

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

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

Utilities, Inc. of Florida ("Utility"), by and through its undersigned counsel, and pursuant to Section 367.156, Florida Statutes, and Rule 25-22.006, Florida Administrative Code, files this Request for Confidential Classification in relation to certain documents submitted in connection with Staff's Audit, ACN 16-259-1-1 in connection with the above-referenced Docket.

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 Board of Director Minutes, Account 2640.43 Correction documents, and the Audited Financial Statement Equity Balance schedule provided to the Staff Auditors in connection with the Staff's Audit in the above-referenced Docket be classified as proprietary confidential business information under Section 367.156(2), Florida Statutes, and Rule 25-22.006, Florida Administrative Code ("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, Audited Financial Statement Equity Balance, and working capital schedule of its parent

**REDACTED**

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COMMISSION  
CLERK

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. See, for example, Order Nos. PSC-14-0222-CFO-WS, PSC-14-0240-CFO-WS, and PSC-15-0561-CFO-SU.

WHEREFORE, Utilities, Inc. of Florida requests this Commission enter an order treating the information identified in this Motion as confidential and exempt from disclosure.

Respectfully submitted this 18th day of January, 2017  
by:

COENSON FRIEDMAN, P.A.  
766 N. Sun Drive, Suite 4030  
Lake Mary, FL 32746  
Telephone: (407) 322-8000  
E-Mail: [mfriedman@coensonfriedman.com](mailto:mfriedman@coensonfriedman.com)

/s/ Martin S. Friedman

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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 documents has been furnished by E- Mail to the following parties this

18th day of January 2017:

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](mailto:Sayler.Erik@leg.state.fl.us)

Walter Trierweiler, Esquire  
Office of General Counsel  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, FL 32399-0850  
[wtrierwe@psc.state.fl.us](mailto:wtrierwe@psc.state.fl.us)

/s/ Martin S. Friedman

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MARTIN S. FRIEDMAN  
For the Firm

**Exhibit "A"**  
**JUSTIFICATION MATRIX**

Location (Document name and location of information)	Justification
<p><b><u>Board of Directors Meeting Minutes:</u></b> <b><u>2015</u></b></p> <p><b><u>Location:</u></b> 8, 8.1, 8.2, 8.3 and 8.4.</p>	<p>§367.156: This Commission has previously held that corporate minutes are protected as proprietary business information. See, for example, PSC Order Nos. PSC-08-0447-PCO-WS and PSC-03-0410-CFO-WS.</p>
<p><b><u>Consolidated Financial Statements:</u></b> <b><u>2015</u></b></p> <p><b><u>Location:</u></b> 9-3: The amounts under columns headings 2014 and 2015 9-4: The amounts under columns headings 2014 and 2015 9-5: The amounts under columns headings Paid-in Capital, Retained Earnings &amp; Total 9-6: The amounts under columns headings 2014 and 2015 9-10: The 1st paragraph under Income Taxes 9-12: Note 3, all text 9-13: Notes 4, &amp; 5, The amounts under columns headings 2014 and 2015 9-14: All of Note 6 and the amounts under columns headings 2014 and 2015 9-15 &amp; 9-16: All of Note 8 9-17: All of Notes 10, 11 and 12 9-17 &amp; 9-18 Note 13, The amounts under columns headings 2014 and 2015, and the second and last paragraphs on 9-19 9-19, 9-20 &amp; 9-21: Note 14, the last sentence of the first paragraph, and the amounts in the table</p>	<p>§367.156(3)(a),(b),(d) &amp; (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.</p>

<p><b><u>Account 2640.43 Correction:</u></b></p> <p><b><u>Location:</u></b>  10.18.1: The amounts in columns headings Amount, Debit &amp; Credit  10.18.2: The amounts in columns headings Period Amounts</p>	<p>§367.156(3)(a),(b),(d) &amp; (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.</p>
<p><b><u>Audited Financial Statement Equity Balance</u></b></p> <p><b><u>Location:</u></b>  31-33: All amounts</p>	<p>§367.156(3)(a),(b),(d) &amp; (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.</p>

<b>INDEX OF CONFIDENTIAL WORKPAPERS</b>
<b>Utilities, Inc. of Florida and Utilities, Inc.</b>
<b>DKT 160101-WS; ACN 16-259-1-1</b>
<b>File and Suspend Rate Case</b>

<b>Item</b>	<b>Description</b>	<b>Page</b>	<b>Number of Pages</b>
1	Typed notes from Board of Director Minutes	8, 8.1, 8.2, 8.3, and 8.4	5
2	Audited Financial Statements for 2015	9, 9-1, 9-2, 9-3, 9-4, 9-5, 9-6, 9-7, 9-8, 9-9, 9-10, 9-11, 9-12, 9-13, 9-14, 9-15, 9-16, 9-17, 9-18, 9-19, 9-20, and 9-21	22
3	Account 2640.43 Correction	10.18.1, 10.18.2	2
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24			

Total Pages 30 *20*

Board of Directors  
Gunter Law Firm  
215 S. Monroe Street  
[REDACTED]

Handwritten initials: *EB*

Handwritten date and initials: *10/11/16 AB*

January 27, 2015

- Utilities Inc.
- Telephonic Meeting of the BOD
- Convened at 1:00pm Central Standard Time (CST)
- Quorum of Directors present

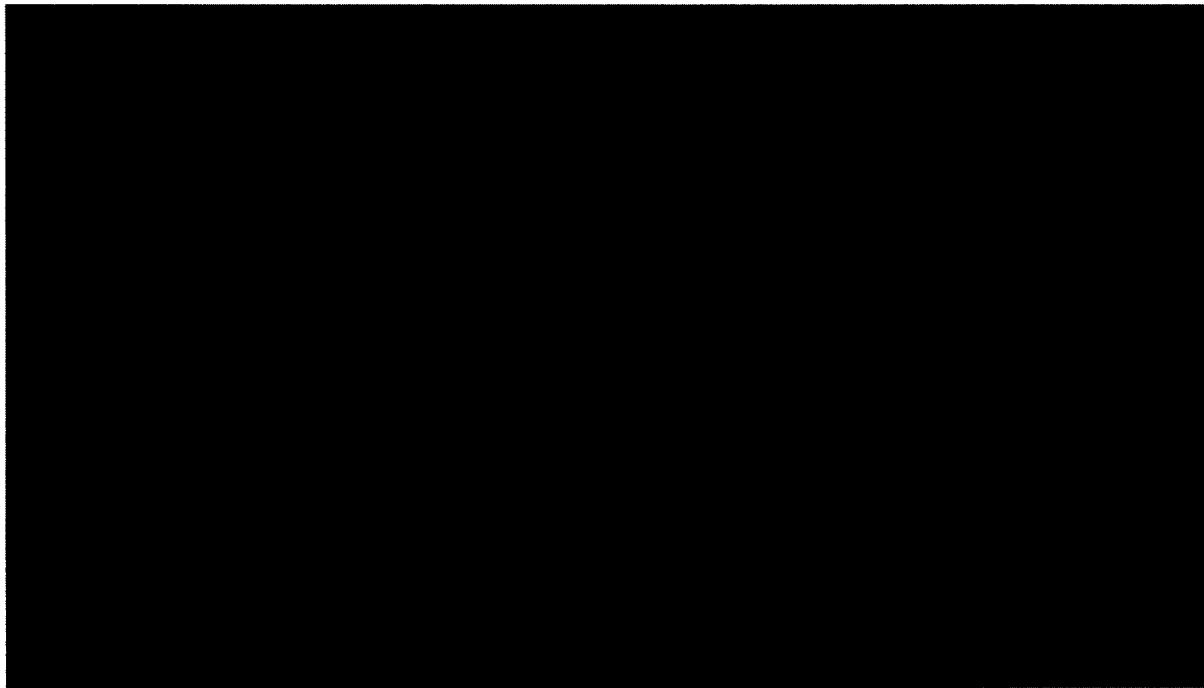
**CONFIDENTIAL**

[REDACTED]

- Adjourned meeting at 3:00pm CST

[REDACTED]

SOURCE As referenced



10/11/16  
JK

April 28, 2015

- Utilities Inc.
- Telephonic Meeting of the BOD
- Convened at 1:00pm Central Standard Time (CST)
- Quorum of Directors present



- Adjourned meeting at 2:30pm CST



Utilities, Inc.  
 Audit of Affiliate Transactions  
 Test Year Ended December 31, 2015  
 Dkt. 160101-WS ; ACN 16-259-1-1;  
 Description: WP 8 - BOD Minutes

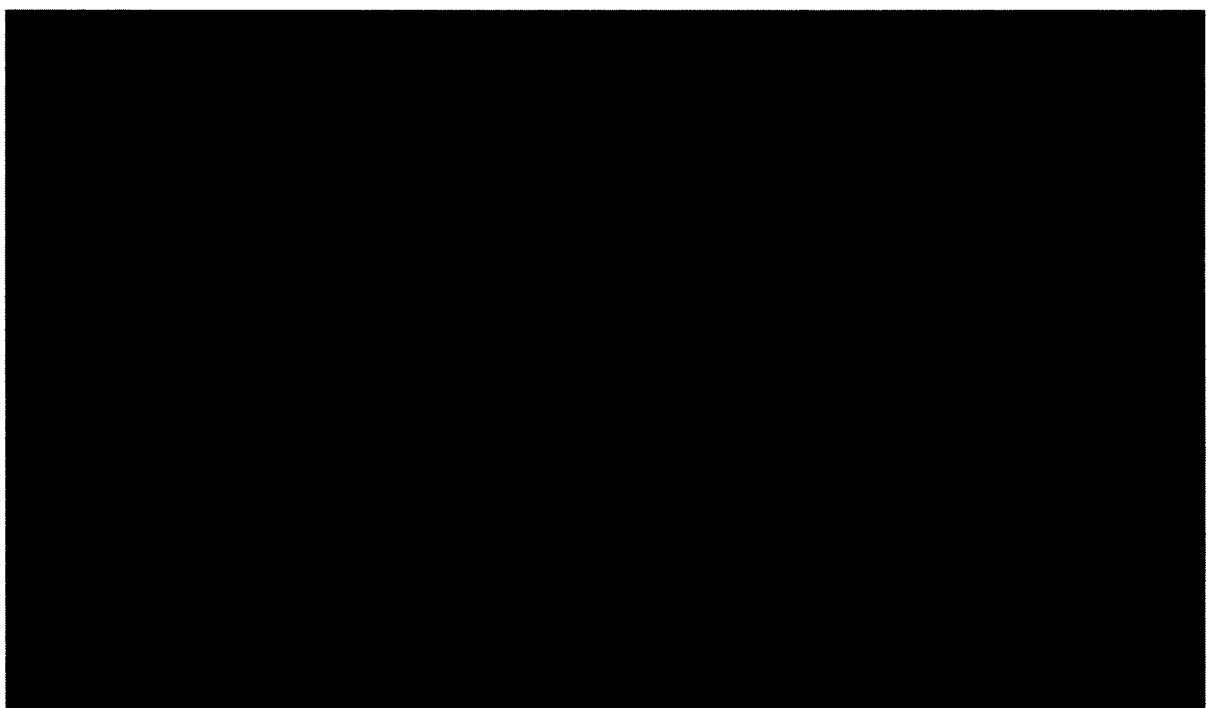
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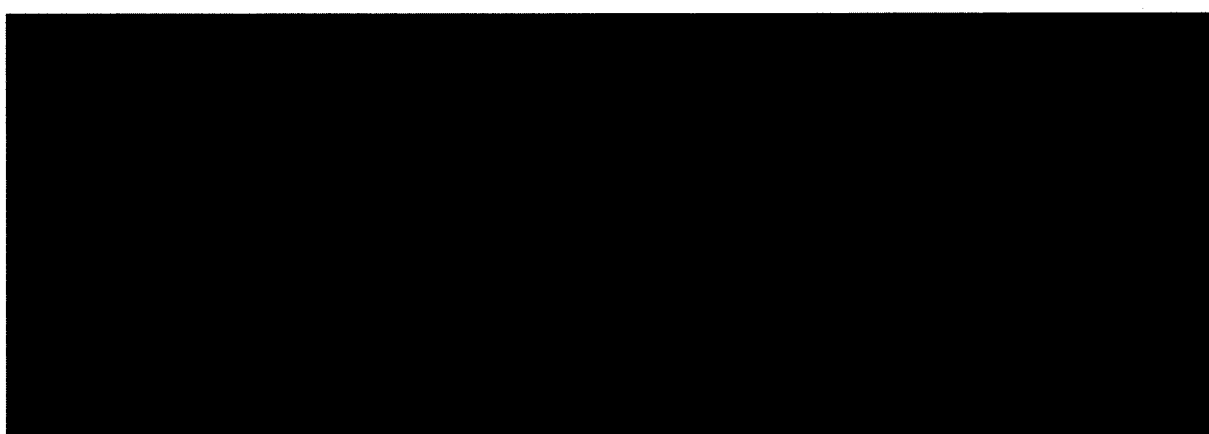


July 28, 2015

- Utilities Inc.
- Telephonic Meeting of the BOD
- Convened at 2:30pm Central Standard Time (CST)
- Quorum of Directors present



- Adjourned meeting at 3:50pm CST



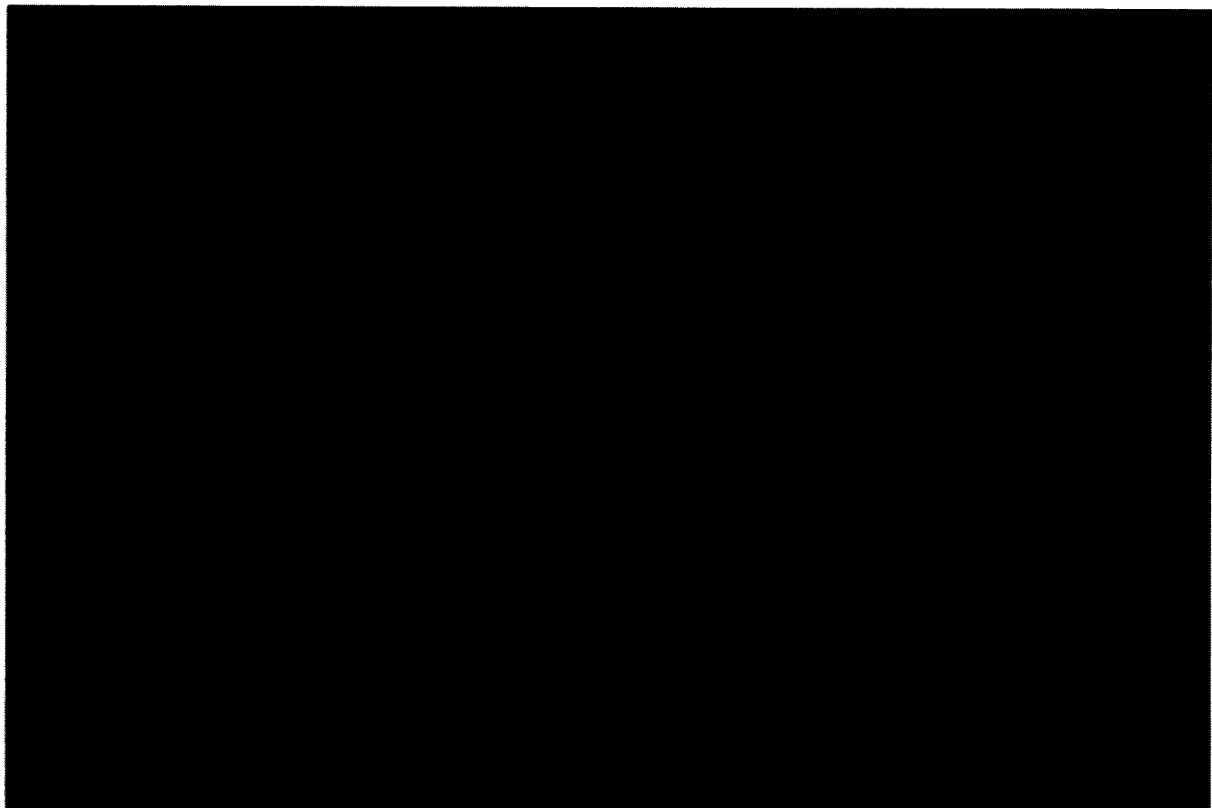
Utilities, Inc.  
Audit of Affiliate Transactions  
Test Year Ended December 31, 2015  
Dkt. 160101-WS; ACN J6-259-1-1;  
Description: VP 8 - BOD Minutes

SOURCE As referenced

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JTB



October 27, 2015

- Utilities Inc.
- Telephonic Meeting of the BOD
- Convened at 1:00pm Central Standard Time (CST)
- Quorum of Directors present

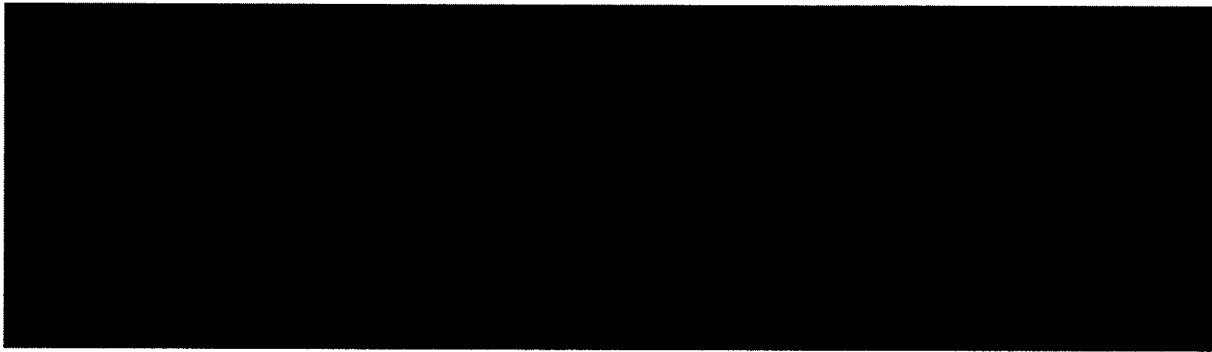


- Adjourned meeting at 2:45pm CST



Utilities, Inc.  
Audit of Affiliate Transactions  
Test Year Ended December 31, 2015  
Dkt. 160101-WS; ACN 16-259-1-1;  
Description: WP 8 - BOD Minutes

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10/11/16  
RB

April 13, 2016

- Utilities Inc.
- Telephonic Meeting of the BOD
- Convened at 3:00pm Central Standard Time (CST)
- Quorum of Directors present



- Adjourned meeting at 4:45pm CST



Utilities, Inc.  
Audit of Affiliate Transactions  
Test Year Ended December 31, 2015  
Dkt. 160101-WS; ACN 16-259-1-1;  
Description: WP 8 - BOD Minutes

*[Handwritten signature]*

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# Utilities, Inc. and Subsidiaries

Consolidated Financial Statements  
December 31, 2015 and 2014

Utilities, Inc.  
Audit of Affiliate Transactions  
Test Year Ended December 31, 2015  
Dkt. 160101-WS; ACN 16-259-1-1;  
Description: W-9 - External/Internal Audits



10/31/16  
DB

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Utilities, Inc.  
Audit of Affiliate Transactions  
Test Year Ended December 31, 2015  
Dkt. 160101-WS; ACN 16-359-1-1;  
Description: WP 9 - External/Internal Audits

PBC



Ernst & Young LLP  
100 N. Dearborn St.  
Chicago, IL  
60605

TEL: 312.412.0000  
EY.COM

10/31/16  
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### 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.  
Audit of Affiliate Transactions  
Test Year Ended December 31, 2015  
Dkt. 160101-WS; ACN 16-259-1-1;  
Description: WP 9- External/Internal Audits



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

10/31/16  
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	Year Ended December 31,	
	2015	2014
Operating revenues:		
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.  
 Audit of Affiliate Transactions  
 Test Year Ended December 31, 2015  
 Dkt. 160101-WS ACN 16-259-1-1;  
 Description: WP 9 - Internal/External Audits



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

10/31/16  
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	December 31,	
	2015	2014
Property, plant and equipment:		
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		
<b>Total assets</b>		
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		
<b>Total capitalization and liabilities</b>		

Utilities, Inc.  
 Audit of Affiliate Transactions  
 Test Year Ended December 31, 2015  
 Date: 10/10/16 WS: ACN 15759-1-1  
 Description: MP 9 - External/Inferior Audits

31-1

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)

10/31/16  
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	Common Shares		Paid-in Capital	Retained Earnings	Total
	Shares	Amount			
Balance at January 1, 2014	1,000	\$ -			
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.  
 Audit of Affiliate Transactions  
 Test Year Ended December 31, 2015  
 Dkt. 160101.WS: ACN 16-259-1-1;  
 Description: WP 9 - External/Internal Audits



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

10/31/16  
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	Year Ended December 31,	
	2015	2014
<b>Cash flows from operating activities:</b>		
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		
<b>Net cash provided by operating activities</b>		
<b>Cash flows from investing activities:</b>		
Capital expenditures		
Acquisitions		
Proceeds from the sale of utility systems and other assets		
Change in restricted cash		
<b>Net cash used in investing activities</b>		
<b>Cash flows from financing activities:</b>		
Contributions and advances in aid of construction, net		
Dividends to parent		
Contributions from parent		
Borrowings under revolving credit facility		
Repayments of revolving credit facility		
<b>Net cash provided by financing activities</b>		
Net increase (decrease) in cash and cash equivalents		
Cash and cash equivalents at beginning of year		
<b>Cash and cash equivalents at end of year</b>		
<b>Supplemental cash flow information:</b>		
Interest paid (net of amounts capitalized)		
Income taxes paid		
Non-cash property, plant and equipment contributions		

Utilities, Inc.  
 Audit of Affiliate Transactions  
 Test Year Ended December 31, 2015  
 Dkt. 16010-WS; ACN 16-259-1-1;  
 Description: WP 9 - External/Internal Audits

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



**Utilities, Inc. and Subsidiaries**  
Notes to Consolidated Financial Statements  
(In thousands of dollars)

10/31/16  
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**1. Basis of Presentation**

Utilities, Inc.  
Audit of Affiliate Transactions  
Test Year Ended December 31, 2015  
Dkt. 160101-WS : ACN 16-259-1-1;  
Description: WP 9 - External/Internal Audits

*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.



## Utilities, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

(In thousands of dollars)

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### *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.

Utilities, Inc.  
Audit of Affiliate Transactions  
Test Year Ended December 31, 2015  
Dkt. 160101-WS; ACN 16-259-1-1;  
Description: WP 9 - External/Internal Audits



**Utilities, Inc. and Subsidiaries**

Notes to Consolidated Financial Statements

(In thousands of dollars)

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*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.

Utilities, Inc.  
Audit of Affiliate Transactions  
Test Year Ended December 31, 2015  
Dkt. 160101-WS; ACN 16-259-1-1;  
Description: WP 9 - External/Internal Audits



Utilities, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

(In thousands of dollars)

10/31/16  
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*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*



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.

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*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

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(In thousands of dollars)

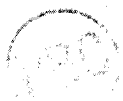
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or retrospectively to all periods presented. The Company has early adopted this guidance effective December 31, 2015 on a retrospective basis. The adoption of this update did not have a material impact on the Company's consolidated results of operations 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**





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**4. Property, Plant and Equipment**

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

	2015	2014
Plant in service		
Water		
Wastewater		
Other		
<b>Total</b>		
Plant under construction		
Accumulated depreciation		
Plant acquisition adjustments, net		
<b>Property, plant and equipment, net</b>		

**5. Accounts Receivable**

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

	2015	2014
Billed utility revenue		
Unbilled utility revenue		
<b>Total</b>		
Less allowance for doubtful accounts		
<b>Accounts receivable, net</b>		

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

	2015	2014
Balance at January 1,		
Amounts charged to expense		
Amounts written off		
<b>Balance at December 31,</b>		

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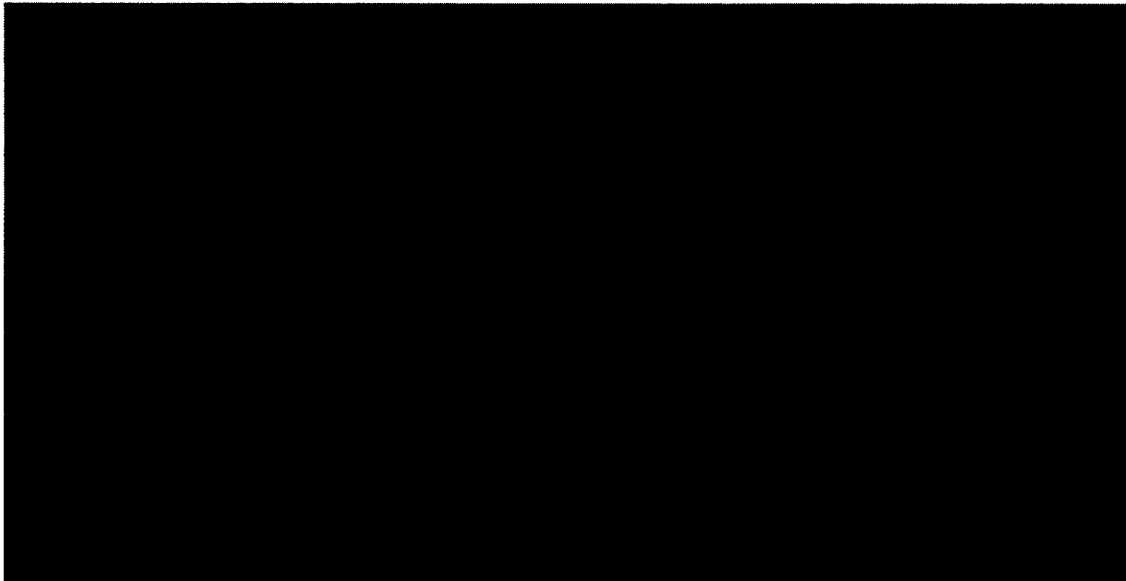


**Utilities, Inc. and Subsidiaries**

Notes to Consolidated Financial Statements  
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**6. Goodwill**



**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		
Deferred income taxes recoverable through rates		
<b>Total</b>		
Deferred charges		
Debt acquisition cost		
Maintenance and testing		
Other		
<b>Total</b>		

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.

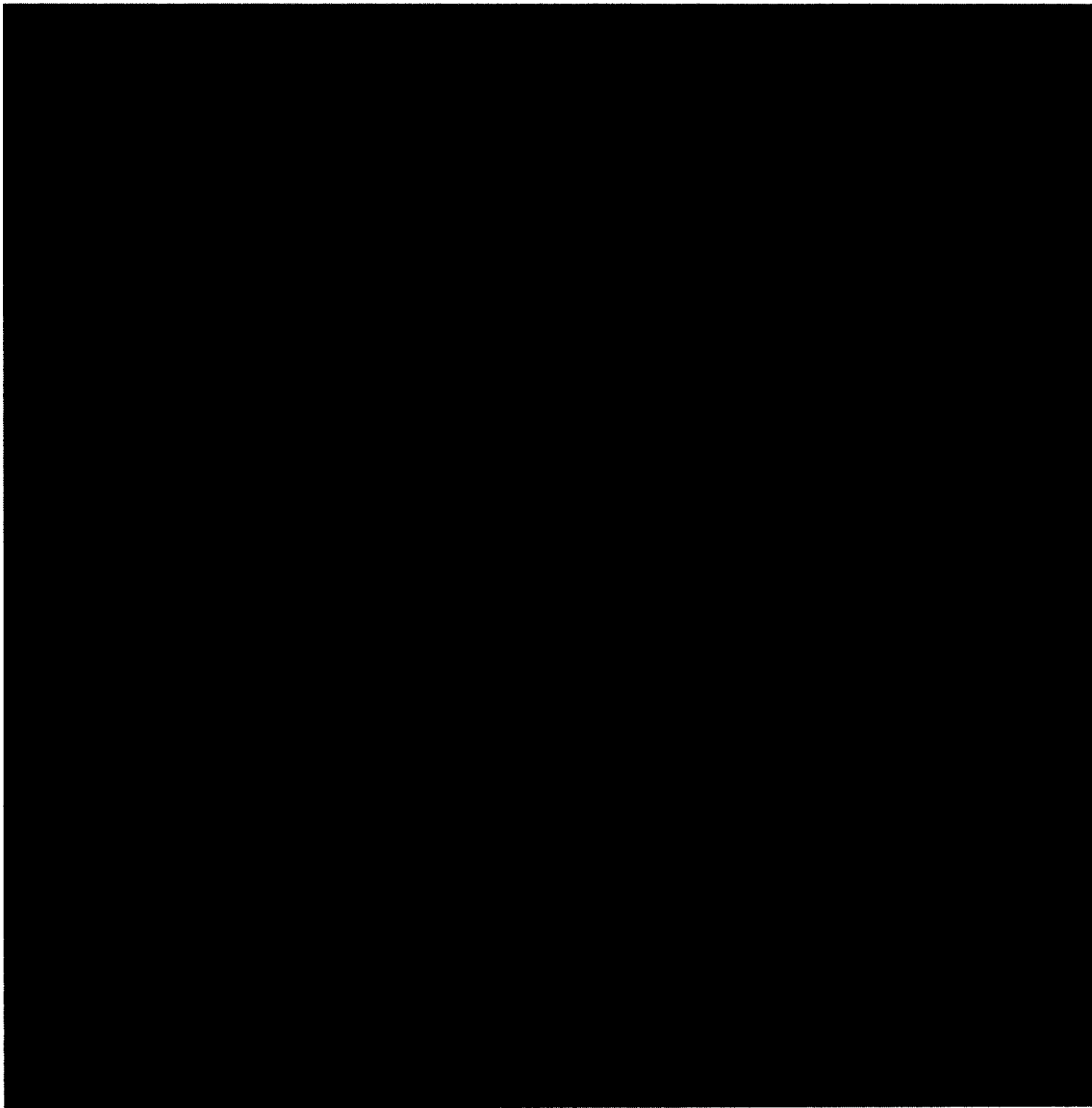
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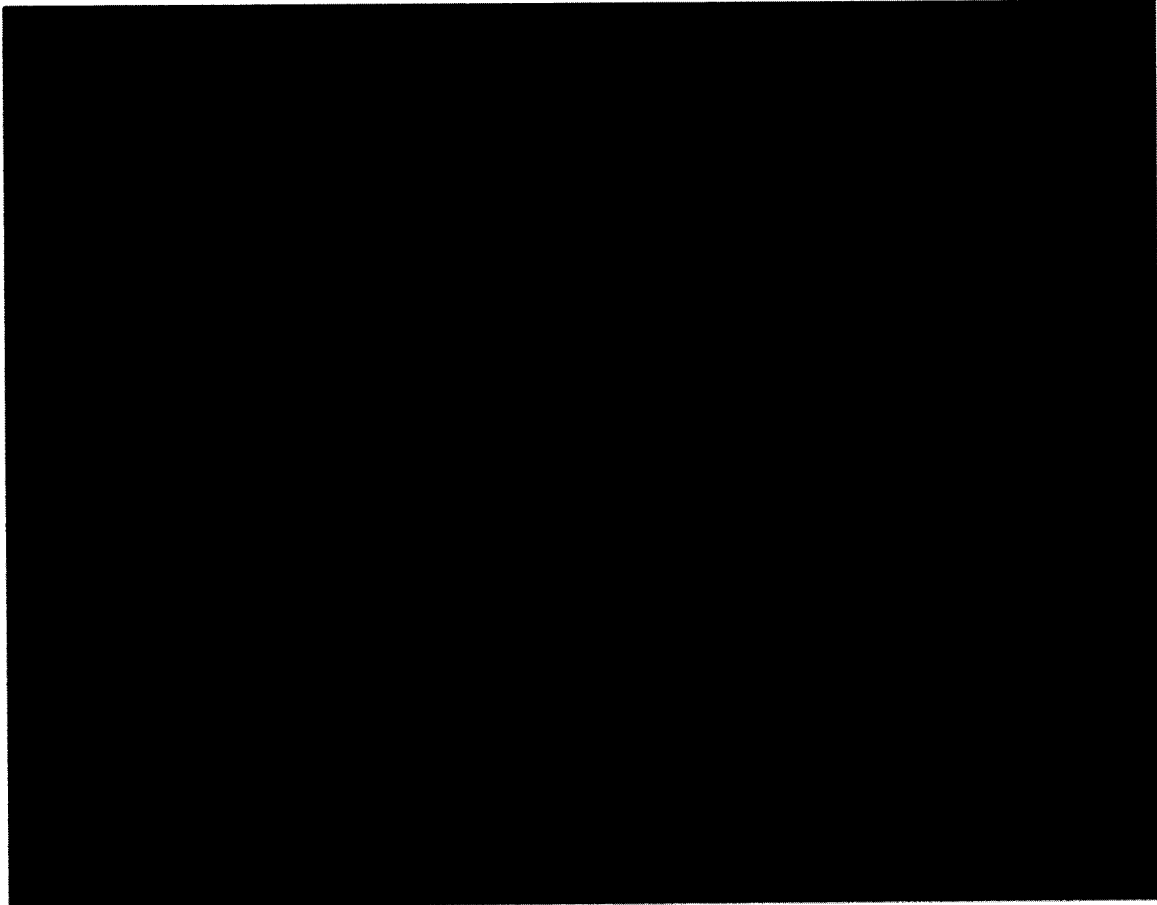
**8. Debt**



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**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.

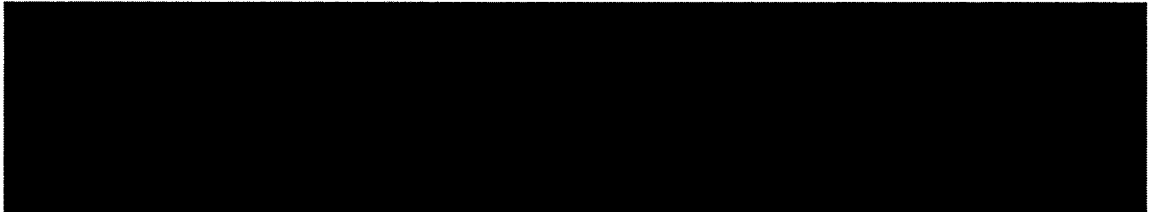
In 2015, the Company established other regulatory liabilities of \$393 that will amortize over three-year periods beginning at various dates that are dependent upon the timing of future rate filings.

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**10. Dividends**



**11. Parent Contribution**



**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		
State and local		
Deferred		
Federal		
State and local		
<b>Provision for income taxes</b>		

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**Utilities, Inc. and Subsidiaries**  
Notes to Consolidated Financial Statements  
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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		
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		
<b>Effective income tax rate</b>		

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

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

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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.



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.



**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.



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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,			
2016			
2017			
2018			
2019			
2020			
Thereafter			
<b>Total</b>			

**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





**Utilities, Inc. and Subsidiaries**

Notes to Consolidated Financial Statements

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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.

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t Account - Work With Account Ledger by Object Account

Quer

low Report Tools

USD General Ledger

From Company 00252  
 Thru Company \*  
 From Date 01/01/2015  
 Thru Date 12/31/2015  
 Currency Code \*

Utilities, Inc.  
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All

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Account Description	Do Ty	Doc Number	Doc Co	G/L Date	Explanation	LT 1 Amount	LT 1 Debit	LT 1 Credit	P C
CASH-BANK OF AMERICA-FL	J2	303616	00251	04/02/2015	GL Summazation - Daily				P
CASH-BANK OF AMERICA-FL	J2	303988	00246	05/07/2015	GL Summazation - Daily				P
CASH-BANK OF AMERICA-FL	J2	304152	00345	06/01/2015	GL Summazation - Daily				P
CASH-BANK OF AMERICA-FL	J2	304359	00251	06/16/2015	GL Summazation - Daily				P
CASH-BANK OF AMERICA-FL	JE	303073	00103	01/31/2015	REVERSE DBL ENTRY				P
CASH-BANK OF AMERICA-FL	JE	303073	00103	01/31/2015	REVERSE DBL ENTRY				P
CASH-BANK OF AMERICA-FL	JE	303073	00103	01/31/2015	REVERSE DBL ENTRY				P
CASH-BANK OF AMERICA-FL	JE	304110	00102	05/31/2015	BANK RECONCILIATION				P
CASH-BANK OF AMERICA-FL	JE	304342	00102	06/23/2015	BANK RECONCILIATION				P
CASH-BANK OF AMERICA-FL	JE	304353	00252	06/24/2015	RECL BILLING ADJ				P
CASH-BANK OF AMERICA-FL	JE	305364	00102	07/30/2015	BANK RECONCILIATION				P
CASH-BANK OF AMERICA-FL	JE	305529	00252	07/31/2015	RECL DOC 304359 TO DEP...				P
CASH-BANK OF AMERICA-FL	JE	305529	00252	07/31/2015	RECL DOC 304359 TO DEP...				P
					Column Total				
					Ledger Total				
					Posted Total				
					Unposted Total				

PBC

ce by Period - Account Balances

s 11/10 JB

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252,2640.43

CASH-BANK OF AMERICA-FL

Period End

Period Amounts

Cumulative Amount:

15

01/31/2015

Revise

02/28/2015

Debit/Credit

USD

03/31/2015

04/30/2015

05/31/2015

06/30/2015

07/31/2015

08/31/2015

09/30/2015

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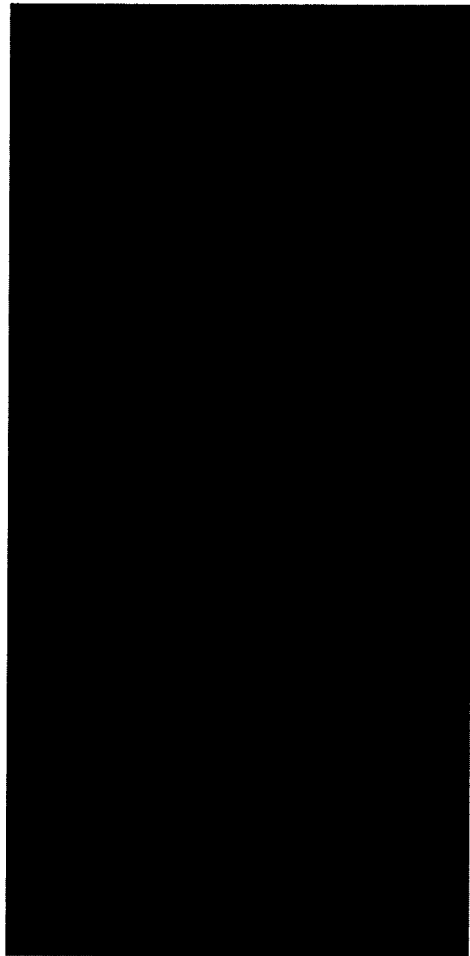
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1,037.26-

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11/30/2015

12/31/2015



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SOURCE

UTILITIES, INC. AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF CAPITALIZATION

DECEMBER 31, 2014 - DECEMBER 31, 2015

11/16 AB

<u>Month</u>	<u>Total Common Shareholders'</u> <u>Equity</u>
December, 2014	\$ [REDACTED]
January, 2015	\$ [REDACTED]
February, 2015	\$ [REDACTED]
March, 2015	\$ [REDACTED]
April, 2015	\$ [REDACTED]
May, 2015	\$ [REDACTED]
June, 2015	\$ [REDACTED]
July, 2015	\$ [REDACTED]
August, 2015	\$ [REDACTED]
September, 2015	\$ [REDACTED]
October, 2015	\$ [REDACTED]
November, 2015	\$ [REDACTED]
December, 2015	\$ [REDACTED]
<b>13 month average</b>	<b>\$ [REDACTED]</b>

v= traced to audited financial statements without exception. Any differences are deemed immaterial.

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