BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for an increase in water and wastewater rates in Charlotte, Highlands, Lake, Lee, Marion, Orange, Pasco, Pinellas, Polk, and Seminole Counties by Utilities, Inc. of Florida
____/

Docket No. 160101-WS

REDACTED

UTILITIES, INC. OF FLORIDA'S
REQUEST FOR CONFIDENTIAL CLASSIFICATION

Utilities, Inc. of Florida (the "Utility"), by and through its undersigned counsel, files this Request for Confidential Classification in relation to the 2013, 2014 and 2015 Financial Statements, filed at the Commission Staff's request in connection with the Utility's interim revenue request.

1. Pursuant to 367.156, Florida Statutes, this Commission has the authority to classify certain material as proprietary confidential business information. This classification exempts the material from public disclosure under Section 119.07(1), Florida Statutes.

2. The Utility requests that certain information provided to in connection with the Staff's consideration of the appropriate security for the Utility's interim revenue request be classified as proprietary confidential business information under Section 367.156(2), Florida Statutes, and Rule 25-22.006, Florida Administrative Code (the "Confidential Information"). If this request is granted, then the subject portions of Financial Statements will be exempt from Section 119.07(1), Florida Statutes. Attached hereto as Exhibit "A" is a Justification Matrix providing a justification for the Utility's request. The information is attached hereto both in highlighted and redacted format.

3. The information produced in response to Staff's request for the Consolidated Financial Statement of its parent, Utilities, Inc. are intended to be and are treated by the Utility as private and confidential and has not been disclosed externally and has been strictly controlled internally.

4. The Commission has previously granted confidential classification of UI's Financial Statements in Order Nos. PSC-14-0222-CFO-WS, PSC-14-0240-CFO-WS,

WHEREFORE, Utilities, Inc. of Florida prays for the entry of an order treating the information identified in this Motion as confidential and exempt from disclosure.

Respectfully submitted this 21st day of September, 2016, by:

FRIEDMAN & FRIEDMAN, P.A.
766 N. Sun Drive, Suite 4030
Lake Mary, FL 32746
Telephone: (407) 830-6331
E-Mail: mfriedman@ff-attorneys.com

/s/ Martin S. Friedman

MARTIN S. FRIEDMAN
For the Firm

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing Request for Confidential Classification with redacted Financial Statements has been furnished by E- Mail to the following parties this 21st day of September 2016:

Erik Sayler, Associate Public Counsel
Office of Public Counsel
c/o The Florida Legislature
111 W. Madison Street, Room 812
Tallahassee, FL 32399-1400
Sayler.Erik@leg.state.fl.us

Kyesha Mapp, Esquire
Office of General Counsel
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850
KMapp@psc.state.fl.us

/s/ Martin S. Friedman

MARTIN S. FRIEDMAN
For the Firm

Exhibit "A"
JUSTIFICATION MATRIX

Location (Document name and location of information)	Justification
<u>Consolidated Financial Statements:</u> **<u>2013</u>** **<u>Location:</u>** Pages 3, 4 & 6, The amounts under columns headings 2013 and 2012 Page 5, The amounts under columns headings Paid-in Capital, Retained Earnings & Total Pages 7 & 8, Note 2, the text and the table Page 11, Note 3, 1st paragraph under Income Taxes Page 12, Note 4, all text Pages 12 & 13, Note 5, 1st and 2nd paragraphs Pages 13, 14 & 15, Notes 6, 7 & 9, The amounts under columns headings 2013 and 2012 Page 15 & 16, Notes 10, 11 & 12 Pages 17, 18 & 19, Note 15, The amounts under columns headings 2013 and 2012, and the last paragraph Pages 19 & 20, Note 16, the last sentence of the first paragraph, and the amounts in the table Pages 21 & 22, Note 17, all text and the table	§367.156(3)(a),(b),(d) & (e): Disclosure of the financial statements of Utilities Inc., which is not a public company and is not subject to public disclosure of its financial statements would impair Utilities, Inc.'s competitive interests, could be used to discern trade secrets, or harm its ability to contract for goods and services on a favorable basis. Utilities, Inc. keeps this information strictly confidential also to prevent competitors and prospective counterparties from information which could be used in future negotiations to the disadvantage of Utilities, Inc. and its affiliates.
<u>Consolidated Financial Statements:</u> **<u>2014</u>** **<u>Location:</u>** Pages 2, 34 & 5, The amounts under columns headings 2013 and 2014 Page 4, The amounts under columns headings Paid-in Capital, Retained Earnings & Total Page 9, Note 3, 1st paragraph under Income Taxes Page 11, Note 3, all text Page 12 & 13, Notes 4, 5 & 7, The amounts under columns headings 2013 and 2014; All of Note 6. Page 14 and 15, Note 8 Page 15, Note 10 Page 16, Note 11	§367.156(3)(a),(b),(d) & (e): Disclosure of the financial statements of Utilities Inc., which is not a public company and is not subject to public disclosure of its financial statements would impair Utilities, Inc.'s competitive interests, could be used to discern trade secrets, or harm its ability to contract for goods and services on a favorable basis. Utilities, Inc. keeps this information strictly confidential also to prevent competitors and prospective counterparties from information which could be used in future negotiations to the disadvantage of Utilities, Inc. and its affiliates.

Pages 16, 17 & 18, Note 13, The amounts under columns headings 2013 and 2014, and the second and last paragraphs on page 18 Pages 18 & 19, Note 14, the last sentence of the first paragraph, and the amounts in the table	
<u>Consolidated Financial Statements: 2015</u> **<u>Location:</u>** Pages 2 – 3 & 5, The amounts under columns headings 2015 and 2014 Page 4, The amounts under columns headings Paid-in Capital, Retained Earnings & Total Page 6, Note 2, the text and the table Page 9, Note 3, 1st paragraph under Income Taxes Page 10-11, Note 4, all text Page 11, Note 3, Page 12, Notes 4 & 5, The amounts under columns headings 2015 and 2014 Page 13, Note 6 Page 13, Note 7, The amounts under columns headings 2015 and 2014 Pages 14 & 15, Note 8, Page 16, Note 15, the last sentence of the first paragraph, and the amounts in the table Page 16, Notes 10 & 11 Pages 16 & 17, Note 13, The amounts under columns headings 2015 and 2014, and the second and last paragraphs on page 18 Pages 18 & 19, Note 14, the last sentence of the first paragraph and the amounts in the table	§367.156(3)(a),(b),(d) & (e): Disclosure of the financial statements of Utilities Inc., which is not a public company and is not subject to public disclosure of its financial statements would impair Utilities, Inc.'s competitive interests, could be used to discern trade secrets, or harm its ability to contract for goods and services on a favorable basis. Utilities, Inc. keeps this information strictly confidential also to prevent competitors and prospective counterparties from information which could be used in future negotiations to the disadvantage of Utilities, Inc. and its affiliates.

Utilities, Inc. and Subsidiaries

Consolidated Financial Statements
December 31, 2013 and 2012

Utilities, Inc. and Subsidiaries
Index

EY
Building a better working world

Ernst & Young LLP
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Chicago, IL
60606

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Report of Independent Auditors

To the Board of Directors and Shareholder of Utilities, Inc.

We have audited the accompanying consolidated financial statements of Utilities, Inc. and subsidiaries, which comprise the consolidated balance sheet as of December 31, 2013, and the related consolidated statements of operations, changes in shareholder equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Utilities, Inc. and subsidiaries at December 31, 2013, and the consolidated results of their operations and their cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

March 7, 2014

pwc

Independent Auditor's Report

To the Board of Directors and Shareholders of Utilities, Inc.

We have audited the accompanying consolidated financial statements of Utilities, Inc. and its subsidiaries (the "Company"), which comprise the consolidated balance sheet as of December 31, 2012, and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for the year then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Utilities, Inc. and its subsidiaries at December 31, 2012, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

March 4, 2013 (except for Note 2, as to which date is March 7, 2014)

PricewaterhouseCoopers LLP, One North Wacker Drive, Chicago, IL 60606
T: (312) 298 2000, F: (312) 298 2001, www.pwc.com/us

Utilities, Inc. and Subsidiaries
Consolidated Statements of Operations
(In thousands)

	Year Ended December 31,	
	2013	2012
Operating revenues:	[redacted]	
Water		
Wastewater		
Other		
Non-regulated services		
Total		
Operating expenses:		
Operations and maintenance		
Cost associated with sale of Company		
Depreciation and amortization		
Taxes other than income		
Provision for income taxes		
Total		
Operating income		
Non-operating expense (income):		
Interest expense, net		
Allowance for funds used during construction		
Total		
(Loss) gain on sale of utility systems		
Income taxes related to sale of utility systems		
Net (loss) gain on sale of utility systems		
Net income		

The accompanying notes are an integral part of these financial statements.

Utilities, Inc. and Subsidiaries

Consolidated Balance Sheets

(In thousands, except share and per share amounts)

	December 31, 2013	2012
Property, plant and equipment:	[redacted]	
Property, plant and equipment, at cost		
Less accumulated depreciation		
Property, plant and equipment, net		
Current assets:		
Cash and cash equivalents		
Restricted cash		
Accounts receivable, net		
Prepayments and other assets		
Total		
Regulatory and other assets:		
Regulatory assets		
Deferred charges		
Goodwill		
Total		
Total assets		
Equity:		
Common shares $.10 par value, 1,000 shares authorized and issued		
Paid-in capital		
Retained earnings		
Total		
Long-term debt		
Commitments and contingencies (See Note 16)		
Current liabilities:		
Short-term debt		
Accounts payable		
Customer deposits		
Accrued taxes		
Accrued interest		
Other		
Total		
Deferred credits and other liabilities:		
Deferred income taxes		
Deferred investment tax credits		
Regulatory liabilities (See Note 5)		
Due to parent		
Total		
Contributions in aid of construction		
Advances in aid of construction		
Total capitalization and liabilities		

The accompanying notes are an integral part of these financial statements.

Utilities, Inc. and Subsidiaries
Consolidated Statements of Changes in Shareholder's Equity
(Dollars in thousands)

	Common Shares		Paid-in	Retained	
	Shares	Amount	Capital	Earnings	Total
Balance at December 31, 2011	1,000	$ -	[redacted]		
Net income	-	-			
Dividend to parent	-	-			
Contribution from parent	-	-			
Balance at December 31, 2012	1,000	-			
Net income	-	-			
Dividend to parent	-	-			
Contribution from parent	-	-			
Balance at December 31, 2013	**1,000**	**$ -**			

The accompanying notes are an integral part of these financial statements.

Utilities, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(In thousands)

	Year Ended December 31, 2013	2012
Cash flows from operating activities:	[redacted]	
Net income		
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization		
Deferred income taxes and investment tax credits, net		
Amortization of deferred charges and regulatory assets		
Amortization of debt cost		
Allowance for funds used during construction-equity		
Disallowed utility plant in service		
Loss (gain) on sale of utility systems		
Other, net		
Changes in assets and liabilities:		
Accounts receivable, net		
Prepayments		
Additions to deferred charges being amortized		
Regulatory assets and liabilities		
Accounts payable and accrued liabilities		
Accrued taxes and interest		
Other assets and liabilities, net		
Net cash provided by operating activities		
Cash flows from investing activities:		
Capital expenditures		
Acquisition expenditures		
Change in restricted cash		
Proceeds from the sale of utility systems		
Net cash used in investing activities		
Cash flows from financing activities:		
Contributions and advances in aid of construction, net		
Dividend to parent		
Contribution from parent		
Borrowings under revolving credit facility		
Repayments of revolving credit facility		
Net cash provided by (used in) financing activities		
Net decrease in cash and cash equivalents		
Cash and cash equivalents at beginning of period		
Cash and cash equivalents at end of period		
Supplemental cash flow information:		
Interest paid (net of amounts capitalized)		
Income taxes paid		
Non-cash property, plant and equipment contributions		

The accompanying notes are an integral part of these financial statements.

1. Basis of Presentation

Business Description

Utilities, Inc. (the "Company") is a holding company, which, at December 31, 2013, owned and operated approximately 500 regulated water and wastewater utility systems through 75 subsidiary operating companies. The Company operates in 15 states with primary service areas in Florida, North Carolina, South Carolina, Nevada and Louisiana.

Principles of Consolidation

The consolidated financial statements of the Company and its wholly owned subsidiaries have been prepared using accounting principles generally accepted in the United States of America ("GAAP"). The presentation of these financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses and certain financial statement disclosures.

[redacted]

[redacted]

3. Summary of Significant Accounting Policies

Regulation

Most of the Company's operations are subject to regulation by the public utility commissions of the states in which they operate. The extent of a commission's jurisdiction varies from state to state and usually includes the regulation of rates, accounting policies, financing, rules of service, sales and purchases of property, mergers and acquisitions, and the determination of service areas.

Utilities are generally subject to regulation, which is relied upon in lieu of the economic controls of competition in assuring fair prices and adequate service. Rates are based on the allocation of costs to customers who cause their incurrence. These rates are generally set to provide the utility the opportunity to recover its allowable operating expenses, including depreciation and taxes, and a return on the debt and equity capital invested.

The accounting practices of utility companies differ in certain aspects from those of other businesses not subject to regulation. GAAP applies to utilities just as it does to other industries, although the application at times may be different. The economic effect of regulation can result in a utility deferring costs or revenues that have been, or are expected to be, allowed in the ratemaking process in future periods. As a result, regulated entities record assets and liabilities resulting from the ratemaking process that would generally not be recorded by a non-regulated entity. These regulatory assets and liabilities are then reflected in the statement of operations in the periods in which the costs and credits are reflected in the rates charged for services.

Fair Value of Financial Instruments

Cash and cash equivalents, accounts receivables, accounts payable and short-term debt are stated at carrying value, which reasonably approximates fair market value due to the nature and short term duration of these items.

Property, Plant and Equipment

All costs incurred to bring an asset to the condition and location necessary for its intended use are capitalized. Costs include contracted labor, direct labor, materials, and indirect costs including an allowance for funds used during construction.

Expenditures for repairs and maintenance are expensed in accordance with the system of accounts prescribed by the public utility commissions of the states in which the Company operates. These expenditures are typically expensed as incurred but, in certain jurisdictions, may be deferred and amortized over the period of recovery.

Property in service is generally depreciated using the straight-line method over the estimated useful lives of the related property. Depreciation rates typically range between 1.5% and 5.0% per year. The majority of property in service is depreciated at approximately 2.0% per year. In certain instances, the composite or group method is used in which a single depreciation rate is applied to the total cost of a particular property class. This method pools similar assets and depreciates each group as a whole. Depreciation expense is a recoverable cost of service included in rates charged to customers. Under this method, when assets are replaced, retired or abandoned, the recorded value of the asset is reduced to zero with a corresponding reduction in accumulated depreciation. As a result, neither a gain nor loss is recognized.

Long-lived assets are reviewed for potential impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. When it becomes probable that a portion of the cost of a long-lived asset will be disallowed for ratemaking purposes such amounts are deducted from the reported cost of the asset and recognized as a loss.

Plant Acquisition Adjustments

For utility plant subject to traditional cost-of-service regulation, the depreciated original cost of an acquired asset is considered to equal its fair value. To the extent an amount paid for utility plant differs from its depreciated original cost, and that amount is included for ratemaking purposes, the fair value is deemed to have been increased (or decreased) and an acquisition adjustment is recorded as a component of utility plant. If the excess amount paid is not included in future rates, the amount is recorded as goodwill.

Cash and Cash Equivalents

The Company considers all highly liquid instruments with an original maturity of three months or less to be cash equivalents.

Restricted Cash

The Company receives cash from real estate developers and builders to finance the construction of water and wastewater systems. In certain jurisdictions, such cash is restricted and can only be spent in connection with that specific project.

Accounts Receivable

The Company's accounts receivable primarily consists of trade receivables. The allowance for doubtful accounts is developed based upon several factors including the age of the Company's accounts receivable, historical write-off experience and specific account analysis. The Company writes off accounts when they become uncollectible.

Regulatory Assets and Deferred Charges

Regulatory assets primarily consist of costs related to the rate filing process for which the Company has received or expects to receive prospective rate recovery. Deferred charges primarily consist of repair and maintenance costs incurred in jurisdictions where these expenditures may be deferred and amortized over the period of rate recovery.

Goodwill

The Company evaluates its goodwill for impairment on an annual basis during the fourth quarter, or whenever indicators of impairment exist. The initial step of the impairment test is a thorough assessment of qualitative factors to determine the existence of events or circumstances that would indicate that it is not more likely than not that the fair value of the Company exceeds its carrying amount, including goodwill. If the qualitative test indicates that it is more likely than not that the fair value of the Company exceeds its carrying value, a quantitative assessment is not required.

A quantitative test, if required, determines the fair value of the Company using a discounted cash flow model. If the carrying amount exceeds the fair value, goodwill would be considered impaired. To measure the amount of the impairment loss, the implied fair value of goodwill is compared to the carrying amount of goodwill. If the carrying amount of goodwill exceeds the implied fair value of goodwill, an impairment loss is recognized in an amount equal to that excess. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination is determined.

Customer Deposits

In certain jurisdictions, customers are required to remit a deposit equal to their estimated monthly bill. These deposits earn interest and are returned to the customer either when the customer demonstrates a history of timely payments or when the customer no longer requires service.

Advances and Contributions in Aid of Construction

The Company receives cash advances and property and cash contributions from real estate developers and builders to fund construction necessary to extend service to their properties. Advances for construction are refundable for limited periods of time as new customers begin to receive service. Advances that are no longer refundable are reclassified as contributions. Contributed property is depreciated at the same rate that the related contribution in aid of construction is amortized. As a result, a return is not earned on contributed property.

Revenue Recognition

Customers are billed for residential water and wastewater services on a monthly, bimonthly or quarterly cycle. Revenues include amounts billed to customers and unbilled amounts based on estimated usage from the last billing date to the end of the accounting period.

Allowance for Funds Used During Construction

The allowance for funds used during construction ("AFUDC") represents the capitalized cost of funds used to finance the construction of utility plant. AFUDC is not applied to projects funded by advances and contributions in aid of construction. AFUDC is recovered through rate base as the utility plant is depreciated. The AFUDC rate approximated 8.9% and 8.4% during 2013 and 2012, respectively.

Income Taxes

[redacted]

Investment tax credits are deferred and amortized over the estimated useful lives used for financial reporting purposes of the related properties.

Deferred tax assets and liabilities are recorded for all temporary differences between the tax basis of assets and liabilities and the amounts reported in the financial statements, measured at the currently enacted statutory income tax rate, which is also the rate that is expected to be in effect when the temporary items reverse. Certain temporary differences have not been recognized as deferred income tax expense for ratemaking purposes. In situations when such timing differences reverse and become currently payable, and it is probable that the higher income taxes will be recoverable through rates charged customers, a net regulatory asset has been established to recognize this expected regulatory treatment.

Deferred taxes are recorded for differences that result from accelerated depreciation, contributions in aid of construction for certain contributions received from 1986 to 1996, and 2001 to 2007, investment tax credits, certain deferred charges and certain other differences in the recognition of income and expense for tax and financial reporting purposes.

Financial Accounting Standards to be Adopted

In July 2013, the Financial Accounting Standards Board issued Accounting Standards Update No. 2013-11, "Income Taxes: Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists". This update requires that an unrecognized tax benefit should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward when settlement in this manner is available under the law. This update is effective prospectively for reporting periods beginning after December 15, 2013. The adoption of this update is not expected to have a material impact on the Company's consolidated results of operations or consolidated financial position.

4. Acquisition of Utilities, Inc.

[redacted]

5. Acquisitions and Dispositions

[redacted]

(In thousands of dollars)

[redacted]

In connection with one of the four utility systems sold in 2012, the local utility commission ruled that a portion of the gain on sale should flow back to rate payers over a five year period. On January 23, 2012 the Company filed a Notice of Appeal and Exception. On January 15, 2013, the State Court of Appeals issued a decision upholding the local commission's ruling. On February 19, 2013, the Company filed a Notice of Appeal and Petition for Discretionary Review with the Supreme Court of North Carolina. On April 11, 2013, the Supreme Court of North Carolina dismissed the Notice of Appeal and denied the Company's Petition for Discretionary Review.

The Company filed a rate case with the local utility commission on June 28, 2013, which included the flow back of a portion of the gain on sale that was previously ordered. Although this rate case is still pending, a settlement agreement was reached in December 2013. The estimated amount of the flow back of the gain of $2,506 has been recorded as a regulatory liability at December 31, 2013. This amount will systematically flow back through customers' rates beginning with the next rate increase anticipated to go into effect in April 2014 and extent through November 2016. The regulatory liability will be amortized over this period and recognized as a component of revenue.

6. Property, Plant and Equipment

The components of property, plant and equipment at December 31, are as follows:

	2013	2012
Plant in service		
Water	[redacted]	
Wastewater		
Other		
Total		
Plant under construction		
Accumulated depreciation		
Plant acquisition adjustments, net		
Property, plant and equipment, net		

(In thousands of dollars)

7. Accounts Receivable

The components of accounts receivable at December 31, are as follows:

	2013	2012
Billed utility revenue	[redacted]	
Unbilled utility revenue		
Total		
Less allowance for doubtful accounts		
Accounts receivable, net		

The following table summarizes the activity of the allowance for doubtful accounts for the years ended December 31:

	2013	2012
Balance at January 1,	[redacted]	
Amounts charged to expense		
Amounts written off		
Balance at December 31,		

8. Goodwill

[redacted]

9. Regulatory Assets and Deferred Charges

The components of regulatory assets and deferred charges at December 31, are as follows:

	2013	2012
Regulatory assets		
Rate case filing expenses	[redacted]	
Deferred income taxes recoverable through rates		
Total		

	2013	2012
Deferred charges		
Debt acquisition expense	[redacted]	
Maintenance and testing		
Other		
Total		

The regulatory assets related to deferred income taxes will be adjusted as the amounts reverse and are included in income tax expense for regulatory purposes. Other regulatory assets and deferred charges are being amortized over periods that typically range from 3 to 12 years, corresponding to the period of rate recovery.

10. Debt

[redacted]

[redacted]

11. Dividends

[redacted]

12. Capital Contribution

[redacted]

13. Asset Retirement Obligation

Potential future asset retirement costs relating to certain water and wastewater properties have been identified. However, the Company has determined that it does not have any legal obligations to retire assets. In addition, the Company intends on using its assets indefinitely. Therefore, the Company has not recognized a liability for these potential asset retirement costs at December 31, 2013.

(In thousands of dollars)

14. Employee Benefit Plans

The Company maintains a 401(k) plan. Under the terms of the plan, the Company will match $.50 on every $1.00 contributed by participants up to a maximum contribution equal to 3% of eligible compensation per participant or to the maximum permitted by law. The Company match expense was $303 and $271 for the years ended December 31, 2013 and 2012, respectively. The plan also includes a non elective Company contribution made annually on 4% of eligible wages. The non elective contribution was $813 and $890 for the years ended December 31, 2013 and 2012, respectively.

15. Income Taxes

The provision for income taxes related to operations for the years ended December 31, is as follows:

	2013	2012
Current		
Federal	[redacted]	
State and local		
Deferred		
Federal		
State and local		
Provision for income taxes		

The provision for (benefit from) income taxes related to the disposal of utility systems for the years ended December 31, is as follows:

	2013	2012
Current		
Federal	[redacted]	
State and local		
Deferred		
Federal		
State and local		
Provision for (benefit from) income taxes		

A reconciliation of the statutory federal income tax rate to the effective income tax rate for the years ended December 31, is as follows:

	2013	2012
Statutory federal income tax rate	[redacted]	
State income taxes, net of federal tax benefit		
Valuation allowance on state net operating losses		
Equity component of AFUDC, not subject to tax		
Amortization of investment tax credits		
Rate changes		
True up prior year balances		
Other		
Effective income tax rate		

The deferred tax assets and liabilities are attributable to the following components at December 31:

	2013	2012
Deferred tax assets		
State net operating losses	[redacted]	
Federal net operating losses		
Valuation allowances related to state net operating losses		
Regulatory liability		
Alternative minimum taxes		
Bad debt		
Other		
Total		
Deferred tax liabilities		
Plant related differences		
Deferred charges		
Regulatory assets		
Organizational costs		
Total		
Net deferred tax liability		

The accumulated deferred tax liability attributed to regulatory assets reflects the probable future regulatory treatment afforded certain temporary differences such as the tax effect of investment tax credits, the equity component of AFUDC and other regulatory actions.

The federal net operating loss carry forward expires in 2030. A deferred tax asset related to state net operating losses, which vary in different amounts over different periods, has been recorded. The state net operating losses expire generally from 2014 to 2030. Alternative minimum tax credits can be carried forward indefinitely. The Company does not expect that the change in ownership will impact the full utilization of the federal net operating losses within the carry forward period.

The Company evaluates the realizability of its deferred tax assets on an annual basis. A valuation allowance is established when it is "more likely than not" that all or a portion of deferred tax assets will not be realized. The Company has established a valuation allowance related to certain of its state net operating losses based on estimates of future taxable income in these jurisdictions.

In evaluating its various tax filing positions, the Company records tax benefits only if management determines that they are more likely than not to be realized. Adjustments are made to the Company's liability for unrecognized tax benefits in the period in which an issue is settled with the respective tax authorities, the statute of limitations expires for the return containing the tax position or when new information becomes available. The Company has not identified any material uncertainties for the periods presented.

[redacted]

16. Commitments and Contingencies

Operating Leases

The Company leases office space in various buildings for its own use. Most of the lease terms are for relatively short periods of time, many of which are less than two years. The Company also leases parcels of land on which treatment plants and other facilities are situated. These land leases expire at various dates through 2085. [redacted].

(In thousands of dollars)

Minimum future lease payments due in each of the next five years and thereafter are as follows:

	Office Leases	Land Leases	Total
Year ended December 31,	[redacted]		
2014			
2015			
2016			
2017			
2018			
Thereafter			
Total			

Litigation

The Company is subject to various claims and other litigation matters arising in the ordinary course of the Company's business. Some of these matters are covered by insurance. Although the Company's ultimate liability in these matters cannot be determined, based upon information currently available, the Company believes that the resolution of such claims and litigation will not have a material adverse effect on its financial condition, results of operations or liquidity.

Contingencies

In the normal course of business, the Company may enter into agreements with real estate developers related to the provision of water and/or wastewater service. These agreements may require payments to these developers that are contingent upon the number of customers added to the systems of the various operating companies. Connection charges are collected from customers as they sign up for service. Amounts due to developers are accrued as new customers are added. Amounts paid to developers were $155 and $64 for the years ended December 31, 2013 and 2012, respectively.

On December 18, 2012, Nye County Nevada filed an action in Nye County District Court against, among other defendants, Utilities, Inc. of Central Nevada ("UICN"), a subsidiary of the Company, and other parties in connection with damage to a county road in the Pahrump Nevada area following a significant rain event in December 2010. The County's complaint alleges, among other things, that the road damage was caused by the negligence by UICN, Corrections Corporation of America ("CCA") and their respective contractors in connection with the construction of offsite improvements related to a new detention facility constructed and operated by CCA, and provided with water and sewer service by UICN. On December 21, 2012, UICN filed a partial answer and counterclaims against Nye County for the County's own negligence in overseeing the project, and for interfering with the work at issue. No trial date been set in the County's lawsuit as all parties agreed to engage in discovery necessary for a mediation that occurred in October 2013 and continued in December 2013. To date, that mediation has not been successful but has not concluded and, therefore, the Nye County action has not been set for trial.

In addition to the County's lawsuit, on December 18, 2012, several business owners filed an action naming UICN, among others, and claiming lost profits during the time Blagg Road was closed as a result of the damage that occurred following the rain event and road damage. UICN successfully sought dismissal of the business owner claims. The Nye County District Court's order dismissing the claims against UICN was entered on September 6, 2013. The business owners appealed that decision to the Nevada Supreme Court. The appeal is pending.

At this time, there is not sufficient information to estimate the Company's exposure or the potential amount of any loss that may be incurred. The Company expects that its insurance coverage, and that of its contractors and the other parties to the litigation, will mitigate most of its exposure in this matter. Given the uncertainty of events, the Company believes it is reasonably possible that a material loss may be incurred. As of December 31, 2013, no amounts have been accrued for this loss contingency.

[redacted]

[redacted]

18. Subsequent Events

On February 3, 2014, a regulated operating subsidiary of the Company entered into a Consent Order with the South Carolina Department of Health and Environmental Control requiring, among other items, the establishment of a corrective action plan ("CAP") that will ensure compliance with the South Carolina Pollution Control Act (2008). The Company is currently working on engineering studies to determine the scale and scope of the various projects as required by the CAP. Although the final spending requirements may be significant, a reasonable estimate of the total project cost cannot be made at this time.

The Company has evaluated events and transaction subsequent to the balance sheet date through March 7, 2014, the date the financial statements were available to be issued. Based on this evaluation, the Company is not aware of any additional events or transactions that occurred subsequent to the balance sheet date but prior to March 7, 2014 that would require recognition or disclosure in its Consolidated Financial Statements.

Utilities, Inc. and Subsidiaries

Consolidated Financial Statements
December 31, 2014 and 2013

Utilities, Inc. and Subsidiaries
Index

EY
Building a better working world

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Report of Independent Auditors

To the Board of Directors and Shareholder of Utilities, Inc.

We have audited the accompanying consolidated financial statements of Utilities, Inc. and subsidiaries, which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of operations, changes in shareholder's equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Utilities, Inc. and subsidiaries at December 31, 2014, and 2013, and the consolidated results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

March 6, 2015

Utilities, Inc. and Subsidiaries
Consolidated Statements of Operations
(In thousands)

	Year Ended December 31, 2014	2013
Operating revenues:		
Water	[redacted]	
Wastewater		
Other		
Non-regulated services		
Total		
Operating expenses:		
Operations and maintenance		
Depreciation and amortization		
Taxes other than income		
Total		
Operating income		
Non-operating expense (income):		
Interest expense, net		
Allowance for funds used during construction		
Loss on sale of utility systems and other assets		
Total		
Income before taxes		
Provision for income taxes		
Net income		

The accompanying notes are an integral part of these financial statements.

Utilities, Inc. and Subsidiaries

Consolidated Balance Sheets

(In thousands, except share and per share amounts)

	December 31,	
	2014	2013
Property, plant and equipment:	[redacted]	
Property, plant and equipment, at cost		
Less accumulated depreciation		
Property, plant and equipment, net		
Current assets:		
Cash and cash equivalents		
Restricted cash		
Accounts receivable, net		
Prepayments and other assets		
Total		
Regulatory and other assets:		
Regulatory assets (See Note 7)		
Deferred charges (See Note 7)		
Goodwill		
Total		
Total assets		
Equity:		
Common shares $.10 par value, 1,000 shares authorized and issued		
Paid-in capital		
Retained earnings		
Total		
Long-term debt		
Commitments and contingencies (See Note 14)		
Current liabilities:		
Accounts payable		
Customer deposits		
Accrued taxes		
Accrued interest		
Other		
Total		
Deferred credits and other liabilities:		
Deferred income taxes		
Regulatory liabilities (See Note 9)		
Due to parent		
Other liabilities and deferred credits		
Total		
Contributions in aid of construction		
Advances in aid of construction		
Total capitalization and liabilities		

The accompanying notes are an integral part of these financial statements.

Utilities, Inc. and Subsidiaries

Consolidated Statements of Changes in Shareholder's Equity

(Dollars in thousands)

	Common Shares		Paid-in	Retained	
	Shares	Amount	Capital	Earnings	Total
Balance at January 1, 2013	1,000	$ -	[redacted]		
Net income	-	-	[redacted]		
Dividend to parent	-	-	[redacted]		
Contribution from parent	-	-	[redacted]		
Balance at December 31, 2013	1,000	-	[redacted]		
Net income	-	-	[redacted]		
Dividend to parent	-	-	[redacted]		
Contribution from parent	-	-	[redacted]		
Balance at December 31, 2014	1,000	$ -	[redacted]		

The accompanying notes are an integral part of these financial statements.

Utilities, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(In thousands)

	Year Ended December 31, 2014	2013
Cash flows from operating activities:		
Net Income	[redacted]	
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization		
Deferred income taxes and credits, net		
Amortization of deferred charges and regulatory assets		
Amortization of debt acquisition cost		
Allowance for funds used during construction-equity		
Disallowed utility plant in service		
Loss on sale of utility systems and other assets		
Other, net		
Changes in assets and liabilities:		
Accounts receivable, net		
Prepayments		
Additions to deferred charges being amortized		
Regulatory assets and liabilities		
Accounts payable and accrued liabilities		
Accrued taxes and interest		
Other assets and liabilities, net		
Net cash provided by operating activities		
Cash flows from investing activities:		
Capital expenditures		
Acquisition expenditures		
Change in restricted cash		
Proceeds from the sale of utility systems and other assets		
Net cash used in investing activities		
Cash flows from financing activities:		
Contributions and advances in aid of construction, net		
Dividend to parent		
Contribution from parent		
Borrowings under revolving credit facility		
Repayments of revolving credit facility		
Net cash provided by financing activities		
Net decrease in cash and cash equivalents		
Cash and cash equivalents at beginning of year		
Cash and cash equivalents at end of year		
Supplemental cash flow information:		
Interest paid (net of amounts capitalized)		
Income taxes paid		
Non-cash property, plant and equipment contributions		

The accompanying notes are an integral part of these financial statements.

1. Basis of Presentation

Business Description

Utilities, Inc. (the "Company") is a holding company, which, at December 31, 2014, owned and operated approximately 500 regulated water and wastewater utility systems through 52 subsidiary operating companies. The Company operates in 15 states with primary service areas in Florida, North Carolina, South Carolina, Nevada, and Louisiana.

Principles of Consolidation

The consolidated financial statements of the Company and its wholly owned subsidiaries have been prepared using accounting principles generally accepted in the United States of America ("GAAP"). The presentation of these financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses and certain financial statement disclosures.

Certain reclassifications have been made to prior year financial statements to conform to current year presentations, which had no impact on the Consolidated Statement of Operations for 2013.

2. Summary of Significant Accounting Policies

Regulation

Most of the Company's operations are subject to regulation by the public utility commissions of the states in which they operate. The extent of a commission's jurisdiction varies from state to state and usually includes the regulation of rates, accounting policies, financing, rules of service, sales, and purchases of property, mergers and acquisitions, and the determination of service areas.

Utilities are generally subject to regulation, which is relied upon in lieu of the economic controls of competition in assuring fair prices and adequate service. Rates are based on the allocation of costs to customers who cause their incurrence. These rates are generally set to provide the utility the opportunity to recover its allowable operating expenses, including depreciation and taxes, and a return on the debt and equity capital invested.

The accounting practices of utility companies differ in certain aspects from those of other businesses not subject to regulation. GAAP applies to utilities just as it does to other industries, although the application at times may be different. The economic effect of regulation can result in a utility deferring costs or revenues that have been, or are expected to be, allowed in the ratemaking process in future periods. As a result, regulated entities record assets and liabilities resulting from the ratemaking process that would generally not be recorded by a non-regulated entity. These regulatory assets and liabilities are then reflected in the statement of operations in the periods in which the costs and credits are reflected in the rates charged for services.

Property, Plant and Equipment

All costs incurred to bring an asset to the condition and location necessary for its intended use are capitalized. Costs include contracted labor, direct labor, materials, and indirect costs including an allowance for funds used during construction.

Expenditures for repairs and maintenance are expensed in accordance with the system of accounts prescribed by the public utility commissions of the states in which the Company operates. These expenditures are typically expensed as incurred but, in certain jurisdictions, may be deferred and amortized over the period of recovery.

Property in service is generally depreciated using the straight-line method over the estimated useful lives of the related property. Depreciation rates typically range between 1.5% and 5.0% per year. The majority of property in service is depreciated at approximately 2.0% per year. In certain instances, the composite or group method is used in which a single depreciation rate is applied to the total cost of a particular property class. This method pools similar assets and depreciates each group as a whole. Depreciation expense is a recoverable cost of service included in rates charged to customers. Under this method, when assets are replaced, retired or abandoned, the recorded value of the asset is reduced to zero with a corresponding reduction in accumulated depreciation. As a result, neither a gain nor loss is recognized.

Long-lived assets are reviewed for potential impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. When it becomes probable that a portion of the cost of a long-lived asset will be disallowed for ratemaking purposes such amounts are deducted from the reported cost of the asset and recognized as a loss.

Plant Acquisition Adjustments

For utility plant subject to traditional cost-of-service regulation, the depreciated original cost of an acquired asset is considered to equal its fair value. To the extent an amount paid for utility plant differs from its depreciated original cost, and that amount is included for ratemaking purposes, the fair value is deemed to have been increased (or decreased) and an acquisition adjustment is recorded as a component of utility plant. If the excess amount paid is not included in future rates, the amount is recorded as goodwill.

Cash and Cash Equivalents

The Company considers all highly liquid instruments with an original maturity of three months or less to be cash equivalents.

Restricted Cash

The Company receives cash from real estate developers and builders to finance the construction of water and wastewater systems. In certain jurisdictions, such cash is restricted and can only be spent in connection with that specific project.

Accounts Receivable

The Company's accounts receivable primarily consists of trade receivables. The allowance for doubtful accounts is developed based upon several factors including the age of the Company's accounts receivable, historical write-off experience and specific account analysis. The Company writes off accounts when they become uncollectible.

Regulatory Assets and Deferred Charges

Regulatory assets primarily consist of costs related to the rate filing process for which the Company has received or expects to receive prospective rate recovery. Deferred charges primarily consist of repair and maintenance costs incurred in jurisdictions where these expenditures may be deferred and amortized over the period of rate recovery.

Goodwill

The Company evaluates its goodwill for impairment on an annual basis during the fourth quarter, or whenever indicators of impairment exist. In 2013, the Company performed a qualitative (step zero) test at a company level to determine the existence of events or circumstances that would indicate that it is not more likely than not that the fair value of the Company exceeds its carrying amount, including goodwill. If the qualitative test indicates that it is more likely than not that the fair value of the Company exceeds its carrying value, a quantitative assessment (step one) is not required.

A quantitative test, if required, determines the fair value of the Company using recent comparable transactions in the water utility sector. If the carrying amount exceeds the fair value, goodwill would be considered impaired. To measure the amount of the impairment loss, the implied fair value of goodwill is compared to the carrying amount of goodwill. If the carrying amount of goodwill exceeds the implied fair value of goodwill, an impairment loss is recognized in an amount equal to that excess. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination is determined.

In 2014, the Company was reorganized into six business units. Each business unit meets the definition of an operating segment and is considered a reporting unit for goodwill impairment testing purposes. Because of the change in reporting units during the year, a quantitative assessment was performed at a reporting unit level at December 31, 2014.

Customer Deposits

In certain jurisdictions, customers are required to remit a deposit equal to their estimated monthly bill. These deposits earn interest and are returned to the customer either when the customer demonstrates a history of timely payments or when the customer no longer requires service.

Advances and Contributions in Aid of Construction

The Company receives cash advances and property and cash contributions from real estate developers and builders to fund construction necessary to extend service to their properties.

Advances for construction are refundable for limited periods of time as new customers begin to receive service. Advances that are no longer refundable are reclassified as contributions. Contributed property is depreciated at the same rate that the related contribution in aid of construction is amortized. As a result, a return is not earned on contributed property.

Revenue Recognition

Customers are billed for residential water and wastewater services on a monthly, bimonthly, or quarterly cycle. Revenues include amounts billed to customers and unbilled amounts based on estimated usage from the last billing date to the end of the accounting period.

Allowance for Funds Used During Construction

The allowance for funds used during construction ("AFUDC") represents the capitalized cost of funds used to finance the construction of utility plant. AFUDC is not applied to projects funded by advances and contributions in aid of construction. AFUDC is recovered through rate base as the utility plant is depreciated. The AFUDC rate approximated 8.9% during 2014 and 2013.

Income Taxes

[redacted]

Investment tax credits are deferred and amortized over the estimated useful lives used for financial reporting purposes of the related properties.

Deferred tax assets and liabilities are recorded for all temporary differences between the tax basis of assets and liabilities and the amounts reported in the financial statements, measured at the currently enacted statutory income tax rate, which is also the rate that is expected to be in effect when the temporary items reverse. Certain temporary differences have not been recognized as deferred income tax expense for ratemaking purposes. In situations when such timing differences reverse and become currently payable, and it is probable that the higher income taxes will be recoverable through rates charged customers, a net regulatory asset has been established to recognize this expected regulatory treatment.

Deferred taxes are recorded for differences that result from accelerated depreciation, contributions in aid of construction for certain contributions received from 1986 to 1996, and 2001 to 2007, investment tax credits, certain deferred charges and certain other differences in the recognition of income and expense for tax and financial reporting purposes.

Judgment is required in evaluating the Company's federal and state tax positions. Despite management's belief that the Company's tax return positions are fully supportable, the Company establishes reserves when it believes that its tax positions are likely to be challenged and it may not fully prevail in these challenges. The Company recognized accrued interest and penalties related to tax positions as a component of income tax expense.

New Accounting Standards

In July 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2013-11, *Income Taxes: Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*. This update requires that an unrecognized tax benefit should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward when settlement in this manner is available under the law. This update is effective prospectively for reporting periods beginning after December 15, 2014. The Company does not expect this update to have a material impact on the Company's consolidated results of operations or consolidated financial position.

In April 2014, the FASB issued ASU No. 2014-08, *Presentation of Financial Statements (Topic 205) and Property, Plant and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*. This update amends the requirements for reporting and disclosing discontinued operations. Under ASU No. 2014-08, a disposal of a component of an entity or a group of components of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on the entity's operations and financial results. ASU No. 2014-18 is effective for annual periods beginning after December 15, 2014, with early adoption permitted and is to be applied prospectively. The Company adopted the provisions of this update for its annual reporting period beginning January 1, 2014. The adoption of this update did not have a material impact on the Company's consolidated results of operations or consolidated financial position.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which will replace most existing revenue recognition guidance in U.S. Generally Accepted Accounting Principles and is intended to improve and converge with international standards the financial reporting requirements for revenue from contracts with customers. Under the new rules, an entity will recognize revenue when it transfers promised goods or services to customers in an amount that reflects what it expects to receive in exchange for the goods or services. The rules also require more detailed disclosures related to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers, including significant judgments and changes in judgments. ASU No. 2014-09 allows for both retrospective and prospective methods of adoption. These rules are effective for the Company for annual periods beginning after December 15, 2017. ASU 2014-09 also allows non-public companies the option to early adopt for fiscal years beginning after December 15, 2016. The Company does not expect this new guidance to have a material impact on the Company's consolidated results of operations or consolidated financial position.

In August 2014, the FASB issued guidance that explicitly requires an entity's management to assess the entity's ability to continue as a going concern. The new guidance requires an entity to evaluate, at each interim and annual period, whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date the financial statements are issued (or are available to be issued) and to provide related disclosures, if applicable. The new guidance is effective for annual periods ending after December 15, 2016 and for interim and annual periods thereafter. Early adoption is permitted. The Company does not expect this new guidance to have a material impact on the Company's consolidated results of operations or consolidated financial position.

3. **Acquisitions and Dispositions**

[redacted]

(in thousands of dollars)

4. Property, Plant and Equipment

The components of property, plant and equipment at December 31, are as follows:

	2014	2013
Plant in service	[redacted]	
Water		
Wastewater		
Other		
Total		
Plant under construction		
Accumulated depreciation		
Plant acquisition adjustments, net		
Property, plant and equipment, net		

5. Accounts Receivable

The components of accounts receivable at December 31, are as follows:

	2014	2013
Billed utility revenue	[redacted]	
Unbilled utility revenue		
Total		
Less allowance for doubtful accounts		
Accounts receivable, net		

The following table summarizes the activity of the allowance for doubtful accounts for the years ended December 31:

	2014	2013
Balance at January 1,	[redacted]	
Amounts charged to expense		
Amounts written off		
Balance at December 31,		

6. Goodwill

[redacted]

7. Regulatory Assets and Deferred Charges

The components of regulatory assets and deferred charges at December 31, are as follows:

	2014	2013
Regulatory assets	[redacted]	[redacted]
Rate case filing expenses		
Deferred income taxes recoverable through rates		
Total		
Deferred charges		
Debt acquisition cost		
Maintenance and testing		
Other		
Total		

The regulatory assets related to deferred income taxes will be adjusted as the amounts reverse and are included in income tax expense for regulatory purposes. Other regulatory assets and deferred charges are being amortized over periods that typically range from 3 to 12 years, corresponding to the period of rate recovery.

8. Debt

[redacted]

[redacted]

9. Regulatory Liability

In connection with the sale of a utility system in 2012, the local utility commission ruled that a portion of the gain on sale should flow back to ratepayers over a five-year period. At December 31, 2013, the Company recorded a regulatory liability of $2,506 for the estimated amount of the gain to be flown back to customers. The amount was originally expected to flow back through customers' rates beginning in April 2014 and extending through November 2016.

In March 2014, the regulatory liability was increased to $2,743 based on the final rate order. The regulatory liability will be amortized from March 2014 through January 2017. For the year ended December 31, 2014, the Company recorded amortization of $771 resulting in a liability balance of $1,972 at December 31, 2014.

10. Dividends

[redacted]

(In thousands of dollars)

11. Capital Contribution

[redacted]

12. Employee Benefit Plans

The Company maintains a 401(k) plan. Under the terms of the plan, the Company will match $.50 on every $1.00 contributed by participants up to a maximum contribution equal to 3% of eligible compensation per participant or to the maximum permitted by law. The Company match expense was $321 and $303 for the years ended December 31, 2014 and 2013, respectively. The plan also includes a non-elective Company contribution made annually on 4% of eligible wages. The non-elective contribution was $841 and $813 for the years ended December 31, 2014 and 2013, respectively.

13. Income Taxes

The provision for income taxes related to operations for the years ended December 31, is as follows:

	2014	2013
Current		
Federal	[redacted]	
State and local		
Deferred		
Federal		
State and local		
Provision for income taxes		

A reconciliation of the statutory federal income tax rate to the effective income tax rate for the years ended December 31, is as follows:

	2014	2013
Statutory federal income tax rate	[redacted]	
State income taxes, net of federal tax benefit		
Valuation allowance on state net operating losses		
Equity component of AFUDC, not subject to tax		
Amortization of investment tax credits		
Rate changes		
Uncertain tax position		
True up prior year balances		
Other		
Effective income tax rate		

The deferred tax assets and liabilities are attributable to the following components at December 31:

	2014	2013
Deferred tax assets	[redacted]	
State net operating losses		
Federal net operating losses		
Valuation allowances related to state net operating losses		
Regulatory liability		
Bad debt		
Other		
Total		
Deferred tax liabilities		
Plant-related differences		
Deferred charges		
Regulatory assets		
Organizational costs		
Total		
Net deferred tax liability		

The accumulated deferred tax liability attributed to regulatory assets reflects the probable future regulatory treatment afforded certain temporary differences such as the tax effect of investment tax credits, the equity component of AFUDC and other regulatory actions.

[redacted]

State income tax returns are generally subject to examination for a period of three to four years after the filing of the respective returns. The state impact of amended federal returns remain subject to examination by various states for a period of up to one year after formal notification of such amendments to the states. The consolidated federal income tax returns of Corix Infrastructure (US) Inc., of which the Company is a part of, remain subject to examination by the Internal Revenue Service for tax years 2011, 2012 and 2013.

The Company evaluates the realizability of its deferred tax assets on an annual basis. A valuation allowance is established when it is "more likely than not" that all or a portion of deferred tax assets will not be realized. The Company has established a valuation allowance related to certain of its state net operating losses based on estimates of future taxable income in these jurisdictions.

In evaluating its various tax filing positions, the Company records tax benefits only if management determines that they are more likely than not to be realized. Adjustments are made to the Company's liability for unrecognized tax benefits in the period in which an issue is settled with the respective tax authorities, the statute of limitations expires for the return containing the tax position or when new information becomes available.

[redacted]

14. Commitments and Contingencies

Operating Leases

The Company leases office space in various buildings for its own use. Most of the lease terms are for relatively short periods of time, many of which are less than two years. The Company also leases parcels of land on which treatment plants and other facilities are situated. These land leases expire at various dates through 2085. [redacted]

(In thousands of dollars)

Minimum future lease payments due in each of the next five years and thereafter are as follows:

	Office Leases	Land Leases	Total
Year ended December 31,			
2015	[redacted]		
2016			
2017			
2018			
2019			
Thereafter			
Total			

Litigation

The Company is subject to various claims and other litigation matters arising in the ordinary course of the Company's business. Some of these matters are covered by insurance. Although the Company's ultimate liability in these matters cannot be determined, based upon information currently available, the Company believes that the resolution of such claims and litigation will not have a material adverse effect on its financial condition, results of operations or liquidity.

Contingencies

In the normal course of business, the Company may enter into agreements with real estate developers related to the provision of water and/or wastewater service. These agreements may require payments to these developers that are contingent upon the number of customers added to the systems of the various operating companies. Connection charges are collected from customers as they sign up for service. Amounts due to developers are accrued as new customers are added. Amounts paid to developers were $100 and $155 for the years ended December 31, 2014 and 2013, respectively.

Potential future asset retirement costs relating to certain water and wastewater properties have been identified. However, the Company has determined that it does not have any legal obligations to retire assets. In addition, the Company intends on using its assets indefinitely. Therefore, the Company has not recognized a liability for these potential asset retirement costs at December 31, 2014.

On December 18, 2012, Nye County Nevada filed an action in Nye County District Court against, among other defendants, Utilities, Inc. of Central Nevada ("UICN"), a subsidiary of the Company, and other parties in connection with damage to a county road in the Pahrump Nevada area following a significant rain event in December 2010. The County's complaint alleges, among other things, that the road damage was caused by the negligence by UICN, Corrections Corporation of America

("CCA") and their respective contractors in connection with the construction of offsite improvements related to a new detention facility constructed and operated by CCA, and provided with water and sewer service by UICN. On December 21, 2012, UICN filed a partial answer and counterclaims against Nye County for the County's own negligence in overseeing the project, and for interfering with the work at issue. This matter was settled in October 2014 without liability to UICN or the Company.

In addition to the County's lawsuit, on December 18, 2012, several business owners filed an action naming UICN, among others, and claiming lost profits during the time Blagg Road was closed because of the damage that occurred following the rain event and road damage. UICN successfully sought dismissal of the business owner claims. The Nye County District Court's order dismissing the claims against UICN was entered on September 6, 2013. The business owners appealed that decision to the Nevada Supreme Court. This matter was settled in April 2014 and the appeal was dismissed with prejudice at that time. UICN's contribution to the property owners' settlement was $3.

18. Subsequent Events

Acquisition

On January 12, 2015, Utilities, Inc. of Louisiana, a wholly owned subsidiary of the Company, purchased the assets of Density Utilities of Louisiana, LLC ("Density"), which serves 2,400 wastewater customers across seven parishes in southern Louisiana, for cash consideration of $1,206. The transaction met the definition of a business combination as defined in ASC 805. Acquisition costs of $465 and $51 were expensed as incurred during 2014 and 2013, respectively.

The Louisiana Public Service Commission approved the asset sale in November 2014 and determined that the rate base for the acquisition would include the cash purchase price and related acquisition costs. At December 31, 2014, the accumulated transaction costs were considered a contingent asset.

ASC 980, *Regulatory Operations*, provides criteria for deferring costs that would otherwise be charged to expense by non-regulated enterprises. This accounting standard allows for the deferral of costs as long as it is probable that those specific deferred costs are subject to recovery in future revenues. The term probable is defined in the glossary to ASC 450, *Contingencies*, as "the future event or events are likely to occur." At December 31, 2014, the Company did not believe that the acquisition was probable. Once the transaction closed in January 2015, all previously expensed acquisition costs were capitalized.

Litigation

On January 14, 2015, the Congaree Riverkeeper, Inc. ("CRK") filed an action against Carolina Water Service, Inc. ("CWS"), a subsidiary of the Company, in United States District Court for the District of

South Carolina. The action alleges violations of the Federal Clean Water Act with respect to the operation of the wastewater treatment facility located in Lexington County, South Carolina. Specifically, the claims made in this civil action allege that CWS has violated the terms of its National Pollutant Discharge Eliminations System ("NPDES") permit because (A) it has not eliminated the treated wastewater discharge by CWS from the facility into its receiving stream, the Lower Saluda River, by connecting to facilities owned by the Town of Lexington and (B) it has on occasion discharged treated wastewater into such stream which exceeded the discharge constituent permit limits set out in the CWS NPDES permit. The relief sought by the complaint in the Action includes a request that the court impose a civil penalty of up to $37 per violation per day for nineteen violations that occurred during different time periods between January of 2009 and May of 2013. The number of days a violation is alleged to have persisted will be a matter that is required to be litigated and is therefore currently unknown to CWS. CWS has until March 16, 2015, to answer, move, or otherwise plead in response to the complaint in the Action. CWS will dispute that a basis exists for the imposition of penalties by the District Court under the Clean Water Act for the matters alleged in the action and intends to vigorously contest the allegations described in the complaint. The Company believes that the likelihood of an unfavorable outcome in this matter is not probable and that the amount of any potential loss cannot be reasonably estimated.

Other Events

The Company has evaluated events and transaction subsequent to the balance sheet date through March 6, 2015, the date the financial statements were available to be issued. Based on this evaluation, the Company is not aware of any additional events or transactions that occurred subsequent to the balance sheet date but prior to March 6, 2015 that would require recognition or disclosure in its Consolidated Financial Statements.

Utilities, Inc. and Subsidiaries

Consolidated Financial Statements
December 31, 2015 and 2014

Index

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Building a better working world

Report of Independent Auditors

To the Board of Directors and Shareholder of Utilities, Inc. and Subsidiaries

We have audited the accompanying consolidated financial statements of Utilities, Inc. and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of operations, changes in shareholder's equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Utilities, Inc. and Subsidiaries at December 31, 2015, and 2014, and the consolidated results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

March 9, 2016

Utilities, Inc. and Subsidiaries
Consolidated Statements of Operations
(In thousands)

	Year Ended December 31, 2015	2014
Operating revenues:	[redacted]	
Water		
Wastewater		
Other		
Non-regulated services		
Total		
Operating expenses:		
Operations and maintenance		
Depreciation and amortization		
Taxes other than income taxes		
Total		
Operating income		
Non-operating expense (income):		
Interest expense, net		
Allowance for funds used during construction		
(Gain) loss on sale of utility systems and other assets		
Total		
Income before taxes		
Provision for income taxes		
Net income		

Utilities, Inc. and Subsidiaries
Consolidated Balance Sheets
(In thousands, except share and per share amounts)

	December 31, 2015	December 31, 2014
Property, plant and equipment:	[redacted]	
Property, plant and equipment, at cost		
Less accumulated depreciation		
Property, plant and equipment, net		
Current assets:		
Cash and cash equivalents		
Restricted cash		
Accounts receivable, net		
Prepayments and other assets		
Total		
Regulatory and other assets:		
Regulatory assets (See Note 7)		
Deferred charges (See Note 7)		
Goodwill		
Total		
Total assets		
Shareholder's Equity:		
Common shares $.10 par value, 1,000 shares authorized and issued		
Paid-in capital		
Retained earnings		
Total		
Long-term debt		
Commitments and contingencies (See Note 14)		
Current liabilities:		
Accounts payable		
Customer deposits		
Accrued taxes		
Accrued interest		
Other		
Total		
Deferred credits and other liabilities:		
Deferred income taxes		
Regulatory liabilities (See Note 9)		
Due to parent		
Other liabilities and deferred credits		
Total		
Contributions in aid of construction		
Advances in aid of construction		
Total capitalization and liabilities		

The accompanying notes are an integral part of these financial statements.

Utilities, Inc. and Subsidiaries
Consolidated Statements of Changes in Shareholder's Equity
(Dollars in thousands)

	Common Shares		Paid-in	Retained	
	Shares	Amount	Capital	Earnings	Total
Balance at January 1, 2014	1,000	$ -	[redacted]		
Net income	-	-			
Dividend to parent	-	-			
Contribution from parent	-	-			
Balance at December 31, 2014	1,000	-			
Net income	-	-			
Dividend to parent	-	-			
Contribution from parent	-	-			
Balance at December 31, 2015	**1,000**	**$ -**			

The accompanying notes are an integral part of these financial statements.

Utilities, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(In thousands)

	Year Ended December 31, 2015	Year Ended December 31, 2014
Cash flows from operating activities:	[redacted]	
Net income		
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization		
Deferred income taxes and credits, net		
Amortization of deferred charges and regulatory assets		
Amortization of debt acquisition costs		
Amortization of regulatory liabilities		
Allowance for funds used during construction-equity		
(Gain) loss on sale of utility systems and other assets		
Other, net		
Changes in assets and liabilities:		
Accounts receivable, net		
Prepayments and other assets		
Additions to deferred charges being amortized		
Regulatory assets		
Regulatory liabilities		
Accounts payable and accrued liabilities		
Accrued taxes and interest		
Other assets and liabilities, net		
Net cash provided by operating activities		
Cash flows from investing activities:		
Capital expenditures		
Acquisitions		
Proceeds from the sale of utility systems and other assets		
Change in restricted cash		
Net cash used in investing activities		
Cash flows from financing activities:		
Contributions and advances in aid of construction, net		
Dividends to parent		
Contributions from parent		
Borrowings under revolving credit facility		
Repayments of revolving credit facility		
Net cash provided by financing activities		
Net increase (decrease) in cash and cash equivalents		
Cash and cash equivalents at beginning of year		
Cash and cash equivalents at end of year		
Supplemental cash flow information:		
Interest paid (net of amounts capitalized)		
Income taxes paid		
Non-cash property, plant and equipment contributions		

The accompanying notes are an integral part of these financial statements.

1. Basis of Presentation

Business Description

Utilities, Inc. (the "Company") is a holding company, which, at December 31, 2015, owned and operated approximately 550 regulated water and wastewater utility systems through 43 subsidiary operating companies. The Company operates in 15 states with primary service areas in Florida, North Carolina, South Carolina, Nevada, and Louisiana.

Principles of Consolidation

The consolidated financial statements of the Company and its wholly owned subsidiaries have been prepared using accounting principles generally accepted in the United States of America ("GAAP"). The presentation of these financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses, and certain financial statement disclosures.

Certain reclassifications have been made to the prior year financial statements to conform to current year presentations. These reclassifications had no impact on the Consolidated Statement of Operations for 2014.

2. Summary of Significant Accounting Policies

Regulation

Most of the Company's operations are subject to regulation by the public utility commissions of the states in which they operate. The extent of a commission's jurisdiction varies from state to state and usually includes the regulation of rates, accounting policies, financing, rules of service, sales and purchases of property, mergers and acquisitions, and the determination of service areas.

Utilities are generally subject to regulation, which is relied upon in lieu of the economic controls of competition in assuring fair prices and adequate service. Rates are based on the allocation of costs to customers who cause their incurrence. These rates are generally set to provide the utility the opportunity to recover its allowable operating expenses, including depreciation and taxes, and a return on the debt and equity capital invested.

The accounting practices of utility companies differ in certain aspects from those of other businesses not subject to regulation. GAAP applies to utilities just as it does to other industries, although the application at times may be different. The economic effect of regulation can result in a utility deferring costs or revenues that have been, or are expected to be, allowed in the ratemaking process in future periods. As a result, regulated entities record assets and liabilities resulting from the ratemaking process that would generally not be recorded by a non-regulated entity. These regulatory assets and liabilities are then reflected in the statement of operations in the periods in which the costs and credits are reflected in the rates charged for services.

Property, Plant and Equipment

All costs incurred to bring an asset to the condition and location necessary for its intended use are capitalized. Costs include contracted labor, direct labor, materials, and indirect costs including an allowance for funds used during construction.

Expenditures for repairs and maintenance are expensed in accordance with the system of accounts prescribed by the public utility commissions of the states in which the Company operates. These expenditures are typically expensed as incurred but, in certain jurisdictions, may be deferred and amortized over the period of recovery.

Property in service is generally depreciated using the straight-line method over the estimated useful lives of the related property. Depreciation rates typically range between 1.5% and 5.0% per year. The majority of property in service is depreciated at approximately 2.0% per year. In certain instances, the composite or group method is used in which a single depreciation rate is applied to the total cost of a particular property class. This method pools similar assets and depreciates each group as a whole. Depreciation expense is a recoverable cost of service included in rates charged to customers. Under this method, when assets are replaced, retired or abandoned, the recorded value of the asset is reduced to zero with a corresponding reduction in accumulated depreciation, and as a result, neither a gain nor loss is recognized.

Long-lived assets are reviewed for potential impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. When it becomes probable that a portion of the cost of a long-lived asset will be disallowed for ratemaking purposes, such amounts are deducted from the reported cost of the asset and recognized as a loss.

Plant Acquisition Adjustments

For utility plant subject to traditional cost-of-service regulation, the depreciated original cost of an acquired asset is considered to equal its fair value. To the extent an amount paid for utility plant differs from its depreciated original cost, and that amount is included for ratemaking purposes, the fair value is deemed to have been increased (or decreased) and an acquisition adjustment is recorded as a component of utility plant. If the excess amount paid is not included in future rates, the amount is recorded as goodwill.

Cash and Cash Equivalents

The Company considers all highly liquid instruments with an original maturity of three months or less to be cash equivalents.

Restricted Cash

The Company receives cash from real estate developers and builders to finance the construction of water and wastewater systems. In certain jurisdictions, such cash is restricted and can only be spent in connection with that specific project.

Accounts Receivable

The Company's accounts receivable primarily consists of trade receivables. The allowance for doubtful accounts is developed based upon several factors including the age of the Company's accounts receivable, historical write-off experience and specific account analysis. The Company writes off accounts when they become uncollectible.

Regulatory Assets and Deferred Charges

Regulatory assets primarily consist of costs related to the rate filing process for which the Company has received or expects to receive prospective rate recovery. Deferred charges primarily consist of repair and maintenance costs incurred in jurisdictions where these expenditures may be deferred and amortized over the period of rate recovery.

Goodwill

The Company evaluates its goodwill for impairment on an annual basis during the fourth quarter or whenever indicators of impairment exist. The initial step of the impairment test is a thorough assessment of qualitative factors to determine the existence of events or circumstances that would indicate that it is not more likely than not that the fair value of the Company exceeds its carrying amount, including goodwill. If the qualitative test indicates that it is more likely than not that the fair value of the Company exceeds its carrying value, a quantitative assessment is not required.

A quantitative test, if required, determines the fair value of the Company using recent comparable transactions in the water utility sector. If the carrying amount exceeds the fair value, goodwill would be considered impaired. To measure the amount of the impairment loss, the implied fair value of goodwill is compared to the carrying amount of goodwill. If the carrying amount of goodwill exceeds the implied fair value of goodwill, an impairment loss is recognized in an amount equal to that excess. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination is determined.

Customer Deposits

In certain jurisdictions, customers are required to remit a deposit equal to their estimated monthly bill. These deposits earn interest and are returned to the customer either when the customer demonstrates a history of timely payments or when the customer no longer requires service.

Advances and Contributions in Aid of Construction

The Company receives cash advances and property and cash contributions from real estate developers and builders to fund construction necessary to extend service to their properties. Advances for construction are refundable for limited periods of time as new customers begin to receive service. Advances that are no longer refundable are reclassified as contributions. Contributed property is depreciated at the same rate that the related contribution in aid of construction is amortized. As a result, a return is not earned on contributed property.

Revenue Recognition

Customers are billed for residential water and wastewater services on a monthly, bimonthly, or quarterly cycle. Revenues include amounts billed to customers and unbilled amounts based on estimated usage from the last billing date to the end of the accounting period.

Allowance for Funds Used During Construction

The allowance for funds used during construction ("AFUDC") represents the capitalized cost of funds used to finance the construction of utility plant. AFUDC is not applied to projects funded by advances and contributions in aid of construction. AFUDC is recovered through rate base as the utility plant is depreciated. The AFUDC rate approximated 8.8% and 8.9% during 2015 and 2014, respectively.

Income Taxes

[redacted]

Investment tax credits are deferred and amortized over the estimated useful lives used for financial reporting purposes of the related properties.

Deferred tax assets and liabilities are recorded for all temporary differences between the tax basis of assets and liabilities and the amounts reported in the financial statements, measured at the currently enacted statutory rates that are expected to apply to taxable income in the periods in which the temporary differences are expected to be realized or settled. Certain temporary differences have not been recognized as deferred income tax expense for ratemaking purposes. In situations when such timing differences are realized or settled and become currently payable, and it is probable that the higher income taxes will be recoverable through rates charged to customers, a net regulatory asset has been established to recognize this expected regulatory treatment.

Deferred taxes are recorded for differences that result from accelerated depreciation, contributions in aid of construction for certain contributions received from 1986 to 1996, and 2001 to 2007, investment tax credits, certain deferred charges and certain other differences in the recognition of income and expense for tax and financial reporting purposes.

Judgment is required in evaluating the Company's federal and state tax positions. Despite management's belief that the Company's tax return positions are fully supportable, the Company establishes reserves when it believes that its tax positions are likely to be challenged and it may not fully prevail in these challenges. The Company recognizes accrued interest and penalties related to tax positions as a component of income tax expense.

New Accounting Standards

In July 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2013-11, *Income Taxes: Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists.* This update requires that an unrecognized tax benefit should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward when settlement in this manner is available under the law. This update is effective prospectively for reporting periods beginning after December 15, 2014. The adoption of this update in 2015 did not have a material impact on the Company's consolidated results of operations or consolidated financial position.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which will replace most existing revenue recognition guidance in U.S. Generally Accepted Accounting Principles and is intended to improve and converge with international standards the financial reporting requirements for revenue from contracts with customers. Under the new rules, an entity will recognize revenue when it transfers promised goods or services to customers in an amount that reflects what it expects to receive in exchange for the goods or services. The rules also require more detailed disclosures related to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers, including significant judgments and changes in judgments. ASU No. 2014-09 allows for both retrospective and prospective methods of adoption. These rules are effective for the Company for annual periods beginning after December 15, 2018. ASU 2014-09 also allows non-public companies the option to early adopt for fiscal years beginning after December 15, 2016. The Company does not expect this new guidance to have a material impact on the Company's consolidated results of operations or consolidated financial position.

In August 2014, the FASB issued ASU No. 2014-15, *Presentation of Financial statements – Going Concern (Subtopic) 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern.* This guidance requires an entity to evaluate, at each interim and annual period, whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date the financial statements are issued (or are available to be issued) and to provide related disclosures, if applicable. The new guidance is effective for annual periods ending after December 15, 2016 and for interim and annual periods thereafter. Early adoption is permitted. The Company does not expect this new guidance to have a material impact on the Company's consolidated results of operations or consolidated financial position.

In November 2015, the FASB issued ASU No. 2015-17, *Income Taxes (Topic 740), Balance Sheet Classification of Deferred Taxes.* The amendments under the new guidance require that deferred tax assets and liabilities be classified as noncurrent in a classified statement of financial position. The guidance is effective for financial statements issued for annual periods, beginning after December 15, 2017, and interim periods within those annual periods. Earlier application is permitted for all entities as of the beginning of an interim or annual reporting period. The amendments in this ASU may be applied either prospectively to all deferred tax assets and liabilities or retrospectively to all periods presented. The Company has early adopted this guidance effective December 31, 2015 on a retrospective basis. The adoption of this update did not have a material impact on the Company's consolidated results of operations or consolidated financial position.

In April 2015, the FASB issued ASU No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs (ASU 2015-03)*. ASU No. 2015-03 amends the guidance within ASC Topic 835, "Interest", to require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt premiums and discounts. The new guidance is effective for annual periods beginning after December 15, 2015, and is required to be applied retroactively. Early adoption is permitted. In August 2015, the FASB further clarified their views on debt costs incurred in connection with a line of credit arrangement by issuing ASU No. 2015-15, *Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements (ASU 2015-15)*. ASU No. 2015-15 amends the guidance within ASC Topic 835, "Interest", to allow an entity to defer and present debt issuance costs associated with a line of credit arrangement as an asset, regardless of whether there are any outstanding borrowings on the line of credit arrangement. The adoption of this update is not expected to have a material impact on the Company's consolidated results of operations or consolidated financial position.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. This update requires the recognition of lease assets and lease liabilities on the balance sheet and the disclosure of key information about leasing arrangements. The guidance is effective for financial statements issued for annual periods, beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Earlier application is permitted for all entities as of the beginning of an interim or annual reporting period. The adoption of this update is not expected to have a material impact on the Company's consolidated results of operations or consolidated financial position.

3. Acquisitions and Dispositions

[redacted]

(In thousands of dollars)

4. Property, Plant and Equipment

The components of property, plant and equipment at December 31, are as follows:

	2015	2014
Plant in service	[redacted]	[redacted]
Water	[redacted]	[redacted]
Wastewater	[redacted]	[redacted]
Other	[redacted]	[redacted]
Total	[redacted]	[redacted]
Plant under construction	[redacted]	[redacted]
Accumulated depreciation	[redacted]	[redacted]
Plant acquisition adjustments, net	[redacted]	[redacted]
Property, plant and equipment, net	[redacted]	[redacted]

5. Accounts Receivable

The components of accounts receivable at December 31, are as follows:

	2015	2014
Billed utility revenue	[redacted]	[redacted]
Unbilled utility revenue	[redacted]	[redacted]
Total	[redacted]	[redacted]
Less allowance for doubtful accounts	[redacted]	[redacted]
Accounts receivable, net	[redacted]	[redacted]

The following table summarizes the activity of the allowance for doubtful accounts for the years ended December 31:

	2015	2014
Balance at January 1,	[redacted]	[redacted]
Amounts charged to expense	[redacted]	[redacted]
Amounts written off	[redacted]	[redacted]
Balance at December 31,	[redacted]	[redacted]

6. Goodwill

[redacted]

7. Regulatory Assets and Deferred Charges

The components of regulatory assets and deferred charges at December 31, are as follows:

	2015	2014
Regulatory assets		
Rate case filing expenses	[redacted]	
Deferred income taxes recoverable through rates		
Total		
Deferred charges		
Debt acquisition cost		
Maintenance and testing		
Other		
Total		

The regulatory assets related to deferred income taxes will be adjusted as the amounts reverse and are included in income tax expense for regulatory purposes. Other regulatory assets and deferred charges are being amortized over periods that typically range from 3 to 5 years, corresponding to the period of rate recovery.

8. Debt

[redacted]

[redacted]

9. Regulatory Liabilities

In connection with the sale of a utility system in 2012, the local utility commission ruled that a portion of the gain on sale should flow back to ratepayers. A regulatory liability was recognized for $2,743 based on the final rate order. The amortization period began in March 2014 and was scheduled to extend through January 2017. The Company recorded amortization of $957 and $771 for the years ended December 31, 2015 and 2014, respectively.

In the subsequent rate case that was finalized in December 2015, the local utility commission determined that the remaining regulatory liability of $1,015 should be amortized over a three-year period beginning January 1, 2016.

In 2015, the Company established other regulatory liabilities of $393 that will amortize over three-year periods beginning at various dates that are dependent upon the timing of future rate filings.

(In thousands of dollars)

10. Dividends

[redacted]

11. Parent Contribution

[redacted]

12. Employee Benefit Plans

The Company maintains a 401(k) plan. Under the terms of the plan, the Company will match fifty cents on every dollar contributed by participants up to a maximum contribution equal to 3% of eligible compensation per participant or to the maximum permitted by law. The Company match expense was $333 and $321 for the years ended December 31, 2015 and 2014, respectively. The plan also includes a non-elective Company contribution made annually on 4% of eligible wages. The non- elective contribution was $878 and $841 for the years ended December 31, 2015 and 2014, respectively.

13. Income Taxes

The provision for (benefit from) income taxes related to operations for the years ended December 31, is as follows:

	2015	2014
Current		
Federal	[redacted]	
State and local		
Deferred		
Federal		
State and local		
Provision for income taxes		

A reconciliation of the statutory federal income tax rate to the effective income tax rate for the years ended December 31, is as follows:

	2015	2014
Statutory federal income tax rate	[redacted]	
State income taxes, net of federal tax benefit		
Valuation allowance on state net operating losses		
Equity component of AFUDC, not subject to tax		
Amortization of investment tax credits		
Rate changes		
Uncertain tax position		
True up prior year balances		
Other		
Effective income tax rate		

The deferred tax assets and liabilities are attributable to the following components at December 31:

	2015	2014
Deferred tax assets		
State net operating losses	[redacted]	
Federal net operating losses		
Valuation allowances related to state net operating losses		
Regulatory liabilities		
Bad debt		
Other		
Total		
Deferred tax liabilities		
Plant-related differences		
Deferred charges		
Regulatory assets		
Organizational costs		
Total		
Net deferred tax liability		

The accumulated deferred tax liability attributed to regulatory assets reflects the probable future regulatory treatment afforded certain temporary differences such as the tax effect of investment tax credits, the equity component of AFUDC and other regulatory actions.

[redacted]

State income tax returns are generally subject to examination for a period of three to four years after the filing of the respective returns. The state impact of amended federal returns remain subject to examination by various states for a period of up to one year after formal notification of such amendments to the states. The consolidated federal income tax returns of Corix Infrastructure (US) Inc., of which the Company is a part of, remain subject to examination by the Internal Revenue Service for tax years 2012, 2013 and 2014.

The Company evaluates the realizability of its deferred tax assets on an annual basis. A valuation allowance is established when it is "more likely than not" that all or a portion of deferred tax assets will not be realized. The Company has established a valuation allowance related to certain of its state net operating losses based on estimates of future taxable income in these jurisdictions.

In evaluating its various tax filing positions, the Company records tax benefits only if management determines that they are more likely than not to be realized. Adjustments are made to the Company's liability for unrecognized tax benefits in the period in which an issue is settled with the respective tax authorities, the statute of limitations expires for the return containing the tax position or when new information becomes available.

[redacted]

14. Commitments and Contingencies

Operating Leases

The Company leases office space in various buildings for its own use. Most of the lease terms are for relatively short periods, many of which are less than two years. The Company also leases parcels of land on which treatment plants and other facilities are situated. These land leases expire at various dates through 2085. [redacted].

(In thousands of dollars)

Minimum future lease payments due in each of the next five years and thereafter are as follows:

	Office Leases	Land Leases	Total
Year ended December 31,	[redacted]		
2016			
2017			
2018			
2019			
2020			
Thereafter			
Total			

Litigation

The Company is subject to various claims and other litigation matters arising in the ordinary course of business. Some of these matters are covered by insurance. Although the Company's ultimate liability in these matters cannot be determined, based upon information currently available, the Company believes that the resolution of such claims and litigation will not have a material adverse effect on its financial condition, results of operations or liquidity.

Contingencies

In the normal course of business, the Company may enter into agreements with real estate developers related to the provision of water and/or wastewater service. These agreements may require payments to these developers that are contingent upon the number of customers added to the systems of the various operating companies. Connection charges are collected from customers as they sign up for service. Amounts due to developers are accrued as new customers are added. Amounts paid to developers were $77 and $100 for the years ended December 31, 2015 and 2014, respectively.

Potential future asset retirement costs relating to certain water and wastewater properties have been identified. However, the Company has determined that it does not have any legal obligations to retire assets. In addition, the Company intends on using its assets indefinitely. Therefore, the Company has not recognized a liability for these potential asset retirement costs at December 31, 2015.

On January 14, 2015, the Congaree Riverkeeper, Inc. filed an action against Carolina Water Service, Inc. ("CWS"), a subsidiary of the Company, in the United States District Court for the District of South Carolina. The action alleges violations of the Federal Clean Water Act with respect to the operation of the wastewater treatment facility located in Lexington County, South Carolina. Specifically, the claims made in this civil action allege that CWS has violated the terms of its National

Pollutant Discharge Eliminations System ("NPDES") permit because (A) it has not eliminated the treated wastewater discharge by CWS from the facility into its receiving stream, the Lower Saluda River, by connecting to facilities owned by the Town of Lexington and (B) it has on occasion discharged treated wastewater into such stream which exceeded the discharge constituent permit limits set out in the CWS NPDES permit. The relief sought by the complaint in the action includes a request that the court impose a civil penalty of up to $37.5 per violation per day for nineteen violations that occurred during different time periods between January of 2009 and May of 2013. The number of days a violation is alleged to have persisted will be a matter that is required to be litigated and is therefore currently unknown to CWS. CWS disputes that a basis exists for the imposition of penalties by the District Court under the Clean Water Act for the matters alleged in the action and intends to vigorously contest the allegations described in the complaint. The Company believes that the likelihood of an unfavorable outcome in this matter is not probable and that the amount of any potential loss cannot be reasonably estimated.

15. Subsequent Events

The Company has evaluated events and transaction subsequent to the balance sheet date through March 9, 2016, the date the financial statements were available to be issued. Based on this evaluation, the Company is not aware of any additional events or transactions that occurred subsequent to the balance sheet date but prior to March 9, 2016 that would require recognition or disclosure in its Consolidated Financial Statements.