

YORK WATER CO
Form 10-K
March 07, 2017

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

FORM 10-K
(Mark One)

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

For the fiscal year ended December
31, 2016

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

For the transition period from
_____ to _____

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

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

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

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

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

None The
 NASDAQ
 Global Select
 Market

(Name of
Each
(Title of Each Class) Exchange on
Which
Registered)

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

COMMON STOCK, NO PAR VALUE

(Title of Class)

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

YES NO

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

YES NO

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

YES NO

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

YES NO

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

this Form 10-K.

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer
Non-accelerated filer	<input checked="" type="checkbox"/>	Small Reporting Company

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

YES NO

The aggregate market value of the Common Stock, no par value, held by nonaffiliates of the registrant on June 30, 2016 was \$412,282,264.

As of March 7, 2017 there were 12,857,199 shares of Common Stock, no par value, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Company's 2017 Annual Meeting of Shareholders are incorporated by reference into Part I and Part III.

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FORWARD-LOOKING STATEMENTS

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

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

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

- changes in weather, including drought conditions or extended periods of heavy rainfall;
- levels of rate relief granted;
- the level of commercial and industrial business activity within the Company's service territory;
- construction of new housing within the Company's service territory and increases in population;
- changes in government policies or regulations, including the tax code;
- the ability to obtain permits for expansion projects;
- material changes in demand from customers, including the impact of conservation efforts which may impact the demand of customers for water;
- changes in economic and business conditions, including interest rates, which are less favorable than expected;
- loss of customers;
- changes in, or unanticipated, capital requirements;
- the impact of acquisitions;
- changes in accounting pronouncements;
- changes in the Company’s credit rating or the market price of its common stock;
- the ability to obtain financing; and
- other matters set forth in Item 1A, “Risk Factors” of this Annual Report.

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THE YORK WATER COMPANY

PART I

Item 1. Business.

The York Water Company (the "Company") is the oldest investor-owned water utility in the United States and is duly organized under the laws of the Commonwealth of Pennsylvania. The Company has operated continuously since 1816. The primary business of the Company is to impound, purify to meet or exceed safe drinking water standards and distribute water. The Company also owns and operates three wastewater collection systems and two wastewater treatment systems. The Company operates within its franchised territory, which covers 39 municipalities within York County, Pennsylvania and nine municipalities within Adams County, Pennsylvania. The Company is regulated by the Pennsylvania Public Utility Commission, or PPUC, for both water and wastewater in the areas of billing, payment procedures, dispute processing, terminations, service territory, debt and equity financing and rate setting. The Company must obtain PPUC approval before changing any practices associated with the aforementioned areas.

Water service is supplied through the Company's own distribution system. The Company obtains the bulk of its water supply from both the South Branch and East Branch of the Codorus Creek, which together have an average daily flow of 73.0 million gallons. This combined watershed area is approximately 117 square miles. The Company has two reservoirs, Lake Williams and Lake Redman, which together hold up to approximately 2.2 billion gallons of water. The Company has a 15-mile pipeline from the Susquehanna River to Lake Redman which provides access to an additional supply of 12.0 million gallons of untreated water per day. The Company also owns seven wells which are capable of providing a safe yield of approximately 366,000 gallons per day to supply water to its customers in Carroll Valley Borough and Cumberland Township, Adams County. As of December 31, 2016, the Company's average daily availability was 35.4 million gallons, and average daily consumption was approximately 18.8 million gallons. The Company's service territory had an estimated population of 196,000 as of December 31, 2016. 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, injectable drug delivery systems, air conditioning systems, laundry detergent, barbells and motorcycles.

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

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

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

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Competition

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

Water and Wastewater Quality and Environmental Regulations

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

The federal Safe Drinking Water Act establishes criteria and procedures for the U.S. Environmental Protection Agency, or EPA, to develop national quality standards. Regulations issued under the Act, and its amendments, set standards on the amount of certain contaminants allowable in drinking water. Current requirements are not expected to have a material impact on the Company's operations or financial condition as it already meets or exceeds standards. In the future, the Company may be required to change its method of treating drinking water, and may incur additional capital investments if new regulations become effective.

Under the requirements of the Pennsylvania Safe Drinking Water Act, or SDWA, the Pennsylvania Department of Environmental Protection, or DEP, monitors the quality of the finished water supplied to customers. The DEP requires the Company to submit weekly reports showing the results of daily bacteriological and other chemical and physical analyses. As part of this requirement, the Company conducts over 70,000 laboratory tests annually. Management believes that the Company complies with the standards established by the agency under the SDWA. The DEP assists the Company by regulating discharges into the Company's watershed area to prevent and eliminate pollution.

The federal Groundwater Rule establishes rules for community water supplies serving between 100 and 500 customers. This rule requires additional testing of water from well sources, and under certain circumstances requires demonstration and maintenance of effective disinfection. The Company holds public water supply permits issued by the DEP, which establishes the groundwater source operating conditions for its wells, including demonstrated 4-log treatment of viruses. All of the satellite systems operated by the Company are in compliance with the federal Groundwater Rule. The Company completed modifications at one of these systems in 2016 to more reliably and consistently demonstrate 4-log treatment of viruses.

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

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

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Lead and copper may enter drinking water primarily through plumbing materials. The Company is required to comply with the Lead and Copper Rule established by the EPA and administered by the DEP. The Company must monitor drinking water at customer taps for compliance with this rule. If lead concentrations exceed an action level, the Company must undertake a number of additional actions to control corrosion, inform the public about steps they should take to protect their health and may be required to replace lead service lines under its control. See "Management's Discussion and Analysis – Environmental Matters" for a discussion of the Company's most recently completed testing.

The DEP and the Susquehanna River Basin Commission, or SRBC, regulate the amount of water withdrawn from streams in the watershed to assure that sufficient quantities are available to meet the needs of the Company and other regulated users. Through its Division of Dam Safety, the DEP regulates the operation and maintenance of the Company's impounding dams. The Company routinely inspects its dams and prepares annual reports of their condition as required by DEP regulations. The DEP reviews these reports and inspects the Company's dams. The DEP most recently inspected the Company's dams in 2014 and noted no significant violations.

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

The Company engaged a professional engineer to analyze the spillway capacities at the Lake Williams and Lake Redman dams and validate the DEP's recommended flood design for the dams. Management presented the results of the study to the DEP in December 2004, and DEP then requested that the Company submit a proposed schedule for the actions to address the spillway capacities. Thereafter, the Company retained an engineering firm to prepare preliminary designs for increasing the spillway capacities to pass the PMF through armoring the dams with roller compacted concrete. Management has met with the DEP on a regular basis to review the preliminary design and discuss scheduling, permitting, and construction requirements. The Company is currently completing preliminary work on the dams as well as the final design and the permitting process. The Company expects to finalize its plans in 2017 and begin armoring one of the dams between 2018 and 2019. The second dam is expected to be armored in a year or two following the first dam armoring. The cost to armor each dam is expected to be approximately \$5.5 million.

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

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Growth

During the five year period ended December 31, 2016, the Company continued to grow the number of customers and its distribution facilities.

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

(In thousands of dollars)	For the Years Ended December 31,				
	2016	2015	2014	2013	2012
Revenues:					
Residential	\$30,142	\$29,682	\$29,079	\$26,796	\$26,114
Commercial and industrial	13,760	13,822	13,267	12,299	12,114
Other	3,682	3,585	3,554	3,288	3,219
Total	\$47,584	\$47,089	\$45,900	\$42,383	\$41,447
Average daily water consumption (gallons per day)	18,798,000	18,507,000	18,327,000	19,094,000	18,553,000
Miles of water mains at year-end	967	958	951	945	940
Miles of wastewater mains at year-end	8	8	8	3	3
Additional water distribution mains installed/acquired (ft.)	46,368	40,873	28,523	28,051	59,653
Wastewater collection mains acquired (ft.)	-	-	28,250	-	14,820
Number of customers at year-end	67,052	66,087	65,102	64,118	63,779
Population served at year-end	196,000	194,000			