

## **IV. TAXES**

Pennsylvania-American Water Company  
Coatesville Wastewater Operations  
Data Requirements of the Pennsylvania Public Utility Commission  
Taxes

FR IV.1

**Pennsylvania-American Water Company**  
**Coatesville Wastewater Operations**  
**IV. Taxes**

1. Provide a copy of the latest Pennsylvania corporate tax report and the latest Pennsylvania corporate tax settlement.

**Answer:** Attached is the Pennsylvania American Water Company 2008 Corporate tax report. Due to Act 119 the Company will not receive settlement for 2007 and all future years. Act 119 replaced the Pennsylvania Corporation settlement process with an assessment and reassessment process beginning January 1, 2008. If the settlement date falls after January 1, 2008 the new process is in effect.

1010008173



DEPARTMENT USE ONLY

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PA CORPORATE TAX REPORT 2008

Y 1120 N 1120S N 1120C N 1120F N 1120H N 1065 N 1040 N Other

STEP A

Tax Year Beg. XX 01012008  
Tax Year End. XX 12312008

STEP B

Regulated Inv. Co. XX N First Report XX N  
52-53 Week Filer XX N KOZ/EIP Credit XX N  
Address Change XX N File Period Change XX N  
Change Fed Group XX N

STEP C

Corp Tax Account ID XX 0059145  
Federal EIN XX 251008096  
Business Activity Code XX 221300  
Corporation Name XX PENNSYLVANIA-AMERICAN WATER COMPANY  
Address Line 1 XX PO BOX 5600  
Address Line 2 XX ATTN: INCOME TAX  
City XX CHERRY HILL  
State XX NJ  
ZIP XX 08003

STEP D

A. Tax Liability from Tax Report

B. Estimated Payments & Credits on Deposit

C. Restricted Credits

Calculation: A minus B minus C

STEP E: Payment Make check for this amount payable to "PA Dept of Revenue"

CS/FF 1957881 2030220 0 -72339 0  
LOANS 0 0 0 0 0  
CNI 0 9393150 0 -9393150 0  
TOTAL 1957881 11423370 0 -9465489 0

Made Payment Via EFT N

STEP F: Refund /Transfer Method  
Select one of the following options:

A N Total transfer of credit

B Y Total refund of credit

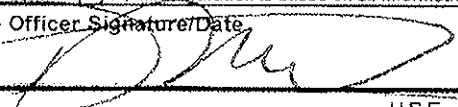
STEP G: Corporate Officer  
(Sign affirmation below)

NAME DARWIN RANSOM  
PHONE 8563105852  
E-MAIL

FORM BARCODE

I hereby affirm under penalties prescribed by law that this report (including any accompanying schedules and statements) has been examined by me and to the best of my knowledge and belief is a true, correct and complete report. If prepared by a person other than the taxpayer, his declaration is based on all information of which he has any knowledge.

Corporate Officer Signature/Date

 10/14/09

ACCOUNT ID 0059145  
 TAX YEAR END 12312008 NAME PENNSYLVANIA-AMERICAN WATE  
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SECTION A: CS/FF

OLDEST PERIOD FIRST	TAX PERIOD BEGINNING	TAX PERIOD ENDING	BOOK INCOME			
YEAR 1						
YEAR 2	01012004	12312004	60608167	Investment in LLC	XX	N
YEAR 3	01012005	12312005	69561826	Holding Company	XX	N
YEAR 4	01012007	12312007	61815830	Family Farm	XX	N
YEAR 5						
YEAR 6	01012006	12312006	61698095			
YEAR 7						
CUR YR	01012008	12312008	75758799			

WHOLE DOLLARS ONLY

2. TOTAL BOOK INCOME (sum of income for all tax periods up to, but not over 5 years total)	2	329442717
3. DIVISOR (in years and in part years rounded to three decimal places) See Instructions	3	5.000
4. Divide Line 2 by Line 3	4	65888543
5. AVERAGE BOOK INCOME - Enter Line 4 or if Line 4 is less than zero enter "0"	5	65888543
6. Divide Line 5 by 0.095	6	693563611
7. Shareholders' equity at the END of the current period	7	882228874
8. Shareholders' equity at the BEGINNING of the current period	8	827882962
9. If Line 7 is more than twice as great or less than half as much as Line 8, add Lines 7 and 8 and divide by 2. Otherwise enter Line 7.	9	882228874
10. NET WORTH - Enter Line 9 or if Line 9 is less than zero enter "0"	10	882228874
11. Multiply Line 10 by 0.75	11	661671656
12. Add Lines 6 and 11	12	1355235267
13. Divide Line 12 by 2	13	677617634
14. \$150,000 valuation deduction	14	-150000
15. CAPITAL STOCK VALUE - Line 13 less Line 14 but not less than "0". If 100% Taxable, enter Line 15 on Line 17.	15	677467634
16. Proportion of taxable assets or apportionment proportion (From Schedule A-1, Line 5)	16	1.000000
17. TAXABLE VALUE - Multiply Line 15 by Line 16. If less than zero, enter "0"	17	677467634
18. CAPITAL STOCK/FOREIGN FRANCHISE TAX - Multiply Line 17 by 0.00289	18	1957881

Total Beginning of  
 Taxable Year Assets 2367149909

Total End of Taxable  
 Year Assets 2514592929

ACCOUNT ID 0059145  
 TAX YEAR END 12312008 NAME PENNSYLVANIA-AMERICAN WATE  
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**SECTION B: Bonus Depreciation**

1. Current year fed. deprec. of 168k prop.	1	34850544	Business Trust	XX	N
2. Current year adj. for disp. of 168k prop.	2	0	Solicitation Only	XX	N
3. Other adjustments	3	23899878	Single Member LLC	XX	N
(Must attach schedule C-3 if claiming bonus depreciation)			Multi-Member LLC	XX	N
			PA-S	XX	N
			Taxable Built-In Gains	XX	N

**SECTION C: CORPORATE NET INCOME TAX**

1. Income or loss from federal return on a separate company basis	1				-196985905
2. DEDUCTIONS:					
A. Corporate dividends received (From Schedule C-2, Line 8)	2A				0
B. Interest on U.S. securities (GROSS INT less EXPENSES)	2B				0
C. Curr yr. addtl. PA deprec. plus adjust. for sale (attached Schedule C-3)	2C				28212379
D. Other (attached schedule) See instructions.	2D				0
TOTAL DEDUCTIONS - Sum of (A) through (D)	2				28212379
3. ADDITIONS:					
A. Taxes imposed on or measured by net income (attached schedule)	3A				8389151
B. Tax Preference Items (attached copy of Federal Form 4626)	3B				0
C. Employment incentive payment credit adjustment (attached Schedule W)	3C				0
D. Current year bonus depreciation (attached Schedule C-3)	3D				24558893
E. Other (attached schedule) See instructions.	3E				0
TOTAL ADDITIONS - Sum of (A) through (E)	3				32948044
4. Income or loss with Pennsylvania adjustments (Line 1 - Line 2 + Line 3)	4				-192250240
5. Total nonbusiness income (or loss)	5				0
6. Income (or loss) to be apportioned (Line 4 - Line 5)	6				-192250240
7. Apportionment proportion (from Schedule C-1 Line 5)	7				1.000000
8. Income (or loss) apportioned to PA (Line 6 x Line 7)	8				-192250240
9. Nonbusiness income (or loss) allocated to PA	9				0
10. Taxable Income (or loss) after apportionment (Line 8 + Line 9)	10				-192250240
11. Total Net Operating Loss deduction (from RCT-103) cannot exceed \$3,000,000 or 12 1/2% of Line 10	11				0
12. PA taxable income (or loss) (Line 10 - Line 11)	12				-192250240
13. Corporate Net Income Tax (Line 12 x .0999)	13				0

ACCOUNT ID 0059145  
 TAX YEAR END 12312008 NAME PENNSYLVANIA-AMERICAN WATE  
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**SECTION D: LOANS TAX**

- 1. Did this corporation have a fiscal officer resident in PA and paying interest on indebtedness of the corporation? XX N
- 2. Did this corporation have indebtedness outstanding to individual residents and/or partnerships resident in Pennsylvania? XX N
- 3. Did this corporation have indebtedness outstanding held by a trustee, agent or guardian for a resident individual taxable in its own right or by an executor or administrator of an estate wherein the decedent was a resident of Pennsylvania? XX N

List outstanding indebtedness. Attach separate schedule if additional space is required.

Interest Amount	Interest Rate	Taxable Value			
0	0	0	TAX INDEBT	XX	0
0	0	0			
0	0	0	LOANS TAX	XX	0

**SCHEDULE A-1: Apportionment Schedule For Capital Stock/Foreign Franchise Tax (Include Form RCT-102, RCT-105, or RCT-106)**

Three Factor					Single Factor		
Property-PA	1A	2749534637	1C	1.000000	Numerator	4A	0
Property-Total	1B	2749534637			Denominator	4B	0
Payroll-PA	2A	45461528	2C	1.000000			
Payroll-Total	2B	45461528					
Sales-PA	3A	449132080	3C	1.000000	Apportionment Proportion	5	1.000000
Sales-Total	3B	449132080					

**SCHEDULE C-1: Apportionment Schedule For Corporate Net Income Tax (Include Form RCT-106)**

Three Factor					Single Factor		
Property-PA	1A	2749534637	1C	15.000000	Numerator	4A	0
Property-Total	1B	2749534637			Denominator	4B	0
Payroll-PA	2A	45461528	2C	15.000000			
Payroll-Total	2B	45461528					
Sales-PA	3A	449132080	3C	70.000000	Apportionment Proportion	5	1.000000
Sales-Total	3B	449132080					

REV-853 CT (1) (8-07)  
PA DEPARTMENT OF REVENUE  
BUREAU OF CORPORATION TAXES



PA CORPORATION TAXES  
REV-853 ANNUAL EXTENSION REQUEST

DEPT USE ONLY

ACCOUNT ID	PERIOD ENDING	RPT. CODE	ENTITY ID (EIN)	DUE DATE
0059143	12/31/2008		251008096	4/15/09

CORPORATION NAME		
PENNSYLVANIA-AMERICAN WATER		
STATE OF INCORPORATION		
PENNSYLVANIA		
NEW CORPORATIONS (ENTER NEW ADDRESS)		
STREET		
P. O. Box 5600		
CITY	STATE	ZIP
CHERRY HILL	NJ	08034

1. CS/FF TAX PAYMENT	\$ 0.00
2. LOANS TAX PAYMENT	\$ 0.00
3. CNI TAX PAYMENT	\$ 0.00
4. TOTAL PAYMENT (Add Lines 1, 2 and 3.)	\$ 0.00

DATE	TELEPHONE	SIGNATURE	TITLE
4/14/09	(856) 310-5700	Charles R. Somerville	Asst. Tax Mgr.

**Application for Automatic Extension of Time To File Certain Business Income Tax, Information, and Other Returns**  
 ▶ File a separate application for each return.  
 ▶ See separate instructions.

OMB No. 1545-0233

**Type or Print**

File by the due date for the return for which an extension is requested. See instructions.

Name \_\_\_\_\_ Identifying number \_\_\_\_\_

Number, street, and room or suite no. (If P.O. box, see instructions.) \_\_\_\_\_

City, town, state, and ZIP code (If a foreign address, enter city, province or state, and country (follow the country's practice for entering postal code)). \_\_\_\_\_

**Note. See instructions before completing this form.**

**Part I Automatic 5-Month Extension Complete if Filing Form 1065, 1041, or 8804**

1a Enter the form code for the return that this application is for (see below)

Application Is For:	Form Code	Application Is For:	Form Code
Form 1065	09	Form 1041 (estate)	04
Form 8804	31	Form 1041 (trust)	05

**Part II Automatic 6-Month Extension Complete if Filing Other Forms**

b Enter the form code for the return that this application is for (see below)

Application Is For:	Form Code	Application Is For:	Form Code
Form 706-GS(D)	01	Form 1120-PC	21
Form 706-GS(T)	02	Form 1120-POL	22
Form 1041-N	06	Form 1120-REIT	23
Form 1041-QFT	07	Form 1120-RIC	24
Form 1042	08	Form 1120S	25
Form 1065-B	10	Form 1120-SF	26
Form 1066	11	Form 3520-A	27
Form 1120	12	Form 8612	28
Form 1120-C	34	Form 8613	29
Form 1120-F	15	Form 8725	30
Form 1120-FSC	16	Form 8831	32
Form 1120-H	17	Form 8876	33
Form 1120-L	18	Form 8924	35
Form 1120-ND	19	Form 8928	36
Form 1120-ND (section 4951 taxes)	20		

- 2 If the organization is a foreign corporation that does not have an office or place of business in the United States, check here
- 3 If the organization is a corporation and is the common parent of a group that intends to file a consolidated return, check here   
 If checked, attach a schedule, listing the name, address, and Employer Identification Number (EIN) for each member covered by this application.

**Part III All Filers Must Complete This Part**

4 If the organization is a corporation or partnership that qualifies under Regulations section 1.6081-5, check here

5a The application is for calendar year 20\_\_\_\_, or tax year beginning \_\_\_\_\_ 20\_\_\_\_, and ending \_\_\_\_\_ 20\_\_\_\_

b Short tax year. If this tax year is less than 12 months, check the reason:

- Initial return  Final return  Change in accounting period  Consolidated return to be filed

6 Tentative total tax	6		
7 Total payments and credits (see instructions)	7		
8 Balance due. Subtract line 7 from line 6. Generally, you must deposit this amount using the Electronic Federal Tax Payment System (EFTPS), a Federal Tax Deposit (FTD) Coupon, or Electronic Funds Withdrawal (EFW) (see instructions for exceptions)	8		

**COMPANIES TO BE INCLUDED IN THE CONSOLIDATED FEDERAL INCOME TAX RETURN  
OF AMERICAN WATER WORKS COMPANY, INC. AND AFFILIATED SUBSIDIARIES**

**YEAR - 01/01/08-12/31/08**

COMPANY	Employer Identification Number
1 AAET, Inc.	22-3259128
2 ACUS Coporation	74-1939504
3 American Lake Water Company	06-1396121
4 American Water Capital Corp	22-3732448
5 American Water Engineering, Inc	76-0654501
6 American Water Enterprises Holding, Inc.,	76-0605357
7 American Water Enterprises, Inc.	22-3169459
8 American Water Industrial Operations, Inc.,	74-2177717
9 American Water Industrials, Inc.,	76-0656917
10 American Water Operations and Maintenance, Inc	98-0165919
11 American Water Resources, Inc.,	54-0912221
12 American Water Services CDM, Inc.,	91-1745331
13 American Water (USA), Inc.,	98-0165920
14 American Water Works Company, Inc.,	51-0063696
15 American Water Works Service Company, Inc	23-1340234
16 Applied Wastewater Management, Inc.	22-2681173
17 Applied Wastewater Services, Inc.,	22-2711356
18 Applied Water Management of Delaware Inc.	20-1553646
19 Applied Water Management, Inc.,	22-3608285
20 Arizona-American Water Company	86-0096580
21 Bluefield Valley Water Works Company	86-6022466
22 California-American Water Company	51-0104148
23 E'Town Properties Inc.,	22-2817018
24 Edison Water Company	22-3519296
25 Hawaii-American Water Company	99-0108667
26 Hydro-Aerobics, Inc.	95-3870533
27 Illinois-American Water Company	51-0105894
28 Indiana-American Water Company, Inc.	35-0936102
29 Iowa-American Water Company	42-0735216
30 Kentucky-American Water Company	61-0485002
31 Laurel Oak Properties Corporation	20-1022964
32 Liberty Water Company	22-3596293
33 Long Island Water Corporation	11-1516966
34 Maryland-American Water Company	52-0265025
35 Michigan-American Water Company	38-1657784
36 Missouri-American Water Company	44-0578460
37 Mobile Residuals Management (USA), Inc.	98-0183794
38 New Jersey-American Water Company, Inc	22-1546642
39 New Mexico-American Water Company, Inc.	85-0344576
40 Ohio-American Water Company	31-4399620
41 Pennsylvania-American Water Company, Inc.	25-1008096
42 Philip Automated Management Controls, Inc.	98-0165914
43 PWT Waste Solutions, Inc.	63-1047291
44 Tennessee-American Water Company	62-0529095
45 Texas-American Water Company	20-4368657
46 TWNA, Inc.	06-1548192
47 UESG Holdings, Inc.	20-0863050
48 United Water Virginia, Inc	54-1016694
49 Utility Management and Engineering, Inc	22-3239760
50 Virginia-American Water Company	54-0119650
51 West Virginia-American Water Company	55-0307487

**Mailing address for all above companies is:**

**PO Box 5600**

**ATTN: Income Tax Department**

**131 Woodcrest Road**

**Cherry Hill, NJ 08003**

1010008573

ACCOUNT ID 0059145  
TAX YEAR END 12312008 NAME PENNSYLVANIA-AMERICAN WATER  
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SECTION E: CORPORATE STATUS CHANGES

Out of Existence XX N Out of Existence/  
(Final Report) Withdrawal Date XX  
\*Date of Distribution of PA Assets XX QB No Assets to Distribute XX

PA Corporations: Report date business activity ceased and date assets were distributed.

Foreign (Non-PA) Corporations: Report date business activity in PA ceased and date PA assets were distributed.

\*Schedule of Disposition of Assets MUST be completed and filed with the PA Corporate Tax Report.

Has the corporation sold or transferred in bulk 51% or more of any of the following classes of assets: XX N  
any stock of goods, wares, merchandise of any kind, fixtures, machinery, equipment, buildings or real estate. If so,  
please provide the name and address of the purchaser. (Attach separate schedule if additional space is required.)

Purchaser Name XX  
Address Line 1 XX  
Address Line 2 XX  
City XX  
State XX  
ZIP XX

SECTION F: GENERAL INFORMATION QUESTIONNAIRE

Brief description of corporate activity in PA WATER UTILITY

Brief description of corporate activity outside of PA

List other states in which taxpayer has activity

State of Incorporation XX PA Incorporation Date XX 07151904

- 1. Does any corporation, individual, or other business entity hold all or a majority of the stock of this corporation? XX Y
- 2. Does this corporation own all or a majority of stock in other corporations? If yes, complete Schedule X. XX N
- 3. Is this taxpayer a partnership that elects to file federal taxes as a corporation? XX N
- 4. Has federal government changed taxable income as originally reported for any prior period for which reports of change have not been filed in PA? XX N

If yes: First Period End Date: XX Last Period End Date: XX

Accounting Method - Federal Tax Return

Y Accrual  
N Cash  
N Other

Accounting Method - Financial Statements

Y Accrual  
N Cash  
N Other

1010008573

8Y4663 2.000

1010008573

1010008673

ACCOUNT ID 0059145  
TAX YEAR END 12312008 NAME PENNSYLVANIA-AMERICAN WATE  
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SCHEDULE OF REAL PROPERTY IN PA (Attach separate schedule if additional space is required.)

Own/Rent Street Address City County KOZ/KOEZ

CORPORATE OFFICERS

SSN

Last Name

First Name

MI

President/Managing Partner	XX		PAPE	KATHY	L
Vice President	XX		REDMOND	VELMA	A
Secretary	XX		REDMOND	VELMA	A
Treasurer/Tax Manager	XX		KOWALSKI	ROCHELLE	

TAX PREPARER'S  
NAME AND ADDRESS

Mail to Practitioner	XX	N
Federal EIN	XX	
Firm Name	XX	
Address Line 1	XX	
Address Line 2	XX	
City	XX	
State	XX	
ZIP	XX	

Tax Preparer's Signature/Date

NAME  
PHONE  
E-MAIL

1010008673

1010008673

**SCHEDULE C-2 PA DIVIDEND DEDUCTION SCHEDULE**

M M D D Y Y

CORPORATION \_\_\_\_\_ CORP TAX ACCOUNT ID \_\_\_\_\_ TAX PERIOD ENDING \_\_\_\_\_

1	Federal Schedule C, Line (20), Total deductions . . . . .	1	
2	Federal Schedule C, Line (15), Foreign Dividend Gross-Up (Section 78) . . . . .	2	
3	Dividends from less-than-20%-owned foreign corporations listed on Lines (13) and (14) of federal Schedule C - x 70% . . . . .	3	
4	Dividends from 20%-or-more-owned foreign corporations listed on Lines (13) and (14) of federal Schedule C - x 80% . . . . .	4	
5	Dividends listed on Lines (13) and (14) of federal Schedule C from foreign corporations that meet the "80% voting and value test" of IRC § 1604 (a) (2) and otherwise would qualify for 100% deduction under IRC § 243 (a) (3) if they were a domestic corporation. Do not list any amounts included in Item 4 . . . . .	5	
6	Total PA Dividend Deduction - Add Lines 1, 2, 3, 4 and 5 [Enter above at Section C, Line (2a)] . . . . .	6	

**SCHEDULE X**

Taxpayers completing this schedule must provide beginning and ending balance sheets, reflecting the consolidated net worth of the taxpayer and all subsidiaries.

M M D D Y Y

CORPORATION Pennsylvania-American Water Company CORP TAX ACCOUNT ID 0059145 TAX PERIOD ENDING 12/31/2008

Name	File in PA	Corp Tax Account ID	Entity ID (EIN)

Name, SSN, EIN and/or Corp Tax Account ID Number (if applicable) of any individual or business entity owning all or a majority of the stock of the taxpayer.

Name	SSN or EIN	Corp Tax Account ID
American Water Works Company, Inc.	51-0063696	2938949



1060008101

12/31/2008  
 TAXABLE PERIOD ENDED (MONTH/DAY/YEAR)

Pennsylvania-American Water Company  
 NAME OF CORPORATION

0059145  
 CORP TAX ACCOUNT ID

Schedules 1 and 2 of this Insert Sheet must be completed by Pennsylvania corporations claiming the exemption for tangible and intangible assets for Capital Stock Tax purposes and foreign corporations electing to use the single factor exempt asset fraction for Foreign Franchise Tax purposes.

Tables 1, 2, 3 and 4 of this Insert Sheet must be completed by all corporations apportioning taxable income and by foreign and Pennsylvania corporations using the three (3) factor formula to compute the taxable value of capital stock.

A. AVERAGE TOTAL ASSETS [Carry to RCT-101, Schedule A-1, Line (4b)] . . . . . \$ \_\_\_\_\_

B. Less: AVERAGE EXEMPT ASSETS - Tangibles (From Schedule 1 Below) . . . . . \$ \_\_\_\_\_

Intangibles (From Schedule 2 Below) . . . . . \$ \_\_\_\_\_

Pollution Control Devices . . . . . \$ \_\_\_\_\_ \$ \_\_\_\_\_  
 (Attach description schedule and copy of DEP certification)

C. AVERAGE ASSETS TAXABLE IN PA [Carry to RCT-101, Schedule A-1, Line (4a)]. . . . . \$ \_\_\_\_\_

D. PROPORTION OF TAXABLE ASSETS (compute to six decimal places)  $\frac{\text{AVERAGE TAXABLE ASSETS}}{\text{AVERAGE TOTAL ASSETS}} = \bullet$  \_\_\_\_\_ [Carry to RCT-101, Schedule A-1, Line (5)]

**EXEMPTION CLAIMED FOR TANGIBLE AND INTANGIBLE ASSETS (OMIT CENTS)**

SCHEDULE 1 EXEMPT TANGIBLE ASSETS (Attach rider, if necessary)	Net Book Value - Beginning		Net Book Value - Ending		E Amount of Exemption Claimed for Average Value of Tangible Assets Located Outside of PA (COL. B + D) ÷ 2
	A Inside PA	B Outside PA	C Inside PA	D Outside PA	
1. Buildings . . . . .					
2. Equipment and Fixtures . .					
3. Land . . . . .					
4. Leasehold Improvements . .					
5. Motor Vehicles . . . . .					
6. Rolling Stock and all other Movable Property . . . . .					
7. Other Tangible Property (Attach Schedule) . . . . .					
8. Inventories . . . . .					
<b>TOTALS</b>					

NOTE: If there was a substantial change during the year, attach a separate schedule explaining same in detail.

SCHEDULE 2 EXEMPT INTANGIBLE ASSETS (Attach rider, if necessary)	A Number of Shares or %	B Date Acquired	C Date Sold	D Held (Full Year or No. of Days)	E Book Value	F Exemption Claimed
1. Stocks of PA Corporations . . . . .						
2. Stocks of Foreign Corporations (More than 50% owned) . . . . .						
3. Student Loan Assets . . . . .						
4. United States Securities . . . . .						
5. Exempt State and Local Securities . . . . .						
6. National Bank Shares . . . . .						
7. TOTALS (For Exemption Purposes)						

1060008101

106000201

TABLES SUPPORTING DETERMINATION OF  
APPORTIONMENT PERCENTAGE (OMIT CENTS)

TAX PERIODS BEGINNING ON OR AFTER JANUARY 1, 2007  
Apportionment for (Tax Type)

Capital Stock/Franchise and Corporate Net Income Taxes       Capital Stock/Franchise Tax Only       Corporate Net Income Tax Only

12/31/2008      Pennsylvania-American Water Company      0059145  
TAXABLE PERIOD ENDED (MONTH/DAY/YEAR)      NAME OF CORPORATION      CORP TAX ACCOUNT ID

TABLE 1 - PROPERTY FACTOR	Description	Inside PA		Inside and Outside PA	
		Beginning of Period	End of Period	Beginning of Period	End of Period
	Tangible Property Owned (original cost value)				
	Inventory				
	Buildings and Depreciable Assets	2,620,138,593.	2,811,267,613.	2,620,138,593.	2,811,267,613.
	Land	22,413,931.	24,311,889.	22,413,931.	24,311,889.
	Other Real and Tangible Personal Property				
	Partner's Share of Property Owned by Partnerships				
	Less Construction in Progress (if included above)	( )	( )	( )	( )
	Totals	2,642,552,524.	2,835,579,502.	2,642,552,524.	2,835,579,502.
	Total Beginning and End of Period		5,478,132,026.		5,478,132,026.
	Average Value (1/2 of Above)		2,739,066,013.		2,739,066,013.
	Add: Corporate Tangible and/or Real Property Rented*		10,468,624.		10,468,624.
	Partnership Tangible and/or Real Property Rented*				
	Total Average Value	(A)	2,749,534,637.	(B)	2,749,534,637.

\*Eight times net annual rental rate (Attach Schedule)

(C) Property factor (divide A by B - compute to six decimal places) 1 • 0 0 0 0 0 0 [carry (A), (B) and (C) over to RCT-101, Schedule A-1, as applicable, Lines (1a), (1b) and (1c)]

(D) 15 times property factor (divide A by B - Compute to six decimal places and multiply by 15) 15 • 0 0 0 0 0 0 [carry (A), (B) and (D) over to RCT-101, Schedule C-1, Lines (1a), (1b) and (1c)]

TABLE 2 - PAYROLL FACTOR	Description	Inside PA		Inside and Outside PA	
		Beginning of Period	End of Period	Beginning of Period	End of Period
	Wages, salaries, commissions and other compensation to employees in:				
	Cost of goods sold		37,003,884.		37,003,884.
	Compensation of officers		1,640,106.		1,640,106.
	Salesmen's salaries and commissions				
	Other payroll		6,817,538.		6,817,538.
	Partner's Share of Payroll from Partnerships				
	Total Payroll	(A)	45,461,528.	(B)	45,461,528.

(C) Payroll factor (divide A by B - compute to six decimal places) 1 • 0 0 0 0 0 0 [carry (A), (B) and (C) over to RCT-101, Schedule A-1, as applicable, Lines (2a), (2b) and (2c)]

(D) 15 times payroll factor (divide A by B - Compute to six decimal places and multiply by 15) 15 • 0 0 0 0 0 0 [carry (A), (B) and (D) over to RCT-101, Schedule C-1, Lines (2a), (2b) and (2c)]

TABLE 3 - SALES FACTOR	Description	Inside PA		Inside and Outside PA	
		Beginning of Period	End of Period	Beginning of Period	End of Period
	Sales (Net of Returns and Allowances)		445,374,567.		445,374,567.
	Interest, Rents, Royalties		1,196,028.		1,196,028.
	Gross Receipts from the sale of other business assets (except securities**)				
	Other Sales (receipts only)		2,561,485.		2,561,485.
	Partner's Share of Sales from Partnerships				
	Total Sales	(A)	449,132,080.	(B)	449,132,080.

(C) Sales factor (divide A by B - compute to six decimal places) 1 • 0 0 0 0 0 0 [carry (A), (B) and (C) over to RCT-101, Schedule A-1, Lines (3a), (3b) and (3c)]

(D) 70 times sales factor (divide A by B - Compute to six decimal places and multiply by 70) 70 • 0 0 0 0 0 0 [carry (A), (B) and (D) over to RCT-101, Schedule C-1, Lines (3a), (3b) and (3c)]

\*\* Unless you are a securities dealer

Special Apportionment to be completed only by railroad, truck, bus and airline companies, pipeline or natural gas companies and water transportation companies (Refer to instructions).

(A) NUMERATOR (A) \_\_\_\_\_ = \_\_\_\_\_ • \_\_\_\_\_ (C)

(B) DENOMINATOR (B) \_\_\_\_\_  
[carry (A), (B) and (C) over to RCT-101, Schedules C-1 and/or A-1, as applicable, Lines (4a), (4b) and (5)]

1060008201

**C-5 Schedule of Taxes**

PA Corporate Net Income Tax . . . . .	<input type="text"/>
PA Capital Stock/Franchise Tax . . . . .	<input type="text"/>
Philadelphia Business Privilege Tax - Gross Receipts Portion . . . . .	<input type="text"/>
Philadelphia Business Privilege Tax - Net Income Portion . . . . .	<input type="text"/>
Income Taxes - Other States . . . . .	<input type="text" value="8,389,151."/>
Payroll Taxes . . . . .	<input type="text"/>
Real Estate Taxes . . . . .	<input type="text"/>
Sales and Use Tax . . . . .	<input type="text"/>
Business Privilege Tax - Other than Income . . . . .	<input type="text"/>
Occupancy Tax . . . . .	<input type="text"/>
Local Income Taxes . . . . .	<input type="text"/>
Local Taxes - Not based on income . . . . .	<input type="text"/>
Other Taxes - Not Based on Income . . . . .	<input type="text" value="12,123,436."/>
Other Income Taxes . . . . .	<input type="text"/>
Total Tax Expense reported on Federal Income Tax Return . . . . .	<input type="text" value="20,512,587."/>

**Schedule OA - Other Additions**

Description	Amount
<b>Total</b>	

**Schedule OD - Other Deductions**

Description	Amount
Federal wages disallowed as a result of tax credits under IRC Sec. 45B or IRC Sec. 51	
<b>Total</b>	

RCT-101, Page 1, Step D, Tax Summary, Payments and Credits Detail

=====

	Cap. Stock Fran.	Loans Tax	Corp. Net Inc.
	-----	-----	-----
Applied from REV-855			
Tentative payments	1,785,220.		8,113,150.
Payments with extension	245,000.		1,280,000.
Keystone Opp Zone			
Credits:			
Neighborhood Assist.			
Employment Incentive			
Educational Imp.			
Coal Waste Removal			
Jobs Creation Tax			
Pennsylvania R & D			
	-----	-----	-----
Totals	2,030,220.		9,393,150.
	=====	=====	=====

Diagnostic Report

Tax Year : 2008

Return No: 0000P8

Taxpayer: Pennsylvania-American Water Company

ID No : 25-1008096

Severe Diagnostics

\*\*\*\*\*  
\*\* No Severe Diagnostics Detected \*\*

Informational Diagnostics: Total 4

-----  
States (4)

General (2)

1.Common State

Federal attachments are not provided for states that require a complete federal return. Please check the filing requirements for the following state returns:

PA,

2.Common State

The following state(s) may require that you submit tax payments using Electronic Funds Transfer (EFT). Please consult the state's EFT guidelines before submitting any payments by check:

CA, IL, PA, TX,

Pennsylvania (2)

3.General Information

The State of Pennsylvania requires data to print in 12pt OCRA font (approximately 1/6" tall). If your data for Pennsylvania forms is printing in a smaller font, please contact support.

4.REV-857

The State of Pennsylvania instructions indicate to use our Form REV-857 only if the corporation has not received the preprinted PA Corp. Tax Coupon Book.

\*\* No Electronic Filing - Alerts Detected \*\*

\*\* No Electronic Filing - Rejects Detected \*\*

\*\* No Electronic Filing - XML Validation Errors Detected \*\*

\* indicates Diagnostic has been suppressed.

A Check if: 1a Consolidated return (attach Form 951) <input type="checkbox"/> b Life/nonlife consolidated return <input type="checkbox"/> 2 Personal holding co. (attach Sch. Prt) <input type="checkbox"/> 3 Personal service corp. (see instructions) <input type="checkbox"/> 4 Schedule M-3 attached <input checked="" type="checkbox"/>	Use IRS label. Otherwise, print or type.	Name <b>Pennsylvania-American Water Company</b> Number, street, and room or suite no. if a P.O. box, see instructions. <b>PO Box 5600, ATTN: Income Tax</b> City or town, state, and ZIP code <b>Cherry Hill, NJ 08003</b>	B Employer identification number <b>25-1008096</b> C Date incorporated <b>07/15/1904</b> D Total assets (see instructions) <b>\$ 2,514,592,929.</b>
-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	------------------------------------------	-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	--------------------------------------------------------------------------------------------------------------------------------------------------------------------

		E Check if:	(1)	Initial return (2)	Final return (3)	Name change (4)	Address change
Income	1a	Gross receipts or sales					1c 445,374,567.
	2	Cost of goods sold (Schedule A, line 8)					2 81,483,536.
	3	Gross profit. Subtract line 2 from line 1c					3 363,891,031.
	4	Dividends (Schedule C, line 19)					4
	5	Interest					5 See Statement 1 50,205.
	6	Gross rents					6 1,145,823.
	7	Gross royalties					7
	8	Capital gain net income (attach Schedule D (Form 1120))					8 26,888.
	9	Net gain or (loss) from Form 4797, Part II, line 17 (attach Form 4797)					9 NONE
	10	Other income (see instructions - attach schedule)					10 See Statement 1 2,561,485.
	11	<b>Total income.</b> Add lines 3 through 10					11 367,675,432.
Deductions (See instructions for limitations on deductions.)	12	Compensation of officers (Schedule E, line 4)					12 1,640,106.
	13	Salaries and wages (less employment credits)					13 6,817,538.
	14	Repairs and maintenance					14 285,491,793.
	15	Bad debts					15 5,753,537.
	16	Rents					16 1,308,578.
	17	Taxes and licenses					17 See Statement 2 20,512,587.
	18	Interest					18 52,867,284.
	19	Charitable contributions					19 See Statement 3 180,040.
	20	Depreciation from Form 4562 not claimed on Schedule A or elsewhere on return (attach Form 4562)					20 95,720,870.
	21	Depletion					21
	22	Advertising					22 224,513.
	23	Pension, profit-sharing, etc., plans					23 7,923,935.
	24	Employee benefit programs					24 12,696,667.
	25	Domestic production activities deduction (attach Form 8903)					25
	26	Other deductions (attach schedule)					26 See Statement 3 73,703,929.
	27	<b>Total deductions.</b> Add lines 12 through 26					27 564,841,377.
	28	<b>Taxable income before net operating loss deduction and special deductions.</b> Subtract line 27 from line 11					28 -197,165,945.
Tax, Refundable Credits, and Payments	29	Less: a Net operating loss deduction (see instructions)		29a			29c
		b Special deductions (Schedule C, line 20)		29b			
	30	<b>Taxable income.</b> Subtract line 29c from line 28 (see instructions)					30 -197,165,945.
	31	<b>Total tax</b> (Schedule J, line 10)					31 NONE
	32a	2007 overpayment credited to 2008		32a			
	32b	2008 estimated tax payments		32b			
	32c	2008 refund applied for on Form 4466		32c			
		<b>Tax deposited with Form 7004</b>			32d		
		f Credits: (1) Form 2439 (2) Form 4136			32e		
		g Refundable credits from Form 3800, line 19c, and Form 8827, line 8c			32f		
32g				32g		32h	
33	Estimated tax penalty (see instructions). Check if Form 2220 is attached <input type="checkbox"/>					33	
34	<b>Amount owed.</b> If line 32h is smaller than the total of lines 31 and 33, enter amount owed					34	
35	<b>Overpayment.</b> If line 32h is larger than the total of lines 31 and 33, enter amount overpaid					35	
36	Enter amount from line 35 you want: Credited to 2009 estimated tax <input type="checkbox"/> Refunded <input type="checkbox"/>					36	

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Sign Here: \_\_\_\_\_ Date: \_\_\_\_\_ Title: \_\_\_\_\_

Signature of officer: \_\_\_\_\_ Date: \_\_\_\_\_ Title: \_\_\_\_\_

May the IRS discuss this return with the preparer shown below (see instructions)?  Yes  No

Paid Preparer's Use Only

Preparer's signature: \_\_\_\_\_ Date: \_\_\_\_\_

Firm's name (or yours if self-employed), address, and ZIP code: \_\_\_\_\_

Check if self-employed  Preparer's SSN or PTIN: \_\_\_\_\_

EIN: \_\_\_\_\_ Phone no.: \_\_\_\_\_

Form 1120 (2008)

**Schedule A Cost of Goods Sold** (see instructions)

1	Inventory at beginning of year	1	
2	Purchases	2	
3	Cost of labor	3	37,003,884.
4	Additional section 263A costs (attach schedule)	4	
5	Other costs (attach schedule)	5	See Statement 4 44,479,652.
6	Total. Add lines 1 through 5	6	81,483,536.
7	Inventory at end of year	7	
8	Cost of goods sold. Subtract line 7 from line 6. Enter here and on page 1, line 2	8	81,483,536.

- 9 a Check all methods used for valuing closing inventory:
- (i)  Cost
  - (ii)  Lower of cost or market
  - (iii)  Other (Specify method used and attach explanation.) ▶
- b Check if there was a writedown of subnormal goods
- c Check if the LIFO inventory method was adopted this tax year for any goods (if checked, attach Form 970)
- d If the LIFO inventory method was used for this tax year, enter percentage (or amounts) of closing inventory computed under LIFO
- e If property is produced or acquired for resale, do the rules of section 263A apply to the corporation?  Yes  No
- f Was there any change in determining quantities, cost, or valuations between opening and closing inventory? If "Yes," attach explanation  Yes  No

**Schedule C Dividends and Special Deductions** (see instructions)

	(a) Dividends received	(b) %	(c) Special deductions (a) x (b)
1	Dividends from less-than-20%-owned domestic corporations (other than debt-financed stock)	70	
2	Dividends from 20%-or-more-owned domestic corporations (other than debt-financed stock)	80	
3	Dividends on debt-financed stock of domestic and foreign corporations	see instructions	
4	Dividends on certain preferred stock of less-than-20%-owned public utilities	42	
5	Dividends on certain preferred stock of 20%-or-more-owned public utilities	48	
6	Dividends from less-than-20%-owned foreign corporations and certain FSCs	70	
7	Dividends from 20%-or-more-owned foreign corporations and certain FSCs	80	
8	Dividends from wholly owned foreign subsidiaries	100	
9	Total. Add lines 1 through 8. See instructions for limitation		
10	Dividends from domestic corporations received by a small business investment company operating under the Small Business Investment Act of 1958	100	
11	Dividends from affiliated group members	100	
12	Dividends from certain FSCs	100	
13	Dividends from foreign corporations not included on lines 3, 6, 7, 8, 11, or 12		
14	Income from controlled foreign corporations under subpart F (attach Form(s) 5471)		
15	Foreign dividend gross-up		
16	IC-DISC and former DISC dividends not included on lines 1, 2, or 3		
17	Other dividends		
18	Deduction for dividends paid on certain preferred stock of public utilities		
19	Total dividends. Add lines 1 through 17. Enter here and on page 1, line 4		
20	Total special deductions. Add lines 9, 10, 11, 12, and 18. Enter here and on page 1, line 29b		

**Schedule E Compensation of Officers** (see instructions for page 1, line 12)

Note: Complete Schedule E only if total receipts (line 1a plus lines 4 through 10 on page 1) are \$500,000 or more.

(a) Name of officer	(b) Social security number	(c) Percent of time devoted to business	Percent of corporation stock owned		(f) Amount of compensation
			(d) Common	(e) Preferred	
1		%	%	%	
Information available in taxpayer's office.					
		%	%	%	
		%	%	%	
		%	%	%	
2	Total compensation of officers				1,640,106.
3	Compensation of officers claimed on Schedule A and elsewhere on return				
4	Subtract line 3 from line 2. Enter the result here and on page 1, line 12				1,640,106.

**Schedule J Tax Computation** (see instructions)

1	Check if the corporation is a member of a controlled group (attach Schedule O (Form 1120))	<input checked="" type="checkbox"/>	2	
2	Income tax. Check if a qualified personal service corporation (see instructions)	<input type="checkbox"/>	3	
3	Alternative minimum tax (attach Form 4626)		4	
4	Add lines 2 and 3		5a	
5a	Foreign tax credit (attach Form 1118)		5b	
b	Credit from Form 8834		5c	
c	General business credit (attach Form 3800)		5d	
d	Credit for prior year minimum tax (attach Form 8827)		5e	
e	Bond credits from Form 8912		6	
6	Total credits. Add lines 5a through 5e		7	
7	Subtract line 6 from line 4		8	
8	Personal holding company tax (attach Schedule PH (Form 1120))		9	
9	Other taxes. Check if from: <input type="checkbox"/> Form 4255 <input type="checkbox"/> Form 8611 <input type="checkbox"/> Form 8697 <input type="checkbox"/> Form 8866 <input type="checkbox"/> Form 8902 <input type="checkbox"/> Other (attach schedule)		10	NONE
10	Total tax. Add lines 7 through 9. Enter here and on page 1, line 31			

**Schedule K Other Information** (see instructions)

1	Check accounting method: a <input type="checkbox"/> Cash b <input checked="" type="checkbox"/> Accrual c <input type="checkbox"/> Other (specify) ▶	Yes	No
2	See the instructions and enter the:		
a	Business activity code no. ▶ 221300		
b	Business activity ▶ Water - Utility		
c	Product or service ▶ Water - Utility		
3	Is the corporation a subsidiary in an affiliated group or a parent-subsidary controlled group? If "Yes," enter name and EIN of the parent corporation ▶ American Water Works Co. Inc. 51-0063696	X	
4	At the end of the tax year:		
a	Did any foreign or domestic corporation, partnership (including any entity treated as a partnership), or trust own directly 20% or more, or own, directly or indirectly, 50% or more of the total voting power of all classes of the corporation's stock entitled to vote? For rules of constructive ownership, see instructions. If "Yes," complete (i) through (v).	X	

(i) Name of Entity	(ii) Employer Identification Number (if any)	(iii) Type of Entity	(iv) Country of Organization	(v) Percentage Owned in Voting Stock
American Water Works Company	51-0063696	Corporation	US	100.00

b Did any individual or estate own directly 20% or more, or own, directly or indirectly, 50% or more of the total voting power of all classes of the corporation's stock entitled to vote?  
For rules of constructive ownership, see instructions. If "Yes," complete (i) through (iv).

(i) Name of Individual or Estate	(ii) Identifying Number (if any)	(iii) Country of Citizenship (see instructions)	(iv) Percentage Owned in Voting Stock

**Schedule K** *Continued*

5 At the end of the tax year, did the corporation:  
 a Own directly 20% or more, or own, directly or indirectly, 50% or more of the total voting power of all classes of stock entitled to vote of any foreign or domestic corporation not included on Form 851, Affiliations Schedule? For rules of constructive ownership, see instructions . . . . .  Yes  No  
 If "Yes," complete (i) through (iv).

(i) Name of Corporation	(ii) Employer Identification Number (if any)	(iii) Country of Incorporation	(iv) Percentage Owned in Voting Stock

b Own directly an interest of 20% or more, or own, directly or indirectly, an interest of 50% or more in any foreign or domestic partnership (including an entity treated as a partnership) or in the beneficial interest of a trust? For rules of constructive ownership, see instructions . . . . .  Yes  No  
 If "Yes," complete (i) through (iv).

(i) Name of Entity	(ii) Employer Identification Number (if any)	(iii) Country of Organization	(iv) Maximum Percentage Owned in Profit, Loss, or Capital

6 During this tax year, did the corporation pay dividends (other than stock dividends and distributions in exchange for stock) in excess of the corporation's current and accumulated earnings and profits? (See sections 301 and 316.) . . . . .  Yes  No  
 If "Yes," file Form 5452, Corporate Report of Nondividend Distributions.  
 If this is a consolidated return, answer here for the parent corporation and on Form 851 for each subsidiary.

7 At any time during the tax year, did one foreign person own, directly or indirectly, at least 25% of (a) the total voting power of all classes of the corporation's stock entitled to vote or (b) the total value of all classes of the corporation's stock? . . . . .  Yes  No  
 For rules of attribution, see section 318. If "Yes," enter:  
 (i) Percentage owned ▶ 64.00 and (ii) Owner's country ▶ GM  
 (c) The corporation may have to file Form 5472, Information Return of a 25% Foreign-Owned U.S. Corporation or a Foreign Corporation Engaged in a U.S. Trade or Business. Enter the number of Forms 5472 attached ▶ \_\_\_\_\_

8 Check this box if the corporation issued publicly offered debt instruments with original issue discount . . . . .   
 If checked, the corporation may have to file Form 8281, Information Return for Publicly Offered Original Issue Discount Instruments.

9 Enter the amount of tax-exempt interest received or accrued during the tax year ▶ \$ \_\_\_\_\_

10 Enter the number of shareholders at the end of the tax year (if 100 or fewer) ▶ 1

11 If the corporation has an NOL for the tax year and is electing to forego the carryback period, check here . . . . .   
 If the corporation is filing a consolidated return, the statement required by Regulations section 1.1502-21(b)(3) must be attached or the election will not be valid.

12 Enter the available NOL carryover from prior tax years (do not reduce it by any deduction on line 29a.) ▶ \$ \_\_\_\_\_

13 Are the corporation's total receipts (line 1a plus lines 4 through 10 on page 1) for the tax year and its total assets at the end of the tax year less than \$250,000? . . . . .  Yes  No  
 If "Yes," the corporation is not required to complete Schedules L, M-1, and M-2 on page 5. Instead, enter the total amount of cash distributions and the book value of property distributions (other than cash) made during the tax year. ▶ \$ \_\_\_\_\_

Schedule L	Balance Sheets per Books	Beginning of tax year		End of tax year	
		(a)	(b)	(c)	(d)
<b>Assets</b>					
1	Cash		2,169,461.		975,485.
2a	Trade notes and accounts receivable	33,011,412.		35,304,478.	
b	Less allowance for bad debts	(6,585,214.)	26,426,198.	(4,820,492.)	30,483,986.
3	Inventories				
4	U.S. government obligations				
5	Tax-exempt securities (see instructions)				
6	Other current assets (attach schedule)	Stmt 5	40,961,372.		40,337,680.
7	Loans to shareholders				
8	Mortgage and real estate loans				
9	Other investments (attach schedule)	Stmt 5	1,200,268.		1,094,800.
10a	Buildings and other depreciable assets	2,620,138,593.		2,811,267,613.	
b	Less accumulated depreciation	(594,018,056.)	2,026,120,537.	(638,577,890.)	2,172,689,723.
11a	Depletable assets				
b	Less accumulated depletion				
12	Land (net of any amortization)		22,413,931.		24,311,889.
13a	Intangible assets (amortizable only)	37,771,012.		38,591,012.	
b	Less accumulated amortization	(1,206,841.)	36,564,171.		38,591,012.
14	Other assets (attach schedule)	Stmt 5	211,293,971.		206,108,354.
15	<b>Total assets</b>		2,367,149,909.		2,514,592,929.
<b>Liabilities and Shareholders' Equity</b>					
16	Accounts payable		28,531,038.		19,096,056.
17	Mortgages, notes, bonds payable in less than 1 year		11,818,817.		6,430,614.
18	Other current liabilities (attach schedule)	Stmt 6	148,308,936.		126,836,173.
19	Loans from shareholders				
20	Mortgages, notes, bonds payable in 1 year or more		837,794,698.		917,125,965.
21	Other liabilities (attach schedule)	Stmt 6	512,813,458.		562,875,247.
22	Capital stock: a Preferred stock	14,171,700.		14,171,700.	
b	Common stock	21,506,887.	35,678,587.	21,506,887.	35,678,587.
23	Additional paid-in capital		520,483,004.		553,814,160.
24	Retained earnings-Appropriated (attach schedule)		707,530.		707,530.
25	Retained earnings - Unappropriated		271,013,841.		292,028,597.
26	Adjustments to shareholders' equity (attach schedule)				
27	Less cost of treasury stock				
28	<b>Total liabilities and shareholders' equity</b>		2,367,149,909.		2,514,592,929.

**Schedule M-1 Reconciliation of Income (Loss) per Books With Income per Return**

Note: Schedule M-3 required instead of Schedule M-1 if total assets are \$10 million or more - see instructions

1	Net income (loss) per books	75,758,799.	7	Income recorded on books this year not included on this return (itemize):	
2	Federal income tax per books	42,476,113.		Tax-exempt interest \$	
3	Excess of capital losses over capital gains			See Statement 7	1,258,207.
4	Income subject to tax not recorded on books this year (itemize):	827,967.	8	Deductions on this return not charged against book income this year (itemize):	
5	Expenses recorded on books this year not deducted on this return (itemize):		a	Depreciation	39,199,629.
a	Depreciation		b	Charitable contributions	
b	Charitable contributions			See Statement 7	288,010,009.
c	Travel and entertainment	120,689.	9	Add lines 7 and 8	328,467,845.
	See Statement 7	12,118,332.	10	Income (page 1, line 28) - line 6 less line 9	-197,165,945.
6	Add lines 1 through 5	131,301,900.			

**Schedule M-2 Analysis of Unappropriated Retained Earnings per Books (Line 25, Schedule L)**

1	Balance at beginning of year	271,013,841.	5	Distributions: a Cash	54,744,039.
2	Net income (loss) per books	75,758,799.		b Stock	
3	Other increases (itemize):			c Property	
			6	Other decreases (itemize): Stmt 8	4.
			7	Add lines 5 and 6	54,744,043.
4	Add lines 1, 2, and 3	346,772,640.	8	Balance at end of year (line 4 less line 7)	292,028,597.

Schedule M-3 (Form 1120) 2008

Name of corporation (common parent, if consolidated return) **Pennsylvania-American Water Company** Employer identification number **25-1008096**

Check applicable box(es): (1)  Consolidated group (2)  Parent corp (3)  Consolidated eliminations (4)  Subsidiary corp (5)  Mixed 1120/LIPC group

Check if a sub-consolidated: (6)  1120 group (7)  1120 eliminations

Name of subsidiary (if consolidated return) \_\_\_\_\_ Employer identification number \_\_\_\_\_

**Part II Reconciliation of Net Income (Loss) per Income Statement of Includible Corporations With Taxable Income per Return (see instructions)**

Income (Loss) Items (Attach schedules for lines 1 through 11)	(a) Income (Loss) per Income Statement	(b) Temporary Difference	(c) Permanent Difference	(d) Income (Loss) per Tax Return
1 Income (loss) from equity method foreign corporations . . . . .				
2 Gross foreign dividends not previously taxed				
3 Subpart F, QEF, and similar income inclusions				
4 Section 78 gross-up . . . . .				
5 Gross foreign distributions previously taxed				
6 Income (loss) from equity method U.S. corporations . . . . .				
7 U.S. dividends not eliminated in tax consolidation . . . . .				
8 Minority interest for includible corporations . . . . .				
9 Income (loss) from U.S. partnerships . . . . .				
10 Income (loss) from foreign partnerships . . . . .				
11 Income (loss) from other pass-through entities				
12 Items relating to reportable transactions (attach details) . . . . .				
13 Interest income (attach Form 8916-A) . . . . .	50,205.			50,205.
14 Total accrual to cash adjustment . . . . .				
15 Hedging transactions . . . . .				
16 Mark-to-market income (loss) . . . . .				
17 Cost of goods sold (attach Form 8916-A) . . . . .	( 82,144,000. )	660,464.		( 81,483,536. )
18 Sale versus lease (for sellers and/or lessors)				
19 Section 481(a) adjustments . . . . .				
20 Unearned/deferred revenue . . . . .				
21 Income recognition from long-term contracts				
22 Original issue discount and other imputed interest . . . . .				
23a Income statement gain/loss on sale, exchange, abandonment, worthlessness, or other disposition of assets other than inventory and pass-through entities . . . . .	25,638.	-25,638.		
b Gross capital gains from Schedule D, excluding amounts from pass-through entities		7,679.		7,679.
c Gross capital losses from Schedule D, excluding amounts from pass-through entities, abandonment losses, and worthless stock losses . . . . .				
d Net gain/loss reported on Form 4797, line 17, excluding amounts from pass-through entities, abandonment losses, and worthless stock losses . . . . .		19,209.		19,209.
e Abandonment losses . . . . .		-2,328,552.		-2,328,552.
f Worthless stock losses (attach details) . . . . .				
g Other gain/loss on disposition of assets other than inventory . . . . .				
24 Capital loss limitation and carryforward used				
25 Other income (loss) items with differences (attach schedule) . . . . .	91,746,767.	826,717.		92,573,484.
26 Total income (loss) items. Combine lines 1 through 25 . . . . .	9,678,610.	-840,121.		8,838,489.
27 Total expense/deduction items (from Part III, line 38) . . . . .	-224,784,399.	-314,608,880.	42,524,257.	-496,869,022.
28 Other items with no differences . . . . .	290,864,588.			290,864,588.
29a Mixed groups, see instructions. All others, combine lines 26 through 28 . . . . .	75,758,799.	-315,449,001.	42,524,257.	-197,165,945.
b PC insurance subgroup reconciliation totals				
c Life insurance subgroup reconciliation totals				
30 Reconciliation totals. Combine lines 29a through 29c . . . . .	75,758,799.	-315,449,001.	42,524,257.	-197,165,945.

Note. Line 30, column (a), must equal the amount on Part I, line 11, and column (d) must equal Form 1120, page 1, line 28.

Name of corporation (common parent, if consolidated return) Pennsylvania-American Water Company Employer identification number 25-1008096

Check applicable box(es): (1)  Consolidated group (2)  Parent corp (3)  Consolidated eliminations (4)  Subsidiary corp (5)  Mixed 1120/L/PC group

Check if a sub-consolidated: (6)  1120 group (7)  1120 eliminations

Name of subsidiary (if consolidated return) \_\_\_\_\_ Employer identification number \_\_\_\_\_

**Part III** Reconciliation of Net Income (Loss) per Income Statement of Includible Corporations With Taxable Income per Return - Expense/Deduction Items (see instructions)

Expense/Deduction Items	(a) Expense per Income Statement	(b) Temporary Difference	(c) Permanent Difference	(d) Deduction per Tax Return
1 U.S. current income tax expense . . . . .	-6,323,463.		6,323,463.	
2 U.S. deferred income tax expense . . . . .	48,799,576.		-48,799,576.	
3 State and local current income tax expense . . . . .	8,389,151.			8,389,151.
4 State and local deferred income tax expense . . . . .	1,338,302.	-1,338,302.		
5 Foreign current income tax expense (other than foreign withholding taxes) . . . . .				
6 Foreign deferred income tax expense . . . . .				
7 Foreign withholding taxes . . . . .				
8 Interest expense (attach Form 8916-A) . . . . .	52,880,479.	1,048,532.	-1,061,727.	52,867,284.
9 Stock option expense . . . . .				
10 Other equity-based compensation . . . . .	21,376.	-10,666.		10,710.
11 Meals and entertainment . . . . .	241,378.		-120,689.	120,689.
12 Fines and penalties . . . . .	-5,489.		5,489.	
13 Judgments, damages, awards, and similar costs . . . . .	384,674.			384,674.
14 Parachute payments . . . . .				
15 Compensation with section 162(m) limitation . . . . .				
16 Pension and profit-sharing . . . . .	12,215,519.	-4,291,584.		7,923,935.
17 Other post-retirement benefits . . . . .	4,470,380.	-1,522,400.	1,258,207.	4,206,187.
18 Deferred compensation . . . . .				
19 Charitable contribution of cash and tangible property . . . . .	180,040.			180,040.
20 Charitable contribution of intangible property . . . . .				
21 Charitable contribution limitation/carryforward . . . . .				
22 Domestic production activities deduction . . . . .				
23 Current year acquisition or reorganization investment banking fees . . . . .				
24 Current year acquisition or reorganization legal and accounting fees . . . . .				
25 Current year acquisition/reorganization other costs . . . . .				
26 Amortization/impairment of goodwill . . . . .				
27 Amortization of acquisition, reorganization, and start-up costs . . . . .				
28 Other amortization or impairment write-offs . . . . .	1,914,832.	2,940,079.		4,854,911.
29 Section 198 environmental remediation costs . . . . .				
30 Depletion . . . . .				
31 Depreciation . . . . .	53,530,954.	42,189,916.		95,720,870.
32 Bad debt expense . . . . .	3,988,815.	1,764,722.		5,753,537.
33 Corporate owned life insurance premiums . . . . .				
34 Purchase versus lease (for purchasers and/or lessees) . . . . .				
35 Other expense/deduction items with differences (attach schedule) . . . . .	42,757,875.	273,828,583.	-129,424.	316,457,034.
36 Total expense/deduction items. Combine lines 1 through 35. Enter here and on Part II, line 27, reporting positive amounts as negative and negative amounts as positive . . . . .	224,784,399.	314,608,880.	-42,524,257.	496,869,022.

Department of the Treasury  
Internal Revenue Service

▶ See separate instructions.  
▶ Attach to the corporation's tax return.

**2008**

Name Pennsylvania-American Water Company

Employer identification number  
25-1008096

**Part I Alternative Minimum Tax Computation**

*Note: See the instructions to find out if the corporation is a small corporation exempt from the alternative minimum tax (AMT) under section 55(e).*

1	2	3	4	5	6	7	8	9	10	11	12	13	14
Taxable income or (loss) before net operating loss deduction													
2 Adjustments and preferences:													
a	2a												
b	2b												
c	2c												
d	2d												
e	2e												
f	2f												
g	2g												
h	2h												
i	2i												
j	2j												
k	2k												
l	2l												
m	2m												
n	2n												
o	2o												
3	3												
4 Adjusted current earnings (ACE) adjustment:													
a	4a												
b	4b												
c	4c												
d	4d												
e ACE adjustment:													
5 Combine lines 3 and 4e. If zero or less, stop here; the corporation does not owe any AMT.													
6 Alternative tax net operating loss deduction (see instructions).													
7 Alternative minimum taxable income. Subtract line 6 from line 5. If the corporation held a residual interest in a REMIC, see instructions.													
8 Exemption phase-out (if line 7 is \$310,000 or more, skip lines 8a and 8b and enter -0- on line 8c):													
a	8a												
b	8b												
c	8c												
9 Subtract line 8c from line 7. If zero or less, enter -0-													
10 If the corporation had qualified timber gain, complete Part II and enter the amount from line 24 here. Otherwise, multiply line 9 by 20% (.20)													
11 Alternative minimum tax foreign tax credit (AMTFTC) (see instructions)													
12 Tentative minimum tax. Subtract line 11 from line 10													
13 Regular tax liability before applying all credits except the foreign tax credit													
14 Alternative minimum tax. Subtract line 13 from line 12. If zero or less, enter -0-. Enter here and on Form 1120, Schedule J, line 3, or the appropriate line of the corporation's income tax return													

For Paperwork Reduction Act Notice, see the instructions.

Form **4626** (2008)

**Part II** Alternative Tax for Corporations with Qualified Timber Gain. Complete Part II only if the corporation had qualified timber gain under section 1201(b). See instructions.

15	Enter qualified timber gain from Schedule D (Form 1120), line 15, as refigured for the AMT, if necessary. If you are filing Form 1120-RIC, see instructions for the amount to enter. . . . .	15	
16	Enter the amount from Schedule D (Form 1120), line 13, as refigured for the AMT, if necessary . . .	16	19,209.
17	Enter the amount from Part I, line 9. . . . .	17	
18	Enter the <b>smallest</b> of the amount on line 15, line 16, or line 17. . . . .	18	
19	Multiply line 18 by 15% (.15) . . . . .	19	
20	Subtract line 18 from line 17 . . . . .	20	
21	Multiply line 20 by 20% (.20) . . . . .	21	
22	Enter the total of line 19 and line 21 . . . . .	22	
23	Multiply line 17 by 20% (.20) . . . . .	23	
24	Enter the <b>smaller</b> of line 22 or line 23 here and on part I, line 10. . . . .	24	

JSA  
8X2405 2.000

Form 4626 (2008)

Adjusted Current Earnings (ACE) Worksheet

▶ See ACE Worksheet Instructions (which begin on page 8).

1	Pre-adjustment AMTI. Enter the amount from line 3 of Form 4626		1	-172230751.
2	ACE depreciation adjustment:			
a	AMT depreciation	2a	140,872,914.	
b	ACE depreciation:			
(1)	Post-1993 property	2b(1)	142,980,428.	
(2)	Post-1989, pre-1994 property	2b(2)		
(3)	Pre-1990 MACRS property	2b(3)		
(4)	Pre-1990 original ACRS property	2b(4)		
(5)	Property described in sections 168(f)(1) through (4)	2b(5)		
(6)	Other property	2b(6)	329,734.	
(7)	Total ACE depreciation. Add lines 2b(1) through 2b(6)	2b(7)	143,310,162.	
c	ACE depreciation adjustment. Subtract line 2b(7) from line 2a		2c	-2,437,248.
3	Inclusion in ACE of items included in earnings and profits (E&P):			
a	Tax-exempt interest income	3a		
b	Death benefits from life insurance contracts	3b		
c	All other distributions from life insurance contracts (including surrenders)	3c		
d	Inside buildup of undistributed income in life insurance contracts	3d		
e	Other items (see Regulations sections 1.56(g)-1(c)(6)(iii) through (ix) for a partial list)	3e		
f	Total increase to ACE from inclusion in ACE of items included in E&P. Add lines 3a through 3e		3f	
4	Disallowance of items not deductible from E&P:			
a	Certain dividends received	4a		
b	Dividends paid on certain preferred stock of public utilities that are deductible under section 247.	4b		
c	Dividends paid to an ESOP that are deductible under section 404(k)	4c		
d	Nonpatronage dividends that are paid and deductible under section 1382(c)	4d		
e	Other items (see Regulations sections 1.56(g)-1(d)(3)(i) and (ii) for a partial list)	4e		
f	Total increase to ACE because of disallowance of items not deductible from E&P. Add lines 4a through 4e		4f	
5	Other adjustments based on rules for figuring E&P:			
a	Intangible drilling costs	5a		
b	Circulation expenditures	5b		
c	Organizational expenditures	5c		
d	LIFO inventory adjustments	5d		
e	Installment sales	5e		
f	Total other E&P adjustments. Combine lines 5a through 5e		5f	
6	Disallowance of loss on exchange of debt pools		6	
7	Acquisition expenses of life insurance companies for qualified foreign contracts		7	
8	Depletion		8	
9	Basis adjustments in determining gain or loss from sale or exchange of pre-1994 property		9	-455,311.
10	Adjusted current earnings. Combine lines 1, 2c, 3f, 4f, and 5f through 9. Enter the result here and on line 4a of Form 4626		10	-175123310.

**SCHEDULE D  
(Form 1120)**

Department of the Treasury  
Internal Revenue Service

**Capital Gains and Losses**

▶ Attach to Form 1120, 1120-C, 1120-F, 1120-FSC, 1120-H, 1120-IC-DISC, 1120-L, 1120-ND, 1120-PC, 1120-POL, 1120-REIT, 1120-RIC, 1120-SF, or certain Forms 990-T.

▶ See separate instructions.

OMB No. 1545-0123

**2008**

Name: Pennsylvania-American Water Company Employer identification number: 25-1008096

**Part I Short-Term Capital Gains and Losses - Assets Held One Year or Less**

(a) Description of property (Example: 100 shares of Z Co.)	(b) Date acquired (mo., day, yr.)	(c) Date sold (mo., day, yr.)	(d) Sales price (see instructions)	(e) Cost or other basis (see instructions)	(f) Gain or (loss) (Subtract (e) from (d))
1 See Statement 13					7,679.
2 Short-term capital gain from installment sales from Form 6252, line 26 or 37					2
3 Short-term gain or (loss) from like-kind exchanges from Form 8824					3
4 Unused capital loss carryover (attach computation)					4 ( )
5 Net short-term capital gain or (loss). Combine lines 1 through 4					5 7,679.

**Part II Long-Term Capital Gains and Losses - Assets Held More Than One Year**

6 See Statement 13					19,209.
7 Enter gain from Form 4797, line 7 or 9					7 NONE
8 Long-term capital gain from installment sales from Form 6252, line 26 or 37					8
9 Long-term gain or (loss) from like-kind exchanges from Form 8824					9
10 Capital gain distributions (see instructions)					10
11 Net long-term capital gain or (loss). Combine lines 6 through 10					11 19,209.

**Part III Summary of Parts I and II**

12 Enter excess of net short-term capital gain (line 5) over net long-term capital loss (line 11)		12 7,679.
13 Net capital gain. Enter excess of net long-term capital gain (line 11) over net short-term capital loss (line 5)		13 19,209.
14 Add lines 12 and 13. Enter here and on Form 1120, page 1, line 8, or the proper line on other returns. If the corporation has qualified timber gain, also complete Part IV		14 26,888.

Note. If losses exceed gains, see **Capital losses** in the instructions.

**Part IV Alternative Tax for Corporations with Qualified Timber Gains. Complete Part IV only if the corporation has qualified timber gain under section 1201(b). Skip this part if you are filing Form 1120-RIC. See instructions.**

15 Enter qualified timber gain (as defined in section 1201(b)(2))	15	
16 Enter taxable income from Form 1120, page 1, line 30, or the applicable line of your tax return	16	
17 Enter the smallest of: (a) the amount on line 15; (b) the amount on line 16; or (c) the amount on Part III, line 13	17	
18 Multiply line 17 by 15%	18	
19 Subtract line 13 from line 16. If zero or less, enter -0-	19	
20 Enter the tax on line 19, figured using the Tax Rate Schedule (or applicable tax rate) appropriate for the return with which Schedule D (Form 1120) is being filed	20	
21 Add lines 17 and 19	21	
22 Subtract line 21 from line 16. If zero or less, enter -0-	22	
23 Multiply line 22 by 35%	23	
24 Add lines 18, 20, and 23	24	
25 Enter the tax on line 16, figured using the Tax Rate Schedule (or applicable tax rate) appropriate for the return with which Schedule D (Form 1120) is being filed	25	
26 Enter the smaller of line 24 or line 25. Also enter this amount on Form 1120, Schedule J, line 2, or the applicable line of your tax return	26	

For Paperwork Reduction Act Notice, see the Instructions for Form 1120.

Schedule D (Form 1120) (2008)

**General Business Credit**

▶ See separate instructions.  
 ▶ Attach to your tax return.

Name(s) shown on return: Pennsylvania-American Water Company Identifying number: 25-1008096

**Part I Current Year Credit**

**Important:** You may not be required to complete and file a separate credit form (shown in parentheses below) to claim the credit. For details, see the instructions.

1 a	Investment credit (Form 3468, Part II only) (attach Form 3468)	1a	
b	Welfare-to-work credit (Form 8861)	1b	
c	Credit for increasing research activities (Form 6765)	1c	25,567.
d	Low-income housing credit (Form 8586, Part I only) (enter EIN if claiming this credit from a pass-through entity: _____)	1d	
e	Disabled access credit (Form 8826) (do not enter more than \$5,000)	1e	
f	Renewable electricity production credit (Form 8835, Part I only)	1f	
g	Indian employment credit (Form 8845)	1g	
h	Orphan drug credit (Form 8820)	1h	
i	New markets credit (Form 8874) (enter EIN if claiming this credit from a pass-through entity: _____)	1i	
j	Credit for small employer pension plan startup costs (Form 8881) (do not enter more than \$500)	1j	
k	Credit for employer-provided child care facilities and services (Form 8882) (enter EIN if claiming this credit from a pass-through entity: _____)	1k	
l	Biodiesel and renewable diesel fuels credit (attach Form 8864)	1l	
m	Low sulfur diesel fuel production credit (Form 8896)	1m	
n	Distilled spirits credit (Form 8906)	1n	
o	Nonconventional source fuel credit (Form 8907)	1o	
p	Energy efficient home credit (Form 8908)	1p	
q	Energy efficient appliance credit (Form 8909)	1q	
r	Alternative motor vehicle credit (Form 8910) (enter EIN if claiming this credit from a pass-through entity: _____)	1r	
s	Alternative fuel vehicle refueling property credit (Form 8911)	1s	
t	Credits for affected Midwestern disaster area employers (Form 5884-A)	1t	
u	Mine rescue team training credit (Form 8923)	1u	
v	Agricultural chemicals security credit (Form 8931)	1v	
w	Credit for employer differential wage payments (Form 8932)	1w	
x	Carbon dioxide sequestration credit (Form 8933)	1x	
y	Credit for contributions to selected community development corporations (Form 8847)	1y	
z	General credits from an electing large partnership (Schedule K-1 (Form 1065-B))	1z	
2	Add lines 1a through 1z	2	25,567.
3	Passive activity credits included on line 2 (see instructions)	3	
4	Subtract line 3 from line 2	4	25,567.
5	Passive activity credits allowed for 2008 (see instructions)	5	
6	Carryforward of general business credit to 2008. See instructions for the schedule to attach . . . * * See Statement 14	6	8,414.
7	Carryback of general business credit from 2009 (see instructions)	7	
8	Current year credit. Add lines 4 through 7	8	33,981.

For Paperwork Reduction Act Notice, see separate instructions.

Form 3800 (2008)

**Part II Allowable Credit**

9	Regular tax before credits:			
	<ul style="list-style-type: none"> <li>Individuals. Enter the amount from Form 1040, line 44 or Form 1040NR, line 41 . . . . .</li> <li>Corporations. Enter the amount from Form 1120, Schedule J, line 2; or the applicable line of your return . . . . .</li> <li>Estates and trusts. Enter the sum of the amounts from Form 1041, Schedule G, lines 1a and 1b, or the amount from the applicable line of your return . . . . .</li> </ul>		9	
10	Alternative minimum tax:			
	<ul style="list-style-type: none"> <li>Individuals. Enter the amount from Form 6251, line 36 . . . . .</li> <li>Corporations. Enter the amount from Form 4626, line 14 . . . . .</li> <li>Estates and trusts. Enter the amount from Schedule I (Form 1041), line 56 . . . . .</li> </ul>		10	
11	Add lines 9 and 10 . . . . .		11	
12a	Foreign tax credit . . . . .	12a		
b	Personal credits from Form 1040, lines 48 through 54 (or Form 1040NR, lines 45 through 49) . . . . .	12b		
c	Credit from Form 8834 . . . . .	12c		
d	Non-business alternative motor vehicle credit (Form 8910, line 18) . . . . .	12d		
e	Non-business alternative fuel vehicle refueling property credit (Form 8911, line 19) . . . . .	12e		
f	Add lines 12a through 12e . . . . .		12f	
13	Net income tax. Subtract line 12f from line 11. If zero, skip lines 14 through 17 and enter -0- on line 18a . . . . .		13	
14	Net regular tax. Subtract line 12f from line 9. If zero or less, enter -0- . . . . .	14		
15	Enter 25% (.25) of the excess, if any, of line 14 over \$25,000 (see instructions) . . . . .	15		
16	Tentative minimum tax:			
	<ul style="list-style-type: none"> <li>Individuals. Enter the amount from Form 6251, line 34 . . . . .</li> <li>Corporations. Enter the amount from Form 4626, line 12 . . . . .</li> <li>Estates and trusts. Enter the amount from Schedule I (Form 1041), line 54 . . . . .</li> </ul>	16		
17	Enter the greater of line 15 or line 16 . . . . .		17	
18a	Subtract line 17 from line 13. If zero or less, enter -0- . . . . .		18a	
b	For a corporation electing to accelerate the research credit, enter the bonus depreciation amount attributable to the research credit. (see instructions) . . . . .		18b	
c	Add lines 18a and 18b . . . . .		18c	
19a	Enter the smaller of line 8 or line 18c . . . . .		19a	
	Individuals, estates, and trusts: See the instructions for line 19a if claiming the research credit. C corporations: See the line 19a instructions if there has been an ownership change, acquisition, or reorganization.			
b	Enter the smaller of line 8 or line 18a. If you made an entry on line 18b, go to line 19c; otherwise, skip line 19c . . . . .		19b	
c	Subtract line 19b from line 19a. This is the refundable amount for a corporation electing to accelerate the research credit. Include this amount on line 32g of Form 1120 (or the applicable line of your return) . . . . .		19c	

**Part II Allowable Credit (Continued)**

Note. If you are not filing Form 8844, skip lines 20 through 24 and enter -0- on line 25.

20	Multiply line 16 by 75%		20
21	Enter the greater of line 15 or line 20		21
22	Subtract line 21 from line 13. If zero or less, enter -0-		22
23	Subtract line 19b from line 22. If zero or less, enter -0-		23
24	Enter the amount from Form 8844, line 10 or line 12		24
25	Empowerment zone and renewal community employment credit allowed. Enter the smaller of line 23 or line 24		25
26	Subtract line 15 from line 13. If zero or less, enter -0-		26
27	Add lines 19b and 25		27
28	Subtract line 27 from line 26. If zero or less, enter -0-		28
29a	Enter the investment credit from Form 3468, Part III, line 18 (attach Form 3468)	29a	
b	Enter the work opportunity credit from Form 5884, line 10 or line 12	29b	
c	Enter the alcohol and cellulosic biofuel fuels credit from Form 6478, line 15 or line 17	29c	
d	Enter the low-income housing credit from Form 8586, Part II, line 18 or line 20	29d	
e	Enter the renewable electricity, refined coal, and Indian coal production credit from Form 8835, Part II, line 36 or line 38	29e	
f	Enter the credit for employer social security and Medicare taxes paid on certain employee tips from Form 8846, line 12	29f	
g	Enter the qualified railroad track maintenance credit from Form 8900, line 12	29g	
30	Add lines 29a through 29g		30
31	Enter the smaller of line 28 or line 30		31
32	Credit allowed for the current year. Add lines 27 and 31. Report the amount from line 32 (if smaller than the sum of lines 8, 24, and 30, see instructions) as indicated below or on the applicable line of your return:		32
	<ul style="list-style-type: none"> <li>● Individuals. Form 1040, line 54 or Form 1040NR, line 49</li> <li>● Corporations. Form 1120, Schedule J, line 5c</li> <li>● Estates and trusts. Form 1041, Schedule G, line 2c</li> </ul>		

**Depreciation and Amortization**  
(Including Information on Listed Property)

▶ See separate instructions. ▶ Attach to your tax return.

Name(s) shown on return

Pennsylvania-American Water Company

Business or activity to which this form relates

Identifying number

25-1008096

**General Depreciation and Amortization**

**Part I Election To Expense Certain Property Under Section 179**

Note: If you have any listed property, complete Part V before you complete Part I.

1	Maximum amount. See the instructions for a higher limit for certain businesses	1
2	Total cost of section 179 property placed in service (see instructions)	2
3	Threshold cost of section 179 property before reduction in limitation (see instructions)	3
4	Reduction in limitation. Subtract line 3 from line 2. If zero or less, enter -0-	4
5	Dollar limitation for tax year. Subtract line 4 from line 1. If zero or less, enter -0-. If married filing separately, see instructions	5
6	(a) Description of property	(b) Cost (business use only)
		(c) Elected cost
7	Listed property. Enter the amount from line 29	7
8	Total elected cost of section 179 property. Add amounts in column (c), lines 6 and 7	8
9	Tentative deduction. Enter the smaller of line 5 or line 8	9
10	Carryover of disallowed deduction from line 13 of your 2007 Form 4562	10
11	Business income limitation. Enter the smaller of business income (not less than zero) or line 5 (see instructions)	11
12	Section 179 expense deduction. Add lines 9 and 10, but do not enter more than line 11	12
13	Carryover of disallowed deduction to 2009. Add lines 9 and 10, less line 12	13

Note: Do not use Part II or Part III below for listed property. Instead, use Part V.

**Part II Special Depreciation Allowance and Other Depreciation (Do not include listed property.) (See instructions.)**

14	Special depreciation allowance for qualified property (other than listed property) placed in service during the tax year (see instructions)	14	24,558,893.
15	Property subject to section 168(f)(1) election	15	
16	Other depreciation (including ACRS)	16	1,345,643.

**Part III MACRS Depreciation (Do not include listed property.) (See instructions.)**

**Section A**

17	MACRS deductions for assets placed in service in tax years beginning before 2008	17	67,933,047.
18	If you are electing to group any assets placed in service during the tax year into one or more general asset accounts, check here		

**Section B - Assets Placed in Service During 2008 Tax Year Using the General Depreciation System**

(a) Classification of property	(b) Month and year placed in service	(c) Basis for depreciation (business/investment use only - see instructions)	(d) Recovery period	(e) Convention	(f) Method	(g) Depreciation deduction
19a 3-year property		8,099,000.	3.000	HY	S/L	176,884.
b 5-year property		1,844,142.	5.000	HY	200 DB	368,828.
c 7-year property		602,667.	7.000	HY	200 DB	86,096.
d 10-year property						
e 15-year property						
f 20-year property						
g 25-year property		55,483,954.	25 yrs.	HY	S/L	1,141,271.
h Residential rental property			27.5 yrs.	MM	S/L	
			27.5 yrs.	MM	S/L	
i Nonresidential real property		5,509,096.	39 yrs.	MM	S/L	110,208.
				MM	S/L	

**Section C - Assets Placed in Service During 2008 Tax Year Using the Alternative Depreciation System**

20a Class life					S/L	
b 12-year			12 yrs.		S/L	
c 40-year			40 yrs.	MM	S/L	

**Part IV Summary (See instructions.)**

21	Listed property. Enter amount from line 28	21	
22	Total. Add amounts from line 12, lines 14 through 17, lines 19 and 20 in column (g), and line 21. Enter here and on the appropriate lines of your return. Partnerships and S corporations - see instr.	22	95,720,870.
23	For assets shown above and placed in service during the current year, enter the portion of the basis attributable to section 263A costs	23	

**Part V Listed Property** (Include automobiles, certain other vehicles, cellular telephones, certain computers, and property used for entertainment, recreation, or amusement.)

**Note:** For any vehicle for which you are using the standard mileage rate or deducting lease expense, complete only 24a, 24b, columns (a) through (c) of Section A, all of Section B, and Section C if applicable.

**Section A - Depreciation and Other Information** (Caution: See the instructions for limits for passenger automobiles.)

24a Do you have evidence to support the business/investment use claimed?		Yes	No	24b If "Yes," is the evidence written?		Yes	No	
(a) Type of property (list vehicles first)	(b) Date placed in service	(c) Business/investment use percentage	(d) Cost or other basis	(e) Basis for depreciation (business/investment use only)	(f) Recovery period	(g) Method/Convention	(h) Depreciation deduction	(i) Elected section 179 cost
25 Special depreciation allowance for qualified listed property placed in service during the tax year and used more than 50% in a qualified business use (see instructions) . . . . . 25								
26 Property used more than 50% in a qualified business use:								
		%						
		%						
		%						
27 Property used 50% or less in a qualified business use:								
		%				S/L -		
		%				S/L -		
		%				S/L -		
28 Add amounts in column (h), lines 25 through 27. Enter here and on line 21, page 1 . . . . .							28	
29 Add amounts in column (i), line 26. Enter here and on line 7, page 1 . . . . .								29

**Section B - Information on Use of Vehicles**

Complete this section for vehicles used by a sole proprietor, partner, or other "more than 5% owner," or related person. If you provided vehicles to your employees, first answer the questions in Section C to see if you meet an exception to completing this section for those vehicles.

	(a) Vehicle 1		(b) Vehicle 2		(c) Vehicle 3		(d) Vehicle 4		(e) Vehicle 5		(f) Vehicle 6	
	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No
30 Total business/investment miles driven during the year (do not include commuting miles) . . . . .												
31 Total commuting miles driven during the year . . . . .												
32 Total other personal (noncommuting) miles driven . . . . .												
33 Total miles driven during the year. Add lines 30 through 32 . . . . .												
34 Was the vehicle available for personal use during off-duty hours? . . . . .												
35 Was the vehicle used primarily by a more than 5% owner or related person? . . . . .												
36 Is another vehicle available for personal use? . . . . .												

**Section C - Questions for Employers Who Provide Vehicles for Use by Their Employees**

Answer these questions to determine if you meet an exception to completing Section B for vehicles used by employees who are not more than 5% owners or related persons (see instructions).

	Yes	No
37 Do you maintain a written policy statement that prohibits all personal use of vehicles, including commuting, by your employees? . . . . .		
38 Do you maintain a written policy statement that prohibits personal use of vehicles, except commuting, by your employees? See the instructions for vehicles used by corporate officers, directors, or 1% or more owners . . . . .		
39 Do you treat all use of vehicles by employees as personal use? . . . . .		
40 Do you provide more than five vehicles to your employees, obtain information from your employees about the use of the vehicles, and retain the information received? . . . . .		
41 Do you meet the requirements concerning qualified automobile demonstration use? (See instructions.) . . . . .		

Note: If your answer to 37, 38, 39, 40, or 41 is "Yes," do not complete Section B for the covered vehicles.

**Part VI Amortization**

(a) Description of costs	(b) Date amortization begins	(c) Amortizable amount	(d) Code section	(e) Amortization period or percentage	(f) Amortization for this year
42 Amortization of costs that begins during your 2008 tax year (see instructions):					
43 Amortization of costs that began before your 2008 tax year . . . . .				43	4,854,911.
44 Total. Add amounts in column (f). See the instructions for where to report . . . . .				44	4,854,911.

**Sales of Business Property**  
(Also Involuntary Conversions and Recapture Amounts  
Under Sections 179 and 280F(b)(2))

▶ Attach to your tax return. ▶ See separate instructions.

Name(s) shown on return <u>Pennsylvania-American Water Company</u>	Identifying number <u>25-1008096</u>
-----------------------------------------------------------------------	-----------------------------------------

1 Enter the gross proceeds from sales or exchanges reported to you for 2008 on Form(s) 1099-B or 1099-S (or substitute statement) that you are including on line 2, 10, or 20 (see instructions) 1

**Part I Sales or Exchanges of Property Used in a Trade or Business and Involuntary Conversions From Other Than Casualty or Theft - Most Property Held More Than 1 Year (see instructions)**

2	(a) Description of property	(b) Date acquired (mo., day, yr.)	(c) Date sold (mo., day, yr.)	(d) Gross sales price	(e) Depreciation allowed or allowable since acquisition	(f) Cost or other basis, plus improvements and expense of sale	(g) Gain or (loss) Subtract (f) from the sum of (d) and (e)
	<u>Stmt 16</u>						NONE

3 Gain, if any, from Form 4684, line 45	3	
4 Section 1231 gain from installment sales from Form 6252, line 26 or 37	4	
5 Section 1231 gain or (loss) from like-kind exchanges from Form 8824	5	
6 Gain, if any, from line 32, from other than casualty or theft	6	
7 Combine lines 2 through 6. Enter the gain or (loss) here and on the appropriate line as follows: <b>Partnerships (except electing large partnerships) and S corporations.</b> Report the gain or (loss) following the instructions for Form 1065, Schedule K, line 10, or Form 1120S, Schedule K, line 9. Skip lines 8, 9, 11, and 12 below. <b>Individuals, partners, S corporation shareholders, and all others.</b> If line 7 is zero or a loss, enter the amount from line 7 on line 11 below and skip lines 8 and 9. If line 7 is a gain and you did not have any prior year section 1231 losses, or they were recaptured in an earlier year, enter the gain from line 7 as a long-term capital gain on the Schedule D filed with your return and skip lines 8, 9, 11, and 12 below.	7	NONE
8 Nonrecaptured net section 1231 losses from prior years (see instructions)	8	
9 Subtract line 8 from line 7. If zero or less, enter -0-. If line 9 is zero, enter the gain from line 7 on line 12 below. If line 9 is more than zero, enter the amount from line 8 on line 12 below and enter the gain from line 9 as a long-term capital gain on the Schedule D filed with your return (see instructions)	9	

**Part II Ordinary Gains and Losses (see instructions)**

10 Ordinary gains and losses not included on lines 11 through 16 (include property held 1 year or less):

<u>Stmt 17</u>	
----------------	--

11 Loss, if any, from line 7	11	( )
12 Gain, if any, from line 7 or amount from line 8, if applicable	12	
13 Gain, if any, from line 31	13	
14 Net gain or (loss) from Form 4684, lines 37 and 44a	14	
15 Ordinary gain from installment sales from Form 6252, line 25 or 36	15	
16 Ordinary gain or (loss) from like-kind exchanges from Form 8824	16	
17 Combine lines 10 through 16	17	NONE
18 For all except individual returns, enter the amount from line 17 on the appropriate line of your return and skip lines a and b below. For individual returns, complete lines a and b below: a If the loss on line 11 includes a loss from Form 4684, line 41, column (b)(ii), enter that part of the loss here. Enter the part of the loss from income-producing property on Schedule A (Form 1040), line 28, and the part of the loss from property used as an employee on Schedule A (Form 1040), line 23. Identify as from "Form 4797, line 18a." See instructions	18a	
b Redetermine the gain or (loss) on line 17 excluding the loss, if any, on line 18a. Enter here and on Form 1040, line 14	18b	

For Paperwork Reduction Act Notice, see separate instructions.

Form 4797 (2008)

**Part III Gain From Disposition of Property Under Sections 1245, 1250, 1252, 1254, and 1255**  
(see instructions)

19 (a) Description of section 1245, 1250, 1252, 1254, or 1255 property:		(b) Date acquired (mo., day, yr.)	(c) Date sold (mo., day, yr.)
A			
B			
C			
D			
These columns relate to the properties on lines 19A through 19D. ▶		Property A	Property B
20	Gross sales price (Note: See line 1 before completing.)	20	
21	Cost or other basis plus expense of sale	21	
22	Depreciation (or depletion) allowed or allowable	22	
23	Adjusted basis. Subtract line 22 from line 21	23	
24	Total gain. Subtract line 23 from line 20	24	
25 If section 1245 property:			
a	Depreciation allowed or allowable from line 22	25a	
b	Enter the smaller of line 24 or 25a	25b	
26 If section 1250 property: If straight line depreciation was used, enter -0- on line 26g, except for a corporation subject to section 291.			
a	Additional depreciation after 1975 (see instructions)	26a	
b	Applicable percentage multiplied by the smaller of line 24 or line 26a (see instructions)	26b	
c	Subtract line 26a from line 24. If residential rental property or line 24 is not more than line 26a, skip lines 26d and 26e	26c	
d	Additional depreciation after 1969 and before 1976	26d	
e	Enter the smaller of line 26c or 26d	26e	
f	Section 291 amount (corporations only)	26f	
g	Add lines 26b, 26e, and 26f	26g	
27 If section 1252 property: Skip this section if you did not dispose of farmland or if this form is being completed for a partnership (other than an electing large partnership).			
a	Soil, water, and land clearing expenses	27a	
b	Line 27a multiplied by applicable percentage (see instructions)	27b	
c	Enter the smaller of line 24 or 27b	27c	
28 If section 1254 property:			
a	Intangible drilling and development costs, expenditures for development of mines and other natural deposits, and mining exploration costs (see instructions)	28a	
b	Enter the smaller of line 24 or 28a	28b	
29 If section 1255 property:			
a	Applicable percentage of payments excluded from income under section 126 (see instructions)	29a	
b	Enter the smaller of line 24 or 29a (see instructions)	29b	

**Summary of Part III Gains.** Complete property columns A through D through line 29b before going to line 30.

30	Total gains for all properties. Add property columns A through D, line 24	30
31	Add property columns A through D, lines 25b, 26g, 27c, 28b, and 29b. Enter here and on line 13	31
32	Subtract line 31 from line 30. Enter the portion from casualty or theft on Form 4684, line 39. Enter the portion from other than casualty or theft on Form 4797, line 6	32

**Part IV Recapture Amounts Under Sections 179 and 280F(b)(2) When Business Use Drops to 50% or Less**  
(see instructions)

	(a) Section 179	(b) Section 280F(b)(2)
33	Section 179 expense deduction or depreciation allowable in prior years	33
34	Recomputed depreciation (see instructions)	34
35	Recapture amount. Subtract line 34 from line 33. See the instructions for where to report	35

Department of the Treasury  
Internal Revenue Service

▶ Attach to your tax return.

Name(s) shown on return

Identifying number

Pennsylvania-American Water Company

25-1008096

**Section A - Regular Credit.** Skip this section and go to Section B or C if you are electing or previously elected (and are not revoking) the alternative incremental credit or the alternative simplified credit, respectively.

1	Certain amounts paid or incurred to energy consortia (see instructions)		1	
2	Basic research payments to qualified organizations (see instructions)	2		
3	Qualified organization base period amount	3		
4	Subtract line 3 from line 2. If zero or less, enter -0-		4	
5	Wages for qualified services (do not include wages used in figuring the work opportunity credit)	5	334,785.	
6	Cost of supplies	6		
7	Rental or lease costs of computers (see instructions)	7		
8	Enter the applicable percentage of contract research expenses (see instructions)	8	73,393.	
9	Total qualified research expenses. Add lines 5 through 8	9	408,178.	
10	Enter fixed-base percentage, but not more than 16% (see instructions)	10	0.070%	
11	Enter average annual gross receipts (see instructions)	11	400,493,095.	
12	Multiply line 11 by the percentage on line 10	12	280,345.	
13	Subtract line 12 from line 9. If zero or less, enter -0-	13	127,833.	
14	Multiply line 9 by 50% (.50)	14	204,089.	
15	Enter the smaller of line 13 or line 14	15		127,833.
16	Add lines 1, 4, and 15	16		127,833.
17	Are you electing the reduced credit under Section 280C? ▶ Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> If "Yes," multiply line 16 by 13% (.13). If "No," multiply line 16 by 20% (.20) and see the instructions for the schedule that must be attached. Members of controlled groups or businesses under common control: see instructions for the schedule that must be attached	17		25,567.

**Section B - Alternative Incremental Credit.** Skip this section if you are completing Section A or C.

18	Certain amounts paid or incurred to energy consortia (see the line 1 instructions)	18		
19	Basic research payments to qualified organizations (see the line 2 instructions)	19		
20	Qualified organization base period amount (see the line 3 instructions)	20		
21	Subtract line 20 from line 19. If zero or less, enter -0-	21		
22	Add lines 18 and 21	22		
23	Multiply line 22 by 20% (.20)	23		
24	Wages for qualified services (do not include wages used in figuring the work opportunity credit)	24		
25	Cost of supplies	25		
26	Rental or lease costs of computers (see the line 7 instructions)	26		
27	Enter the applicable percentage of contract research expenses (see the line 8 instructions)	27		
28	Total qualified research expenses. Add lines 24 through 27	28		
29	Enter average annual gross receipts (see the line 11 instructions)	29		
30	Multiply line 29 by 1% (.01)	30		
31	Subtract line 30 from line 28. If zero or less, enter -0-	31		
32	Multiply line 29 by 1.5% (.015)	32		
33	Subtract line 32 from line 28. If zero or less, enter -0-	33		
34	Subtract line 33 from line 31	34		
35	Multiply line 29 by 2% (.02)	35		
36	Subtract line 35 from line 28. If zero or less, enter -0-	36		
37	Subtract line 36 from line 33	37		

For Paperwork Reduction Act Notice, see instructions.

Form **6765** (2008)

**Section B - Alternative Incremental Credit** (continued)

38	Multiply line 34 by 3% (.03)	38	
39	Multiply line 37 by 4% (.04)	39	
40	Multiply line 36 by 5% (.05)	40	
41	Add lines 23, 38, 39, and 40	41	
42	Are you electing the reduced credit under section 280C? <input type="checkbox"/> Yes <input type="checkbox"/> No If "Yes," multiply line 41 by 65% (.65). If "No," enter the amount from line 41 and see the line 1.7 instructions for the schedule that must be attached. Members of controlled groups or businesses under common control: see instructions for the schedule that must be attached	42	

**Section C - Alternative Simplified Credit.** Skip this section if you are completing Section A or B.

43	Certain amounts paid or incurred to energy consortia (see the line 1 instructions)	43	
44	Basic research payments to qualified organizations (see the line 2 instructions)	44	
45	Qualified organization base period amount (see the line 3 instructions)	45	
46	Subtract line 45 from line 44. If zero or less, enter -0-	46	
47	Add lines 43 and 46	47	
48	Multiply line 47 by 20% (.20)	48	
49	Wages for qualified services (do not include wages used in figuring the work opportunity credit)	49	
50	Cost of supplies	50	
51	Rental or lease costs of computers (see the line 7 instructions)	51	
52	Enter the applicable percentage of contract research expenses (see the line 8 instructions)	52	
53	Total qualified research expenses. Add lines 49 through 52	53	
54	Enter your total qualified research expenses for the prior 3 tax years. If you had no qualified research expenses in any one of those years, skip lines 55 and 56	54	
55	Divide line 54 by 6.0	55	
56	Subtract line 55 from line 53. If zero or less, enter -0-	56	
57	Multiply: • Line 56 by 12% (.12) for tax years ending before 2009, • Line 56 by 14% (.14) for tax years ending after 2008, or • Line 53 by 6% (.06) if you skipped lines 55 and 56.	57	
58	Add lines 48 and 57	58	
59	Are you electing the reduced credit under section 280C? <input type="checkbox"/> Yes <input type="checkbox"/> No If "Yes," multiply line 58 by 65% (.65). If "No," enter the amount from line 58 and see the line 17 instructions for the schedule that must be attached. Members of controlled groups or businesses under common control: see instructions for the schedule that must be attached	59	

**Section D - Summary**

60	Enter the portion of the credit from Form 8932, line 2, that is attributable to wages that were also used to figure the credit on line 17, line 42, or line 59 (whichever applies)	60	
61	Subtract line 60 from line 17, line 42, or line 59 (whichever applies). If zero or less, enter -0-	61	25,567.
62	Credit for increasing research activities from partnerships, S corporations, estates, and trusts	62	
63	Add lines 61 and 62. Estates and trusts go to line 64; partnerships and S corporations, report this amount on Schedule K; all others, report this amount on line 1c of Form 3800	63	25,567.
64	Amount allocated to beneficiaries of the estate or trust (see instructions)	64	
65	Estates and trusts: subtract line 64 from line 63. Report the credit on line 1c of Form 3800	65	

**Asset Acquisition Statement**  
**Under Section 1060**

Department of the Treasury  
Internal Revenue Service

▶ Attach to your income tax return. ▶ See separate instructions.

Attachment  
Sequence No. **61**

Name as shown on return <u>Pennsylvania-American Water Company</u>	Identifying number as shown on return <u>25-1008096</u>
-----------------------------------------------------------------------	------------------------------------------------------------

Check the box that identifies you:  
 Purchaser     Seller

**Part I General Information**

1 Name of other party to the transaction <u>Three Lane Utilities</u>	Other party's identifying number <u>23-2465893</u>
-------------------------------------------------------------------------	-------------------------------------------------------

PO Box 927  
City or town, state, and ZIP code  
Milford, PA 18337

2 Date of sale <u>09/10/2008</u>	3 Total sales price (consideration) <u>1,191,021.</u>
-------------------------------------	----------------------------------------------------------

**Part II Original Statement of Assets Transferred**

4 Assets	Aggregate fair market value (actual amount for Class I)	Allocation of sales price
Class I	\$	\$
Class II	\$	\$
Class III	\$	\$
Class IV	\$	\$
Class V	\$ <u>1,191,021.</u>	\$ <u>1,191,021.</u>
Class VI and VII	\$	\$
<b>Total</b>	\$ <u>1,191,021.</u>	\$ <u>1,191,021.</u>

5 Did the purchaser and seller provide for an allocation of the sales price in the sales contract or in another written document signed by both parties? . . . . .  Yes  No  
If "Yes," are the aggregate fair market values (FMV) listed for each of asset Classes I, II, III, IV, V, VI, and VII the amounts agreed upon in your sales contract or in a separate written document? . . . . .  Yes  No

6 In the purchase of the group of assets (or stock), did the purchaser also purchase a license or a covenant not to compete, or enter into a lease agreement, employment contract, management contract, or similar arrangement with the seller (or managers, directors, owners, or employees of the seller)? . . . . .  Yes  No  
If "Yes," attach a schedule that specifies (a) the type of agreement and (b) the maximum amount of consideration (not including interest) paid or to be paid under the agreement. See instructions.

For Paperwork Reduction Act Notice, see separate instructions.

**Part III Supplemental Statement** - Complete only if amending an original statement or previously filed supplemental statement because of an increase or decrease in consideration. See instructions.

7 Tax year and tax return form number with which the original Form 8594 and any supplemental statements were filed.

8 Assets	Allocation of sales price as previously reported	Increase or (decrease)	Redetermined allocation of sales price
Class I	\$	\$	\$
Class II	\$	\$	\$
Class III	\$	\$	\$
Class IV	\$	\$	\$
Class V	\$	\$	\$
Class VI and VII	\$	\$	\$
Total	\$		\$

9 Reason(s) for increase or decrease. Attach additional sheets if more space is needed.

**Asset Acquisition Statement  
 Under Section 1060**

▶ Attach to your income tax return. ▶ See separate instructions.

Name as shown on return <u>Pennsylvania-American Water Company</u>	Identifying number as shown on return <u>25-1008096</u>
-----------------------------------------------------------------------	------------------------------------------------------------

Check the box that identifies you:

Purchaser  Seller

**Part I General Information**

1 Name of other party to the transaction <u>Paddlers Point, LLC</u>	Other party's identifying number
------------------------------------------------------------------------	----------------------------------

Address (number, street, and room or suite no.)

520 West Nyack Road

City or town, state, and ZIP code

Nyack, NY 10994

2 Date of sale <u>09/10/2008</u>	3 Total sales price (consideration) <u>225,000.</u>
-------------------------------------	--------------------------------------------------------

**Part II Original Statement of Assets Transferred**

4 Assets	Aggregate fair market value (actual amount for Class I)	Allocation of sales price
Class I	\$	\$
Class II	\$	\$
Class III	\$	\$
Class IV	\$	\$
Class V	\$ <u>225,000.</u>	\$ <u>225,000.</u>
Class VI and VII	\$	\$
<b>Total</b>	\$ <u>225,000.</u>	\$ <u>225,000.</u>

5 Did the purchaser and seller provide for an allocation of the sales price in the sales contract or in another written document signed by both parties?  Yes  No  
 If "Yes," are the aggregate fair market values (FMV) listed for each of asset Classes I, II, III, IV, V, VI, and VII the amounts agreed upon in your sales contract or in a separate written document?  Yes  No

6 In the purchase of the group of assets (or stock), did the purchaser also purchase a license or a covenant not to compete, or enter into a lease agreement, employment contract, management contract, or similar arrangement with the seller (or managers, directors, owners, or employees of the seller)?  Yes  No  
 If "Yes," attach a schedule that specifies (a) the type of agreement and (b) the maximum amount of consideration (not including interest) paid or to be paid under the agreement. See instructions.

For Paperwork Reduction Act Notice, see separate instructions.





Form **8594**

(Rev. February 2006)

Department of the Treasury  
Internal Revenue Service

**Asset Acquisition Statement  
Under Section 1060**

▶ Attach to your income tax return.

▶ See separate instructions.

OMB No. 1545-1021

Attachment  
Sequence No. **61**

Name as shown on return

Identifying number as shown on return

Pennsylvania-American Water Company

25-1008096

Check the box that identifies you:

Purchaser  Seller

**Part I General Information**

1 Name of other party to the transaction

Other party's identifying number

Claysville-Donegal Joint Municipal Authority

25-6188065

Address (number, street, and room or suite no.)

314 Main Street

City or town, state, and ZIP code

Claysville, PA 15323

2 Date of sale

3 Total sales price (consideration)

07/31/2008

2,364,694.

**Part II Original Statement of Assets Transferred**

4 Assets	Aggregate fair market value (actual amount for Class I)	Allocation of sales price
Class I	\$	\$
Class II	\$	\$
Class III	\$	\$
Class IV	\$	\$
Class V	\$ <u>2,364,694.</u>	\$ <u>2,364,694.</u>
Class VI and VII	\$	\$
Total	\$ <u>2,364,694.</u>	\$ <u>2,364,694.</u>

5 Did the purchaser and seller provide for an allocation of the sales price in the sales contract or in another written document signed by both parties?  Yes  No

If "Yes," are the aggregate fair market values (FMV) listed for each of asset Classes I, II, III, IV, V, VI, and VII the amounts agreed upon in your sales contract or in a separate written document?  Yes  No

6 In the purchase of the group of assets (or stock), did the purchaser also purchase a license or a covenant not to compete, or enter into a lease agreement, employment contract, management contract, or similar arrangement with the seller (or managers, directors, owners, or employees of the seller)?  Yes  No

If "Yes," attach a schedule that specifies (a) the type of agreement and (b) the maximum amount of consideration (not including interest) paid or to be paid under the agreement. See instructions.

For Paperwork Reduction Act Notice, see separate instructions.

Form **8594** (Rev. 2-2006)



**Asset Acquisition Statement**  
**Under Section 1060**

▶ Attach to your income tax return. ▶ See separate instructions.

Name as shown on return <b>Pennsylvania-American Water Company</b>	Identifying number as shown on return <b>25-1008096</b>
Check the box that identifies you: <input checked="" type="checkbox"/> Purchaser <input type="checkbox"/> Seller	

**Part I General Information**

1 Name of other party to the transaction <b>Mountain Top Estates Property Owners Associat</b> Address (number, street, and room or suite no.) <b>351 7000 Lake Drive</b> City or town, state, and ZIP code <b>East Stroudsburg, PA 18301</b>	Other party's identifying number
2 Date of sale <b>05/30/2008</b>	3 Total sales price (consideration) <b>257,954.</b>

**Part II Original Statement of Assets Transferred**

4 Assets	Aggregate fair market value (actual amount for Class I)	Allocation of sales price
Class I	\$	\$
Class II	\$	\$
Class III	\$	\$
Class IV	\$	\$
Class V	\$ <b>257,954.</b>	\$ <b>257,954.</b>
Class VI and VII	\$	\$
<b>Total</b>	<b>\$ 257,954.</b>	<b>\$ 257,954.</b>

5 Did the purchaser and seller provide for an allocation of the sales price in the sales contract or in another written document signed by both parties? . . . . .  Yes  No  
 If "Yes," are the aggregate fair market values (FMV) listed for each of asset Classes I, II, III, IV, V, VI, and VII the amounts agreed upon in your sales contract or in a separate written document? . . . . .  Yes  No

6 In the purchase of the group of assets (or stock), did the purchaser also purchase a license or a covenant not to compete, or enter into a lease agreement, employment contract, management contract, or similar arrangement with the seller (or managers, directors, owners, or employees of the seller)? . . . . .  Yes  No  
 If "Yes," attach a schedule that specifies (a) the type of agreement and (b) the maximum amount of consideration (not including interest) paid or to be paid under the agreement. See instructions.



**Asset Acquisition Statement**  
**Under Section 1060**

▶ Attach to your income tax return. ▶ See separate instructions.

Name as shown on return  <u>Pennsylvania-American Water Company</u>	Identifying number as shown on return  <u>25-1008096</u>
Check the box that identifies you: <input checked="" type="checkbox"/> Purchaser <input type="checkbox"/> Seller	

**Part I General Information**

1 Name of other party to the transaction  <u>Clarion Area Authority</u>	Other party's identifying number  <u>25-1156434</u>
Address (number, street, and room or suite no.)  <u>14 North Fifth Street</u>	
City or town, state, and ZIP code  <u>Clarion, PA 16214</u>	
2 Date of sale  <u>10/30/2008</u>	3 Total sales price (consideration)  <u>4,204,436.</u>

**Part II Original Statement of Assets Transferred**

4 Assets	Aggregate fair market value (actual amount for Class I)	Allocation of sales price
Class I	\$	\$
Class II	\$	\$
Class III	\$	\$
Class IV	\$	\$
Class V	\$ 4,204,436.	\$ 4,204,436.
Class VI and VII	\$	\$
<b>Total</b>	<b>\$ 4,204,436.</b>	<b>\$ 4,204,436.</b>

5 Did the purchaser and seller provide for an allocation of the sales price in the sales contract or in another written document signed by both parties?  Yes  No  
 If "Yes," are the aggregate fair market values (FMV) listed for each of asset Classes I, II, III, IV, V, VI, and VII the amounts agreed upon in your sales contract or in a separate written document?  Yes  No

6 In the purchase of the group of assets (or stock), did the purchaser also purchase a license or a covenant not to compete, or enter into a lease agreement, employment contract, management contract, or similar arrangement with the seller (or managers, directors, owners, or employees of the seller)?  Yes  No  
 If "Yes," attach a schedule that specifies (a) the type of agreement and (b) the maximum amount of consideration (not including interest) paid or to be paid under the agreement. See instructions.

For Paperwork Reduction Act Notice, see separate instructions.



▶ Attach to Schedule M-3 for Form 1065, 1120, 1120-L, 1120-PC, or 1120S.

Name of common parent <b>Pennsylvania-American Water Company</b>	Employer identification number <b>25-1008096</b>
Name of subsidiary	Employer identification number

**Part I Cost of Goods Sold**

Cost of Goods Sold Items	(a) Expense per Income Statement	(b) Temporary Difference	(c) Permanent Difference	(d) Deduction per Tax Return
1 Amounts attributable to cost flow assumptions . . . . .				
2 Amounts attributable to:				
a Stock option expense . . . . .				
b Other equity based compensation . . . . .				
c Meals and entertainment . . . . .				
d Parachute payments . . . . .				
e Compensation with section 162(m) limitation . . . . .				
f Pension and profit sharing . . . . .				
g Other post-retirement benefits . . . . .				
h Deferred compensation . . . . .				
i Section 198 environmental remediation costs . . . . .				
j Amortization . . . . .				
k Depletion . . . . .				
l Depreciation . . . . .				
m Corporate owned life insurance premiums . . . . .				
n Other section 263A costs . . . . .				
3 Inventory shrinkage accruals . . . . .				
4 Excess inventory and obsolescence reserves . . . . .				
5 Lower of cost or market write-downs . . . . .				
6 Other items with differences (attach schedule) <b>Sum 18</b> . . . . .	<b>82,144,000.</b>	<b>-660,464.</b>		<b>81,483,536.</b>
7 Other items with no differences . . . . .				
8 Total cost of goods sold. Add lines 1 through 7, in columns a, b, c, and d . . . . .	<b>82,144,000.</b>	<b>-660,464.</b>		<b>81,483,536.</b>

For Paperwork Reduction Act Notice, see page 4.

Form 8916-A (2008)

**Part II Interest Income**

	Interest Income Item	(a) Income (Loss) per Income Statement	(b) Temporary Difference	(c) Permanent Difference	(d) Income (Loss) per Tax Return
1	Tax-exempt interest income				
2	Interest income from hybrid securities				
3	Sale/lease interest income				
4 a	Intercompany interest income - From outside tax affiliated group				
4 b	Intercompany interest income - From tax affiliated group				
5	Other interest income <b>Stmt 19</b>	50,205.			50,205.
6	Total interest income. Add lines 1 through 5. Enter total on Schedule M-3 (Forms 1120, 1120-PC, and 1120-L), Part II, line 13 or Schedule M-3 (Forms 1065 and 1120-S) Part II, line 11.	50,205.			50,205.

**Part III Interest Expense**

	Interest Expense Item	(a) Expense per Income Statement	(b) Temporary Difference	(c) Permanent Difference	(d) Deduction per Tax Return
1	Interest expense from hybrid securities				
2	Lease/purchase interest expense				
3 a	Intercompany interest expense - Paid to outside tax affiliated group				
3 b	Intercompany interest expense - Paid to tax affiliated group	22,000,022.			22,000,022.
4	Other interest expense <b>Stmt 20</b>	30,880,457.	1,048,532.	-1,061,727.	30,867,262.
5	Total interest expense. Add lines 1 through 4. Enter total on Schedule M-3 (Form 1120) Part III, line 8; Schedule M-3 (Forms 1120-PC and 1120-L), Part III, line 36; Schedule M-3 (Form 1065) Part III, line 27; or Schedule M-3 (Form 1120-S) Part III, line 26.	52,880,479.	1,048,532.	-1,061,727.	52,867,284.

Form 1120, Page 1 Detail

Line 5 - Interest income

Interest Income	50,205.
	-----
Total	50,205.
	=====

Line 10 - Other income

Collection Revenue	960,641.
NSF Check charges	116,382.
Litigation Accrual	345,000.
Other Income	1,139,462.
	-----
Total	2,561,485.
	=====



Form 1120, Page 1 Detail

Line 17 - Tax Summary

Taxes (excluding income taxes)	12,123,436.
Other state and local taxes	8,389,151.
	-----
Total	20,512,587.
	=====

Line 17 - Taxes and licenses

Miscellaneous Fees	2,641,576.
Payroll Taxes	3,576,653.
Property Taxes	3,672,497.
Miscellaneous Taxes	2,232,710.
Current State Income Tax	8,389,151.
	-----
Total	20,512,587.
	=====

Form 1120, Page 1 Detail

Line 19 - Current year contributions

Current Year Contributions	180,040.
Total	180,040.

Line 26 - Other deductions

Amortization	4,854,911.
Travel, meals and entertainment	120,689.
Abandonment Losses	2,328,552.
Bank Fees	810,710.
Contract Services	4,242,705.
Credit Line Fees	112,779.
Director Expenses	61,058.
Dues & Memberships	338,731.
General Office Expense	43,182.
Management Fees	40,008,441.
R & D Expense	72,290.
Security Services	839,873.
Shipping & Postage	2,820,433.
Software Licenses & Support	40,828.
Supplies	1,015,949.
Telephone & Related Exp.	2,452,985.
Transportation	6,757,164.
Utilities	2,635,286.
Other Miscellaneous Expense	4,147,363.
Total	73,703,929.

Form 1120, Page 2 Detail

Sch A, Line 5 - Other costs

Chemicals	7,826,601.
Contract Services	2,813,165.
Fuel & Power	14,204,112.
Ins. Other Than Group	7,576,360.
Maintenance Expense	2,852,998.
Materials & Supplies	667,752.
Materials & Supplies-Maintenance	2,305,043.
Purchased Water	2,644,297.
Regulatory expenses	174,123.
Waste Disposal	2,711,827.
Other COGS Expense	703,374.
	-----
Total	44,479,652.
	=====

Form 1120, Page 5 Detail

Sch L, Line 6 -

Other current assets	Beginning	Ending
Current Def Fed Tax	1,262,382.	1,839,951.
Current Def State Tax	400,311.	583,462.
Deferred Vacation Pay	2,224,440.	2,515,690.
Deposits		588.
Deferred Tax Assets		806,333.
Materials & Supplies	3,595,359.	4,239,339.
Miscellaneous Receivables	1,663,630.	2,550,571.
Prepays	3,012,589.	2,197,523.
SIT Refund Receivable	3,549,334.	
Unbilled Revenue	25,253,327.	25,381,384.
Intercompany Receivable		222,839.
Total	40,961,372.	40,337,680.

Sch L, Line 9 - Other investments

Other Investments	1,200,268.	1,094,800.
Total	1,200,268.	1,094,800.

Sch L, Line 14 - Other assets

Capitalized Debt & Pfd. Stock Costs	13,510,517.	11,761,368.
Constr. Work in Progress	36,081,694.	39,932,992.
Customer Service Project	4,097,881.	3,114,390.
Deferred Assets	33,780,378.	23,242,911.
Deferred Federal Taxes		101,841.
Deferred State Taxes		32,294.
InterCompany Receivables	38,759.	85,126.
Regulatory Asset	119,969,303.	127,781,889.
Retirement WIP	3,756,611.	2.
Other NonCurrent Assets	58,828.	55,541.
Total	211,293,971.	206,108,354.

Form 1120, Page 5 Detail

Sch L, Line 18 -

Other current liabilities

	Beginning	Ending
Accrued Federal Income Tax	33,720,264.	
Accrued State Taxes	4,987,064.	966,832.
Accrued Interest	10,577,935.	10,988,174.
Accrued Liabilities	11,085,025.	15,468,910.
Accrued Payroll Taxes	296,583.	19,728.
Accrued Property taxes		44,511.
Accrued Taxes	351,539.	1,085,581.
Accrued Vacation Pay	2,224,440.	2,515,690.
Intercompany Payables	70,888,543.	83,254,269.
Other Current Liabilities	14,177,543.	12,492,478.
<b>Total</b>	<b>148,308,936.</b>	<b>126,836,173.</b>

Sch L, Line 21 - Other liabilities

Accrued Incentive Plan	1,374,682.	2,058,130.
Accrued Pension	17,438,204.	10,227,569.
Accrued Post Retirement Benefits	3,366,572.	3,641,805.
Accum Amort - CIAC	-31,347,661.	-34,337,948.
Advances for Construction	92,803,942.	90,540,322.
Contr. in Aid of Constr.	127,457,181.	136,576,047.
Deferred Federal Taxes	232,212,149.	280,197,337.
Deferred Liabilities	3,584,303.	2,775,653.
Deferred State Taxes	65,924,086.	71,196,332.
<b>Total</b>	<b>512,813,458.</b>	<b>562,875,247.</b>

Form 1120, Page 5 Detail

Sch M-1, Line 4 - Income subject to tax not recorded on books

Gain or loss on disposition of assets	1,250.
Taxable Contributions	34,130.
Taxable Advances	361,321.
scrap sales	86,266.
Litigation Accrual	345,000.
	-----
Total	827,967.
	=====

Sch M-1, Line 5 - Expenses recorded on books not deducted on return

State taxes	1,338,302.
FAS 123 (r) STOCK OPTIONS	119,316.
Accrued OPEB	1,522,400.
Amortization of Regulatory Asset	274,068.
Deferred Customer Service Center Costs	983,491.
Deferred Security Costs	1,664,074.
Div-Dec PS-Out w Mandatory Redemption	1,061,727.
Net Negative Salvage	525,581.
NonDeductible Dues	103,857.
Pension	4,182,934.
Rate Case Expense	317,015.
R&D	25,567.
	-----
Total	12,118,332.
	=====

Sch M-1, Line 7 - Income recorded on books not included on return

Medicare Subsidy-Perm	1,258,207.
	-----
Total	1,258,207.
	=====

Sch M-1, Line 8 - Deductions on return not recorded on books

Bad debts	1,764,722.
Amortization	3,214,147.
Abandonment Loss	2,328,552.
AFUDC	563,606.
Accrued Incentive	107,347.

Continued on next page

Statement 7

Form 1120, Page 5 Detail

Sch M-1, Line 8 - Deductions on return not recorded on books (Cont'd)

Amortization of Advances and Contributions	2,990,287.
Management Study	220,534.
Miscellaneous Deferred Credits	484,926.
Miscellaneous Deferred Debits	419,508.
NonDeductible Penalties	5,489.
Vacation Pay	60,667.
Repairs	99,873,063.
Repairs 481 (a)	175,977,161.
	-----
Total	288,010,009.
	=====

Sch M-2, Line 6 - Other decreases

Prior Period Adjustments	4.
	-----
Total	4.
	=====

Schedule M-3, Part II Detail

Line 25 - Other income (loss) items with differences

Description	Income (Loss) Per Income Stmt	Temporary Difference	Permanent Difference	Income (Loss) Per Tax Return
Litigation Accrual		345,000.		345,000.
Advances and Contributions		395,451.		395,451.
Misc. Other Income(Loss) Items with Diff	91,746,767.	86,266.		91,833,033.
Total	91,746,767.	826,717.		92,573,484.

Schedule M-3, Part II Detail

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Line 28 - Other items with no differences

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Other items with no differences

290,864,588.

Total

-----  
290,864,588.  
=====

Schedule M-3, Part III Detail

Line 35 - Other expense/deduction items with differences

Description	Expense Per Income Stmt	Temporary Difference	Permanent Difference	Deduction Per Tax Return
Contract Services	26,276,690.			26,276,690.
Dues & Memberships	442,588.		-103,857.	338,731.
R & D Expense	97,857.		-25,567.	72,290.
Security Services	2,503,947.	-1,664,074.		839,873.
Other Employee Benefits	646,045.			646,045.
Repairs & Maintenance	10,167,150.	-525,581.		9,641,569.
2001 - 2007 Repairs 481(a) Adjustment		175,977,161.		175,977,161.
Current Year Repairs Adjustment		99,873,063.		99,873,063.
Incentive Plan Expense	1,640,106.	107,347.		1,747,453.
Vacation Pay		60,667.		60,667.
Misc.Other Expense/Deduction Items with	983,492.			983,492.
Total	42,757,875.	273,828,583.	-129,424.	316,457,034.

Form 4626, Page 1 Detail

Line 2o - Contributions Adjustment

Regular Contributions	180,040.
AMT Contributions	180,040.
Contribution adjustment	NONE

Line 2o - Other Adjustments

Contributions	NONE
2001 - 2007 Repairs 481(a) Adjustment	7,697,338.
Total	7,697,338.

Schedule D Detail

Line 1 - Short-Term Capital Gains (Losses)

Short-Term Capital Gains(Losses) Detail

Kind of Property and Description

MESTEK stock sale

Date Acq	Date Sold	Sales Price	Cost	Gain(Loss)
06/15/2008	09/08/2008	8,839.	1,160.	7,679.

Total Short-Term Capital Gains(Losses)

7,679.

Line 6 - Long-Term Capital Gains (Losses)

Long-Term Capital Gains(Losses) Detail

Kind of Property and Description

Land

Date Acq	Date Sold	Sales Price	Cost	Gain(Loss)
12/31/1910	01/02/2008	20,000.	791.	19,209.

Total Long-Term Capital Gains(Losses)

19,209.

Form 3800 Detail

=====

Line 6 Summary - Carryforward of General Business Credit

-----

Tax Year	Amt Available	Amt Utilized	Carryforward
12/31/2007	8,414.		8,414.
12/31/2008	25,567.		25,567.
Totals	33,981.		33,981.

Form 3800 Detail

Line 6 - Carryforward of Credit for Increasing Research

Tax Year	Amt Available	Amt Utilized	Carryforward
12/31/2007	8,414.		8,414.
12/31/2008	25,567.		25,567.
Totals	33,981.		33,981.

Form 4797, Page 1 Detail

Line 2 - Most Property Held More Than 1 Year

Property Description	Date Acq	Date Sold	Sales Price	Depreciation	Cost or Basis	Gain or Loss
						NONE
						NONE

Part I 4797 Gains and Losses

Form 4797, Page 1 Detail

Line 10 - Ordinary Gains and Losses

Property Description	Date Acq	Date Sold	Sales Price	Depreciation	Cost or Basis	Gain or Loss
-----						

NONE

NONE

Part II 4797 Ordinary Gains and Losses

Form 8916-A, Part I Detail

Line 6 - Other items with differences

Description	Per Income Stmt	Temporary Difference	Permanent Difference	Per Tax Return
Chemicals	7,826,601.			7,826,601.
Contract Services	2,813,165.			2,813,165.
Fuel & Power	14,204,112.			14,204,112.
Ins. Other Than Group	7,576,360.			7,576,360.
Maintenance Expense	2,852,998.			2,852,998.
Materials & Supplies	2,972,795.			2,972,795.
Purchased Water	2,644,297.			2,644,297.
Regulatory expenses	834,587.	-660,464.		174,123.
Waste Disposal	2,711,827.			2,711,827.
Cost of Labor	37,003,884.			37,003,884.
Misc. Other Items with Differences	703,374.			703,374.
<b>Total</b>	<b>82,144,000.</b>	<b>-660,464.</b>		<b>81,483,536.</b>

Form 9916-A, Part II Detail

Part II Line 5 - Other Interest Income

Description	Per Income Stmt	Temporary Difference	Permanent Difference	Per Tax Return
Other Interest Income	50,205.			50,205.
Total	50,205.			50,205.

Form 8916-A, Part III Detail

Line 4 - Other Interest Expense

Description	Per Income Stmt	Temporary Difference	Permanent Difference	Per Tax Return
Other Interest Expense	30,880,457.	1,048,532.	-1,061,727.	30,867,262.
Total	30,880,457.	1,048,532.	-1,061,727.	30,867,262.

Pennsylvania-American Water Company  
Coatesville Wastewater Operations  
Data Requirements of the Pennsylvania Public Utility Commission  
Taxes

FR IV.2

**Pennsylvania-American Water Company**  
**Coatesville Wastewater Operations**  
**IV. Taxes**

2. Submit details of calculations for Taxes, Other than Income, where a company is assessed taxes for doing business in another state, or on its property located in another state.

**Answer:** Pennsylvania-American Water Company does business solely within Pennsylvania and has no property located in another state.

Pennsylvania-American Water Company  
Data Requirements of the Pennsylvania Public Utility Commission  
Taxes

FR IV.3

**Pennsylvania-American Water Company**  
**IV. Taxes**

3. Submit a schedule showing for the last three years the income tax refunds, plus interest, net of taxes, received from the federal government due to prior years' claims.

**Answer:**

Pennsylvania-American Water Company received a federal tax income tax refund in 2008 in the amount of \$426,719 in addition to \$91,967 in interest as a result of audited tax returns for the years 2001 and 2002.

Pennsylvania-American Water Company  
Coatesville Wastewater District  
Data Requirements of the Pennsylvania Public Utility Commission  
Taxes

FR IV.4

**Pennsylvania-American Water Company**  
**Coatesville Wastewater District**  
**IV. Taxes**

4. Provide detailed computations showing the deferred income taxes derived by using accelerated tax depreciation applicable to post-1969 utility property that increases productive capacity, and Accelerated Depreciation Rate (ADR) rates on property (separate between state and federal; also, rate used).
  - a. State whether tax depreciation is based on all rate base items claimed as of the end of the future test year, and whether it is the annual tax depreciation at the end of the future test year. If based on historic test year, justify.
  - b. Reconcile any difference between the deferred tax balance, as shown as a reduction to measures of value (rate base), and the deferred tax balance as shown on the balance sheet.

**Answer:**

Please refer to the calculation of state and federal deferred income taxes.

- a. Tax depreciation is based on utility plant in service. Please see attached for the Company's future test year claim for State and Federal tax depreciation.
- b. The calculation of deferred taxes for the future test year is detailed in Exhibit 3-A.

2010

PENNSYLVANIA AMERICAN WATER DEFERRED TAX - FEDERAL COATESVILLE WASTE WATER		Balance End Of Year 2007	Activity 2008	Balance End Of Year 2008	Activity 2009	Balance End Of Year 2009	Activity 2010	Balance End Of Year 2010	Tax Rate	Ending Deferred Tax Asset (Gross)	Ending Deferred Tax Liability	Total Ending Deferred Tax A/(L)
Long Term Timing Differences		257,564 (2,326,277)	(23,265) (3,337,471)	234,299 (5,663,748)	796,848 (1,939,390)	1,031,147 (7,603,138)	1,732,847 (2,389,616)	2,763,994 (9,992,754)	35% 35%	967,398	3,497,464	967,398 (3,497,464)
		(2,068,713)	(3,360,736)	(5,429,449)	(1,142,542)	(6,571,991)	(656,769)	(7,228,761)		967,398	3,497,464	(2,530,066)

PENNSYLVANIA AMERICAN WATER DEFERRED TAX - STATE COATESVILLE WASTE WATER		Balance End Of Year 2007	Activity 2008	Balance End Of Year 2008	Activity 2009	Balance End Of Year 2009	Activity 2010	Balance End Of Year 2010	Tax Rate	Ending Deferred Tax Asset (Gross)	Ending Deferred Tax Liability	Total Ending Deferred Tax A/(L)
Long Term Timing Differences		257,564 (2,231,622)	(23,265) (596,722)	234,299 (2,828,344)	796,848 (1,522,416)	1,031,147 (4,350,760)	1,732,847 (2,528,175)	2,763,994 (6,878,935)	9.99% 9.99%	276,123	687,206	276,123 (687,206)
		(1,974,058)	(619,987)	(2,594,045)	(725,569)	(3,319,614)	(795,328)	(4,114,941)		276,123	687,206	(411,083)

2009

PENNSYLVANIA AMERICAN WATER DEFERRED TAX - FEDERAL COATESVILLE WASTE WATER		Balance End Of Year 2007	Activity 2008	Balance End Of Year 2008	Activity 2009	Balance End Of Year 2009	Tax Rate	Ending Deferred Tax Asset (Gross)	Ending Deferred Tax Liability	Total Ending Deferred Tax A/(L)
Long Term Timing Differences										
Book Depreciation		257,564	(23,265)	234,299	796,848	1,031,147	35%	360,901		360,901
Tax Depreciation		(2,526,277)	(3,337,471)	(5,663,748)	(1,939,390)	(7,603,138)	35%		2,661,098	(2,661,098)
		(2,068,713)	(3,360,736)	(5,429,449)	(1,142,542)	(6,571,991)			2,661,098	(2,300,197)

PENNSYLVANIA AMERICAN WATER DEFERRED TAX - STATE COATESVILLE WASTE WATER		Balance End Of Year 2007	Activity 2008	Balance End Of Year 2008	Activity 2009	Balance End Of Year 2009	Tax Rate	Ending Deferred Tax Asset (Gross)	Ending Deferred Tax Liability	Total Ending Deferred Tax A/(L)
Long Term Timing Differences										
Book Depreciation		257,564	(23,265)	234,299	796,848	1,031,147	9.99%	103,012		103,012
Tax Depreciation		(2,231,622)	(596,722)	(2,828,344)	(1,522,416)	(4,350,760)	9.99%		434,641	(434,641)
		(1,974,058)	(619,987)	(2,594,045)	(725,569)	(3,319,614)		103,012	434,641	(331,629)

2008

PENNSYLVANIA AMERICAN WATER DEFERRED TAX - FEDERAL COATESVILLE WASTE WATER		Balance End Of Year 2007	Activity 2008	Balance End Of Year 2008	Tax Rate	Ending Deferred Tax Asset (Gross)	Ending Deferred Tax Liability	Total Ending Deferred Tax A/(L)
Long Term Timing Differences								
Book Depreciation	257,564 (2,326,277)	(23,265) (3,337,471)	234,299 (5,663,748)	35% 35%	82,005	1,982,312	82,005 (1,982,312)	
Tax Depreciation	(2,068,713)	(3,360,736)	(5,429,449)		82,005	1,982,312	(1,900,307)	

PENNSYLVANIA AMERICAN WATER DEFERRED TAX - STATE COATESVILLE WASTE WATER		Balance End Of Year 2007	Activity 2008	Balance End Of Year 2008	Tax Rate	Ending Deferred Tax Asset (Gross)	Ending Deferred Tax Liability	Total Ending Deferred Tax A/(L)
Long Term Timing Differences								
Book Depreciation	257,564 (2,231,622)	(23,265) (596,722)	234,299 (2,828,344)	9.99% 9.99%	23,406	282,552	23,406 (282,552)	
Tax Depreciation	(1,974,058)	(619,987)	(2,594,045)		23,406	282,552	0 0 (259,145)	

Pennsylvania-American Water Company  
Coatesville Wastewater Operations  
Data Requirements of the Pennsylvania Public Utility Commission  
Taxes

FR IV.5

**Pennsylvania-American Water Company**  
**Coatesville Wastewater Operations**  
**IV. Taxes**

5. Submit a schedule showing a breakdown of accumulated investment tax credits (3 percent, 4 percent, 7 percent, 10 percent and 11 percent), together with details of methods used to write-off the unamortized balances.

**Answer:** Not applicable for this filing.

Pennsylvania-American Water Company  
Coatesville Wastewater Operations  
Data Requirements of the Pennsylvania Public Utility Commission  
Taxes

FR IV.6

**Pennsylvania-American Water Company**  
**Coatesville Wastewater Operations**  
**IV. Taxes**

6. Submit a schedule showing the adjustments for taxable net income per books, including below-the-line items, and pro-forma under existing rates, together with an explanation of any difference between the adjustments. Indicate charitable donations and contributions in the tax calculation for rate making purposes.

**Answer:** Please see the calculation of State and Federal Income Taxes page in Exhibit No. 3-A.

Pennsylvania-American Water Company  
Coatesville Wastewater Operations  
Data Requirements of the Pennsylvania Public Utility Commission  
Taxes

FR IV.7

**Pennsylvania-American Water Company**  
**Coatesville Wastewater Operations**  
**IV. Taxes**

7. Submit detailed calculations supporting historic and future taxable income before state and federal income taxes where the income tax is subject to allocation due to operations in another state, or due to operation of other taxable utility or non-utility business, or by operating divisions or areas.

**Answer:** Pennsylvania-American Water Company operates only in Pennsylvania. State and Federal income taxes are calculated on a total company basis; no allocation of taxable income among its operating divisions occurs.

Pennsylvania-American Water Company  
Coatesville Wastewater Operations  
Data Requirements of the Pennsylvania Public Utility Commission  
Taxes

FR IV.8

**Pennsylvania-American Water Company**  
**Coatesville Wastewater Operations**  
**IV. Taxes**

8.           Furnish a breakdown of major items comprising prepaid and deferred income tax charges and other deferred income tax credits and reserves by accounting areas.

**Answer:**       Please see the answer to question no. FR IV.12 of this exhibit. Deferred taxes due to accelerated depreciation are the most significant component of the Company's deferred income taxes.

Pennsylvania-American Water Company  
Coatesville Wastewater District  
Data Requirements of the Pennsylvania Public Utility Commission  
Taxes

FR IV.9

**Pennsylvania-American Water Company**  
**Coatesville Wastewater District**  
**IV. Taxes**

9. Explain the reason for the use of cost of removal of any retired plant figures in the income tax calculations.

**Answer:**

Coatesville Wastewater does not have any ADR cost of removal.  
It was an asset purchase and the asset vintages reset to the purchase date,  
March 2001.

Pennsylvania-American Water Company  
Coatesville Wastewater Operations  
Data Requirements of the Pennsylvania Public Utility Commission  
Taxes

FR IV.10

**Pennsylvania-American Water Company**  
**Coatesville Wastewater Operations**  
**IV. Taxes**

10. State whether all tax savings due to accelerated depreciation on property installed prior to 1970 have been passed through to income. If not, explain.

**Answer:** Not applicable for this filing. Coatesville Wastewater Operation was an asset purchase and the asset vintages reset to the purchase date.

Pennsylvania-American Water Company  
Coatesville Wastewater Operations  
Data Requirements of the Pennsylvania Public Utility Commission  
Taxes

FR IV.11

**Pennsylvania-American Water Company**  
**Coatesville Wastewater Operations**  
**IV. Taxes**

11. Show any income tax loss or gain carryovers from previous years that may affect historic test year income taxes or future test year income taxes. Show loss or gain carryovers by years of origin and amounts remaining by years at the end of the historic test year.

**Answer:**

Pennsylvania-American Water Company has a state net operating loss carryover of \$192,250,240. Year of origin is December 31, 2008.

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Coatesville Wastewater Operations  
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FR IV.12

**Pennsylvania-American Water Company**  
**Coatesville Wastewater Operations**  
**IV. Taxes**

12. Provide a detailed analysis of Taxes Accrued per books as of the historic and future test year date. Also supply the basis for the accrual and the amount of taxes accrued monthly.

**Answer:** Income taxes are not accrued for Coatesville Wastewater Operations. Please refer to the calculation of Federal and State Income Taxes in Exhibit 3-A for both the historical test year and the future test year.

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FR IV.13

**Pennsylvania-American Water Company**  
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**IV. Taxes**

13. Under Section 1552 of the Internal Revenue Code and Regulations 1.1552-1 if applicable, a Parent Company, in filing a consolidated income tax return for the group, must choose one of four options by which it must allocate total income tax liability of the group to the participating members to determine each member's tax liability to the federal government. If this request is not applicable, provide an explanation.
- a. State what option has been chosen by the group.
  - b. Provide, in summary form, the amount of tax liability that has been allocated to each of the participating members in the consolidated income tax return.
  - c. Provide a schedule, in summary form, of contributions, which were determined on the basis of separate tax return calculations, made by each of the participating members to the tax liability indicated in the consolidated group tax return. Provide total amounts of actual payments to the tax depository for the tax year, as computed on the basis of separate returns of members.
  - d. Provide annual income tax return for group, and if income tax return shows net operating loss, provide details of amount of net operating loss allocated to the income tax returns of each of the members of the consolidated group.

**Answer:** This request is not applicable to Pennsylvania-American Water Company or Coatesville Wastewater Operations.

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Taxes

FR IV.14

**Pennsylvania-American Water Company**  
**Coatesville Wastewater Operations**  
**IV. Taxes**

14. Please provide a copy of the corporate federal tax returns and supporting schedules for the preceding three years and, if applicable, a copy of the calculation work papers for the Company's consolidated tax savings adjustment.

**Answer:** The information and reports for tax years requested are proprietary and confidential. The Company will, however, provide this information to a party to this proceeding pursuant to the execution of a suitable confidentiality agreement.

A consolidated tax adjustment is not applicable to Coatesville Wastewater Operations in this filing.

Pennsylvania-American Water Company  
Coatesville Wastewater Operations  
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FR IV.15

**Pennsylvania-American Water Company**  
**Coatesville Wastewater Operations**  
**IV. Taxes**

15. Provide a schedule of federal and Pennsylvania taxes, other than income taxes, calculated on the basis of test year per books, pro forma at present rates, and pro forma at proposed rates, to include the following categories:
- a. Social Security
  - b. Unemployment
  - c. Capital stock
  - d. Public utility realty
  - e. P.U.C. assessment
  - f. Other property
  - g. Any other appropriate categories

**Answer:**

- a. Please refer to Exhibit No. 3-A.
- b. Please refer to Exhibit No. 3-A.
- c. Not applicable in this case
- d. Not applicable in this case
- e. Please refer to Exhibit No. 3-A.
- f. Please refer to Exhibit No. 3-A.
- g. None

Pennsylvania-American Water Company  
Coatesville Wastewater Operations  
Data Requirements of the Pennsylvania Public Utility Commission  
Taxes

FR IV.16

**Pennsylvania-American Water Company**  
**Coatesville Wastewater Operations**  
**IV. Taxes**

16. Submit a schedule showing a breakdown of the deferred income taxes by state and federal per books, pro-forma, existing rates, and under proposed rates.

**Answer:** Please see question no. FR IV.12 and Exhibit 3-A for the calculation of deferred income taxes.

Pennsylvania-American Water Company  
Coatesville Wastewater Operations  
Data Requirements of the Pennsylvania Public Utility Commission  
Taxes

FR IV.17

**Pennsylvania-American Water Company**  
**Coatesville Wastewater Operations**  
**IV. Taxes**

17. With respect to determination of income taxes, federal and state:
- a. Show income tax results of the annualizing and normalizing adjustments to the historic test year before any rate increase.
  - b. Show income taxes for the annualized and normalized test year.
  - c. Show income tax effect of the rate increase requested.
  - d. Show income taxes for the normalized and annualized test year after application of the full rate increase.

**Answer:** a. – d. Please see the Income Statement and Calculation of Federal and State Income Taxes in Exhibit No. 3-A.

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Taxes

FR IV.18

**Pennsylvania-American Water Company  
Coatesville Wastewater Operations**

**IV. Taxes**

18. State amount of debt interest utilized for income tax calculations, and details of debt interest computations, under each of the following rate case bases:
- a. Actual per book test year
  - b. Annualized historic test year-end
  - c. Proposed future test year-end

**Answer:** Please refer to the Application of Income Deductions in Exhibit No. 3-A.