AQUA PENNSYLVANIA, INC.
(a wholly-owned subsidiary of Aqua America, Inc.)

Consolidated Financial Statements
As of and for the years ended
December 31, 2016 and 2015

Report of Independent Auditors

To the Board of Directors and Stockholder of Aqua Pennsylvania, Inc.

We have audited the accompanying consolidated financial statements of Aqua Pennsylvania, Inc. (the “Company,” a wholly-owned subsidiary of Aqua America, Inc.) and its subsidiary, which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of income, of cash flows and common stockholder’s equity for the years 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 the 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.

Auditors’ Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits 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 Aqua Pennsylvania, Inc. and its subsidiary as of December 31, 2016 and 2015, and the results of their operations and their cash flows for the years then ended, in accordance with the accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

April 19, 2017

PricewaterhouseCoopers LLP, Two Commerce Square, Suite 1800, 2001 Market Street, Philadelphia, PA 19103-7045
T: (267) 330 3000, F: (267) 330-3300, www.pwc.com/us

AQUA PENNSYLVANIA, INC.
Consolidated Balance Sheets
(In thousands of dollars)
December 31, 2016 and 2015

Assets	2016	2015
Utility plant, net of accumulated depreciation	$ 3,073,622	$ 2,874,789
Construction work-in-progress	121,427	107,292
Utility plant acquisition adjustment, net	(5,646)	(2,896)
Net utility plant	3,189,403	2,979,185
Investment in nonutility property, net of accumulated depreciation	2,260	2,279
Current assets:		
Cash and cash equivalents	602	896
Accounts receivable, less allowance for doubtful accounts of $3,870 and $3,339, in 2016 and 2015, respectively	31,940	28,467
Accounts receivable-affiliates	4,821	1,315
Unbilled revenues	18,547	20,603
Materials and supplies	5,890	5,546
Prepayments and other current assets	1,881	1,193
Total current assets	63,681	58,020
Deferred charges and non-current assets:		
Debt issuance expense, net of accumulated amortization	124	117
Regulatory assets	817,511	707,620
Other deferred charges, net	50,178	45,959
Goodwill	9,783	1,110
Total deferred charges and non-current assets	877,596	754,806
	$ 4,132,940	$ 3,794,290

Liabilities and Equity	2016	2015
Common stockholder's equity:		
Common stock, $100 par value, 1,000,000 shares authorized, 1,000 shares issued and outstanding	$ 100	$ 100
Capital in excess of par value	131,098	167,487
Retained earnings	1,288,495	1,141,206
Total common stockholder's equity	1,419,693	1,308,793
Long-term debt, excluding current portion	1,081,814	1,118,911
Debt issuance expense, net of amortization	(13,860)	(14,431)
Total long-term debt, excluding current portion, net of debt issuance costs	1,067,954	1,104,480
Current liabilities:		
Current portion of long-term debt	122,045	10,592
Loans payable	5,545	7,281
Accounts payable	25,932	19,225
Accounts payable-affiliates	2,145	4,639
Income taxes payable	3,249	10,018
Accrued interest	13,053	8,359
Other current liabilities	4,842	4,424
Total current liabilities	176,811	64,538
Deferred credits and other non-current liabilities:		
Customers' advances for construction	53,112	47,664
Deferred income taxes	1,060,523	917,498
Investment tax credits	4,881	5,145
Regulatory liabilities	212,545	228,469
Other	6,458	5,618
Total deferred credits and other non-current liabilities	1,337,519	1,204,394
Contributions in aid of construction	130,963	112,085
	$ 4,132,940	$ 3,794,290

See accompanying notes to consolidated financial statements.

AQUA PENNSYLVANIA, INC.
Consolidated Statements of Income
(In thousands of dollars)
Years ended December 31, 2016 and 2015

	2016	2015
Operating revenues	$ 418,315	$ 415,722
Operating expenses:		
Operating, maintenance and administrative expenses	128,354	123,905
Depreciation	77,919	73,330
Amortization	(383)	(239)
Taxes other than income taxes	10,815	10,933
Gain on sale of other assets	(246)	(487)
Total operating expenses	216,459	207,442
Operating income	201,856	208,280
Other expense:		
Interest on long-term debt	49,654	48,219
Other interest expense, net	1,104	217
Allowance for funds used during construction	(6,742)	(5,242)
Amortization of debt issuance costs	123	821
Gain on extinguishment of debt	-	(678)
Other income, net	(3,589)	(2,882)
Total other expense	40,550	40,455
Income before income taxes	161,306	167,825
Provision for income taxes (benefit)	(11,632)	(3,761)
Net income	$ 172,938	$ 171,586

See accompanying notes to consolidated financial statements.

AQUA PENNSYLVANIA, INC.
Consolidated Statements of Cash Flows
(In thousands of dollars)
Years ended December 31, 2016 and 2015

Cash flows from operating activities:	2016	2015
Net income	$ 172,938	$ 171,586
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation and amortization	77,659	73,912
Deferred income taxes and income tax credits	(15,091)	(14,937)
Provision for doubtful accounts	2,295	2,453
Stock based compensation	860	862
Gain on sale of other assets	(246)	(487)
Gain on extinguishment of debt	-	(678)
Allowance for equity funds used during construction	(5,267)	(4,123)
Changes in current assets and current liabilities:		
Receivables, unbilled revenue, materials and supplies and prepayments	(4,709)	(2,129)
Income taxes receivable/payable	17,002	18,536
Affiliate receivable/payable	(72,714)	(68,134)
Payables, accrued taxes and other accrued liabilities	1,914	(1,080)
Accrued interest	4,694	300
Other	7,141	(6,098)
Net cash provided by operating activities	186,476	169,983
Cash flows used in investing activities:		
Construction expenditures	(242,796)	(243,225)
Allowance for borrowed funds used during construction	(1,475)	(1,119)
Acquisitions of water and wastewater systems	(4,410)	(1,562)
Net proceeds on sale of other assets	272	590
Other	(406)	(466)
Net cash used in investing activities	(248,815)	(245,782)
Cash flows from financing activities:		
Customers' advances and contributions in aid of construction	1,323	835
Repayments of customers' advances	(1,597)	(1,602)
Net repayments of loans payable	(1,735)	(6,377)
Proceeds from long-term debt	85,000	261,665
Debt issuance costs paid	(354)	(834)
Repayments of long-term debt	(10,592)	(138,075)
Capital contribution from Aqua America, Inc.	20,000	20,000
Dividends paid - common stock	(30,000)	(60,000)
Net cash provided by financing activities	62,045	75,612
Net change in cash and cash equivalents	(294)	(187)
Cash and cash equivalents at beginning of year	896	1,083
Cash and cash equivalents at end of year	$ 602	$ 896

Cash paid for interest on borrowings, net of amounts capitalized, was $64,686 and $42,894 in 2016 and 2015, respectively
Cash paid for income taxes was $426 and $3,254 in 2016 and 2015, respectively.
Non-cash financing activity - Return of Capital Contribution to Parent was $66,128 and $73,510 in 2016 and 2015, respectively.
See Note 1 - Summary of Significant Accounting Policies-Customers' Advances for Construction and Contributions in Aid of Construction, Note 10-Employee Stock and Incentive Plan and Note 12 - Affiliated Company Transactions for description of non-cash activities.
See accompanying notes to consolidated financial statements.

AQUA PENNSYLVANIA, INC.
Consolidated Statements of Capitalization
(In thousands of dollars)
December 31, 2016 and 2015

			2016	2015
Common stockholder's equity:				
Common stock at $100 par value, authorized 1,000,000 shares,				
1,000 shares issued and outstanding			$ 100	$ 100
Capital in excess of par value			131,098	167,487
Retained earnings			1,288,495	1,141,206
Total common stockholder's equity			1,419,693	1,308,793
Noncontrolling interest			-	-
Total equity			1,419,693	1,308,793
Long-term debt:				
Long-term debt (substantially secured by utility plant):				
	Interest Rate Range	Maturity Date Range		
	1.00% to 1.99%	2016 to 2035	14,740	19,828
	2.00% to 2.99%	2024 to 2031	19,668	19,167
	3.00% to 3.99%	2019 to 2056	345,973	261,910
	4.00% to 4.99%	2020 to 2054	412,967	413,281
	5.00% to 5.99%	2017 to 2043	181,467	181,405
	6.00% to 6.99%	2017 to 2027	41,985	41,964
	7.00% to 7.99%	2025	15,000	15,000
	9.00% to 9.99%	2018 to 2026	19,000	19,400
			1,050,800	971,955
Unsecured notes payable:				
Bank note at 1.921% due September 2017			50,000	50,000
Bank note at 1.975% due May 2018			50,000	50,000
Notes ranging from 5.50% to 5.95%, due 2017 through 2034			53,059	57,548
			1,203,859	1,129,503
Current portion of long-term debt			122,045	10,592
Long-term debt, excluding current portion			1,081,814	1,118,911
Less: debt issuance costs			13,860	14,431
Long-term debt, excluding current portion, net of debt issuance costs			1,067,954	1,104,480
Total capitalization			$ 2,487,647	$ 2,413,273

AQUA PENNSYLVANIA, INC.
Statements of Consolidated Stockholder's Equity
(In thousands of dollars)
Years ended December 31, 2016 and 2015

	Common Stock	Capital in Excess of Par Value	Retained Earnings	Total Stockholder's Equity
Balance at December 31, 2014	$ 100	$ 219,659	$ 1,029,620	$ 1,249,379
Net income	-	-	171,586	171,586
Common stock dividends paid, $60 per share	-	-	(60,000)	(60,000)
Stock based compensation	-	1,338	-	1,338
Capital contribution from Aqua America, Inc.	-	20,000	-	20,000
Return of capital contribution to Aqua America, Inc.	-	(73,510)	-	(73,510)
Balance at December 31, 2015	100	167,487	1,141,206	1,308,793
Net income	-	-	172,938	172,938
Common stock dividends paid, $30 per share	-	-	(30,000)	(30,000)
Stock based compensation	-	1,142	-	1,142
Superior Water Acquisition	-	8,494	4,351	12,845
Acquisitions funded by Aqua America, Inc.	-	103	-	103
Capital contribution from Aqua America, Inc.	-	20,000	-	20,000
Return of capital contribution to Aqua America, Inc.	-	(66,128)	-	(66,128)
Balance at December 31, 2015	$ 100	$ 131,098	$ 1,288,495	$ 1,419,693

See accompanying notes to consolidated financial statements.

AQUA PENNSYLVANIA, INC.
Notes to Consolidated Financial Statements
December 31, 2016 and 2015
(In thousands of dollars)

1. Summary of Significant Accounting Policies

Nature of Operations

Aqua Pennsylvania, Inc. ("the Company") is a regulated public utility which supplies water to residential, commercial and industrial customers. The Company's customers are principally located in the suburban areas north and west of the City of Philadelphia and in 27 other counties in Pennsylvania. No single customer accounted for more than one percent of the Company's operating revenues in 2016 or 2015. The Company is a wholly-owned subsidiary of Aqua America, Inc. ("the Parent"). The Company has wholly-owned subsidiaries that are regulated public utilities which provide water and wastewater services to customers in Pennsylvania.

The consolidated financial statements include the accounts of the Company and its subsidiary. All intercompany accounts and transactions have been eliminated in consolidation.

Basis of Presentation

The Company's financial statements are presented in accordance with U.S. generally accepted accounting principles.

The Company has evaluated the period from December 31, 2016, the date of the financial statements, through April 19, 2017, the date the financial statements were available for issuance, for subsequent events and determined that no material subsequent events occurred that would affect the information presented in these financial statements or require additional disclosure.

Use of Estimates in Preparation of Consolidated Financial Statement

The preparation of consolidated financial statements in conformity with accounting principles accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

1. Summary of Significant Accounting Policies (Continued)

Recognition of Revenues

Operating revenues include amounts billed to customers on a cycle basis and unbilled amounts based on estimated usage from the date of the latest meter read to the end of the accounting period.

Regulation

As a regulated public water utility, the Company is subject to regulation by the Pennsylvania Public Utility Commission ("PAPUC"), which has jurisdiction with respect to rates, service, accounting procedures, acquisitions and other matters. The Company defers certain costs and credits as regulatory assets and liabilities when it is probable that such amounts will be recognized in the rate making process in a period different from the period in which they would have been reflected in income by an unregulated company.

Utility Plant and Depreciation

Utility plant is stated at cost which includes contracted cost, direct labor and fringe benefits, materials, overheads, and for certain utility plant, an allowance for the cost of funds used during construction. Water systems acquired are recorded at estimated original cost when first devoted to utility service and the applicable depreciation is recorded in accumulated depreciation. Utility plant acquisition adjustment represents the difference between the estimated original cost, less applicable depreciation and the purchase price of utility plant assets acquired through business acquisitions. Acquisition adjustments are amortized over 20 years if recoverable in rate base.

Utility expenditures for maintenance and repairs, including major maintenance projects and minor renewals and betterments, are charged to operating expenses when incurred in accordance with the Uniform System of Accounts prescribed by the PAPUC. The cost of new units of property and betterments are capitalized. Utility expenditures for water main cleaning and relining of pipes are deferred and recorded in net property, plant and equipment. As of December 31, 2016, $15,163 of costs have been incurred since the last rate proceeding and the Company expects to recover these costs in future rates.

The cost of software upgrades and enhancements are capitalized if they result in added functionality which enable the software to perform tasks it was

1. Summary of Significant Accounting Policies (Continued)

Utility Plant and Depreciation (Continued)

previously incapable of performing. Certain information technology costs associated with major system installations, conversions and improvements, such as software training, data conversion and business process re-engineering costs, are deferred as a regulatory asset if the Company expects to recover these costs in future rates. If these costs are not deferred, then these costs are charged to operating expenses when incurred. As of December 31, 2016, $16,757 of costs have been incurred and deferred, since the last rate proceedings, as a regulatory asset, and the deferral is reported as a component of net property, plant and equipment.

When units of property are replaced, retired or abandoned, the recorded value thereof is credited to utility plant and such value, together with the net cost of removal, is charged to accumulated depreciation. To the extent the Company recovers cost of removal or other retirement costs through rates after the retirement costs are incurred, a regulatory asset is recorded.

The straight-line remaining life method is used to compute depreciation on utility plant. The straight-line method is used with respect to transportation and mechanical equipment, office equipment and laboratory equipment. Depreciation is recorded over the estimated useful lives of the assets which range from 14 to 93 years for utility plant and 5 to 50 years for both transportation and mechanical equipment and all non-utility plant, office equipment and laboratory equipment.

Long-lived assets of the Company, which consist primarily of utility plant in service and regulatory assets, are reviewed for impairment when changes in circumstances or events occur. There has been no change in circumstances or events that have occurred that require adjustments to the carrying values of these assets.

As of December 31, 2016 and 2015, property, plant and equipment additions purchased at the period end, but not yet paid for are $21,208 and $15,908, respectively.

1. Summary of Significant Accounting Policies (Continued)

Allowance for Funds Used During Construction

The allowance for funds used during construction ("AFUDC") is a non-cash credit to income which represents the estimated cost of funds used to finance the construction of utility plant. AFUDC is applied to construction projects requiring more than one month to complete. No AFUDC is applied to projects funded by customer advances for construction or contributions in aid of construction. AFUDC includes the net cost of borrowed funds and a rate of return on other funds when used, and is recovered through water rates as the utility plant is depreciated.

Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less, which are not restricted for construction activity, to be cash equivalents.

Accounts Receivable

Accounts receivable are recorded on the invoiced amounts. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in our existing accounts receivable, and is determined based on historical write-off experience and the aging of account balances. The Company reviews the allowance for doubtful accounts quarterly. Account balances are written off against the allowance when it is probable the receivable will not be recovered. When utility customers request extended payment terms, credit is extended based on regulatory guidelines and collateral is not required.

1. Summary of Significant Accounting Policies (Continued)

Deferred Charges

Deferred charges consist of preliminary survey costs, retirement work in progress expenses and other expenses.

Other expenses, for which the Company has received or expects to receive prospective rate recovery, are deferred and amortized over the period of rate recovery.

Funds Restricted for Construction Activity

The proceeds received from certain financings for construction and capital improvement of utility facilities are held in escrow until the designated expenditures are incurred. These amounts are reported as funds restricted for construction activity and are expected to be released over time as the capital projects are funded.

Goodwill

Goodwill represents the excess cost over the fair value of net tangible and identifiable intangible assets acquired through acquisitions. Goodwill is not amortized but is tested for impairment annually, or more often if circumstances indicate a possible impairment may exist. When testing goodwill for impairment, the Company may assess qualitative factors, including macroeconomic conditions, industry and market considerations, cost factors, overall financial performance and entity specific events, to determine whether it's more likely than not that the fair value of a reporting unit is less than its carrying amount. Alternatively, the Company may bypass this qualitative assessment and perform a quantitative goodwill impairment test by determining the fair value of a reporting unit based on a discounted cash flow analysis. If the Company performs a quantitative test and determines that the reporting unit's fair value is less than its

1. Summary of Significant Accounting Policies (Continued)

Goodwill (Continued)

carrying amount, the Company would determine the reporting unit's implied fair value of its goodwill and compare it with the carrying amount of its goodwill to measure such impairment. The Company tested the goodwill attributable for its reporting unit for impairment as of July 31, 2016, in conjunction with the timing of its annual strategic business plan, and concluded that the reporting unit's estimated fair value exceeded its carrying amount, indicating that the Company's goodwill was not impaired.

Income Taxes

The Company accounts for some income and expense items in different time periods for financial reporting than for tax reporting purposes. Deferred income taxes are provided on the temporary differences between the tax basis of the assets and liabilities and the amounts at which they are carried in the consolidated financial statements. The income tax effect of temporary differences not reflected currently in rates is recorded as deferred taxes with an offsetting regulatory asset or liability. These deferred income taxes are based on the enacted tax rates expected to be in effect when such temporary differences are projected to reverse. Investment tax credits are deferred and amortized over the estimated useful lives of the related properties.

The Company's earnings are included with those of the Parent and affiliated companies for purposes of filing a consolidated Federal income tax return. The allocation of the Federal income tax to the Company is computed on a stand-alone basis. The liability for Federal income taxes is remitted to the Parent. The receivable for Federal income taxes will be remitted to the Company from the Parent.

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's provision for income taxes includes interest, penalties and reserves for uncertain tax positions.

1. Summary of Significant Accounting Policies (Continued)

Income Taxes (Continued)

The tax accounting method permits the expensing of qualifying utility asset improvement costs that were previously being capitalized and depreciated for book and tax purposes ("the Repairs"). The Repairs accounting provides for flow-through treatment of qualifying income tax benefits, generating a reduction in income tax expense and reduces the amount of taxes currently payable in both 2016 and 2015. For qualifying capital expenditures made prior to 2012, the resulting deferred tax benefits generate a ten year amortization of the income tax benefits, which reduces future income tax expense, commenced in 2013.

Customers' Advances for Construction

Water mains or, in some instances, cash advances to reimburse the Company its costs to construct water mains, are contributed to the Company by customers, real estate developers and builders in order to extend water service to their properties. The value of these contributions is recorded as Customers' Advances for Construction. The Company makes refunds on these advances over a specific period of time based on operating revenues related to the main or as new customers are connected to and take service from the main. After all refunds are made, any remaining balance is transferred to Contributions in Aid of Construction. Non-cash property, in the form of water mains, has been received, generally from developers as advances or contributions of $9,741 in 2016 and $11,204 in 2015.

Contributions in Aid of Construction

Contributions in aid of construction include direct non-refundable contributions and the portion of customers' advances for construction that have become non-refundable. The Company depreciates contributed property and amortizes contributions in aid of construction at the composite rate of the related property. Contributions in aid of construction are deducted from the Company's rate base for rate-making purposes, and therefore, no return is earned on contributed property. Non-cash property, in the form of water mains, has been received, generally from developers as contributions of $927 in 2016 and $1,307 in 2015.

1. Summary of Significant Accounting Policies (Continued)

Materials and Supplies

Materials and supplies are stated at cost under the first-in, first-out method.

Other Comprehensive Income ("OCI")

For the periods presented, the Company does not have any OCI and therefore, comprehensive income equals net income. In addition, there is no accumulated comprehensive income.

Recent Accounting Pronouncements

In August 2016, the FASB issued updated accounting guidance on the classification of certain cash receipts and cash payments in the statement of cash flows, which is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017, and early adoption is permitted. The Company is currently evaluating the impact of this new standard on its consolidated cash flow statement.

In March 2016, the FASB issued updated accounting guidance on simplifying the accounting for share-based payments, which includes several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The updated guidance is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years, with early adoption available. Once adopted, income tax benefits in excess of compensation costs or tax deficiencies for share-based compensation will be recorded to our income tax provision, instead of, as was

1. Summary of Significant Accounting Policies (Continued)

Recent Accounting Pronouncements (Continued)

done historically, to stockholder’s equity, which will impact our effective tax rate. Lastly, all tax-related cash flows resulting from share-based payments will be reported as operating activities on the statement of cash flows, a change from the historical requirement to present tax benefits as an inflow from financing activities and an outflow from operating activities

In February 2016, the FASB issued updated accounting guidance on accounting for leases, which requires lessees to establish a right-of-use asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. For income statement purposes, leases will be classified as either operating or finance. Operating leases will result in straight-line expense while finance leases will result in a front-loaded expense pattern. The updated accounting guidance is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, with early adoption available. The Company is evaluating the requirements of the updated guidance to determine the impact of adoption.

1. Summary of Significant Accounting Policies (Continued)

Recent Accounting Pronouncements (Continued)

In September 2015, the FASB issued updated accounting guidance on simplifying measurement-period adjustments in business combinations, which eliminates the requirement that an acquirer in a business combination account for measurement-period adjustments retrospectively. Instead, an acquirer will recognize a measurement-period adjustment during the period in which it determines the amount of the adjustment. The updated guidance is effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years, with early adoption available. The Company adopted the provisions of this accounting standard, as required on January 1, 2016, and it did not have an impact on its results of operations or financial position.

In April 2015, the FASB issued updated accounting guidance on simplifying the presentation of debt issuance costs, which requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability. Previously, debt issuance costs were presented in the balance sheet as a deferred charge. The accounting standard is effective for reporting periods beginning after December 15, 2015, and will be applied retrospectively. The Company adopted the provisions of this accounting standard as required on January 1, 2016. The adoption of this standard was applied retrospectively and resulted in the reclassification as of December 31, 2015 of $14,431from deferred charges and other assets, net to debt issuance costs, which is reported as a reduction to long-term debt.

(In thousands of dollars)

2. Utility Plant

Utility Plant is composed of the following:

	December 31, 2016	December 31, 2015	Approximate range of remaining lives
Utility plant			
Mains and accessories	$ 2,121,605	$ 1,961,558	37 to 93 years
Services, hydrants, treatment plants and reservoirs	864,437	815,041	14 to 85 years
Operations structures and water tanks	136,603	125,888	14 to 55 years
Miscellaneous pumping and purification equipment	345,843	331,415	14 to 58 years
Meters, data processing, transportation and operating equipment	357,277	325,199	5 to 50 years
Land and other non-depreciable assets	45,803	40,825	-
Utility plant	3,871,568	3,599,926	
Utility construction work-in-progress	121,427	107,292	-
Net utility plant acquisition adjustment	(5,646)	(2,896)	0 to 20 years
Total utility plant	3,987,349	3,704,322	
Accumulated depreciation	(797,946)	(725,137)	
Utility plant, net of accumulated depreciation	$ 3,189,403	$ 2,979,185	

(In thousands of dollars)

3. Acquisitions

In January 2016, the Company acquired Superior Water Company, Inc. ("Superior"), which provides public water service to approximately 3,900 customers in portions of Berks, Chester and Montgomery counties in Pennsylvania. The total purchase price for the utility system was $16,750, which consisted of the issuance of 439,943 shares of the Parent's common stock and $3,905 in cash. The purchase price allocation for this acquisition consisted primarily of acquired property, plant and equipment of $25,167, contributions in aid of construction of $16,565 and goodwill of $8,622. Additionally, during 2016 the Company acquired one water system and two wastewater systems. The acquisitions were recorded under the purchase method of accounting. The total purchase price for the systems acquired was $597 in cash. The operating revenues included in the consolidated financial statements during the period owned by the Company for the utility systems acquired in 2016 are $3,309.

During 2015, the Company acquired three water systems and one wastewater system. The acquisitions were recorded under the purchase method of accounting. The total purchase price for the systems acquired was $1,562 in cash. The operating revenues included in the consolidated financial statements during the period owned by the Company for the utility systems acquired in 2015 are $319 in 2016 and $141 in 2015.

4. Income Taxes

The provision for income taxes is composed of the following:

	Years ended December 31, 2016	Years ended December 31, 2015
Current:		
Federal	$ 1,470	$ 11,652
State	1,989	(476)
	3,459	11,176
Deferred:		
Federal	(8,689)	(12,905)
State	(6,402)	(2,032)
	(15,091)	(14,937)
Total tax expense	$ (11,632)	$ (3,761)

(In thousands of dollars)

4. Income Taxes (Continued)

The statutory Federal tax rate is 35% and the Pennsylvania Corporate Net Income tax rate is 9.99% for both years presented.

The reasons for the differences between amounts computed by applying the statutory Federal income tax rate to income before income tax expense and the actual income tax expense are as follows:

	Years ended December 31,	
	2016	2015
Computed Federal income tax expense at statutory rate	$ 56,457	$ 58,739
Decrease in tax expense related to flow-through treatment of qualifying Repairs	(62,831)	(59,848)
Increase in tax expense for depreciation expense to be recovered in future rates	243	242
Amortization of investment tax credits	(263)	(263)
Stock-based compensation	(125)	(72)
State income taxes, net of Federal tax benefit	(2,868)	(1,574)
Other, net	(2,245)	(985)
Actual income tax expense	$ (11,632)	$ (3,761)

4. Income Taxes (Continued)

In 2016, the Company recorded $78,530 of income tax benefits. In 2015, the Company recorded $72,944 of income benefits. The Company recognized a tax deduction on its 2012 Federal tax return of $380,000 for qualifying capital expenditures made prior to 2012, and based on a rate order, in 2013, the Company began to amortize 1/10th of these expenditures. In accordance with the rate order, the amortization is expected to reduce current income tax expense during periods when qualifying parameters are met. Beginning in 2013, the Company amortized the qualified capital expenditures made prior to 2012 and recognized $16,734, annually of deferred income tax benefits which reduced the current income tax expense and increased net income. The Company's effective income tax rate for 2016 and 2015 was -7.21% and -2.24%, respectively.

The Company establishes reserves for uncertain tax positions based upon management's judgment as to the potential future challenges to these positions. These accounting estimates related to the uncertain tax position reserve require judgments to be made as to the sustainability of each uncertain tax position based on its technical merits. The Company believes its tax positions comply with applicable law and that it has adequately recorded reserves as required. However, to the extent the final tax outcome of these matters is different than the estimates recorded, the Company would then adjust its tax reserves or unrecognized tax benefits in the period that this information becomes known. The Company has elected to recognize accrued interest and penalties related to uncertain tax positions as income tax expense.

(In thousands of dollars)

4. Income Taxes (Continued)

The following table provides the changes in the Company's unrecognized tax benefits:

	2016	2015
Balance at January 1	$ 27,337	$ 24,848
Additions based on tax position related to the current year	118	2,489
Reductions based on tax positions of prior years	-	-
Balance at December 31	27,455	27,337

The unrecognized tax benefits relate to the Repairs, and the tax position is attributable to a temporary difference. The Company does not anticipate material changes to its unrecognized tax benefits within the year. As a result of the regulatory treatment afforded by the Repair Change and despite this position being a temporary difference, as of December 31, 2016 and 2015, $20,674 and $17,777, respectively, of these tax benefits would have an impact on the Company's effective income tax rate in the event the Company does sustain all, or a portion, of its tax position.

(In thousands of dollars)

4. Income Taxes (Continued)

The tax effects of temporary differences between book and tax accounting that give rise to the deferred tax assets and deferred tax liabilities are as follows:

	December 31, 2016	December 31, 2015
Deferred tax assets:		
Customers' advances for construction	$ 10,000	$ 10,330
Costs expensed differently for book and tax	2,494	3,533
Tax loss carryforward	83,926	106,100
Other	-	-
Total deferred tax assets	96,420	119,963
Deferred tax liabilities:		
Utility plant, principally due to depreciation and differences in the basis of fixed assets due to variation in tax and book accounting	884,784	821,503
Deferred taxes associated with the gross-up of revenues necessary to recover, in rates, the effect of temporary differences	270,958	215,644
Other	1,200	314
Investment tax credits	4,882	5,145
Total deferred tax liabilities	1,161,824	1,042,606
Net deferred tax liability	$ 1,065,404	$ 922,643

At December 31, 2016, the Company has a cumulative Federal net operating loss (“NOL”) of $155,389. The Company believes the Federal NOLs are more likely than not to be recovered and require no valuation allowance. The Company’s Federal NOLs do not begin to expire until 2031.

At December 31, 2016, the Company has a cumulative state NOL of $431,088. The Company believes that the state NOLs are more likely than not to be recovered and require no valuation allowance. The state NOLs do not begin to expire until 2031.

The Company has unrecognized tax positions that result in the associated tax benefit being unrecognized. The Company’s Federal and state NOL carryforwards are reduced by an unrecognized tax position, on a gross basis, of

(In thousands of dollars)

4. Income Taxes (Continued)

$60,907 and $85,044. The amounts of the Company's Federal and state NOL carryforwards prior to being reduced by the unrecognized tax positions are $216,296 and $516,132, respectively. The Company records its unrecognized tax benefit as a reduction to its deferred income tax liability.

As of December 31, 2016, the Parent's Federal income tax returns for all years through 2011 have been closed. For Federal income tax purposes, tax years 2012 through 2016 remain open to Federal examination. The statue remains open for the Company's state income tax returns for tax years 2013 through 2016.

5. Regulatory Assets and Liabilities

Regulatory assets represent costs that are expected to be fully recovered from customers in future rates while regulatory liabilities represent amounts that are expected to be refunded to customers in future rates. Except for income taxes, regulatory assets and regulatory liabilities are excluded from the Company's rate base and do not earn a return. The components of regulatory assets and liabilities are as follows:

	December 31, 2016		December 31, 2015	
	Regulatory Assets	Regulatory Liabilities	Regulatory Assets	Regulatory Liabilities
Income taxes	$ 807,160	$ 152,663	$ 698,342	$ 177,694
Postretirement benefits -Pension	-	59,882	-	50,775
Postretirement benefits-OPEB	(294)	-	(181)	-
Utility plant retirement costs	4,986	-	6,052	-
Accrued vacation	280	-	222	-
Rate case filing expenses & other	5,379	-	3,185	-
	$ 817,511	$ 212,545	$ 707,620	$ 228,469

5. Regulatory Assets and Liabilities (Continued)

Items giving rise to deferred state income taxes, as well as a portion of deferred Federal income taxes related to certain differences between tax and book depreciation expense, are recognized in the rate setting process on a cash or flow-through basis and will be recovered as they reverse. Amounts include differences that arise between certain utility asset improvement costs capitalized for book and deducted as a repair expense for tax purposes.

The regulatory liability related to the catch up component of the Company's repair tax accounting change represents the tax benefits realized, which have not yet flowed-through as a reduction to income tax expense due to the ten year amortization period which began in 2013. Beginning in 2013, the Company amortized $38,000, annually, of its deferred income tax benefits, which reduced current income tax expense and increased the Company's net income by $16,734.

Postretirement benefits include pension and other postretirement benefits. The regulatory liability for postretirement benefits related to pension represents amounts recovered through rates and before the costs are incurred. The regulatory asset related to postretirement benefits other than pensions includes deferred expense in excess of amounts funded, which the Company believes will be recoverable in future years as funding of postretirement benefits is required.

The regulatory asset for utility plant retirement costs, representing cost of removal, represents costs already incurred that are expected to be recovered in future rates over a five year recovery period.

The regulatory asset for accrued vacation represents costs that would otherwise be charged to operations and maintenance expense for vacation that is earned by employees, which is recovered as a cost of service.

The regulatory asset related to rate case filing expenses represents the costs associated with filing for rate increases that are deferred and amortized over periods that range from one to three years. Other represents costs incurred by the Company for which it has received or expects to receive rate recovery.

6. Commitments and Contingencies

The Company maintains agreements with other water purveyors for the purchase of water to supplement its water supply, particularly during periods of peak demands. The agreements stipulate purchases of minimum quantities of water or charge a monthly commitment fee through the year 2026. The Company is committed to a total of $31,601 in water purchase payments: $6,145 in 2017, $3,273 in 2018, $3,241 in 2019, $3,099 in 2020 and $3,099 in 2021 and $12,744 thereafter. The Company purchased approximately $12,122 and $11,782 of water under these agreements during the years ended December 31, 2016 and 2015, respectively.

The Company leases motor vehicles, buildings, and other equipment under operating leases that are noncancelable. During the next five years, $130 of future minimum rental payments are due: $70 in 2017, $31 in 2018, $20 in 2019, $6 in 2020 and $3 in 2021. The Company leases parcels of land on which treatment plants and other facilities are situated and adjacent parcels that are used for watershed protection. The two operating leases are noncancelable, expire in 2045 and 2052 and contain certain renewal provisions. The leases are subject to an adjustment every five years based on changes in the Consumer Price Index. During each of the next five years, subject to the aforesaid adjustment, $515 of rental payments for land are due and the aggregate of the years remaining approximates $12,662 thereafter. Rent expense was $741 and $692 for the years ended December 31, 2016 and 2015, respectively.

The Company is routinely involved in condemnation procedures and legal matters during the ordinary course of business. Although the results of legal proceedings cannot be predicted with certainty, there are no other pending legal proceedings to which the Company is a party or to which any of its properties is the subject that are material or are expected to have a material effect on the Company’s financial position, results of operations or cash flows.

(In thousands of dollars)

7. Long-term Debt and Loans Payable

The consolidated Statements of Capitalization provide a summary of long-term debt as of December 31, 2015 and 2016. The supplemental indentures with respect to certain issues of the First Mortgage Bonds restrict the ability of the Company to declare dividends, in cash or property, or repurchase or otherwise acquire the Company's stock. Approximately $1,268,494 and $1,121,206 of the Company's retained earnings were free of these restrictions as of December 31, 2016 and 2015, respectively. Certain supplemental indentures also prohibit the Company from making loans to, or purchasing the stock of the Parent. Loan agreements for the Company contain restrictions on minimum net assets. As of December 31, 2016, there were restrictions on the Company's net assets of $999,061 of their total net assets of $1,419,703.

Sinking fund payments are required for certain issues of long-term debt. The future sinking fund payments and debt maturities of the Company's long-term debt are as follows:

Interest Rate Range	2017	2018	2019	2020	2021	Thereafter
1.00% To 1.99%	$ 51,193	$ 51,204	$ 1,093	$ 1,031	$ 989	$ 9,230
2.00% To 2.99%	1,649	1,693	1,739	1,786	1,834	10,967
3.00% To 3.99%	2,654	2,746	2,695	2,490	2,526	332,862
4.00% To 4.99%	48,017	195	203	211	78	364,263
5.00% To 5.99%	9,132	-	20,000	5,466	5,461	194,467
6.00% To 6.99%	9,000	12,985	-	-	-	20,000
7.00% To 7.99%	-	-	-	-	-	15,000
9.00% To 9.99%	400	5,400	400	400	400	12,000
Total	$ 122,045	$ 74,223	$ 26,130	$ 11,384	$ 11,288	$ 958,789

In December 2016, the Company issued $85,000 of first mortgage bonds, of which $25,000 is due in 2051 and $60,000 is due in 2056 with interest rates of 3.85% and 3.95%, respectively. In January 2017, the Company issued $50,000 of first mortgage bonds, of which $10,000 is due in 2042 and $40,000 is due in 2044 with interest rates of 3.65% and 3.69%, respectively. The proceeds from these bonds were used to repay existing indebtedness and for general corporate purposes.

7. Long-term Debt and Loans Payable (Continued)

In December 2015, the Company issued $210,000 of first mortgage bonds, of which $65,000 is due in 2036, $20,000 is due in 2037, $25,000 is due in 2038, $60,000 is due in 2046, $20,000 is due in 2047 and $20,000 is due in 2048 with interest rates of 3.77%, 3.82%, 3.85%, 4.16%, 4.18%, and 4.20%, respectively. The proceeds from these bonds were used to repay existing indebtedness and for general corporate purposes.

In October 2015, the Company provided notice for the early redemption of $4,000 of first mortgage bonds at 8.14% that were originally maturing in 2025 and $95,985 of tax-exempt bonds at 5.00% that were originally maturing between 2035 and 2038. Upon early redemption in December 2015 of the tax-exempt bonds, a gain of $678 was recognized resulting from the recognition of the unamortized issuance premium.

In May 2015, the company entered into a $50,000 three year unsecured loan at an interest rate of 1.98%. The proceeds from this loan were used for refinancing existing indebtedness and general working capital purposes.

In November 2016, the Company renewed its $100,000 364-day unsecured revolving credit facility with four banks. The funds borrowed under this agreement are classified as loans payable and are used to provide working capital. As of December 31, 2016 and 2015, funds borrowed under the Company's revolving credit agreements were $5,545 and $7,281, respectively. Interest under this facility is based, at the borrower's option, on the prime rate, an adjusted federal funds rate, an adjusted London Interbank Offered Rate corresponding to the interest period selected, an adjusted Euro-Rate corresponding to the interest period selected or at rates offered by the banks. This agreement restricts short-term borrowings of the Company. A renewal fee of 5.0 basis points was charged on the total commitment amount of the revolving credit agreement. The average cost of borrowing under this facility was 1.18% and 0.86%, and the average borrowing was $29,760 and $25,486 during 2016 and 2015, respectively. The maximum amount outstanding at the end of any one month was $52,905 in 2016 and $40,000 in 2015.

8. Fair Value of Financial Instruments

The carrying amount of current assets and liabilities that are considered financial instruments approximates their fair values as of the dates presented. The carrying amount of the Company’s long-term debt as of December 31, 2016 and 2015 is $1,203,860 and $1,129,503, respectively. The estimated fair value of the Company’s long-term debt as of December 31, 2016 and 2015 is $1,287,843 and $1,217,842, respectively. The fair value of long-term debt has been determined by discounting the future cash flows using current market interest rates for similar financial instruments of the same duration.

The Company’s customers’ advances for construction and related tax deposits have carrying values of $53,112 and $47,664 at December 31, 2016 and 2015, respectively. Their relative fair values cannot be accurately estimated since future refund payments depend on several variables, including new customer connections, customer consumption levels and future rate increases. Portions of these non-interest bearing instruments are payable annually through 2028, and amounts not paid by the contract expiration dates become non-refundable. The fair value of these amounts would, however, be less than their carrying value due to the non-interest bearing feature.

9. Pension Plans and Other Postretirement Benefits

The Company participates in a noncontributory qualified defined benefit pension plan sponsored by the Parent covering non-union employees hired prior to April 1, 2003 and select union employees. The eligibility of union employees is determined by the collective bargaining agreements covering those employees. Benefits under the plan are based on the participant's years of service and the annual average of the applicable compensation during the five consecutive computation periods of the final 10 computation periods as an active participant yielding the highest such average. Pension cost of the Company is based on amounts contributed to the pension plan as approved by the Parent and incorporated in rates approved by the PAPUC. Information regarding accumulated and projected benefit obligations is not prepared at the subsidiary level.

In August 2014, the Parent announced changes to the way it will provide future retirement benefits to employees acquired through a prior acquisition. Effective January 1, 2015, the Parent will provide future retirement benefits for these employees through its deferred contribution plan. As a result, no further

9. Pension Plans and Other Postretirement Benefits (Continued)

service will be considered in future accruals in the qualified defined benefit pension plan after December 31, 2014.

Effective July 1, 2015, the Parent added a permanent lump sum option to the form of benefit payments offered to participants of the qualified defined benefit plan upon retirement or termination. The plan paid $5,329 during the second half of 2015 to participants who elected this option and $9,990 during 2016.

The funding amount for the pension plan for Aqua America, Inc. Retirement Income Plan will be determined each year based on the recommendation of management and subject to approval by the Parent's Pension Committee. The funding amount will be an amount greater than or equal to the minimum required contribution and less than or equal to the maximum tax deductible contribution. The Company recorded pension funding and expense of $12,200 and $6,100 in 2016 and 2015, respectively.

The Company participates in two postretirement benefit plans sponsored by the Parent that provide certain life insurance benefits for retired employees and certain health care benefits for retired employees and their dependents. Employees may become eligible for these benefits if they have completed at least fifteen years of service and retire from the Company after reaching age 55 while still working for the Company. Retirees and their dependents under age 65 are covered by a point-of-service managed care plan that requires co-payments or an HMO. Employees hired after April 1, 2003 are not eligible for benefits.

Employees who elect to retire prior to attaining age 65 are generally required to make contributions towards their medical coverage until attaining age 65. Retirees and their dependents age 65 and over are required to purchase their own medical and drug coverage. The cost of this coverage is offset by Company contributions deposited in the plan's Premium Reimbursement Account. Costs of the Company are based on amounts contributed to the plans and incorporated in rates approved by the PAPUC.

9. Pension Plans and Other Postretirement Benefits (Continued)

The Company's funding policy is to contribute the lower of the other postretirement benefits cost or the maximum allowed by the Internal Revenue Code. The Company recorded costs for postretirement benefits other than pensions of $1,992 and $1,992 in 2016 and 2015, respectively. The Company funded postretirement benefits other than pensions of $1,339 in 2016 and $1,992 in 2015. Information regarding accumulated and projected benefit obligations is not prepared at the subsidiary level.

The Company has a 401(k) savings plan that covers substantially all employees. The Company makes matching contributions that are invested in Aqua America, Inc. common stock based on a percentage of the employee's contribution, subject to certain limitations. The portion of the Company's contribution recorded as compensation expense was $1,340 and $1,290 for 2016 and 2015, respectively.

10. Employee Stock and Incentive Plan

The Company's employees participate in an Equity Compensation Plan sponsored by the Parent. Under the Aqua America, Inc. 2009 Omnibus Equity Compensation Plan, as approved by the Parent's shareholders to replace the 2004 Equity Compensation Plan, stock options, stock units, stock awards, stock appreciation rights, dividend equivalents, and other stock-based awards may be granted to the Company's employees, non-employee directors and consultants and advisors equal to the market price of the stock on the day of the grant. Stock options are based upon the common stock of the Parent. Options are exercisable in installments of 33% annually, starting one year from the date of the grant and expire 10 years from the date of the grant. The Parent accounts for stock-based compensation using fair value.

The fair value of each option is amortized into compensation expense on a straight-line basis over their respective 36 month vesting period, net of estimated forfeitures. Compensation expense recognized by the Parent is allocated to its subsidiaries based on actual employee costs. Since the Company is not obligated to reimburse the Parent for stock-based compensation costs incurred, the Company records these liabilities resulting from compensation costs to paid-in capital.

There were no stock options granted during the years ended December 31, 2016 and 2015.

10. Employee Stock and Incentive Plan (Continued)

For the year ended December 31, 2016, the Company's stock-based compensation related to stock options resulted in the following: operations and maintenance expense of $0 and lowered income tax expense by $148. For the year ended December 31, 2015, the Company's stock-based compensation related to stock options resulted in the following: operations and maintenance expenses of $0 and lowered income tax expense by $86.

Restricted stock awards provide the grantee with the rights of a shareholder, including the right to receive dividends and to vote such shares, but not the right to sell or otherwise transfer the shares during the restriction period. Restricted stock awards result in compensation expense which is equal to the fair market value of the stock on the date of the grant and is amortized ratably over the restriction period. For the year ended December 31, 2016 and 2015, the Company did not record any expense for stock-based compensation related to restricted stock awards.

During 2016 and 2015, the Parent granted performance share units ("PSU"). A PSU represents the right to receive a share of the Parent's common stock if specified performance goals are met over the three year performance period specified in the grant. The fair value of each PSU grant is amortized into compensation expense on a straight-line basis over their respective 36 months vesting period. During the year ended December 31, 2016, the Company recorded stock-based compensation related to PSU's as a component of operations and maintenance expense of $780 and recorded an income tax benefit of $323. During the year ended December 31, 2015, the Company recorded stock-based compensation related to PSU's as a component of operations and maintenance expense of $766 and recorded an income tax benefit of $318. The Company assumes that forfeitures will be minimal and recognizes forfeitures as they occur, which results in a reduction in compensation expense.

During 2016 and 2015, the Parent granted restricted share units ("RSU"). A RSU represents the right to receive a share of the Parent's common stock and are valued based on the fair market value of the Parent's stock on the date of grant. RSUs are eligible to be earned at the end of a three year restriction period, beginning on the date of grant. During the year ended December 31, 2016, the Company recorded stock-based compensation related to awards of RSUs as a component of operations and maintenance expense of $80 and recorded income tax benefit of $33. During the year ended December 31, 2015, the Company recorded stock-based compensation related to awards of RSUs as a component of

10. Employee Stock and Incentive Plan (Continued)

operations and maintenance expense of $95 and recorded income tax benefit of $39. The Company assumes that forfeitures will be minimal, and recognizes forfeitures as they occur, which results in a reduction in compensation expense.

11. Water Rates

The Company's last base rate case was filed on November 18, 2011 and was effective on June 7, 2012. In that case, the PAPUC granted the Company a water rate increase designed to increase total operating revenues by $16,700, on an annualized basis. The rates in effect at the time of the filing included $27,449 in Distribution System Improvement Charges ("DSIC") or 7.5% above prior base rates. Consequently, the total base rates increased by $44,149 since the last base rate increase and the DSIC was reset to zero. In addition, the rate case settlement provides for flow-through accounting treatment of qualifying income tax benefits if the Company changes its tax accounting method to permit the expensing of qualifying utility asset improvement costs that were previously being capitalized and depreciated for tax purposes. In December 2012, the Company implemented the Repair Change which resulted in the net recognition of 2012 income tax benefits of $33,565 which reduced the Company's Federal and state income tax expense as it was flowed-through to net income in the fourth quarter of 2012. In addition, the Company recognized a tax deduction on its 2012 Federal tax return of $380,000 for qualifying capital expenditures made prior to 2012, and, based on the settlement agreement, in 2013, the Company began to amortize $1/10^{th}$ of the catch-up adjustment. In accordance with the settlement agreement, the amortization is expected to reduce income tax expense during periods when qualifying parameters are met. During 2016 and 2015, the Company amortized its catch-up adjustment and recognized $16,734 of deferred income tax benefits for both years, which reduced income tax expense and increased the Company's net income. As a result of the Repairs, the fourth quarter 2012 DSIC of 2.8% for the Company's water customers was reset to zero beginning January 1, 2013 and the Company did not file a water base rate case or a DSIC in 2016 or 2015.

The DSIC enables water utilities in Pennsylvania to add a surcharge to customer bills to offset the additional depreciation and capital costs related to infrastructure system replacement and rehabilitation projects completed and placed into service between base rate filings. The Company is permitted to request adjustments to the DSIC quarterly to reflect subsequent capital

11. Water Rates (Continued)

expenditures and it is reset to zero when new base rates that reflect the costs of those additions become effective or when the Company's earnings exceed a PAPUC benchmark. The maximum DSIC that can be in effect at any time is 7.5%. The Company's DSIC rate remained at zero during 2016 and 2015.

Superior's fourth quarter 2016 DSIC rate was 1.98%. The DSIC provided revenues of $57 in 2016.

In addition to its base rates and the DSIC, the Company has utilized a surcharge or credit on its bills to reflect certain changes in Pennsylvania State Taxes, called the State Tax Adjustment Surcharge ("STAS') until such time as the tax changes are incorporated into base rates. The Company's STAS surcharge rates remained at zero during 2016 and 2015.

12. Affiliated Company Transactions

The Company has service agreements with certain affiliates. The types of services rendered between these entities relate to general supervision and administrative functions, long-range planning, tax, accounting, financing, engineering, legal, data processing services and other specialized support.

Services provided by these certain affiliates amounted to approximately $31,405 and $33,943 for 2016 and 2015, respectively.

The Company also provides various management, advisory, and other services for certain affiliates and is reimbursed by these affiliates. The amounts billed out amounted to approximately $1,087 and $1,272 in 2016 and 2015, respectively.

The amounts owed to the Parent and other affiliates by the Company were $2,145 and $4,333 at December 31, 2016 and 2015, respectively. Amounts owed to the Parent and other affiliates are reflected in the accompanying balance sheet.

Amounts due from the Parent and other affiliates to the Company amounted to $4,821 and $1,315 at December 31, 2016 and 2015, respectively. Amounts due from the Parent and other affiliates are reflected in the accompanying balance sheet.

12. Affiliated Company Transactions (Continued)

The Company returned noncash equity contributions to the Parent of $66,128 and $73,510 in 2016 and 2015, respectively and is reported on the Statement of Stockholder's Equity as return of capital contributions. In 2016 and 2015, the return of these noncash equity contributions relate to the settlement of certain net intercompany receivables due from the Parent.

The Company received cash equity contributions from the Parent of $20,000 in 2016 and $20,000 in 2015 and is reported on the Statement of Stockholder's Equity as capital contribution. In 2016 and 2015, the cash equity contributions were used to reduce the Company's short-term borrowings.