WeiserMazars LLP

SUEZ Water New York Inc.

Financial Statements
Years Ended December 31, 2015 and 2014
With Independent Auditors' Report

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SUEZ Water New York Inc.

Financial Statements

Years Ended December 31, 2015 and 2014

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Independent Auditors' Report

To the Board of Directors and Shareholder of
SUEZ Water New York Inc.

We have audited the accompanying financial statements of SUEZ Water New York Inc. (formally known as United Water New York, Inc.) (the "Company", a New York corporation and a wholly-owned subsidiary of SUEZ Water New Jersey Inc.), which comprise the balance sheets and statements of capitalization as of December 31, 2015 and 2014, the related statements of income, changes in shareholder's equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 auditors' 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 financial position of SUEZ Water New York Inc. as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

WeiserMazars LLP

March 31, 2016

WeiserMazars LLP
135 West 50th Street – New York, New York – 10020
Tel: 212.812.7000 – Fax: 212.375.6888 – www.weisermazars.com

SUEZ Water New York Inc.

Balance Sheets
(in thousands of dollars)

	December 31	
	2015	**2014**
Assets		
Property, plant and equipment		
less accumulated depreciation of $104,439 and $102,183	**$ 327,515**	$ 369,612
Current assets:		
Cash and cash equivalents	**4**	4
Intercompany money pool receivable	**1,732**	16,526
Billed and unbilled accounts receivable		
less allowance of $1,014 and $1,090	**7,772**	8,624
Taxes recoverable	**11,739**	-
Prepaid and other current assets	**7,981**	7,945
Total current assets	**29,228**	33,099
Deferred charges and other assets:		
Regulatory assets	**80,762**	35,372
Unamortized debt expense	**1,828**	1,967
Other deferred charges and assets	**1,241**	2,091
Total deferred charges and other assets	**83,831**	39,430
Total assets	**$ 440,574**	$ 442,141
Capitalization and liabilities		
Capitalization:		
Common stock and retained earnings	**$ 246,101**	$ 239,782
Long-term debt	**82,000**	82,000
Total capitalization	**328,101**	321,782
Liabilities:		
Current liabilities:		
Notes payable	**-**	32,000
Accounts payable and other current liabilities	**10,262**	6,966
Accrued taxes	**593**	994
Accrued interest	**1,286**	1,290
Total current liabilities	**12,141**	41,250
Deferred credits and other liabilities:		
Deferred income taxes and investment tax credits	**69,319**	50,280
Accrued employee benefits	**8,884**	15,212
Customer advances for construction	**2,986**	3,724
Regulatory liabilities	**18,874**	9,743
Other deferred credits and liabilities	**269**	150
Total deferred credits and other liabilities	**100,332**	79,109
Commitments and contingencies		
Total capitalization and liabilities	**$ 440,574**	$ 442,141

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

SUEZ Water New York Inc.

Statements of Income

(in thousands of dollars)

	Years Ended December 31	
	2015	2014
Operating revenues	**$ 84,530**	$ 81,478
Operating expenses:		
Operation and maintenance	**30,032**	26,617
Depreciation and amortization	**9,354**	9,091
General taxes	**23,746**	20,517
Total operating expenses	**63,132**	56,225
Operating income	**21,398**	25,253
Other (income) expenses:		
Impairment of property, plant and equipment and regulatory assets	**4,097**	21,752
Interest expense	**5,216**	5,243
Affiliated interest expense	**4,864**	3,951
Allowance for funds used during construction	**(2,562)**	(6,736)
Other, net	**230**	(230)
Total other expenses, net	**11,845**	23,980
Income before provision for income taxes	**9,553**	1,273
Provision for income taxes	**3,481**	593
Net income	**$ 6,072**	$ 680

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

SUEZ Water New York Inc.

Statements of Changes in Shareholder's Equity

Years Ended December 31, 2015 and 2014

(in thousands of dollars)

		Contributed Common Equity			
	Number of Common Shares	**Common Stock Stated Value**	**Amounts in Excess of Stated Value**	**Retained Earnings**	**Total Common Equity**
Balance at January 1, 2014	47,781	$ 13,856	$ 99,622	$ 90,478	$ 203,956
Net income				680	680
Contribution from Parent Company			35,000		35,000
Share-based compensation			146		146
Balance at December 31, 2014	47,781	13,856	134,768	91,158	239,782
Net income				**6,072**	**6,072**
Contribution from Parent Company			**14,000**		**14,000**
Cash dividends on common stock				**(13,753)**	**(13,753)**
Balance at December 31, 2015	**47,781**	**$ 13,856**	**$ 148,768**	**$ 83,477**	**$ 246,101**

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

SUEZ Water New York Inc.

Statements of Cash Flows

(in thousands of dollars)

	Years Ended December 31	
	2015	**2014**
Cash flows from operating activities:		
Net income	**$ 6,072**	$ 680
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**9,354**	9,091
Provision for bad debts	**441**	413
Deferred income taxes and investment tax credits	**19,205**	(631)
Amortization of debt discount and premium	**139**	131
Impairment of property, plant and equipment and regulatory assets	**4,097**	21,752
Allowance for funds used during construction	**(2,562)**	(6,736)
Share-based compensation expense	**146**	88
Unrealized gain on warrants	**(160)**	(17)
Changes in assets and liabilities:		
Billed and unbilled accounts receivable	**411**	1,605
Intercompany money pool receivable	**14,794**	(18,798)
Prepaid and other current assets	**(36)**	(57)
Accounts payable and other current liabilities	**3,296**	80
Accrued taxes and taxes recoverable	**(12,140)**	(2,841)
Accrued interest	**(4)**	1
Accrued employee benefits	**1,163**	584
Regulatory assets	**6,840**	833
Regulatory liabilities	**1,338**	(1,620)
Other, net	**(541)**	(1,612)
Net cash provided by operating activities	**51,853**	2,946
Cash flows from investing activities:		
Capital Expenditure (excludes allowance for funds used during construction)	**(19,289)**	(19,032)
Cash flows from financing activities:		
Change in notes payable	**(32,000)**	(18,000)
Contribution from Parent Company	**14,000**	35,000
Dividends on common stock	**(13,753)**	-
Refund of customer advances for construction	**(811)**	(915)
Net cash (used in) provided by financing activities	**(32,564)**	16,085
Net decrease in cash and cash equivalents	**-**	(1)
Cash and cash equivalents, beginning of year	**4**	5
Cash and cash equivalents, end of year	**$ 4**	$ 4
Non cash operating transactions:		
Change in regulatory asset and PP&E relating to Haverstraw Project	**$ 54,129**	$ -
(Decrease) increase in accrued employee benefits and regulatory assets	**$ (7,491)**	$ 5,335
	$ 46,638	$ 5,335
Supplemental cash flow information:		
Interest paid	**$ 8,824**	$ 8,266
Income taxes(received) paid	**$ (2,700)**	$ 4,306

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

SUEZ Water New York Inc.

Statements of Capitalization

(in thousands of dollars, except per share amounts)

	December 31	
	2015	**2014**
Common stock and retained earnings:		
Common stock, no par value, stated value - $290 per share;		
authorized 50,000 shares; issued and outstanding 47,781 shares	**$ 13,856**	$ 13,856
Amounts received in excess of stated value of common stock	**148,768**	134,768
Retained earnings	**83,477**	91,158
Total common stock and retained earnings	**246,101**	239,782
Long-term debt:		
4.74% Senior notes, due 2020	**30,000**	30,000
8.98% Senior notes, due 2025	**12,000**	12,000
3.47% Senior notes, Series A, due 2027	**10,000**	10,000
3.91% Senior notes, Series B, due 2032	**30,000**	30,000
Total long-term debt	**82,000**	82,000
Total capitalization	**$ 328,101**	$ 321,782

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

1. Description of Business

SUEZ Water New York Inc. (the "Company" or "SWNY"), formerly known as United Water New York, a wholly-owned subsidiary of SUEZ Water New Jersey Inc. ("Parent Company" or "SWNJ"), which is a wholly-owned subsidiary of SUEZ Water Resources Inc. ("SWR"). SWR is a wholly-owned subsidiary of SUEZ Water Inc. ("SWI"). All the subsidiaries of SWI changed their name from United Water to SUEZ, effective November 2015.

The Company provides water service to approximately 312,000 people in Rockland County, New York and is subject to regulation by the New York Public Service Commission ("NY PSC").

2. Summary of Significant Accounting Policies

Basis of Presentation

These financial statements include the accounts of SWNY. The Company's accounting policies comply with the uniform system of accounts prescribed by the NY PSC and conform to accounting principles generally accepted in the United States of America ("GAAP"), as applied to rate regulated utilities. The Company follows Accounting Standards Codification topic ("ASC") 980, Regulated Operations. ASC 980 sets forth the accounting for the effects of certain types of regulation, including the recognition of regulatory assets and liabilities that are allowed by state regulators and are considered probable of recovery or refund.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Regulatory Accounting

The NY PSC regulates the rates the Company charges its customers. In certain cases, the rate actions of the NY PSC can result in accounting that differs from non-regulated companies. In these cases, the Company defers costs (as regulatory assets) or recognizes obligations (as regulatory liabilities) if it is probable that such amounts will be recovered from or refunded to customers through future rates. Regulatory assets and liabilities are amortized to the statements of income consistent with the treatment of the related costs in the ratemaking process.

2. Summary of Significant Accounting Policies (continued)

Intercompany Money Pool

The Company and other subsidiaries of SWI participate in a money pooling arrangement sponsored by a shared service company, SUEZ Water Management and Services Inc. ("M&S"), an affiliate of SWI. For the most part, the participants of the money pool do not maintain separate cash balances. The Company's working capital needs are primarily funded through its participation in the money pool. Almost all of the cash generated from billings and operations, and almost all the payments to third parties and to affiliates for payables, are processed through the money pool on the Company's behalf. M&S does not charge or pay any interest to the participants of the money pool.

Revenue Recognition

The Company recognizes revenue (i) when services are provided which include amount billed to customers on a cycle basis and (ii) for the unbilled amount for the estimated amount of service rendered from the time the meters are last read to the end of the accounting period.

As approved by the NY PSC, the Company is allowed to pass through production-related costs to customers and also bill for approved rate adjustment mechanisms. Any difference between the net balance of allowed revenue and production costs and the net balance of earned revenue and incurred production costs is recorded as a regulatory asset or regulatory liability.

Income Taxes

SWNY is included in a consolidated federal income tax return with other affiliated entities. The tax allocated to the Company represents the tax, or credit in lieu of tax, including the effect of any excess tax deductions, computed on a separate return basis. Taxes recoverable on the balance sheet at December 31, 2015 primarily includes $11.6 million of federal income taxes recoverable from SWI and accrued taxes on the balance sheet at December 31, 2014 includes $1.4 million of federal income taxes payable to SWI. There were no uncertain tax positions identified at December 31, 2015 or 2014. The Company's tax returns are subject to examination by taxing authorities, generally for three years after they are filed. As of December 31, 2015, the tax years 2014, 2013 and 2012 were subject to examination by taxing authorities.

Federal and state income taxes are recorded pursuant to the asset and liability method that requires the recognition of deferred income tax assets and liabilities by applying enacted statutory tax rates applicable to future years to the differences between the financial statement carrying amounts and tax bases of existing assets and liabilities. Additional deferred income taxes and offsetting regulatory assets or liabilities were recorded to recognize income taxes recoverable or refundable through future revenues.

Investment tax credits arising from property additions were deferred and are being amortized over the useful life of the underlying property. The unamortized balance of investment tax credits was $0.5 million at each December 31, 2015 and 2014, respectively.

2. Summary of Significant Accounting Policies (continued)

Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value hierarchy for disclosure of fair value measurements under ASC 820 is as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Quoted prices, other than quoted prices included in Level 1, that are observable for the assets or liabilities, either directly or indirectly.
- Level 3: Valuation inputs are unobservable and significant to the fair value measurement.

Property, Plant and Equipment

Property, plant and equipment include only utility plant which is stated at original cost. The cost of repairs and maintenance is charged to expense and the cost of renewals and betterments that extend the useful life of utility plant are capitalized. The capitalized cost of additions to utility plant includes costs such as direct material, labor and benefits, overheads, and an allowance for funds used during construction ("AFUDC"). The original cost of utility property retired or otherwise disposed of in the normal course of business is charged to accumulated depreciation, and salvage (net of removal cost) is credited thereto; no gain or loss is recognized.

Depreciation
The Company accounts for the depreciation of utility plant using groups of property items having the same or similar service life expectancies. Based on the weighted average service life and the cost of the group of similar property items, the depreciation rate is determined for the group by applying the straight-line method, as prescribed by the NY PSC and consistent with GAAP. The provision for depreciation in both 2015 and 2014 was equivalent to 2.3% of average depreciable utility plant in service. Depreciation expense includes a component for estimated future cost of removal, which is recovered through rates charged to customers.

For federal income tax purposes, depreciation is computed using accelerated methods and, in general, shorter depreciable lives as permitted under the Internal Revenue Code.

Allowance for Funds Used During Construction
In accordance with applicable accounting guidance, the Company records AFUDC, which represents the debt and equity costs of financing the construction of new utility plant. AFUDC is a credit to income and includes both the cost of borrowed funds and a return on equity funds attributable to plant under construction. After construction is completed, the Company is permitted to recover these costs through their inclusion in rate base and corresponding depreciation expense. The Company recorded AFUDC related to equity of $1.1 million and $3.2 million and AFUDC related to debt of $1.0 million and $1.4 million for the years ended December 31, 2015 and 2014, respectively.

2. Summary of Significant Accounting Policies (continued)

Gross-up of AFUDC was $0.5 million and $2.1 million for December 31, 2015 and 2014, respectively and is included in regulatory assets and credited to income.

Billed and Unbilled Accounts Receivable

Billed accounts receivable are recorded at the invoiced amounts, which represent the amount billed to customer on a cycle basis. Unbilled accounts receivable are accrued for services that have been provided but have not been billed to customers. Unbilled accounts receivable included in accounts receivable were $3.9 million and $3.7 million at December 31, 2015 and 2014, respectively.

The allowance for doubtful accounts in accounts receivable is the Company's best estimate of the amounts of probable credit losses in existing accounts receivable, and is primarily based on the aging of accounts receivable. Account balances are written-off when it is probable the receivable will not be recovered.

Unamortized Debt Expense

Deferred debt expenses are amortized to interest expense over the lives of the applicable debt issues.

Customer Advances for Construction

The Company may receive advances for construction from outside parties, generally customers and real estate developers, to fund certain utility capital expenditures to provide water service to new customers. Non-refundable amounts received are recorded as a direct offset to property, plant and equipment on the balance sheets. Refundable amounts received are recorded initially as customer advances for construction on the balance sheets and are refundable, for limited periods of time, generally when new customers begin to receive service. The remaining balance of any advances received after the Company has made all required refunds of such advances, is offset against property, plant and equipment as prescribed by the NY PSC.

Employee Benefits

The Company has defined benefit pension and postretirement benefits other than pensions ("PBOP") plans for its employees. The Company recognizes all pension and PBOP plans' funded status in the balance sheets as a net liability or asset. The cost of providing these plans is recovered through rates; therefore, the net funded status is offset by a regulatory asset or liability. The Company measures and records its pension and PBOP assets at the year-end date. Pension and PBOP plan assets are measured at fair value, using the year-end fair value of those assets.

2. Summary of Significant Accounting Policies (continued)

New Accounting Pronouncements

Leases
In February 2016, the Financial Accounting Standards Board ("FASB") issued a pronouncement that requires lessees to recognize assets and liabilities on the balance sheet for leases with accounting lease terms of more than 12 months. This guidance is effective for annual periods beginning in 2020. The Company is currently evaluating the impact of this pronouncement on its consolidated financial statements.

Balance Sheet Classification of Deferred Income Taxes
In November 2015, the FASB issued revised accounting guidance for the balance sheet classification of deferred taxes. The core principle of this revised accounting guidance is that all deferred tax assets and liabilities should be classified as noncurrent. The adoption of this standard did not impact the Company's results of operations, financial position or cash flows.

Balance Sheet Presentation of Debt Issuance Costs
In April and August 2015, the FASB issued revised accounting guidance for the presentation of debt issuance costs. The core principle of this revised accounting guidance is that debt issuance costs should not be treated as an asset, but adjusted to the carrying cost of the related liability. This guidance should be effective for all non-public entities for financial statements issued for fiscal years beginning after December 15, 2015. The adoption of this standard will only result in a decrease in deferred charges and other assets and long-term debt. There will be no further impact in Company's result of operations, financial position or cash flows.

Revenue Recognition
In May 2014, the FASB issued amended accounting guidance on revenue recognition that will be applied to any company that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets. The core principle of this guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments in this update also require disclosure of sufficient information to allow users to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. In August 2015, the FASB approved a one-year deferral of the effective date making this guidance effective for annual periods beginning in 2019. The Company is currently evaluating the impact of this pronouncement on its financial statements.

Reporting Discontinued Operations
In April 2014, the FASB issued revised accounting guidance for reporting discontinued operations. A discontinued operation would be either (i) a component of an entity or a group of components of an entity that represents a separate major line of business or major geographical area of operations that either has been disposed of or is part of a single coordinated plan to be classified as held for sale or (ii) a business that, upon acquisition, meets the criteria to be classified as held for sale. The adoption of this standard did not impact the Company's results of operations, financial position or cash flows.

(in thousands of dollars, except where noted otherwise)

3. Regulatory Assets and Liabilities

Regulatory assets represent costs that are expected to be fully recovered from customers in future rates. Regulatory assets consisted of the following at December 31, 2015 and 2014:

	2015	2014
Rate adjustment mechanisms	$ 11,982	$ 15,088
Deferred employee benefits	8,687	10,583
Income taxes recoverable	2,571	2,748
AFUDC - gross-up	1,500	1,012
Deferred project cost	54,129	-
Other	1,893	5,941
Total regulatory assets	$ 80,762	$ 35,372

Regulatory liabilities included on the balance sheets are amounts which are expected to be refunded to customers. Regulatory liabilities consisted of the following at December 31, 2015 and 2014:

	2015	2014
Income taxes	$ 6,980	$ 6,059
Deferred employee benefits	11,321	3,662
Other	573	22
Total regulatory liabilities	$ 18,874	$ 9,743

Rate adjustment mechanisms

The Company is subject to a number of rate adjustment mechanisms whereby an asset or liability is recognized resulting from differences between actual revenues and the underlying cost being recovered, or differences between actual revenues and targeted amounts as approved by the NY PSC. These amounts will be refunded to, or recovered from, customers.

Deferred employee benefits

Deferred employee benefits represent the underfunded status of its pension and PBOP plans. The amount in regulatory liabilities primarily represents the excess of amounts received in rates over actual costs of the Company’s pension and PBOP plans to be refunded in future periods.

Deferred project cost

In December 2015, the NY PSC directed the Company to abandon the Haverstraw Water Supply Project (the “Haverstraw Project”) upon which, the Company reclassified the cost of the project from construction work-in-process to regulatory assets (See Note 4).

3. Regulatory Assets and Liabilities (continued)

The regulatory assets above are not included in rate base. The Company is allowed to recover carrying charges on costs associated with certain rate adjustment mechanism and deferred property taxes included in other regulatory assets. In addition, the Company is also required to record carrying charges on employee benefits under regulatory liabilities.

In management's opinion, the Company's operations will be subject to ASC 980 for the foreseeable future. However, in the event that regulation significantly changes the opportunity for the Company to recover its costs in the future, all or a portion of the Company's regulated operations may no longer meet the criteria for the application of ASC 980, in which case a write-down of all or a portion of the existing regulatory assets and liabilities could result. The Company estimates that a write-off of its net regulatory assets at December 31, 2015 would result in an after-tax charge to net income of approximately $40.2 million.

4. Rate Matters

Rate Filings

On February 25, 2016, the Company filed an application for a rate increase of additional revenue of approximately $11.6 million or 13.7%. The proposed rate increase is driven by substantial increases of its operating costs including real estate taxes and capital additions. In addition, the Company is also seeking to recover costs associated with its abandoned Haverstraw Project, as discussed below.

During 2014, the NY PSC approved, and the Company put into effect, a rate award representing an annual increase in revenues of $10.2 million. The total increase in revenues from the prior year's rate awards and from the carryover effect of prior year rate increases was $5.1 million in 2014.

Haverstraw Project

An Order issued by the NY PSC in 2006 and again in 2010 required the Company to research and develop a long-term water supply system for Rockland County, New York. In 2007, the Company responded to the Order with a proposal to build the Haverstraw Project. In July 2013, the NY PSC reassessed the need for a long-term water supply source in light of the changed circumstances that developed since the date of the Order in 2006. In November 2014, the NY PSC issued an order that directed the Company to suspend the permitting activity of the Haverstraw Project and to evaluate other potential projects that would meet the future demand for Rockland County.

In addition, the NY PSC also ordered a portion of the costs relating to the Haverstraw Project to be disallowed as project costs. These disallowed costs included a portion of the calculated AFUDC since the 2010 order, as well as costs related to project outreach and education efforts. For the year ended December 31, 2014, the Company recognized a $13.1 million impairment for the disallowed costs of utility plant and a $5.7 million impairment of regulatory assets for the disallowed gross-up of AFUDC related to the Haverstraw Project. Since the 2014 order denied the surcharge, the Company recorded an impairment of $1.4 million for deferred legal fees incurred to recover such surcharge.

4. Rate Matters (continued)

In June 2015, the Company proposed a package of conservation, water management measures, and creating additional supply by having smaller incremental supply alternatives, which will level the demand and supply for the next ten years. In December 2015, the NY PSC accepted the Company's proposal and directed the Company to abandon the Haverstraw Project. Upon abandonment in December 2015, the Company stopped charging AFUDC and reclassified $54.1 million from property, plant and equipment to regulatory assets. At December 31, 2014, $52.4 million relating to the Haverstraw Project was included as construction work-in-process in property, plant and equipment. At December 31, 2015 and 2014, the gross-up portion of AFUDC included in regulatory assets for the Haverstraw Project was $0.5 million and $2.2 million, respectively.

On February 25, 2016, the NY PSC issued an order that approved $38.8 million for future recovery (the "Approved Costs"). As stated above, on February 25, 2016, the Company filed a rate case with the NY PSC to recover the Approved Costs, and to have the remaining $15.3 million of legal and other project related costs approved for recovery. As of the date of the issuance of this financial statement, management believes that the Company will be able to recover the remaining Haverstraw Project costs.

Other

In March 2015, the NY PSC issued an order to disallow recovery of $2.7 million of property taxes under the Company's property tax reconciliation mechanism reflecting an estimate of the effect of economic obsolescence filings not made by the Company. The Company recorded this as an impairment of property, plant and equipment and regulatory assets in the accompanying statement of income.

As a result of the new 2014 rate award, as discussed above, the Company identified an unrecoverable item within regulatory assets during its calculation of the revenue reconciliation that was part of the preceding rate order. The revenues recognized were not properly calendarized and resulted in a $3.0 million impairment of regulatory assets for the year-ended December 31, 2014.

(in thousands of dollars, except where noted otherwise)

5. Property, Plant and Equipment

The following table summarizes property, plant and equipment at cost along with accumulated depreciation and amortization:

	Useful Lives	2015	2014
Transmission and distribution	15-100	**$ 270,590**	$ 260,172
Water treatment	30-48	**53,692**	46,225
Pumping	25-44	**36,233**	35,923
General structures and equipment	5-55	**24,330**	33,268
Source of supply	20-95	**32,723**	32,388
Other		**8,889**	8,889
Construction work-in-process		**5,497**	54,930
Plant, property and equipment - gross		**431,954**	471,795
Less accumulated depreciation		**(104,439)**	(102,183)
Plant, property and equipment - net		**$ 327,515**	$ 369,612

For the years ended December 31, 2015 and 2014, depreciation expense was $9.4 million and $9.1 million, respectively. The Company retired $5.4 million and $1.6 million of property, plant and equipment during 2015 and 2014, respectively.

The Company reclassified $54.1 million of Haverstraw Project costs from construction work-in-process to regulatory assets, as discussed in Note 4.

6. Fair Value of Financial Instruments

The carrying amounts reported in the balance sheet for current assets and current liabilities approximate their fair value because of their short-term maturities. Such current assets and liabilities on the balance sheets include cash and cash equivalents, billed and unbilled accounts receivable, notes payable, accounts payable and other current liabilities and accrued interest.

The Company's long-term debt has no quoted market prices; consequently, the Company's long-term debt is a Level 3 financial instrument under the fair value hierarchy for fair value measurements (see Note 2). The fair value of this debt, measured using a discounted cash flow analysis based on current rates for similar debt, was $90.6 million and $91.0 million at December 31, 2015 and 2014, respectively.

The fair values of customer advances for construction cannot be accurately estimated since future refund payments depend on several variables, including new customer connections, customer consumption levels and future rate increases.

See Note 9 for the Company's fair value of qualified pension and PBOP plan assets.

(in thousands of dollars, except where noted otherwise)

7. Notes Payable

The total credit lines available, the amounts utilized and the weighted average interest rates on outstanding borrowings at December 31, 2015 and 2014 were as follows:

	2015	2014
Total credit lines available	$ -	$ 45,050
Utilized:		
Drawn	$ -	$ 32,000
Pledged as letters of credit	$ -	$ 100
Weighted average interest rates	0.00%	0.83%

8. Long-Term Debt

There are no repayments of long-term debt through 2019 and in 2020 the Company will be making a payment of $30.0 million.

The Company is subject to certain financial covenants related to issued debt, the most restrictive of which require that the long-term debt of the Company not exceed 65% of total capitalization and that the Company maintain a fixed charge coverage ratio of 1.75 to 1.0. At December 31, 2015 and 2014, the Company was in compliance with these covenants.

9. Employee Benefits

Most employees are covered by a trusteed non-contributory defined benefit pension plan. Benefits under this plan are based upon years of service and the employee's compensation during the last five years of employment. The
Company's policy is to fund amounts accrued for pension expense to the extent deductible for federal income tax purposes. The Company does not expect to contribute to this plan in 2016.

SWR sponsors a defined benefit postretirement plan that covers hospitalization, major medical and life insurance benefits to those retirees who meet the requirements to receive benefits under the plan. The Company is funding a portion of its postretirement health care benefits through contributions to Voluntary Employees' Beneficiary Association ("VEBA") Trusts. The Company does not expect to contribute to this plan in 2016.

During 2015, SWR amended its PBOP plan by moving from a self-sponsored plan to a fixed subsidy payment. The amended plan will make fixed contributions to a Health Reimbursement Arrangement ("HRA") for each eligible retiree, which can then be used to purchase medical and prescription drug coverage from insurance companies on a private exchange. Contributions will be increased annually, but the increase will be capped at 3% and will not exceed the increase in the Consumer Price Index. This amendment reduced the Company's liability by $5.1 million in 2015 and will be amortized as a benefit within the net periodic postretirement benefit cost over the employees remaining years of service.

(in thousands of dollars, except where noted otherwise)

9. Employee Benefits (continued)

The following table provides the components of the Company's regulatory assets and liabilities that have not been recognized as components of periodic benefit costs as of December 31, 2015 and 2014:

	Pension Plan		PBOP Plan	
	2015	**2014**	**2015**	**2014**
Net Actuarial loss (gain)	**$ 8,572**	$ 10,023	**$ (585)**	$ 588
Prior Service Cost (benefit)	**115**	133	**(5,010)**	(161)
	$ 8,687	$ 10,156	**$ (5,595)**	$ 427

The prior service costs and actuarial losses included in regulatory assets that are expected to be recognized during the year ending December 31, 2016 are as follows:

	Pension Plan	PBOP Plan
Prior Service Cost	$ 17	$ (550)
Actuarial Loss (gain)	$ 1,448	$ (58)

SWR sponsors a single defined benefit pension plan for its employees and certain employees of an affiliated company. The allocated fair value of plan assets and funded status associated with employees of the Company participating in this plan are included in the table below. The following table sets forth the plan's funded status, measured as of December 31, 2015 and 2014 and recognized in the Company's balance sheets in accrued employee benefits:

	Pension Plan		PBOP Plan	
	2015	**2014**	**2015**	**2014**
Change in benefit obligation:				
Benefit obligation, at beginning of year	**$ 34,037**	$ 30,039	**$ 14,760**	$ 12,232
Service cost	**920**	714	**413**	407
Interest cost	**1,407**	1,419	**520**	621
Plan amendment	**-**	-	**(5,090)**	-
Actuarial (gain) loss	**(2,334)**	3,736	**(1,601)**	1,892
Actual Medicare Part D Subsidy	**-**	-	**35**	1
Benefits paid	**(1,475)**	(1,871)	**(586)**	(393)
Benefit obligation, at end of year	**32,555**	34,037	**8,451**	14,760
Change in plan assets:				
Fair value of plan assets, at beginning of year	**24,877**	25,049	**8,708**	7,929
Actual return on plan assets	**(516)**	1,305	**197**	681
Company contributions	**670**	394	**247**	491
Benefits paid	**(1,475)**	(1,871)	**(586)**	(393)
Fair value of plan assets, at end of year	**23,556**	24,877	**8,566**	8,708
Funded status	**$ (8,999)**	$ (9,160)	**$ 115**	$ (6,052)

(in thousands of dollars, except where noted otherwise)

9. Employee Benefits (continued)

At December 31, 2015 and 2014, the pension and PBOP obligation exceeded the fair value of plan assets for the total SWR plan.

	Pension Plan		PBOP Plan	
	2015	**2014**	**2015**	**2014**
Projected Benefit Obligation	**$ 382,937**	$ 393,671	**n/a**	n/a
Accumulated Benefit Obligation	**348,140**	355,575	**96,116**	164,461
Fair Value of Plan Assets	**254,674**	258,362	**82,217**	84,816

The components of net periodic plan costs were as follows for the years ended December 31, 2015 and 2014:

	Pension Plan		PBOP Plan	
	2015	**2014**	**2015**	**2014**
Service cost	**$ 920**	$ 714	**$ 413**	$ 407
Interest cost	**1,407**	1,419	**520**	621
Expected return on plan assets	**(1,780)**	(1,834)	**(603)**	(584)
Amortization of prior service cost (benefit)	**17**	18	**(241)**	(59)
Amortization of actuarial loss (gain)	**1,413**	919	**(22)**	(148)
Net periodic plan cost	**$ 1,977**	$ 1,236	**$ 67**	$ 237

The weighted-average assumptions at December 31, 2015 and 2014 were as follows:

	Pension Plan		PBOP Plan	
	2015	**2014**	**2015**	**2014**
Benefit Obligation				
Discount rate	**4.68%**	4.26%	**4.69%**	4.30%
Range of compensation increase	**3.50% - 3.75%**	3.50% - 3.75%	**n/a**	n/a
Net Periodic Benefit Costs				
Discount rate	**4.26%**	5.17%	**4.30% - 4.76%**	5.22%
Range of compensation increase	**3.50% - 3.75%**	3.50% - 3.75%	**n/a**	n/a
Expected return on plan assets	**7.25%**	7.50%	**7.25%**	7.50%

The discount rate is determined based on the investment yields available as of the measurement date on investment grade corporate bonds of various maturities that are consistent with the maturity of the plan's benefit obligation.

(in thousands of dollars, except where noted otherwise)

9. Employee Benefits (continued)

In the determination of the December 31, 2014 projected benefit obligation, the Company adopted a new table based on the Society of Actuaries RP 2014 mortality table, including a generational BB-2D projection scale. The adoption resulted in a significant increase to the plan's projected benefit obligation.

Based on current assumptions, the Company expects to make the following benefit payments for the years ended:

	Pension Plan	PBOP Plan
2016	$ 1,573	$ 372
2017	1,621	388
2018	1,665	409
2019	4,694	431
2020	1,723	441
Thereafter	9,042	2,546

The associated health care cost trend rate used in measuring the postretirement benefit obligation at December 31, 2015 was 7.0%, gradually declining to 4.75% in 2024 and thereafter, for costs for those under 65 years of age, and 7.0%, gradually declining to 4.75% in 2024 and thereafter, for costs for those over 65 years of age.

Changing the assumed health care cost trend rate by one percentage point in each year results in changes in service cost and interest, and plan obligations as follows:

Effect of 1 % point increase	**2015**	**2014**
On total service cost and interest cost	**$ 208**	$ 218
On post retirement benefit obligation	**1,274**	3,004
Effect of 1 % point decrease		
On total service cost and interest cost	**$ (167)**	$ (186)
On post retirement benefit obligation	**(1,010)**	(2,280)

Plan investment strategies include enhancing the plan's diversification, reducing overall portfolio risk and enhancing the expected return. To support these strategies, the equity securities component is further broken down into domestic equities and international equities, which are both passively managed. Within the fixed income portfolios, derivative securities are utilized by the bond managers to facilitate liquidity and duration management, but are not used to create leverage in the portfolio in any way.

The long-term return expectation for the pension and VEBA portfolio effective for 2016 is 7.0% and the strategy noted above has been developed to meet that objective over the long-term. The portfolio is actively managed in all of the asset classes with the exception of large cap domestic equity, which is indexed to the S&P 500. The Investment Committee of SWI reviews the long-term investment strategies on an ongoing basis. This includes reviewing historical returns for the various asset classes and adjusting prospective returns

(in thousands of dollars, except where noted otherwise)

9. Employee Benefits (continued)

for the plan's allocation of assets. Prospective expectations of the market are also reviewed, which are similar for domestic equity and international equity, and slightly lower for domestic fixed income, based on long-term expectations.

The target allocation of the benefit plans' (including VEBA portfolio) total assets as of December 31, 2015 and 2014 are as follows:

	Pension Plan		PBOP Plan	
	2015	2014	2015	2014
Cash	**0.0%**	0.0%	**0-10%**	0-10%
Short-term investments	**1.0%**	1.0%	**0%**	0%
US Equities	**20.0%**	20.0%	**45-70%**	45-70%
International Equities	**17.5%**	17.5%	**0%**	0%
Private equities and hedge funds	**17.5%**	17.5%	**0%**	0%
Fixed Income	**44.0%**	44.0%	**25-45%**	25-45%
Total	**100.0%**	100.0%	**100.0%**	100.0%

Under the fair value hierarchy for fair value measurements (see Note 2), the fair value of the Company's share of the plan and PBOP assets was as follows at December 31, 2015 and 2014:

	December 31, 2015			
	Level 1	Level 2	Level 3	Total
Pension Plan				
Short-term investments	$ 423	$ -	$ -	$ 423
Fixed Income	3,922	6,573	-	10,495
US Equities	3,169	2,010	-	5,179
International Equities	983	2,785	-	3,768
Private equities and hedge funds	-	-	3,691	3,691
	$ 8,497	$ 11,368	$ 3,691	$ 23,556
PBOP Plan				
Short-term investments	$ 214	$ -	$ -	$ 214
Bonds	537	2,007	-	2,544
US Equities	4,648	-	-	4,648
International Equities	1,160	-	-	1,160
	$ 6,559	$ 2,007	$ -	$ 8,566

(in thousands of dollars, except where noted otherwise)

9. Employee Benefits (continued)

	December 31, 2014			
	Level 1	Level 2	Level 3	Total
Pension Plan				
Short-term investments	$ 495	$ -	$ -	$ 495
Fixed Income	4,317	6,788	-	11,105
US Equities	3,883	2,204	-	6,087
International Equities	1,227	2,855	-	4,082
Private equities and hedge funds	-	-	3,108	3,108
	$ 9,922	$ 11,847	$ 3,108	$ 24,877
PBOP Plan				
Short-term investments	$ 534	$ -	$ -	$ 534
Fixed Income	527	1,984	-	2,511
US Equities	4,518	-	-	4,518
International Equities	1,145	-	-	1,145
	$ 6,724	$ 1,984	$ -	$ 8,708

The plans' assets have been invested in various investment fund options under a collective trust arrangement with Wells Fargo Bank, N.A. ("Wells Fargo Bank"). The Company is funding a portion of its PBOP share through contributions to VEBA Trusts. The VEBA's assets are also held by Wells Fargo Bank, and are invested in mutual funds and a common collective trust fund.

The investments are stated at fair value, which represents the daily calculated value of units of participation in the collective trust. The daily calculated unit values are determined and reported by the funds in which the plan assets are invested. The calculation of these values involves measuring the underlying assets of the collective trust at fair value, as follows:

- Short-term investments having remaining maturities of 60 days or less are valued at amortized cost, which approximates market value.
- Equity securities are primarily comprised of securities issued by public companies in domestic and foreign markets, which are valued at the official closing price or last sale price on the exchange on which they are primarily traded, or at the last quoted bid price for securities in which there were no sales during the day or for unlisted securities. The Company can exchange shares of the publicly traded securities and the fair values are primarily sourced from the closing prices on stock exchanges where there is active trading, in which case they are classified as Level 1 investments. If there is less active trading, then the publicly traded securities would typically be priced using observable data, such as bid and ask prices, and these measurements are classified as Level 2 investments.

9. Employee Benefits (continued)

- Fixed Income, which includes bonds and related securities, are valued at the official closing price or last sale price on the exchange on which they are primarily traded, at the last quoted bid price for securities in which there were no sales during the day, or at the last available bid prices by an independent pricing service. Derivative securities utilized by the bond managers to facilitate liquidity and duration management are normally valued at the last mean price on the exchange on which they are traded or at a bid price if mean prices are not available. If bids are not available, or if the securities are not listed, the values are determined using broker quotes, an independent pricing service or the last sales price as provided by an independent pricing agent or the principal market maker. Prices generated from less active trading with wider bid ask prices are classified as Level 2 investments.
- Private equities and hedge funds, which are considered Level 3 investments in the hierarchy for fair value measurements, include a number of nonmarketable, nonredeemable investments in partnerships that make private equity and hedge fund investments. Because observable prices are not available for these securities, the fund management has valued the investments based solely on the capital account balances reported by the underlying partnerships. The capital account balances may differ significantly from the values that would have been used had a readily available market for such investments existed, or had such investments been liquidated.

Defined Contribution Plans

The Company's employees participate in defined contribution savings plans sponsored by SWR which permit employees to make voluntary contributions that are matched in part by the Company, as set forth in the plan agreements. The Company contributed $0.3 million for each of the years ended December 31, 2015 and 2014, respectively, which was included in operation and maintenance expense in the statements of income.

10. Stock Compensation

The employees of the Company are offered the opportunity to participate in share-based payment programs offered by Engie SA, formerly known as GDF Suez SA and Suez Environnement SA ("Suez Environnement"). These programs include employee stock purchase plans ("ESPPs") and stock appreciation rights ("SARs") that are linked to the ESPPs. No shares of the Company's stock are issued to employees under these programs. Further, the Company is reimbursed for any cash payments made to employees pursuant to these programs by third parties under funding arrangements made by Suez Environnement (see discussion of warrants, below). As a result, these programs do not result in any net cash outflow for the Company.

Suez Environnement has periodically offered ESPPs pursuant to which employees can purchase shares of their stock at discounts ranging from 15% to 20%. The most recent such offering took place during 2014 for Suez Environnement stock. The Company records the discounts its employees receive as compensation expense in the year of purchase by the employees, with an offsetting credit to contributed common equity.

10. Stock Compensation (continued)

Employees participating in the ESPPs also may receive one SAR for each share of stock purchased. These SARs vest over a five-year period, at which time the Company pays its employees in cash based upon a multiple of the performance of the publicly traded shares of Suez Environnement over that period. The fair value of unpaid SARs at each balance sheet date is computed based on the publicly traded shares of stock using a Black-Scholes-Merton option pricing model, which incorporates various assumptions as determined by Engie and Suez Environnement, including expected volatility, expected dividend yield, expected life and applicable interest rates. The Company records this value as compensation expense, with an offsetting payable to the employees, on a straight-line basis over the five-year term of the SARs. At December 31, 2015 and 2014, SARs issued in connection with two ESPPs and three ESPPs, respectively, were outstanding.

Suez Environnement set in place a mechanism to reimburse the Company for cash payments made to participating employees under the SARs program. When the Company's employees purchased stock under an ESPP and received SARs, the Company received at no cost an equal number of warrants ("Warrants") from Suez Environnement which entitle the Company to receive a cash payment from a third party at the time the SARs are paid to the employees. The initial fair value of the Warrants is recorded as an asset by the Company, with an offsetting credit to contributed common equity. Each year thereafter, the Company adjusts the carrying value of the Warrant assets to 100% of their then fair value, recording any gain or loss in other income. Over the five-year term of the SAR and Warrant agreements, the Company expects to record compensation expense in excess of any gain or loss on the Warrants in an amount approximately equal to the initially recorded cost of the Warrants.

During 2015 and 2014, the Company recorded income of $0.2 million and $0.1 million, respectively, from an increase in the fair value of the Warrants outstanding and $0.1 million of compensation expense in both 2015 and 2014 from an increase in the vested value of the SARs liability. During 2014 in connection with a 2014 ESPP, the Company recorded $0.1 million of initial value of Warrants received from Suez Environnement with a corresponding credit to contributed common equity. At December 31, 2015 and 2014, $0.4 million and $0.3 million, respectively, of Warrants were recorded in other deferred charges and assets, and $0.3 million and $0.1 million, respectively, of SARs liability to employees was recorded in other deferred credits and liabilities.

As of December 31, 2015, the total unrecognized compensation expense related to unvested SAR awards was $0.2 million. This amount, along with any future changes in the fair value of such unvested awards, will be recognized in compensation expense over the next four years.

11. Related Party Transactions

Service Company Charges

In the ordinary course of business, affiliated service company of SWI provides services (i.e., legal, corporate accounting and finance, regulatory, human resources, information technology, etc.) to all of its subsidiaries. The Company recorded expenses for these services of $5.8 million and $4.5 million in 2015 and 2014, respectively, as operation and maintenance expense in the statements of income. The service company costs are generally allocated to affiliated companies through a tiered approach. In the first step, costs are directly

(in thousands of dollars, except where noted otherwise)

11. Related Party Transactions (continued)

charged to the benefited company whenever practicable. In the second step, majority of the other costs are allocated based on a general allocator determined using a 3-point formula based on revenue, property, plant and equipment and payroll expenses.

Intercompany Money Pool

The Company participates in the money pool arrangement with its affiliated shared service company and various other affiliated companies, as discussed in Note 2 above. The Company's working capital needs are primarily funded through its participation in the money pool. Almost all of the cash generated from billings and operations, and almost all the payments to third parties and to affiliates for payables, are processed through the money pool on the Company's behalf.

The Company records short-term receivables from, and payables to, certain of its affiliates in the ordinary course of business. The amounts receivable from, and payable to, its affiliates do not bear interest. A summary of outstanding accounts receivable from associated companies and accounts payable to associated companies balances is as follows:

	2015	**2014**
SUEZ Water Management & Services Inc.	**$ 14,969**	$ 16,526
SUEZ Water Pennsylvania Inc.	**(1,364)**	-
SUEZ Water Resources Inc.	**(14,260)**	-
SUEZ Water Inc.	**2,716**	-
Other affiliates	**(329)**	-
Total intercompany money pool receivable	**$ 1,732**	$ 16,526

Other

The Company purchases materials and supplies from affiliates owned by SUEZ North America Inc. and Suez Environnement, and recorded total expenditures on purchases from these affiliates of $0.2 million in 2014. There were no such purchases in 2015.

Contribution from and Dividends to Parent

The Company's parent, SWNJ, provides capital to the Company to fund its operations and capital expenditures. SWNJ made a cash contribution to the Company of $14.0 million and $35.0 million in 2015 and 2014, respectively, to assist the Company in funding its capital expenditure requirements.

In 2015, the Company declared and paid its Parent a cash dividend of $13.8 million.

Affiliated Interest Expense

The Company's parents, SWR and SWNJ, provide capital to the Company to fund its operations and capital expenditures.

(in thousands of dollars, except where noted otherwise)

11. Related Party Transactions (continued)

In 2015 and 2014, SWNJ allocated $4.1 million and $4.0 million, respectively, of interest expense to the Company based on the capital structure allowed for rate-making purposes and the actual cost of the Parent Company's debt.

In 2015, SWR allocated $0.7 million of interest expense to the Company for the debt that it refinanced based on the capital structure of SWR's affiliated subsidiaries. In 2014, no interest was allocated to the Company by SWR.

12. General Taxes

The components of general tax expense for the years ended December 31, 2015 and 2014 are as follows:

	2015	2014
Franchise	**$ 14,816**	$ 14,247
Real Estate	**6,710**	4,906
Other General Taxes	**2,220**	1,364
	$ 23,746	$ 20,517

13. Income Taxes

Provision for Income Taxes
The provision for income taxes included in the statements of income for 2015 and 2014 consisted of the following:

	2015	2014
Current:		
Federal	**$ (15,724)**	$ 1,281
State	**-**	(57)
Total current	**(15,724)**	1,224
Deferred:		
Federal	**19,195**	(631)
State	**10**	-
Total deferred	**19,205**	(631)
Total provision for income taxes	**$ 3,481**	$ 593

Deferred income tax expense includes a benefit from the amortization of investment tax credits of $0.1 million and less than $0.1 million in 2015 and 2014, respectively.

(in thousands of dollars, except where noted otherwise)

13. Income Taxes (continued)

A reconciliation of the provision for income taxes at the statutory federal income tax rate to the actual income tax expense in the statements of income was as follows for 2015 and 2014:

	2015	2014
Statutory federal income tax rate	**35%**	35%
Federal taxes at statutory tax rates on pretax income	**$ 3,344**	$ 446
State income taxes, net of federal benefit	**7**	(37)
Amortization of investment tax credits	**(26)**	(26)
Amortization of tax on regulatory assets	**212**	180
Other	**(56)**	30
Total provision for income taxes	**$ 3,481**	$ 593

Deferred Income Taxes and Investment Tax Credits
Deferred income taxes and deferred investment tax credits included on the balance sheets consisted of the following at December 31, 2015 and 2014:

	2015	2014
Property related differences	**$ 47,462**	$ 45,389
Employee benefits	**(4,079)**	(2,923)
Other deferred income tax assets and liabilities, net	**25,415**	7,267
Deferred income taxes	**68,798**	49,733
Deferred investment tax credits	**521**	547
Total deferred income taxes and investment tax credits	**$ 69,319**	$ 50,280

The United States Treasury Department and Internal Revenue Service issued final regulations that address costs incurred in acquiring, producing, or improving tangible property, referred to as the "tangible property regulations." The tangible property regulations are effective for the first day of the taxable year that begins on or after January 1, 2014. The regulations require the following tax treatment (1) expenditures that restore the property to its operating state are a deductible repair; (2) expenditures that provide a more permanent increment in longevity, utility, or worth of the property are capitalized. The impact of this change in method at December 31, 2015 and 2014 was an increase of $0.5 million and $4.0 million, respectively, to deferred income taxes and investment tax credits, with a corresponding decrease in accrued taxes on the Company's balance sheets.

(in thousands of dollars, except where noted otherwise)

13. Income Taxes (continued)

For taxable years beginning on or after January 1, 2014, qualified New York manufacturers are eligible for a zero percent corporate tax rate on business income base. SWNY has qualified as a New York manufacturer, and as such is entitled to the manufacturing exemption delineated in the New York tax reform. The impact at December 31, 2014 to the Company for this qualification is a reduction of $6.9 million of deferred income taxes and investment tax credits offset by a decrease of $1.3 million to regulatory assets and the establishment of a regulatory liability of $5.6 million as required under ASC 980.

14. Commitments and Contingencies

Operating Leases
The total rental expense for the Company's non-cancellable operating leases was approximately $0.2 million and $0.4 million for the year ended December 31, 2015 and 2014, respectively. The minimum future lease payments due each year subsequent to December 31, 2015 are as follows:

2016	$	**306**
2017		**274**
2018		**216**
2019		**59**
2020		**6**
Thereafter		**-**
Total minimum future lease payments	**$**	**861**

Bonding
At December 31, 2015, the Company had $0.2 million of performance bonds outstanding. SWR, SWI and SUEZ North America Inc., the parent of SWI, serve as guarantors for bonds issued on behalf of the Company.

Legal Matters
The Company is involved in various litigation and other disputes routine to the nature of its business. In the opinion of management, none of these matters will have a material adverse impact on the Company's financial position or results of operations.

Purchase Commitments
The Company has various purchase commitments for materials, supplies and other services incidental to the ordinary conduct of business. The Company is liable for these payments regardless of the level of services required from third parties. In addition, the Company has an agreement to purchase approximately $2.6 million of electricity from several suppliers through December 31, 2017.

15. Subsequent Events

The Company has evaluated subsequent events through March 31, 2016, the date of issuance of these financial statements and concluded that except for the approval of the Haverstraw Project costs for future recovery as mentioned in Note 4, there were no events or transactions that require adjustment to, or disclosure in the financial statements as of and for the year ended December 31, 2015.

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