855	888
Customers' advances and contributions	252	303
Deferred taxes associated with the gross-up of revenues necessary to return, in rates, the effect of temporary differences	352	354
Investment tax credit	424	439
Underfunded pension/Minimum pension liability	1,581	745
Unrealized loss on interest rate swap	69	159
Costs deducted for book, not for tax	52	34
Total deferred tax assets	3,655	2,977
Deferred tax liabilities:		
Accelerated depreciation	14,342	12,629
Deferred taxes associated with the gross-up of revenues necessary to recover, in rates, the effect of temporary differences	3,449	2,413
Costs deducted for tax, not for book	231	182
Total deferred tax liabilities	18,022	15,224
Net deferred tax liability	<u>\$ 14,367</u>	<u>\$ 12,247</u>
Reflected on balance sheets as:		
Current deferred tax asset	\$ (118)	\$ (92)
Noncurrent deferred tax liability	14,485	12,339
Net deferred tax liability	<u>\$ 14,367</u>	<u>\$ 12,247</u>

No valuation allowance is required for deferred tax assets as of December 31, 2006 and 2005. 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, 2006 and 2005 is summarized in the following table:

	2006	2005
3.60% Industrial Development Authority Revenue Refunding Bonds, Series 1994, due 2009..	\$ 2,700	\$ 2,700
3.75% Industrial Development Authority Revenue Refunding Bonds, Series 1995, due 2010..	4,300	4,300
4.05% 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.....	535	574
10.05% Senior Notes, Series C, due 2020.....	6,500	6,500
8.43% Senior Notes, Series D, due 2022.....	7,500	7,500
Variable Rate PEDFA Exempt Facilities Revenue Bonds, Series B, due 2029.....	12,000	12,000
4.75% Industrial Development Authority Revenue Bonds, Series 2006, due 2036..	10,500	—
Total long-term debt	62,335	51,874
Less current maturities.....	(1,240)	(12,039)
Long-term portion.....	\$61,095	\$39,835

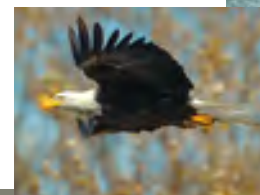
Payments due by period:

2007	2008	2009	2010	2011
\$1,240	\$2,440	\$5,141	\$6,741	\$2,441

Included in payments due by period are payments of \$1.2 million in 2007, \$2.4 million annually in 2008-2011, and \$1.2 million in 2012 on the \$12.0 million variable rate bonds which could be tendered at any time.

Holders of the Variable Rate 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 was renegotiated in 2006 to be effective for a two-year period. If the Remarketing Agent is unable to remarket all or any portion of any bonds tendered, the liquidity facility becomes effective. The agreement provides for a financial institution to purchase the bonds. During the time the financial institution owns the bonds, they may be sold by the institution or the remarketing agent. If the bonds are not sold within 6 months, the Company must begin to buy back the bonds in monthly installments over a five-year period. Since the Company may be required to buy a portion of the bonds back after 6 months, part of the \$12.0 million debt issue, \$1.2 million, is classified as short-term. The remaining \$10.8 million is classified as long-term because it would not be payable within one year, and the standby bond purchase agreement is now effective longer than one year. The Company believes it would be able to remarket any tendered bonds and would not have to buy them back before maturity in 2029.

The Company 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.



Notes to Financial Statements

(In thousands of dollars, except per share amounts)

In connection with the \$12.0 million PEDFA 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 default on its obligations.

On October 1, 2006, the York County Industrial Development Authority, or the YCIDA, issued \$10.5 million aggregate principal amount of Exempt Facilities Revenue Bonds, Series 2006 for the benefit of the Company. The YCIDA then loaned the proceeds of the offering to the

Company pursuant to a loan agreement. The loan agreement provides for a \$10.5 million loan bearing interest at 4.75%. The bonds and the related loan will mature on October 1, 2036. The loan agreement contains various covenants and restrictions. We believe that we are in compliance with all of these restrictions. The proceeds, net of issuance costs, were used to pay down short-term borrowings incurred for various operations and construction projects.

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, 2006, none of the earnings retained in the business are restricted under these provisions. One of the notes also requires a pledge of \$0.8 million of receivables as security for the loan.

The Company maintains unsecured lines of credit aggregating \$20.5 million with two banks. Loans granted under these lines as of December 31, 2006 bear interest based on LIBOR plus 0.700% to 0.875%. There were no short-term borrowings as of December 31, 2006 and \$7,292 as of December 31, 2005. The weighted average interest rate on short-term borrowings as of December 31, 2005 was 5.07%. Both 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 10,475,173 in 2006, 10,359,374 in 2005 and 9,937,836 in 2004. 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



Notes to Financial Statements

(In thousands of dollars, except per share amounts)

5. COMMON STOCK AND EARNINGS PER SHARE (CONTINUED)

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 2006, 2005 and 2004 were 5,747, 6,843 and 7,214, respectively. As of December 31, 2006, 63,927 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 2006, 2005, and 2004 were 55,695, 62,581 and 72,015, respectively. As of December 31, 2006, 1,024,025 authorized shares remain unissued under the plan.

On July 21, 2004, the Company closed an underwritten public offering of 622,500 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.

On August 28, 2006, the Company's Board of Directors declared a three-for-two split of its common stock in the form of a stock dividend. The split was effected on September 11, 2006 to shareholders of record as of September 1, 2006. One additional share of common stock was issued for every two shares issued and outstanding as of September 1, 2006. The transaction had no effect on total shareholders' equity. Accordingly, the financial statements as well as share and per share amounts in this report have been restated to reflect the stock split.

In December 2006, the Company closed an underwritten public offering of 645,000 shares and an over-allotment of 94,750 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 \$12.5 million. The net proceeds were used to repay the Company's remaining short-term borrowings and to fund operations and capital expenditures.

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 as of December 31, 2006 and 2005. The measurement of assets and obligations of the plans is as of December 31, 2006 and 2005.

Obligations and Funded Status At December 31	2006	2005
Change in Benefit Obligation		
Pension benefit obligation beginning of year	\$ 19,508	\$ 17,744
Service cost	685	587
Interest cost	1,059	1,018
Actuarial (gain) loss	(861)	932
Benefit payments	(771)	(773)
Pension benefit obligation end of year	<u>19,620</u>	<u>19,508</u>
Change in Plan Assets		
Fair value of plan assets beginning of year	14,423	13,934
Actual return on plan assets	1,521	812
Employer contributions	552	450
Benefits paid	(771)	(773)
Fair value of plan assets end of year	<u>15,725</u>	<u>14,423</u>
Funded Status of Plan at End of Year	<u>\$ (3,895)</u>	<u>\$ (5,085)</u>
Unrecognized net prior service cost		606
Unrecognized net loss		<u>4,981</u>
Net amount recognized		<u>\$ 502</u>



Notes to Financial Statements

(In thousands of dollars, except per share amounts)

Amounts recognized in the statement of financial position consist of:

	2006	2005
Deferred employee benefits	\$ (3,895)	\$ (1,836)
Other assets (intangible)	—	606
Regulatory asset	3,694	1,732
Net amount recognized	<u>\$ (201)</u>	<u>\$ 502</u>

As of December 31, 2006, amounts recognized in regulatory assets consist of:

Net actuarial loss.....	\$ 3,356
Prior service cost.....	<u>338</u>
	<u>\$ 3,694</u>

The Company adopted the recognition provisions of SFAS No. 158 as of December 31, 2006, which require that the funded status of defined benefit pension plans be fully recognized in the balance sheet. SFAS No. 158 also calls for the unrecognized actuarial gain or loss, the unrecognized prior service cost and the unrecognized transition costs which were previously netted with the funded status in a liability account, to be adjustments to shareholders' equity (accumulated other comprehensive income). Due to a rate order granted by the PPUC, the Company is permitted under SFAS 71 to defer the charges to accumulated other comprehensive income as a regulatory asset. We believe these costs will be recovered in future rates charged to customers.

The incremental effects of applying SFAS No. 158 on individual line items in the balance sheet as of December 31, 2006 are as follows:

Line Item	Before Application	Adjustments	After Application
Deferred regulatory assets	\$ 5,702	\$ 3,291	\$ 8,993
Other long-term assets ...	3,138	(338)	2,800
Total long-term assets	12,044	2,953	14,997
Total assets	193,111	2,953	196,064
Deferred employee benefits.....	2,938	2,953	5,891
Total deferred credits.....	60,732	2,953	63,685
Total stockholders' equity and liabilities.....	193,111	2,953	196,064

Components of Net Periodic Benefit Cost are as follows:

	2006	2005	2004
Net Periodic Benefit Cost			
Service cost	\$ 685	\$ 587	\$ 503
Interest cost	1,059	1,017	992
Expected return on plan assets	(982)	(961)	(917)
Amortization of loss	225	147	130
Amortization of prior service cost	268	279	279
Rate-regulated adjustment	<u>(703)</u>	<u>(619)</u>	<u>(715)</u>
Net periodic benefit cost	<u>\$ 552</u>	<u>\$ 450</u>	<u>\$ 272</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.

The estimated costs for the defined benefit pension plans relating to the December 31, 2006 balance sheet that will be amortized from regulatory assets into net periodic benefit cost over the next fiscal year are \$800, which represent the amount of employer contributions expected to be made to the plans in 2007. The Company is permitted by rate order of the PPUC to expense pension costs to the extent of contributions and defer the remaining expense to regulatory assets to be collected in rates at a later date as additional contributions are made.

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

	2006	2005
Discount rate	5.90%	5.50%
Rate of compensation increase	5.00%	5.00%

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

	2006	2005	2004
Discount rate	5.50%	5.90%	6.25%
Expected long-term return on plan assets	7.00%	7.00%	7.00%
Rate of compensation increase	5.00%	5.00%	5.00%



Notes to Financial Statements

(In thousands of dollars, except per share amounts)

6. EMPLOYEE BENEFIT PLANS (CONTINUED)

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 60% equity securities and 40% 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.

The Company's pension plans' weighted-average asset allocations at December 31, 2006 and 2005, by asset category are as follows:

Asset Category	Plan Assets at December 31	
	2006	2005
Equity securities	61%	59%
Debt securities	38%	40%
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.

Further guidelines for debt securities include: (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.

Equity securities include The York Water Company common stock in the amounts of \$342 (2.2% of total plan assets) and \$330 (2.3% of total plan assets) at December 31, 2006 and 2005, respectively.

The Company currently expects to contribute \$800 to its pension plans in 2007.

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:

2007	\$ 894
2008	1,028
2009	1,057
2010	1,062
2011	1,036
2012-2016	6,302

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 was a result of the accumulated benefit obligation exceeding the fair value of plan assets and resulted 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.



Notes to Financial Statements

(In thousands of dollars, except per share amounts)

The accumulated benefit obligation for all defined benefit pension plans was \$16,427 and \$16,259 at December 31, 2006 and 2005 respectively. 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

	2006	2005
Accumulated benefit obligation	\$ 10,438	\$ 10,334
Projected benefit obligation	12,468	12,348
Fair value of plan assets	9,496	8,597

Union-Represented Plan

	2006	2005
Accumulated benefit obligation	\$ 5,989	\$ 5,925
Projected benefit obligation	7,152	7,160
Fair value of plan assets	6,229	5,826

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 \$139 in 2006, \$118 in 2005, and \$99 in 2004.

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, 2006 and 2005, the present value of the future obligations was approximately \$2,100 and \$2,200, respectively. The insurance policies included in other assets had a total cash value of approximately \$2,700 and \$2,500, respectively, at December 31, 2006 and 2005. The Company's expenses under the plans amounted to \$11 in 2006, \$236 in 2005 and \$113 in 2004.

7. RATE INCREASES

The Company 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 Company subsequently increased rates as approved by the PPUC in September 2006 (9.2%). The new rates became effective September 15, 2006 and were designed to produce approximately \$2.6 million in additional annual operating revenues.

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 ordinances 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 \$220 in 2006, \$198 in 2005 and \$198 in 2004. Interest rates on the notes vary from Libor plus 1.00% (6.36% at year-end 2006) to 7.5%.

Included in the accompanying balance sheets at December 31, 2006 and 2005 were the following amounts related to these projects.

	2006	2005
Notes receivable, including interest	\$1,941	\$2,196
Customers' advances for construction	2,511	2,558

The Company has other customers' advances for construction totaling \$22,710 and \$21,146 at December 31, 2006 and 2005 respectively.



Notes to Financial Statements

(In thousands of dollars, except per share amounts)

9. COMMITMENTS

Based on its capital budget, the Company plans to spend \$11,900 in 2007 and \$14,300 in 2008 on 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, proceeds from the issuance of common stock under its dividend reinvestment plan (stock issued in lieu of cash dividends) and employee stock purchase plan, and the distribution surcharge allowed by the PPUC. The distribution surcharge allows the Company to add a charge to customers' bills for qualified replacement costs of certain infrastructure without submitting a rate filing.

The Company has remaining capital commitments with regard to its automated meter reading project. Of the total committed of approximately \$3,500, only \$200 remains to be spent as of December 31, 2006.

As of December 31, 2006, the Company employed 106 full time people, 41 under union contract. The current contract was ratified during 2003 and expires April 30, 2007. The Company has negotiated and settled its new contract with the union. The contract is effective May 1, 2007 and expires on April 30, 2010.

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.

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

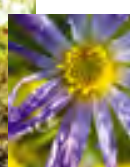
debt, with a carrying value of \$62,335 at December 31, 2006 and \$51,874 at December 31, 2005 had an estimated fair value of approximately \$70,000 and \$62,000 in 2006 and 2005, respectively. The weighted average rates used to calculate the fair value were based on a multiple of the 2, 5, 10, 15 and 30-year Municipal bond yields. The 2006 rates ranged from 3.63% to 5.41% and the 2005 rates ranged from 4.22% to 5.33%.

The interest rate swap is being carried at its fair value. The fair value of the swap was a loss of \$171 as of December 31, 2006 and \$398 as of December 31, 2005, as reported in accumulated 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, 2006 and December 31, 2005, based on estimated future cash flows.

The Company's customers' advances for construction and notes receivable have carrying values at December 31, 2006 of \$25,221 and \$1,941, respectively. At December 31, 2005, customers' advances for construction and notes receivable had carrying values of \$23,704 and \$2,196, 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.

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 the Company's common shares at a substantial discount from the market price. 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 shares of the acquiring company at a substantial discount from the market price. 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 redeemed prior to such date.



Notes to Financial Statements

(In thousands of dollars, except per share amounts)

12. SELECTED QUARTERLY
FINANCIAL DATA (UNAUDITED)

2006	FIRST	SECOND	THIRD	FOURTH	YEAR
Water operating revenue	\$6,614	\$7,016	\$7,665	\$7,363	\$28,658
Utility operating income	2,905	3,199	3,676	3,124	12,904
Net income	1,259	1,466	1,739	1,627	6,091
Basic earnings per share	.12	.14	.17	.15	.58
Dividends per share	.112	.112	.112	.118	.454

2005					
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	.12	.14	.17	.13	.56
Dividends per share	.104	.104	.104	.112	.424

Share and per share amounts have been restated to reflect the three-for-two stock split effected September 11, 2006.

13. SUBSEQUENT EVENTS

On January 5, 2007, the Company acquired the water utility assets of Abbottstown Borough for a purchase price of approximately \$0.9 million, which is less than the depreciated original cost of these assets. The Company will record a negative acquisition adjustment of approximately \$131 and will amortize this credit over the remaining life of the acquired assets. The purchase was funded through internally generated funds and short-term borrowings. The Company began serving the customers of Abbottstown Borough in January 2007.



Supplemental Information (Unaudited)

(In thousands of dollars, except per share amounts)

YEARS ENDED DECEMBER 31

2006 2005 2004

Selected Financial Data

Income

Operating Revenues	\$28,658	\$26,805	\$22,504
Operating Expenses	\$15,754	\$14,017	\$12,595
Operating Income	\$12,904	\$12,788	\$9,909
Interest and Debt Expense	\$3,727	\$3,423	\$2,132
Net Income	\$6,091	\$5,833	\$5,301
Percent Change in Net Income Compared to Prior Year	4.4%	10.0%	19.2%
Common Stock Dividends	\$4,820	\$4,392	\$3,930
Dividend Payout Ratio	79%	75%	74%
Weighted Average Common Shares Outstanding	10,475,173	10,359,374	9,937,836
Basic Earnings Per Weighted Average Common Share	\$0.58	\$0.56	\$0.53
Number of Common Shares Outstanding	11,201,119	10,399,995	10,330,571
ROE on Year End Common Equity	9.3%	11.6%	11.0%
Common Stock Dividends Per Share	\$0.454	\$0.424	\$0.394
Net Cash Flows From Operating Activities	\$7,116	\$8,451	\$7,670

Balance Sheet

Common Stockholders' Equity	\$65,361	\$50,415	\$48,037
Long-Term Debt Including Current Maturities	\$62,335	\$51,874	\$51,913
Total Capitalization	\$127,696	\$102,289	\$99,950
Percent Common Stockholders' Equity	51%	49%	48%
Percent Long-Term Debt	49%	51%	52%
Net Utility Plant	\$173,800	\$154,774	\$139,454

Operating Data

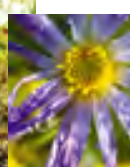
Revenue Class

Residential	\$17,972	\$16,737	\$13,789
Commercial and Industrial	\$8,497	\$8,009	\$6,893
Other	\$2,189	\$2,059	\$1,822
Total Operating Revenues	\$28,658	\$26,805	\$22,504

Construction Expenditures	\$21,682	\$15,553	\$25,981
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Other Operating Data

Number of Customers	57,578	55,731	53,134
Number of Employees	106	97	95
Common Shareholders	1,463	1,449	1,459
Book Value Per Common Share	\$5.84	\$4.85	\$4.65
Market Value at Year End	\$17.88	\$17.23	\$12.93
Market Value to Book Value	306%	356%	278%
P/E Ratio	30.8	30.8	24.3



Supplemental Information (Unaudited)

(In thousands of dollars, except per share amounts)

2003	2002	2001	2000	1999	1998	1997	1996
\$20,889	\$19,553	\$19,403	\$18,481	\$17,511	\$17,137	\$16,997	\$15,721
\$11,555	\$11,220	\$10,468	\$10,008	\$10,255	\$9,721	\$9,679	\$9,223
\$9,334	\$8,333	\$8,935	\$8,473	\$7,256	\$7,416	\$7,318	\$6,498
\$2,523	\$2,692	\$2,856	\$2,798	\$2,644	\$2,674	\$2,707	\$2,893
\$4,448	\$3,790	\$4,006	\$3,758	\$3,154	\$3,135	\$3,120	\$2,760
17.4%	-5.4%	6.6%	19.2%	0.6%	0.5%	13.0%	19.4%
\$3,512	\$3,323	\$3,126	\$2,950	\$2,824	\$2,745	\$2,650	\$2,377
79%	88%	78%	78%	90%	88%	85%	86%
9,579,690	9,495,591	9,229,875	9,032,025	8,970,801	8,853,855	8,737,407	7,882,692
\$0.46	\$0.40	\$0.43	\$0.42	\$0.35	\$0.35	\$0.36	\$0.35
9,628,845	9,547,205	9,462,996	9,128,199	8,967,273	8,939,166	8,804,346	8,701,572
11.4%	10.2%	11.2%	11.6%	10.2%	10.3%	10.7%	9.9%
\$0.367	\$0.350	\$0.337	\$0.327	\$0.315	\$0.310	\$0.303	\$0.300
\$6,772	\$6,172	\$6,734	\$6,371	\$5,450	\$6,171	\$5,071	\$4,261
\$39,056	\$37,216	\$35,892	\$32,438	\$30,830	\$30,380	\$29,151	\$28,003
\$32,652	\$32,690	\$32,728	\$32,765	\$32,800	\$32,000	\$32,000	\$32,000
\$71,708	\$69,906	\$68,620	\$65,203	\$63,630	\$62,380	\$61,151	\$60,003
54%	53%	52%	50%	48%	49%	48%	47%
46%	47%	48%	50%	52%	51%	52%	53%
\$115,724	\$106,217	\$101,753	\$96,434	\$91,725	\$86,401	\$83,155	\$80,334
\$12,574	\$11,527	\$11,571	\$10,980	\$10,199	\$10,016	\$9,975	\$9,273
\$6,598	\$6,385	\$6,265	\$6,033	\$6,004	\$5,888	\$5,850	\$5,332
\$1,717	\$1,641	\$1,567	\$1,468	\$1,308	\$1,233	\$1,172	\$1,116
\$20,889	\$19,553	\$19,403	\$18,481	\$17,511	\$17,137	\$16,997	\$15,721
\$11,527	\$6,310	\$7,096	\$6,414	\$7,050	\$4,990	\$4,501	\$4,937
51,916	51,023	50,079	49,195	48,144	47,173	46,458	45,800
92	89	90	90	90	91	90	91
1,392	1,353	1,327	1,307	1,364	1,325	1,334	1,281
\$4.05	\$3.90	\$3.79	\$3.55	\$3.44	\$3.40	\$3.31	\$3.22
\$12.13	\$9.47	\$9.75	\$6.00	\$5.59	\$6.42	\$6.92	\$5.61
299%	243%	257%	169%	162%	189%	209%	174%
26.0	23.7	22.5	14.3	16.0	18.2	19.4	16.0

Directors, Officers, & Key Employees

BOARD OF DIRECTORS

Chloé R. Eichelberger, ^{(2) (3)} Age 72
Director Since September 15, 1995

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



Chloé R. Eichelberger



John L. Finlayson

John L. Finlayson, ^{(1) (2) (3)} Age 66
Director Since September 2, 1993

Vice President, Susquehanna Real Estate, LP

Michael W. Gang, Esq., ⁽¹⁾ Age 56
Director Since January 22, 1996

Partner/Attorney,
Post & Schell PC, Attorneys at Law,
Post & Schell PC is counsel to the Company



Michael W. Gang, Esq.



George W. Hodges

George W. Hodges, ^{(2) (3)} Age 56
Director Since June 26, 2002

Office of the President,
The Wolf Organization, Inc.,
Distributor of Building Products

George Hay Kain, III, ⁽³⁾ Age 58
Director Since August 25, 1986

Consultant



George Hay Kain, III



Thomas C. Norris

Thomas C. Norris, ^{(2) (3)} Age 68
Director Since June 26, 2000

Retired, Chairman of the Board,
P. H. Glatfelter Company,
Paper Manufacturer

DIRECTORS EMERITI

Robert E. Skold
Josephine S. Appell
Horace Keesey III

Directors, Officers, & Key Employees

**William T. Morris, P.E.**

William T. Morris, P.E., ⁽¹⁾ Age 69
Director Since April 19, 1978

Chairman of the Board,
The York Water Company

**Irvin S. Naylor**

Irvin S. Naylor, ⁽¹⁾ Age 71
Director Since October 31, 1960

Vice Chairman of the Board,
The York Water Company
President/Owner, Snow Time, Inc.,
Owns and Operates Ski Areas

**Jeffrey S. Osman**

Jeffrey S. Osman, ⁽¹⁾ Age 64
Director Since July 23, 2001

President and
Chief Executive Officer,
The York Water Company

(1) Member of the Executive Committee

(2) Member of the Audit Committee

(3) Member of the Compensation and Nomination Committee

OFFICERS & KEY EMPLOYEES

Jeffrey S. Osman, Age 64
President and Chief
Executive Officer

Vernon L. Bracey, Age 45
Vice President-
Customer Service

Duane R. Close, Age 61
Vice President-Operations

Jeffrey R. Hines, P.E., Age 45
Chief Operating Officer
and Secretary

Bruce C. McIntosh, Age 54
Vice President-
Human Resources

Kathleen M. Miller, Age 44
Chief Financial Officer
and Treasurer

TRANSFER AGENT & REGISTRAR

American Stock Transfer & Trust Company

59 Maiden Lane, New York, NY 10273-0923
(800) 937-5449, www.amstock.com

STOCK EXCHANGE LISTING

The Company's common shares trade on the NASDAQ
Global Select Market. The trading symbol is "YORW".

HEALTH & SAFETY

The Company strives to provide a healthy and safe work environment. During 2006, 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 at 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.

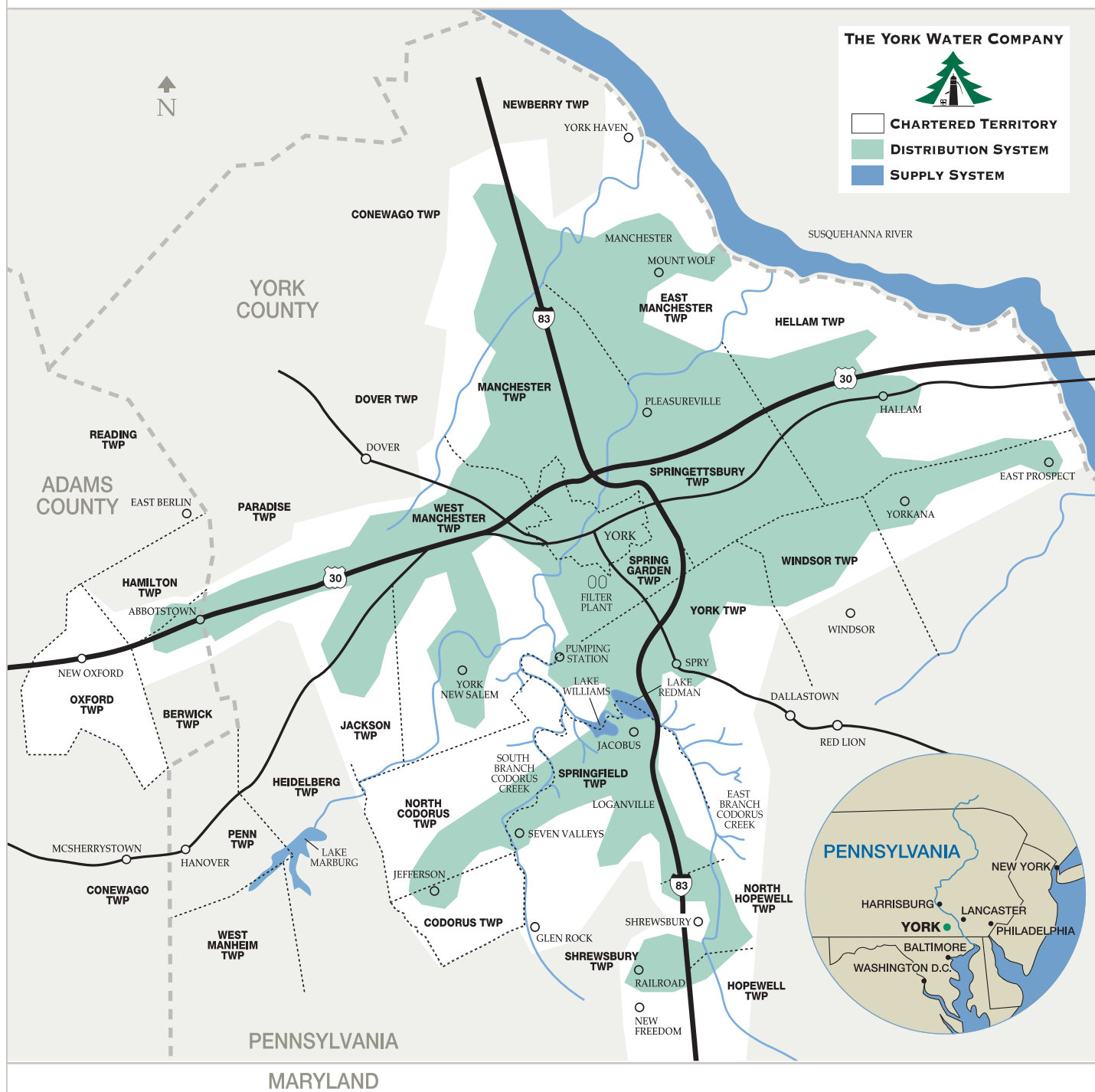
INDEPENDENT AUDITORS

Beard Miller Company LLP

Suite 200, 221 West Philadelphia Street, York, PA 17401



Chartered Territory Distribution and Supply System







The York Water Company

130 EAST MARKET STREET, YORK, PENNSYLVANIA 17405

