**TENNESSEE WATER SERVICE, INC.
DOCKET NO. 22-00114
FIRST DISCOVERY REQUEST OF THE
CONSUMER PROTECTION AND ADVOCATE DIVISION**

**IN THE TENNESSEE PUBLIC UTILITY COMMISSION
AT NASHVILLE, TENNESSEE**

Electronically Filed in TPUC Docket Room on February 13, 2023 at 3:07 p.m.

IN RE:	)	
	)	
PETITION OF TENNESSEE WATER SERVICE, INC., ALONG WITH CORIX INFRASTRUCTURE (US) INC., FOR APPROVAL OF AUTHORITY TO TRANSFER CONTROL	)	**DOCKET NO. 22-00114**

RESPONSES OF TENNESSEE WATER SERVICE, INC. ("TWS") AND CORIX INFRASTRUCTURE (US) INC. ("CORIX US") TO CONSUMER ADVOCATE'S FIRST SET OF DISCOVERY REQUESTS

Tennessee Water Service, Inc. ("TWS") and Corix Infrastructure (US), Inc. ("CORIX US") (collectively "Petitioners"), by and through counsel, hereby submits its Responses to the First Discovery Requests propounded by the Consumer Advocate Unit in the Financial Division of the Attorney General's Office ("Consumer Advocate").

GENERAL OBJECTIONS

1. Petitioners object to all requests that seek information protected by the attorney-client privilege, the work-product doctrine and/or any other applicable privilege or restriction on disclosure.
2. Petitioners object to the definitions and instructions accompanying the requests to the extent the definitions and instructions contradict, are inconsistent with, or impose any obligations beyond those required by applicable provisions of the Tennessee Rules of

Civil Procedure or the rules, regulations, or orders of the Tennessee Public Utility Commission ("TPUC" or "Commission").

3. The specific responses set forth below are based on information now available to Petitioners, and Petitioners reserve the right at any time to revise, correct, add to or clarify the objections or responses and supplement the information produced.
4. Petitioners object to each request to the extent that it is unreasonably cumulative or duplicative, speculative, unduly burdensome, irrelevant or seeks information obtainable from some other source that is more convenient, less burdensome or less expensive.
5. Petitioners object to each request to the extent it seeks information outside Petitioners' custody or control.
6. Petitioners' decision, now or in the future, to provide information or documents notwithstanding the objectionable nature of any of the definitions or instructions, or the requests themselves, should not be construed as: (a) a stipulation that the material is relevant or admissible, (b) a waiver of Petitioners' General Objections or the objections asserted in response to specific discovery requests, or (c) an agreement that requests for similar information will be treated in a similar manner.
7. Petitioners object to those requests that seek the identification of "any" or "all" documents or witnesses (or similar language) related to a particular subject matter on the grounds that they are overbroad and unduly burdensome and exceed the scope of permissible discovery.

8. Petitioners object to those requests that constitute a "fishing expedition," seeking information that is not relevant or reasonably calculated to lead to the discovery of admissible evidence and is not limited to this matter.
9. Petitioners do not waive any previously submitted objections to the Consumer Advocate's discovery requests.

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RESPONSIBLE WITNESS: Steve Lubertozzi

1-1. Explanation. Refer to the Company's 2021 Financial Statement report submitted to the Tennessee Public Utility Commission ("TPUC" or the "Commission").[1] Specifically refer to the Comparative Balance Sheet. Explain the underlying nature of the transactions giving rise to the $1,615,314 credit recorded as "Other Assets *AIR* Associated Companies" reflected as a 1/1/22 balance.

RESPONSE: The credit recorded to "Other Assets *AIR* Associated Companies" is irrelevant to the Proposed Transaction. Notwithstanding this position, the Applicants have the following response:

TWS understands the reference to "1/1/22" above to mean "12/31/20".

The credit recorded as "Other Assets *AIR* Associated Companies" is irrelevant to the Proposed Transaction. This balance reflects the net of cash receipts and disbursements made by Water Service Corporation ("WSC") on behalf of TWS over time.

[1] TPUC Response to the Consumer Advocate's Records Request, TPUC Docket No. 22-00114 (Jan. 11, 2023).

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RESPONSIBLE WITNESS: Steve Lubertozzi

1-2. Explanation. Refer to the Company's 2021 Financial Statement report and the Comparative Balance Sheet.[2] Explain the underlying nature of the transactions giving rise to the elimination of the $1,615,314 1/1/22 credit recorded as "Other Assets *AIR* Associated Companies" during 2022 such that the balance is zero as of 12/31/22. Include in this response a discussion of where the offsetting credits to the debit entries were recorded in 2022.

RESPONSE: The credit recorded to "Other Assets *AIR* Associated Companies" is irrelevant to the Proposed Transaction. Notwithstanding this position, the Applicants have the following response:

TWS understands the reference to “1/1/22” above to mean “12/31/20”, “2022” to mean “2021”, and “12/31/22” to mean “12/31/21”.

This balance was reclassified to Account 233, Other Liabilities AP with Assoc. Companies, in 2021.

[2] *Id.*

RESPONSIBLE WITNESS: Steve Lubertozzi

1-3. Explanation. Refer to the Company's 2021 Financial Statement report and the Comparative Balance Sheet.[3] Provide a comprehensive explanation of the underlying transactions recorded to Account 233, "Other Liabilities AP with Associated Companies" in 2022. This liability account balance increased by approximately $1.55 million. Include in the response a discussion of where the offsetting debits were recorded. If the increase in the liability balance is in part a reclassification of the large debit recorded within the "Other Assets *AIR* Associated Companies," justify such an entry.

RESPONSE: The amount recorded to "Other Liabilities AP with Associated Companies" is irrelevant to the Proposed Transaction. Notwithstanding this position, the Applicants have the following response:

TWS understands the reference to “2022” above to mean “2021”.

The amount recorded to "Other Liabilities AP with Associated Companies" is irrelevant to the Proposed Transaction. The change is primarily due to the $1,615,314 reclassification as discussed in DR # 1-1 and 1-2. The remaining change in this account represents the net cash disbursements and receipts made by WSC on TWS’s behalf during the period.

[3] *Id.*

RESPONSIBLE WITNESS: Steve Lubertozzi

1-4. Identification. Refer to Mr. Lubertozzi's Testimony, footnote 1.[4] With respect to Corix Infrastructure's (CII) related electric, natural gas, propane distribution, geothermal energy, and municipal service operations, identify the names and locations served related to CII's electric, natural gas, and propane distribution operations. With respect to the electric and natural gas operations, identify the number of customers served at retail, if any.

RESPONSE: Please see below summary table.

System	Location	Utility	Retail Connections
Panorama	British Columbia	Propane Distribution	252
Corix Utilities (Texas)	Texas	Gas	359
Gillem Military Enclave	Georgia	Gas	1
Rise	British Columbia	Geothermal	55
Sun Rivers	British Columbia	Electric	1000
Sun Rivers	British Columbia	Gas	698
Sun Rivers	British Columbia	Geothermal	962
Sonoma Pines	British Columbia	Electric	504
Sonoma Pines	British Columbia	Gas	496

[4] Direct Testimony of Steven M. Lubertozzi at 2, n.1, TPUC Docket No. 22-00114 (Nov. 9, 2022).

RESPONSIBLE WITNESS: Steve Lubertozzi

1-5. Identification. Refer to Mr. Lubertozzi's Testimony, footnote 1.[5] With respect to Corix Infrastructure's (CII) related electric, natural gas, propane distribution, geothermal energy, and municipal service operations, does any affiliate of TWS provide common management or administrative services for both TWS and any electric, natural gas or propane distribution division or operation? If so, identify the common business functions provided for TWS and its non-water affiliates.

RESPONSE: TWS and the electric, gas, and propane distribution systems noted in response to DR# 1-4 are included in the Corix Infrastructure Inc. Cost Allocation methodology. Corporate support services provided to affiliates support enterprise-wide standards and include: IT, cybersecurity, safety, human resources, financial and strategic management, legal and regulatory compliance oversight, corporate governance and administrative oversight, and asset management and maintenance.

[5] *Id.*

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RESPONSIBLE WITNESS: Steve Lubertozzi, Brian Bahr

1-6. Source & Support. Refer to the Company's *Petition*, p. 12, ¶ 22.[6] Provide the necessary financial information to demonstrate that the proposed transaction will result in increased financial strength compared with the status quo. This response should include the current Corix balance sheet contrasted with the expected post-merger balance sheet of the entity providing the underlying financing for TWS. In this response, the Consumer Advocate seeks to obtain financial information supporting the contention in the application that the new entity will have increased financial strength and stability contrasted with that of Corix in its current state.

RESPONSE: Please see attached notional financial statements for the Corix Water Business (as defined in the Transaction Agreement) and SouthWest Water Company as of December 31, 2021. Attachment: CA 1-6 - Combined Company Financial.

[6] *Petition of Tennessee Water Service, Inc. and Corix Infrastructure (US) Inc., for Approval of Authority to Transfer Control Pursuant to Tenn. Code Ann.§ 65-4-113*, at 12; ¶ 22, TPUC Docket No. 22-00114 (Nov. 9, 2022).

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RESPONSIBLE WITNESS: Steve Lubertozzi, Brian Bahr

1-7. Identification. Refer to Mr. Lubertozzi Testimony, p. 12, lines 207 - 209.[7] Identify all regulatory agencies having jurisdiction over the proposed transaction.

RESPONSE: The following regulatory agencies have jurisdiction over – that is, have the power to approve - the proposed transaction:

COUNTRY	REGULATOR	STATE/PROVINCE
Canada	Water Comptroller	British Columbia
USA	PUC	California
USA	ICC	Illinois
USA	BPU	New Jersey
USA	PUC	Pennsylvania
USA	PUC	Tennessee
USA	PUC	Texas
Canada	AUC	Alberta
Canada	BCUC	British Columbia
USA	RCA	Alaska
USA	PSC	Kentucky
USA	PSC	Louisiana
USA	PUC	Nevada
USA	NCUC	North Carolina
USA	SCC	Virginia
USA	PUC	Ohio
Canada	Innovation, Science and Economic Development Canada	Federal
USA	Federal Trade Commission/Department of Justice	Federal
Canada	Competition Bureau	Federal
USA	Federal Communications Commission	Federal

[7] Direct Testimony of Steven M. Lubertozzi at 12:207-209, TPUC Docket No. 22-00114 (Nov. 9, 2022).

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RESPONSIBLE WITNESS: Steve Lubertozzi

1-8. Clarification and Identification. Refer to Mr. Lubertozzi's Testimony, pp. 17-18, lines 307-341.[8] Do the Companies object to the adoption of mechanisms designed to measure compliance with these commitments in a future proceeding? If not, identify the means, by which, compliance with each of these commitments may be confirmed in a future regulatory proceeding.

RESPONSE: TWS does not object to the adoption of mechanisms designed to measure compliance with these commitments in a future proceeding.

[8] *Id.* at 17-18:207-341.

RESPONSIBLE WITNESS: Steve Lubertozzi, Brian Bahr

1-9. Explanation. Refer to the *Petition*, p. 17, ¶¶ 24-25, which discusses the integration efforts.[9] Will the time frame in which integration costs are incurred differ from when integration costs and benefits will be achieved? If not, how will the new entity ensure the timing of such costs and benefits will be synchronized?

RESPONSE: It is anticipated that integration costs to achieve benefits will be incurred before the benefits are realized. The combined company expects to track the costs to achieve future benefits, to allow comparison to the impact of such benefits, as applicable, in future rate proceedings.

[9] *Petition* at 17, ¶¶ 24-25.

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RESPONSIBLE WITNESS: Steve Lubertozzi, Brian Bahr

1-10. Explanation. Refer to the *Petition*, p. 17, ¶¶ 24-25.[10] If the answer to DR#l-9 above is confirmed, will the new entity, for ratemaking purposes, match any such costs and benefits? If so, how does the new entity propose to achieve such matching for ratemaking purposes considering the statement in paragraph 25 that such costs and benefits will be netted in future rate proceedings?

RESPONSE: Please see response to DR# 1-9.

[10] *Id.*

RESPONSIBLE WITNESS: Steve Lubertozzi

1-11. Explanation. Refer to the *Petition,* p. 17, ¶¶ 24-25.[11] Given the statement that integration costs and benefits will be netted for ratemaking purposes, is it implied that the new entity will not seek an increase in rates until such time as net integration benefits are achieved?

RESPONSE: No.

[11] *Id.*

RESPONSIBLE WITNESS: Steve Lubertozzi

1-12. Reference & Support. Refer to the *Petition* p. 17, ¶ 26.[12] Provide a copy of the referenced affiliate interest agreement.

RESPONSE: Please see attached, CA 1-12 – TWS Affiliate Agreement.

[12] *Id.* at 17, ¶ 26.

RESPONSIBLE WITNESS: Steve Lubertozzi

1-13. Explanation. Refer to the *Petition* p. 17, ¶ 26.[13] Explain whether the allocated corporate shared service costs assigned to TWS will be limited to those of legacy Corix management costs or will it be the sum of legacy Corix costs plus those of Southwest Water Company ("SWWC"), spread across the new entity's customer base, until such time as the integration tasks are complete.

RESPONSE: No, allocated corporate shared service costs will not be limited to "legacy Corix management costs" until such time as the integration tasks are complete. As stated in the Petition, paragraph 26, "Until the Company enters into a new affiliate interest agreement after closing, the Company will continue to use its existing affiliate interest agreement to allocate corporate shared services costs."

[13] *Id.*

RESPONSIBLE WITNESS: Steve Lubertozzi, Brian Bahr

1-14. Explanation & Support. Refer to the *Petition* pp. 18-19, ¶ 27.[14] Provide an estimate of transaction costs by type of expenditure and explain how such costs will be accounted for to ensure they are not included in future ratemaking requests.

RESPONSE: Transaction costs are being recorded at a level above Corix Regulated Utilities (US) Inc., TWS's direct parent, and will not be allocated to TWS or its customers.

Please see attached summary of estimated transaction costs, Confidential Information - CA 1-14 - Transaction Costs.

[14] *Petition,* Exhibit A, Transaction Agreement at 19-20, § 4.5.

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RESPONSIBLE WITNESS: Steve Lubertozzi

1-15. Source & Support. Refer to the *Petition*, Exhibit A, Transaction Agreement, pp. 19-20, § 4.5. Provide a copy of the Corix Regulated Utilities (US) audited financial statements, including consolidated statements of operations, changes in stockholder's equity and cash flows, with related notes covering the fiscal year ended December 31, 2021.

RESPONSE: Please see attached, Confidential Information - CA 1-15 - CRU US 2021 Financial Statements

RESPONSIBLE WITNESS: Steve Lubertozzi

1-16. Reference & Support. Refer to the *Petition*, Exhibit A, Transaction Agreement, pp. 20-21, § 4.6.[15] Provide a copy of the referenced Corix Disclosure Letter.

RESPONSE: Please see a copy of the Corix Disclosure Letter to the Transaction Agreement (the Corix Disclosure Letter), marked CONFIDENTIAL in accordance with the Agreed Protective Order filed in this matter. Attachment: Confidential Information - CA 1-16 - Corix Disclosure Letter

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[15] *Id.* at 20-21, *§ 4.6.*

RESPONSIBLE WITNESS: Brian Bahr

1-17. Reference & Support. Refer to the *Petition*, Exhibit A, Transaction Agreement, pp. 41-59, Article VI.[16] Provide a copy of the referenced SWWC Disclosure Letter.

RESPONSE: Please see a copy of the SWWC Disclosure Letter to the Transaction Agreement (the SWWC Disclosure Letter), marked CONFIDENTIAL in accordance with the Agreed Protective Order filed in this matter. Attachment: Confidential Information - CA 1-17 - SWWC Disclosure Letter

[16] *Id.* at 41-59, Article VI.

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RESPONSIBLE WITNESS: Brian Bahr

1-18. Reference & Support. Refer to the *Petition*, Exhibit A, Transaction Agreement, pp. 43-44, *§* 6.5.[17] Provide a copy of the SWWC audited financial statements, including consolidated statements of operations, changes in stockholder's equity and cash flows with related notes covering the fiscal year ended December 31, 2021.

RESPONSE: Please see attached, CA 1-18 - SWWC 2021 Audited Financial Statements.

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[17] *Id.* at 43-44, § 6.5.

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RESPONSIBLE WITNESS: Steve Lubertozzi, Brian Bahr

1-19. Explanation and Identification. Will employment-related payment or benefit costs be triggered as a result of this transaction, including retention bonuses, severance pay and other related costs? If not, identify the type and amount of such costs incurred and how the new entity intends to account for such costs.

RESPONSE: Yes, employment-related costs have been and will be incurred in connection with the Proposed Transaction. Attachments (1) Confidential Information - Corix Parties Only - 1-19 - Paid Incentive and Retention Payments and (2) Confidential Information – Southwest Parties Only 1-19 Paid Incentive and Retention Payments reflect incentive and retention payments directly related to the Proposed Transaction that have been incurred by the Corix Parties and the SouthWest Parties. Incentive and retention costs directly related to the Proposed Transaction have been tracked by the Corix Parties and the SouthWest Parties and are recorded in a manner that will allow the Corix Parties and the SouthWest Parties to demonstrate that such costs have been excluded from the revenue requirement of TWS. Severance costs have not been incurred as of the date of this response.

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RESPONSIBLE WITNESS: Steve Lubertozzi

1-20. Identification. Refer to the *Petition*, Exhibit A, Transaction Agreement.[18] Regarding the Excluded Assets referenced in the Transaction Agreement, identify the nature and scope of operations of each excluded asset such that a determination may be made regarding whether the asset is material to Corix's current operations.

RESPONSE: The Company objects to Discovery Request 1-20 on the basis that it is overbroad and vague as the Consumer Advocate has failed to define the extent or scope of information required about each Excluded Asset necessary for it to determine whether an Excluded Asset is "material." Notwithstanding said objection, the Company provides the table of district energy systems and joint venture business that comprise the Excluded Assets marked CONFIDENTIAL in accordance with the Agreed Protective Order filed in this matter. Attachment: CONFIDENTIAL - CA 1-20 – Excluded Assets. The Company reserves the right to supplement this response upon further communication.

[18] *Petition,* Exhibit A.

RESPECTFULLY SUBMITTED,

Ryan Freeman
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CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served via U.S. Mail or electronic mail upon:

Victoria B. Glover
Karen H. Stachowski
Office of the Tennessee Attorney General
Consumer Advocate Division
P.O. Box 20207
Nashville, Tennessee 37202-0207
Phone: (615) 360-4219
Fax: (615) 741-8151
Email: Victoria.Glover@ag.tn.gov
Email: Karen.Stachowski@ag.tn.gov

This the 13th day of February, 2023.

Ryan Freeman

Ryan Freeman

Tennessee Water Service Affiliate Agreement

AGREEMENT

Agreement dated December 19, 2007 between Water Service Corp., a Delaware corporation (hereinafter called the **"Service Company"**) and Tennessee Water Service, Inc. (hereinafter called the **"Operating Company"**):

WHEREAS, both the Service Company and the Operating Company are subsidiaries of or affiliated with Utilities, Inc., an Illinois corporation (hereinafter called the **"Parent"**); and

WHEREAS, the Service Company maintains an organization which includes among its officers and employees, persons who are familiar with the development, business and property of the Operating Company and are experienced in the conduct, management, financing, construction, accounting and operation of water and sewer properties and are qualified to be of great aid and assistance to the Operating Company through the services to be performed under this Agreement; and

WHEREAS, the Service Company has or proposes to enter into agreements similar to this Agreement with certain affiliated water and/or sewer companies (hereinafter referred to collectively as the **"Operating Companies"**); and

WHEREAS, the services to be rendered under this Agreement are to be rendered at cost and without profit to the Service Company;

NOW, THEREFORE, in consideration of the premises and the mutual agreements herein contained, the parties hereto agree as follows:

The Service Company will furnish to the Operating Company, upon the terms and conditions hereinafter set forth, the following services:

A. EXECUTIVE: The principal executive officers of the Service Company, such as the Chairman of the Board, President and Vice Presidents, and Treasurer will assist and advise the Operating Company in respect to corporate, financial, operating, engineering, organization, regulatory, and other problems. They will keep themselves informed in regard to the operation, maintenance and financial condition of, and other matters relating to, the Operating Company through contacts with the officers, directors and other representatives of the Operating Company. Such officers of the Service Company will visit the property of the Operating Company when necessary to the proper furnishing of the services provided for in this Agreement. They will also supervise the personnel of the Service Company to the end that services under this Agreement shall be performed efficiently, economically and satisfactorily to the Operating Company.

B. ENGINEERING: The Service Company will supply engineering services as required in all areas of design, construction, operation and management of the Operating Company.

C. OPERATING: The Service Company will furnish competent personnel to perform and/or control all normal operating functions, including pumping, treatment, and distribution as well as maintenance of all equipment and facilities. These responsibilities will include testing and record keeping to insure compliance with all state and local regulatory agency requirements.

D. ACCOUNTING: The Service Company will provide total accounting service, including bookkeeping, payroll, tax determination, financial statement preparation, budgets, credit, P.S.C. annual reports, etc. Periodic analyses will be made for purposes of planning and measurement of efficiency.

E. LEGAL: The Service Company will employ general counsel as necessary to advise and assist it in the performance of the services herein provided for and to aid the operating company in all matters where such assistance may be desired.

F. BILLING AND CUSTOMER RELATIONS: The Service Company will handle all billing and collections. It will serve as the link between the customer and the Operating Company in all areas such as new accounts, deposits, meter reading, inquiries, and complaints.

G. CONSTRUCTION: The Service Company will perform directly or supervise all construction, including customer connections, meter installations, main extensions, plant expansions, or capital additions of any nature as required by the Operating Company.

H. ALL OTHER SERVICES AS PROVIDED FOR IN APPENDIX A: In addition to items (A) through (G), the Service Company will employ or provide personnel to perform the attached services, or in the instance of assets. Liabilities, and associated non-cash items, has incurred costs associated with providing service to the corporate headquarters, regional areas, or to all operating companies as a whole. The allocated costs from these services will be for costs attributable to all operating companies, costs attributable to the Service Company, or for costs that cannot, without excessive effort and expense, be directly identified and related to services rendered to a particular operating company.

In consideration for the services to be rendered by the Service Company as hereinabove provided, the Operating Company agrees to pay to the Service Company the cost of said services. Said cost shall not include a markup for profit. In addition, the Operating Company agrees to pay to the Service Company its share of the cost of the investment in the Service Company rate base, including depreciation, amortization, interest on debt and a return on the equity invested.

All costs of the Service Company, including salaries and other expenses, incurred in connection with services rendered by the Service Company for the Operating Companies which can, without excessive effort or expense, be identified and related to services rendered to a particular Operating Company, shall be charged directly to such company. Examples of such costs to be directly allocated include salary and other expenses incurred for specific projects such as rate cases, construction projects, legal proceedings, etc. Similarly, all such costs which may be identified and related to services rendered to a particular group of the Operating Companies shall be charged directly to such group of the Operating Companies.

All such costs which, because of their nature, cannot, without excessive effort or expense, be identified and related to services rendered to a particular Operating Company, shall be allocated among all the Operating Companies, in the manner hereinafter set forth.

First, the allocable costs shall be distributed on a monthly basis, unless the Parent should elect to make a supplementary analysis for a special purpose.

Secondly, these costs will be prorated on the basis of the proportion of active Equivalent Residential Customers ("ERCs") served by the Operating Company to the total number of active ERCs served by the Parent and its affiliates (including, without limitation, the Operating Company), determined as of the end of each month. For purposes of this Agreement, the number of ERCs attributable to each water and sewer connection maintained by the Parent and its affiliates (including, without limitation, the Operating Company) will be determined by applying the formulae set forth in Appendix B.

The Service Company will also at any time, upon request of the Operating Company, furnish to it any and all information required by the Operating Company or by any governmental authorities having jurisdiction over the Operating Company with respect to the services rendered by the Service Company hereunder, the cost thereof and the allocation of such cost among the Operating Companies. In the case of services in connection with construction, the Service Company will, to the extent practicable, furnish to the Operating Company such information as shall be necessary to permit the allocation of charges for such services to particular work orders.

This Agreement shall be in full force and effect from the date as hereinabove mentioned and shall continue in full force and effect until termination by either of the parties hereto upon ninety days notice in writing.

IN WITNESS WHEREOF, the Service Company and the Operating Company have caused these presence to be signed in their respective corporate names by their respective Presidents or Vice Presidents, and attest by their respective Secretaries or Assistant Secretaries, all as of the day and year first above written.

Water Service Corporation

BY______________________________

Steven Lubertozzi
Vice President and Chief Financial Officer

Attest

____

Tennessee Water Service, Inc.

BY______________________________

Steven Lubertozzi
Vice President and Chief Financial Officer

Attest

____

AFFILIATE AGREEMENT
APPENDIX A

The following list includes expense accounts at the Water Service Corporation level which have dollars booked to them and allocated to all Utilities, Inc. operating companies at a business unit level:

JDE Object Number	Account Description
5505	Agency Expense
5525	Bill Stock
5530	Billing Computer Supplies
5535	Billing Envelopes
5540	Billing Postage
5545	Customer Service Printing
5625	401K/ESOP Contributions
5630	Dental Premiums
5635	Dental Ins Reimbursements
5640	Emp Pensions & Benefits
5645	Employee Ins Deductions
5650	Health Costs & Other
5655	Health Ins Reimbursements
5660	Other Emp Pensions/Benefits
5665	Pension Contributions
5670	Term Life Ins
5675	Term Life Ins - Opt
5680	Depend Life Ins - Opt
5685	Supplemental Life Ins
5690	Tuition
5700	Insurance - Vehicle
5705	Insurance - Gen Liab
5710	Insurance - Workers Comp
5715	Insurance - Other
5735	Computer Maintenance
5740	Computer Supplies
5745	Computer Amort & Prog Cost
5750	Internet Supplier
5755	Microfilming
5760	Website Development
5785	Advertising/Marketing
5790	Bank Service Charges
5795	Contributions
5800	Letter of Credit Fee
5805	License Fees
5810	Memberships
5815	Penalties/Fines
5820	Training Expense
5825	Other Misc Expense
5855	Answering Service
5855	Answering Service
5860	Cleaning Supplies
5865	Copy Machine
5870	Holiday Events/Picnics
5875	Kitchen Supplies
5880	Office Supply Stores
5885	Printing/Blueprints
5890	Publ Subscriptions/Tapes
5895	Shipping Charges
5900	Other Office Expenses
5930	Office Electric
5935	Office Gas
5940	Office Water
5945	Office Telecom
5950	Office Garbage Removal
5955	Office Landscape / Mow / Plow
5960	Office Alarm Sys Phone Exp
5965	Office Maintenance
5970	Office Cleaning Service
5975	Office Machine/Heat&Cool
5980	Other Office Utilities.
5985	Telemetering Phone Expense
6005	Accounting Studies
6010	Audit Fees
6015	Employ Finder Fees
6020	Engineering Fees
6025	Legal Fees
6030	Management Fees
6035	Payroll Services
6040	Tax Return Review
6045	Temp Employ - Cleri
6050	Other Outside Serv
6075	Water Resource Conserve Exp
6090	Rent
6105	Salaries - System Project
6110	Salaries - Acctg/Finance
6115	Salaries - Admin
6120	Salaries - Officers/Stkhldr
6125	Salaries - HR
6130	Salaries - MIS

The following list includes asset and liability accounts at the Water Service Corporation level which have dollars booked to them and allocated to all Utilities, Inc. operating companies:

JDE Object Number	Subsidiary Number	Account Description
1030		Land & Land Rights Pump
1035		Land & Land Rights Wtr Trt
1040		Land & Land Rights Trans Dist
1045		Land & Land Rights Gen Plt
1175		Office Struct & Imprv
1180		Office Furn & Eqpt
1190		Tool Shop & Misc Eqpt
1205		Communication Eqpt
1260		Land & Land Rights Intang Plt
1265		Land & Land Rights Coll Plt
1270		Land & Land Rights Trtmnt Plt
1275		Land & Land Rights Reclaim Wtp
1280		Land & Land Rights Rcl Dst Plt
1285		Land & Land Rights Gen Plt
1455		Office Struct & Imprv
1460		Office Furn & Eqpt
1470		Tool Shop & Misc Eqpt
1485		Communication Eqpt
1575		Desktop Computer Wtr
1580		Mainframe Computer Wtr
1585		Mini Computers Wtr
1590		Comp Sys Cost Wtr
1595		Micro Sys Cost Wtr
1605		Desktop Computer Swr
1610		Mainframe Computer Swr
1615		Mini Computers Swr
1620		Comp Sys Cost Swr
1625		Micro Sys Cost Swr
1741		Other Plant In Process History
1745	00301	Wip-Cap Time Office Renovation
1745	00302	Wip-Cap Time Electrical
1745	00303	Wip-Cap Time Lab Expansion
1745	00304	Wip-Cap Time Computer Equpmnt
1745	00305	Wip-Cap Time Computer Software
1745	00306	Wip-Cap Time Radio Equipment
1746	00301	Wip - Interest During Constr
1746	00302	Wip - Interest During Constr
1746	00303	Wip - Interest During Constr
1746	00304	Wip - Interest During Constr
1746	00305	Wip - Interest During Constr
1746	00306	Wip - Interest During Constr
1747	00303	Wip - Labor/Installation
1747	00304	Wip - Labor/Installation
1747	00305	Wip - Labor/Installation
1748	00302	Wip - Equipment
1748	00303	Wip - Equipment
1748	00304	Wip - Equipment
1748	00306	Wip - Equipment
1749	00301	Wip - Material
1749	00302	Wip - Material
1749	00303	Wip - Material
1749	00304	Wip - Material
1749	00305	Wip - Material
1749	00306	Wip - Material
1750	00301	Wip - Electrical
1751	00301	Wip - Site Work
1752	00301	Wip - Contractor/Labor
1752	00302	Wip - Contractor/Labor
1753	00301	Wip - Architect/Designer
1753	00302	Wip - Architect/Designer
1753	00303	Wip - Architect/Designer
1754	00303	Wip - Building Addition
1755	00301	Wip - Furniture
1755	00302	Wip - Furniture
1756	00301	Wip - Heating/Air Condition
1756	00302	Wip - Heating/Air Condition
1757	00301	Wip - Interior Finish
1757	00302	Wip - Interior Finish
1758	00305	Wip - Modification/Convert
1759	00304	Wip - Remodeling
1769	00301	Wip - Transfer To Fixed Assets
1769	00302	Wip - Transfer To Fixed Assets
1769	00303	Wip - Transfer To Fixed Assets
1769	00304	Wip - Transfer To Fixed Assets
1769	00305	Wip - Transfer To Fixed Assets
1769	00306	Wip - Transfer To Fixed Assets
1771		Deferred Plant In Process History
1775	00401	Wip-Cap Time Water Tower Paint
1775	00402	Wip-Cap Time W/S Plt Paint
1775	00403	Wip-Cap Time Water Tank Paint
1775	00404	Wip-Cap Time Clean Sewer Line

AFFILIATE AGREEMENT
APPENDIX A

The following list includes expense accounts at the Water Service Corporation level which have dollars booked to them and allocated to all Utilities, Inc. operating companies at a business unit level:

JDE Object Number	Account Description
6135	Salaries - Leadership Ops
6140	Salaries - Regulatory
6145	Salaries - Customer Service
6185	Travel Lodging
6190	Travel Airfare
6195	Travel Transportation
6200	Travel Meals
6205	Travel Entertainment
6207	Travel Other
6355	Deferred Maint Expense
6360	Communication Expense
6365	Equipment Rentals
6385	Uniforms
6390	Weather/Hurricane Costs
6580	Deprec-Office Structure
6585	Deprec-Office Furn/Eqpt
6610	Deprec-Communciation Eqpt
6615	Deprec-Misc Equipment
6820	Deprec-Office Structure
6825	Deprec-Office Furn/Eqpt
6850	Deprec-Communciation Eqpt
6855	Deprec-Misc Equipment
6920	Deprec-Computer
7510	FICA Expense
7515	Federal Unemployment Tax
7520	State Unemployment Tax
7535	Franchise Tax
7540	Gross Receipts Tax
7545	Personal Property/ICT Tax
7550	Property/Other General Tax
7555	Real Estate Tax
7560	Sales/Use Tax Expense
7565	Special Assessments
7665	Extraordinary Gain/Loss
7670	Extraordinary Deductions
7680	Rental Income
7685	Interest Income
7690	Sale of Equipment

The following list includes asset and liability accounts at the Water Service Corporation level which have dollars booked to them and allocated to all Utilities, Inc. operating companies.

JDE Object Number	Subsidiary Number	Account Description
1030		Land & Land Rights Pump
1775	00405	Wip-Cap Time Chng Filter Media
1775	00406	Wip-Cap Time Tv Sewer Main
1775	00407	Wip-Cap Time Sludge & Hauling
1775	00408	Wip-Cap Time W/S Plt Landscape
1776	00401	Wip - Interest During Constr
1776	00402	Wip - Interest During Constr
1776	00403	Wip - Interest During Constr
1776	00404	Wip - Interest During Constr
1776	00405	Wip - Interest During Constr
1776	00406	Wip - Interest During Constr
1776	00407	Wip - Interest During Constr
1776	00408	Wip - Interest During Constr
1777	00408	Wip - Engineering
1778	00401	Wip - Labor/Installation
1779	00401	Wip - Equipment
1779	00404	Wip - Equipment
1779	00406	Wip - Equipment
1780	00401	Wip - Material
1780	00402	Wip - Material
1780	00403	Wip - Material
1780	00404	Wip - Material
1780	00405	Wip - Material
1780	00406	Wip - Material
1780	00407	Wip - Material
1780	00408	Wip - Material
1781	00408	Wip - Site Work
1782	00401	Wip - Contractor/Labor
1782	00402	Wip - Contractor/Labor
1782	00403	Wip - Contractor/Labor
1782	00405	Wip - Contractor/Labor
1782	00406	Wip - Contractor/Labor
1783	00404	Wip - Grouting/Sealing
1784	00404	Wip - Jet Cleaning
1785	00407	Wip - Pump & Haul Sludge
1786	00404	Wip - Rental/Machine
1786	00405	Wip - Rental/Machine
1787	00402	Wip - Repair
1787	00403	Wip - Repair
1799	00401	Wip - Transfer To Fixed Assets
1799	00402	Wip - Transfer To Fixed Assets
1799	00403	Wip - Transfer To Fixed Assets
1799	00404	Wip - Transfer To Fixed Assets
1799	00405	Wip - Transfer To Fixed Assets
1799	00406	Wip - Transfer To Fixed Assets
1799	00407	Wip - Transfer To Fixed Assets
1799	00408	Wip - Transfer To Fixed Assets
1970		Acc Depr-Office Structure
1975		Acc Depr-Office Furn/Eqpt
1985		Acc Depr-Tool Shop & Misc Eqpt
2000		Acc Depr-Communication Eqpt
2215		Acc Depr-Office Structure
2220		Acc Depr-Office Furn/Eqpt
2230		Acc Depr-Tool Shop & Misc Eqpt
2245		Acc Depr-Communication Eqpt
2315		Acc Depr-Desktop Computer Wtr
2320		Acc Depr-Mainframe Comp Wtr
2325		Acc Depr-Mini Comp Wtr
2330		Comp Sys Amortization Wtr
2335		Micro Sys Amortization Wtr
2345		Acc Depr-Desktop Computer Swr
2350		Acc Depr-Mainframe Comp Swr
2355		Acc Depr-Mini Comp Swr
2360		Comp Sys Amortization Swr
2365		Micro Sys Amortization Swr
2950		Def Chgs-Landscaping
2955		Def Chgs-Customer Complaints
2960		Def Chgs-Tank Maint&Rep Wtr
2965		Def Chgs-Relocation Expenses
2970		Def Chgs-Attorney Fee
2975		Def Chgs-Hurricane/Storms Cost
2980		Def Chgs-Emp Fees
2985		Def Chgs-Other
3000		Def Chgs-Other Wtr & Swr
3005		Def Chgs-Voc Testing
3020		Def Chgs-Sludge Hauling
3025		Def Chgs-Pr Wash/Jet Swr Mains
3030		Def Chgs-Tv Sewer Mains
3040		Def Chgs-Tank Maint&Rep Swr
3080		Amort - Landscaping
3090		Amort - Customer Complaints

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APPENDIX A

The following list includes expense accounts at the Water Service Corporation level which have dollars booked to them and allocated to all Utilities, Inc. operating companies at a business unit level.

JDE Object Number	Account Description

The following list includes asset and liability accounts at the Water Service Corporation level which have dollars booked to them and allocated to all Utilities, Inc. operating companies:

JDE Object Number	Subsidiary Number	Account Description
1030		Land & Land Rights Pump
3110		Amort - Tank Maint&Rep Wtr
3120		Amort - Relocation Exp
3125		Amort - Attorney Fee
3130		Amort - Hurricane/Storms
3135		Amort - Employee Fees
3140		Amort - Other
3155		Amort - Other Wtr & Swr
3160		Amort - Voc Testing
3175		Amort - Sludge Hauling
3180		Amort - Pr Wash/Jet Swr Mains
3185		Amort - Tv Sewer Mains
3195		Amort - Tank Maint&Rep Swr
4367		Accum Def Income Tax-Fed
4369		Def Fed Tax - Ciac Pre 1987
4371		Def Fed Tax - Tap Fee Post 2000
4373		Def Fed Tax - Idc
4375		Def Fed Tax - Rate Case
4377		Def Fed Tax - Def Maint
4379		Def Fed Tax - Other Operation
4381		Def Fed Tax - Sold Co
4383		Def Fed Tax - Orgn Exp
4385		Def Fed Tax - Bad Debt
4387		Def Fed Tax - Depreciation
4389		Def Fed Tax - Nol
4391		Def Fed Tax - Cont Prop
4393		Def Fed Tax - Amt
4395		Def Fed Tax - Pre Acrs
4397		Def Fed Tax - Res Cap Fee
4417		Accum Def Income Tax - St
4419		Def St Tax - Ciac Pre 1987
4421		Def St Tax - Tap Fee Post 2000
4423		Def St Tax - Idc
4425		Def St Tax - Rate Case
4427		Def St Tax - Def Maint
4429		Def St Tax - Other Operation
4431		Def St Tax - Sold Co
4433		Def St Tax - Orgn Exp
4435		Def St Tax - Bad Debt
4437		Def St Tax - Depreciation
4439		Def St Tax - Nol
4441		Def St Tax - Cont Prop
4443		Def St Tax - Amt
4445		Def St Tax - Res Cap Fee

AFFILIATE AGREEMENT
APPENDIX B

The formula used to calculate all allocations is as follows:

Expenses:

Active ERC count for business unit/Active ERC count for all UI operating business units

Assets/Liabilities:

Active ERC count for company/Active ERC count for all UI operating companies

SouthWest Water Company
Consolidated Financial Statements
December 31, 2021 and 2020

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Report of Independent Auditors

To the Board of Directors of
SouthWest Water Company

Opinion

We have audited the accompanying consolidated financial statements of SouthWest Water Company (the "Company") and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of operations, changes in stockholder's equity and cash flows for the years then ended, including the related notes (collectively referred to as the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

PricewaterhouseCoopers LLP

Houston, Texas
April 14, 2022

SouthWest Water Company
Consolidated Balance Sheets
December 31, 2021 and 2020

(in thousands)	2021	2020
Assets		
Current assets		
Cash and cash equivalents	$ 69	$ 4,607
Accounts receivable, net	26,597	24,890
Prepaid expenses and other current assets	20,892	17,178
Total current assets	47,558	46,675
Property, plant and equipment, net	768,340	694,361
Other assets		
Goodwill	484,071	470,455
Intangible assets	57,305	59,338
Other assets	55,997	55,285
Total assets	$ 1,413,271	$ 1,326,114
Liabilities and Stockholder's Equity		
Current liabilities		
Accounts payable	$ 21,201	$ 13,837
Current portion of long-term debt	11,298	1,046
Other current liabilities	40,780	40,251
Total current liabilities	73,279	55,134
Other liabilities and deferred credits		
Long-term debt, less current portion and less unamortized discount and debt issuance costs	660,226	587,786
Deferred income taxes	41,202	32,075
Advances for construction and developer deposits	21,037	19,679
Contributions in aid of construction	119,532	117,568
Other liabilities and deferred credits	42,177	39,839
Total liabilities	957,453	852,081
Commitments and Contingencies (Note 10)		
Stockholder's equity		
Common stock [a]	-	-
Additional paid-in capital	440,241	459,736
Retained earnings	2,995	1,145
Noncontrolling interest	12,582	13,152
Total stockholder's equity	455,818	474,033
Total liabilities and stockholder's equity	$ 1,413,271	$ 1,326,114

(a) 10,000 shares authorized, issued and outstanding at December 31, 2021 and 2020. Par value is $.01 per share.

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

SouthWest Water Company
Consolidated Statements of Operations
Years Ended December 31, 2021 and 2020

(in thousands)	**2021**	**2020**
Operating revenue	$ 248,906	$ 211,672
Expenses		
Operating expenses	161,097	142,016
Depreciation and amortization	36,994	30,659
Other operating gain, net	(7,736)	(2,243)
Total operating expenses	190,355	170,432
Operating income	58,551	41,240
Other income (expense)		
Interest expense	(26,606)	(22,429)
Interest income	84	103
Income before income taxes	32,029	18,914
Income tax expense	(8,367)	(3,634)
Net income	23,662	15,280
Net income attributable to noncontrolling interest	(407)	(410)
Net income attributable to SouthWest Water Company	$ 23,255	$ 14,870

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

SouthWest Water Company
Consolidated Statements of Changes in Stockholder's Equity
Years Ended December 31, 2021 and 2020

(amounts in thousands)	Common Stock # of Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Noncontrolling Interest ("NCI")	Total
Balances at December 31, 2019	10	$ -	$ 257,500	$ 3,016	$ 13,623	$ 274,139
Net income	-	-	-	14,870	410	15,280
Contribution from Parent	-	-	216,495	-	-	216,495
Dividend to Parent	-	-	(14,259)	(16,741)	-	(31,000)
Dividend to noncontrolling interest	-	-	-	-	(881)	(881)
Balances at December 31, 2020	10	-	459,736	1,145	13,152	474,033
Net income	-	-	-	23,255	407	23,662
Contribution from Parent	-	-	44,100	-	-	44,100
Dividend to Parent	-	-	(63,595)	(21,405)	-	(85,000)
Dividend to noncontrolling interest	-	-	-	-	(977)	(977)
Balances at December 31, 2021	10	$ -	$ 440,241	$ 2,995	$ 12,582	$ 455,818

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

SouthWest Water Company
Consolidated Statements of Cash Flows
Years Ended December 31, 2021 and 2020

(in thousands)	2021	2020
Operating activities		
Net income	$ 23,662	$ 15,280
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	36,994	30,659
Deferred income taxes	9,127	(360)
Provision for doubtful accounts	1,438	1,158
Other operating gain, net	(2,315)	(2,243)
Write off of unamortized deferred financing costs	71	-
Amortization of deferred financing costs	585	531
Amortization of discount on senior note	553	518
Other, net	19	141
Changes in operating assets and liabilities		
Accounts receivable	(3,119)	(5,593)
Prepaid expenses and other current assets	(3,673)	6,162
Other assets	(2,215)	(739)
Accounts payable	(1,491)	(1,880)
Other current liabilities	1,915	4,296
Other liabilities	485	1,635
Net cash provided by operating activities	62,036	49,565
Investing activities		
Purchase of property, plant and equipment	(76,202)	(56,690)
Proceeds from sale of property, plant and equipment	201	383
Proceeds from sale of water rights	1,335	2,432
Purchase of pipeline capacity and water rights	(15)	(4,538)
Payments for acquisitions, net of cash acquired	(31,988)	(376,372)
Net cash used in investing activities	(106,669)	(434,785)
Financing activities		
Proceeds from borrowing on line of credit	162,549	64,042
Payments on line of credit	(81,874)	(65,042)
Payments on long-term debt	(3,241)	(823)
Payments on long-term capital leases	(214)	(326)
Proceeds from advances for construction	6,344	6,141
Proceeds from issuance of new long term debt	-	200,000
Repayment of advances for construction	(819)	-
Capital contributed by Parent	44,100	216,495
Dividends paid to Parent	(85,000)	(31,000)
Dividends paid to noncontrolling interest	(977)	(881)
Payments for deferred financing costs	(773)	(1,694)
Net cash provided by financing activities	40,095	386,912
Increase (decrease) in cash and cash equivalents	(4,538)	1,692
Cash and cash equivalents		
Beginning of year	4,607	2,915
End of year	$ 69	$ 4,607

1. Business, Basis of Presentation, and Summary of Significant Accounting Policies

Description of Business
SouthWest Water Company and its subsidiaries (the "Company" or "SWWC") owns, operates, and maintains water and wastewater infrastructure and provides a broad range of operations, maintenance and management services, including water production; treatment and distribution; wastewater collection and treatment; customer service; and utility infrastructure construction management. The Company owns water and wastewater public utilities and to a lesser extent also serves municipalities and private companies under operating contracts.

On September 13, 2010, the Company completed an agreement and plan of acquisition and merger ("Acquisition Agreement") with SW Merger Acquisition Corp. ("Parent") and SW Merger Sub Corp., a direct wholly owned subsidiary of Parent ("Merger Sub"). The Company is the surviving corporation of the merger with SW Merger Sub Corp. and is a wholly owned subsidiary of Parent.

Principles of Consolidation
The consolidated financial statements include the accounts of SouthWest Water Company and its subsidiaries. The financial results of majority-owned subsidiaries are consolidated into the Company's operating results and financial position, with the minority ownership interest recognized in the consolidated statement of operations as net income attributable to noncontrolling interests, and as equity attributable to the noncontrolling interests within total stockholder's equity. See Note 15 for further explanation of the Company's noncontrolling interests.

Basis of Presentation and Use of Estimates
The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, also referred to as the Accounting Standards Codification ("ASC") and include the accounts of SouthWest Water Company and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

Preparation of the financial statements in conformity with the ASC requires management to make estimates and assumptions. The reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses reported could be affected by both changes in those estimates and actual results.

The current novel coronavirus ("COVID-19") pandemic has caused significant social and economic restrictions that have been imposed in the United States and abroad, which has resulted in significant volatility in the global economy and led to reduced economic activity in some industries. In the preparation of these financial statements and related disclosures, the Company has assessed the impact that the COVID-19 pandemic has had on its estimates, assumptions, forecasts, and accounting policies. Because of the essential nature of its business, the Company does not believe the COVID-19 pandemic had a material impact on its estimates, assumptions and forecasts used in the preparation of its financial statements. As the COVID-19 situation is unprecedented and ever evolving, future events and effects related to the COVID-19 pandemic cannot be determined with precision, and actual results could significantly differ from estimates or forecasts.

Regulated Utility Accounting
The Company's regulated utilities are subject to regulation by the public utility commissions and the local governments of the states in which they operate (the "Regulators"). These Regulators have allowed recovery of costs and credits which the Company has recorded as regulatory assets and

liabilities. In accordance with regulated accounting as prescribed by ASC 980, costs and credits on the balance sheet are deferred as regulatory assets and liabilities when it is probable that previously incurred costs or credits will be recognized in future operating results. These deferred amounts, both assets and liabilities, are recognized in the income statement in the same period that they are reflected in rates charged for water and wastewater service. In the event that the assessment as to the probability of the inclusion in the rate-making process changes, the associated regulatory asset or liability would be adjusted to reflect the change in assessment or change in regulatory approval.

The Company's Alabama wastewater utilities, Oregon wastewater utilities, and a wholesale water business wholly owned by a Texas subsidiary do not meet the criteria for regulatory accounting because the rates charged by these entities are not established by or subject to approval by an independent third-party regulator. During 2021, all the regulated utilities in the Company met all criteria to apply regulated accounting except two utilities in Texas. During 2020, all the regulated utilities in the Company met all criteria to apply regulated accounting. During 2021 and 2020, the Company acquired additional regulated and nonregulated utilities (see Note 2). All acquired regulated utilities meet the requirements of ASC 980 except one utility in Texas during 2021.

Cash and Cash Equivalents
The Company considers all highly liquid investments such as certificates of deposit, commercial paper and money market accounts with a maturity of three months or less when acquired to be cash equivalents. Cash equivalents are stated at cost, which approximates fair value.

Property, Plant and Equipment
Additions to property, plant and equipment are recorded at cost and include capitalized interest for major projects. Depreciation expense for regulated utility plants is recorded using the straight-line method over useful lives primarily ranging from five to eighty-five years, using either the composite method of depreciation as prescribed by the applicable regulatory authorities, or the straight-line method, depending upon the state in which the regulated utility resides. Property, plant and equipment used in nonregulated operations are depreciated using the straight-line method over estimated useful lives ranging from two to forty years. For regulated utilities using the composite method of depreciation, the cost of the property, net of salvage value, is charged to accumulated depreciation upon retirement. For regulated utilities in Texas using the straight-line method of depreciation that meet the requirements of ASC 980, the cost of the property, net of salvage value, is recorded in net property, plant, and equipment upon retirement if it is probable that the cost is subject to recovery in future revenues. For the regulated utilities using the straight-line method of depreciation that do not meet the requirements of ASC 980, any gains or losses resulting from retirements are recorded in the results of operations. For the other utilities and service businesses using the straight-line method of depreciation, any gains and losses resulting from retirements are recorded in the results of operations in the period of the retirement.

The costs to acquire and develop computer software for internal use are deferred and amortized on the straight-line basis over periods of primarily three to seven years.

Maintenance costs, including those for planned major maintenance projects, are recognized in the period in which they are incurred.

Long-Lived Asset Impairment
The Company evaluates long-lived assets, including identifiable intangible assets, for impairment whenever events or changes in circumstances indicate that the asset's carrying value may not be

recoverable. When it is probable that undiscounted future cash flows are not sufficient to recover the asset's carrying amount, the asset is written-down to its estimated fair value.

Goodwill
Goodwill at December 31, 2021 and 2020 represents the excess of purchase price paid by the Parent, over the fair value assigned to the net tangible and identifiable intangible assets of SWWC and the excess of the purchase price over the net amount of identifiable assets acquired and liabilities assumed in a business combination measured at fair value. Goodwill is tested annually for impairment or more frequently if events or circumstances indicate carrying values may not be recoverable. Goodwill is evaluated for impairment using discounted cash flow methodologies, transaction values for comparable companies, and other valuation techniques for its reporting units with goodwill balances.

Qualitative factors are first assessed to determine whether a quantitative goodwill impairment test is necessary. If considered necessary, a quantitative test comparing the fair value of a reporting unit with its carrying amount, including goodwill, is performed. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is not impaired. If the carrying amount of a reporting unit exceeds its fair value, an impairment loss is recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting

Intangible Assets
Finite-lived intangible assets are amortized on the straight-line basis over their estimated useful lives, ranging from ten to fifty years. Indefinite-lived intangible assets consist of water rights to a portion of the annual yield of certain watersheds and ground water basins and are not amortized.

Inventories
Inventories generally consist of parts and supplies held for use in the ordinary course of business and are valued at the lower of cost or net realizable value generally using the moving average cost method. Where shipping and handling costs are borne by us, these charges are included in inventory and charged to cost of services upon use in construction or the providing of services.

Debt Issuance Costs
Debt issuance costs are amortized to interest expense using the straight-line method over the term of the related debt.

Income Taxes
Income taxes are accounted for using the asset and liability method and deferred income taxes are provided for all significant temporary differences. Deferred tax assets and liabilities are recorded using enacted tax rates expected to apply to taxable income in the years in which the temporary differences are recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in the period that the change occurs.

Deferred tax assets have to be assessed for the likelihood of future recovery from taxable income, to the extent we believe that more likely than not, some portion will not be realized. In that scenario, upon consideration of all positive and negative evidence, a valuation allowance may be recorded. Liabilities are recorded based on estimates of potential tax related exposures. Accounting for these assessments requires significant judgment as uncertainties often exist with respect to existing tax laws, new interpretations of existing laws and rulings by taxing authorities. Differences between actual results and assumptions, or changes in assumptions are recorded in the period they become known.

Suburban Water Systems ("SWS"), a subsidiary of SWWC, recorded deferred income taxes for regulatory assets and liabilities because recovery/refund of these amounts is expected to be allowable in future rates by the California Public Utilities Commission (the "CPUC"). In addition, investment tax credits have been deferred and are amortized over the estimated productive lives of the related assets as allowed by the CPUC.

Advances for Construction and Contributions in Aid of Construction
Developers, builders, governmental agencies and municipalities contribute property or cash to extend water and wastewater service to their properties. For ratemaking purposes, these contributions in aid of construction ("CIAC") generally serve as a rate base reduction since they represent noninvestor supplied funds. The Company depreciates utility plants funded by contributions and amortizes the CIAC balance as a reduction to depreciation expense, producing a result which is functionally equivalent to reducing the original cost of the utility plant for the contributions. Advances for construction are contributed property or cash which is refundable for limited periods as new customers begin to receive service or other contractual obligations are fulfilled. Advances which are no longer refundable are reclassified to CIAC.

Asset Retirement Obligations
The Company records the fair value of the legal liability for asset retirement obligations ("AROs") associated with Company-owned wells and other regulated utility infrastructure. Amounts recorded as AROs are subject to various assumptions and determinations such as determining whether a legal obligation exists to remove assets, estimating the fair value of the costs of removal, estimating when final removal will occur, and the credit-adjusted risk-free interest rates to be utilized on discounting future liabilities. Changes that may arise over time with respect to these assumptions will change amounts recorded in the future. Estimating the fair value of the costs of removal were determined based on third party costs.

When the liability is initially incurred, the Company capitalizes the cost of the ARO by increasing the carrying amount of the related long-lived asset. The liability is accreted to its estimated future obligation and the capitalized cost is depreciated over the useful life of the related asset. Upon the asset's retirement and the settlement of the ARO, any difference between the cost to retire the asset and the liability recorded is recognized as a gain or loss in the consolidated statement of operations.

Revenue Recognition
Most of the Company's revenues are accounted for under the revenue recognition accounting standard, "Revenue from Contracts with Customers (Topic 606)." As a nonpublic company, the Company has elected not to apply the quantitative disaggregation of revenue. The Company's water and wastewater utility, wholesale, and operating contract revenues are recognized over time as customers simultaneously receive and use the services provided. To a much lesser extent, the Company recognizes revenue at a point in time for equipment installation and other service work when the installation is complete and control transfers to the customer.

The location of the Company's customers and the types of contracts entered into may affect the nature, amount, timing, and uncertainty of revenue and cash flows. There are no significant financing components or variable consideration.

Revenue is measured based on the amount of consideration specified in the contracts with our customers and excludes any amounts collected on behalf of third parties. We have elected the practical expedient to exclude amounts collected from customers for all sales (and other similar) taxes.

The Company provides water and wastewater utility services to customers as specified by its Regulators. The transaction prices for water and wastewater utility revenues are based on tariff rates authorized by the Regulators, which include both quantity-based and flat-rate charges. These contracts contain a single performance obligation, the delivery of water and wastewater services, as the promise to transfer the individual good or service is not separately identifiable from other promises within the contracts and, therefore, is not distinct. Tariff revenues represent the adopted revenue requirement authorized by the Regulators intended to provide the Company with an opportunity to recover its costs and earn a reasonable return on its net capital investment. The annual revenue requirements are comprised of operation and maintenance costs, administrative and general costs, depreciation and taxes in amounts authorized by the Regulators and a return on rate base consistent with the capital structure authorized by the Regulators.

Water and wastewater utility revenues include amounts billed to customers on a cyclical basis, which are based on meter readings for services provided. The amounts that the Company has a right to invoice are determined by each customer’s actual usage, an indicator that the invoice amount corresponds directly to the value transferred to the customer. Although rates for the Company’s Alabama and Oregon wastewater utilities are not established by or subject to approval by an independent third-party regulator, revenue is recognized in the same way.

Unbilled revenues are amounts estimated to be billed for usage since the last meter-reading date to the end of the accounting period.

Customer bills may include surcharges for cost-recovery activities, which represent Regulator authorized balancing and memorandum accounts that allow for the recovery of previously incurred operating costs. Revenues from these surcharges result in no impact to earnings as they are offset by corresponding increases in operating expenses to reflect the recovery of the associated costs.

As authorized by the CPUC, SWS records in revenues the difference between the adopted level of volumetric revenues as authorized by the California Public Utilities Commission (“CPUC”) for metered accounts (volumetric revenues) and the actual volumetric revenues recovered in customer rates. The difference is tracked under the Monterey-style Water Revenue Adjustment Mechanism (“Monterey WRAM”). If this difference results in an under-collection of revenues, the Company records the additional revenue only to the extent that they are expected to be collected within 24 months following the year in which they are recorded in accordance with ASC 980.

The Company also recognizes revenue when it is probable that future recovery of previously incurred costs or future refunds that are to be credited to customers will occur through the ratemaking process.

For the Company’s operating contracts, the performance obligation is performing ongoing operation and maintenance of the water and/or wastewater systems and treatment plants. The ongoing performance of operation and maintenance of the water and/or wastewater systems and treatment plants is viewed as a single performance obligation for each contract. The Company recognizes revenue for operations and maintenance over time as the Company has a right to consideration from its contract customers in an amount that corresponds directly to the value to the customers of the Company’s performance completed to-date. The level of effort or resources expended in completing the performance obligation is largely consistent over the contract term.

Removal Costs
When regulatory authorities approve rates which allow recovery in advance for the cost of removal of assets required by the normal on-going maintenance and repair of the water system, the Company recognizes a regulatory liability until the actual costs to retire those assets are incurred.

Fair Value Measurements
The Company follows the authoritative accounting guidance for fair value measurements and disclosures, which defines fair value and establishes a framework for using fair value to measure assets and liabilities. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access;

Level 2 Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted market prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in nonactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; or

Level 3 Inputs that are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. There have been no changes in the valuation techniques used to measure fair value for the years ended December 31, 2021 and 2020.

Recent Accounting Pronouncements
In February 2016, the FASB issued ASU No. 2016-02, Leases, which will require lessees to recognize assets and liabilities arising from operating leases on the balance sheet. Lessees and lessors will be required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The modified retrospective approach includes a number of optional practical expedients that entities may elect to apply. These practical expedients relate to the identification and classification of leases that commenced before the effective date, initial direct costs for leases that commenced before the effective date and the ability to use hindsight in evaluating lessee options to extend a lease, terminate a lease or to purchase the underlying asset. In June 2020, the FASB deferred the effective dates for nonpublic entities to annual reporting periods beginning after December 15, 2021 and interim periods within annual reporting periods beginning after December 15, 2022. Earlier application is permitted for all entities. The Company is evaluating the potential impact of this ASU on its financial statements and related disclosures.

In June 2016, the FASB issued ASU No. 2016-13 on accounting for impairments of financial instruments, including trade receivables, which requires companies to estimate expected credit losses on trade receivables over their contractual life. Historically, companies reserve for expected credit losses by applying historical loss percentages to respective aging categories. Under the updated accounting guidance, companies will use a forward-looking methodology that incorporates lifetime expected credit losses, which will result in an allowance for expected credit losses for receivables that are either current or not yet due, which historically have not been reserved for. In November 2019, the FASB ASU No. 2019-10, Financial instruments - Credit losses (Topic 326), Derivatives and hedging (Topic 815), and Leases (Topic 842) - Effective dates extending the effective dates to annual and interim reporting periods in 2023 for nonpublic entities, with early adoption available. The Company is evaluating the requirements of the updated guidance to determine the impact of adoption.

In August 2018, the FASB issued ASU No. 2018-13, which modifies the disclosure requirements on fair value measurements. The modifications in this update eliminates, amends, and adds disclosure requirements for fair value measurements, which is expected to reduce costs for preparers while providing more decision-useful information for financial statement users. The updated accounting guidance is effective for fiscal years beginning after December 15, 2019, with early adoption available. The adoption of this standard on January 1, 2020 did not have a material impact on the Company’s financial statements and related disclosures.

In December 2019, the FASB issued ASU No. 2019-12, Income Taxes (Topic 740) - Simplifying the Accounting for Income Taxes. The amendments in this update simplify the accounting for income taxes by removing certain exceptions and clarifying certain requirements regarding franchise taxes, goodwill, consolidated tax expenses, and annual effective tax rate calculations. For nonpublic entities, the ASU is effective for fiscal years beginning after December 15, 2022. Early adoption is permitted. The Company is evaluating the impact of this ASU on its consolidated financial statements.

2. Acquisitions

In March 2021, the Company acquired all of the ownership interest in Ni Florida LLC (“Ni FL”) for $12.5 million in cash. Ni FL owns regulated water and wastewater utilities which provide services to approximately 4,400 equivalent dwelling units across Pasco and Lee counties in Florida. The utilities are regulated by the Florida Public Service Commission and meet the criteria for regulatory accounting. Goodwill associated with the acquisition is tax deductible. The Company incurred acquisition-related costs in conjunction with the acquisition of Palmetto described below. The total acquisition-related costs for both acquisitions were $0.2 million and $5.0 million for the years ended December 31, 2021 and 2020, respectively. These costs are recorded in the consolidated statements of operations. This acquisition allowed the Company to expand its operations to the state of Florida.

In December 2021, the Company acquired regulated assets of 17 water and 3 wastewater systems (“UIC”) serving approximately 3,600 equivalent dwelling units throughout the Greater Houston area for $12.2 million. The Company paid $12.1 million and $0.1 million in cash in December 2021 and March 2022, respectively. The acquired systems are regulated by the Public Utility Commission of Texas (“PUCT”) and meet the criteria for regulatory accounting. There is no goodwill associated with this transaction. The Company incurred total acquisition-related costs of $0.1 million during the years ended December 31, 2021 and 2020, which are recorded in the consolidated statements of operations. This acquisition allowed the Company to expand its operations in the state of Texas.

The recognized amounts of identifiable assets acquired and liabilities assumed for the two acquisitions in 2021 noted above are presented in the table below (in thousands):

	Ni Florida	UIC
Cash and cash equivalents	$ 76	$ -
Other current assets	190	239
Property, plant and equipment, net	6,020	12,060
Other assets	31	-
Current liabilities	(452)	(78)
Contributions in aid of construction, net	(1,557)	-
Other liabilities	(93)	-
Total identifiable assets acquired and liabilities assumed	4,215	12,221
Goodwill	8,309	-
Total purchase price consideration	$ 12,524	$ 12,221

In February 2021, the Company acquired regulated water and wastewater assets serving approximately 2,200 equivalent dwelling units in South Carolina for a seller financed note of $5.0 million and $0.3 million in cash. Goodwill of $5.0 million associated with the acquisition is tax deductible. The Company incurred total acquisition-related costs of $0.1 million during the years ended December 31, 2021 and 2020, which are recorded in the consolidated statements of operations. This acquisition allowed the Company to expand its operations in the state of South Carolina.

In March 2021, the Company acquired regulated water and wastewater assets serving approximately 2,500 equivalent dwelling units in Texas for $1.9 million in cash. Goodwill of $0.3 million associated with the acquisition is tax deductible. This acquisition allowed the Company to expand its operations in the state of Texas.

In June 2021, the Company acquired regulated water and wastewater assets serving approximately 70 equivalent dwelling units in Texas for $0.1 million in cash. There was no goodwill in this transaction. This acquisition allowed the Company to expand its operations in the state of Texas.

In August 2021, the Company acquired unregulated wastewater assets serving approximately 1,200 equivalent dwelling units in Alabama for $5.0 million in cash. There is no goodwill associated with this transaction. This acquisition allowed the Company to expand its operations in the state of Alabama.

In September 2020, the Company acquired all of the ownership interest in Ni South Carolina Utilities, Inc., Ni South Carolina LLC, and Ni America Operating LLC and their direct subsidiaries (collectively “Palmetto”) for $367.3 million in cash. Palmetto owns three regulated wastewater utilities which provide services to approximately 42,000 equivalent dwelling units across Kershaw, Richland, and Lexington counties in South Carolina and to a much lesser extent, non-regulated septic receiving operations in South Carolina. The wastewater utilities are regulated by the South Carolina Public Service Commission (”SCPSC”) and meet the criteria for regulatory accounting. Goodwill associated with the acquisition is tax deductible. The Company incurred acquisition-related costs in conjunction with the acquisition of Ni FL described above. The total acquisition-related costs for both acquisitions were $0.2 million and $5.0 million for the years ended December 31, 2021 and 2020, respectively. These costs are recorded in the consolidated statements of operations. This acquisition allowed the Company to significantly expand its operations in the state of South Carolina.

In June 2020, the Company acquired the assets of four regulated water and wastewater systems ("Double Diamond") serving approximately 2,800 equivalent dwelling units near Dallas, Texas for $8.6 million in cash. The acquired systems are regulated by the PUCT and meet the criteria for regulatory accounting. Goodwill associated with the acquisition is tax deductible. The Company incurred total acquisition-related costs of $0.2 million during the years ended December 31, 2020 and 2019, which are recorded in the consolidated statements of operations. This acquisition allowed the Company to expand its operations in the state of Texas.

The recognized amounts of identifiable assets acquired and liabilities assumed for the two acquisitions in 2020 noted above are presented in the table below (in thousands):

	Palmetto	Double Diamond
Cash and cash equivalents	$ 3,135	$ -
Other current assets	4,653	230
Property, plant and equipment, net	130,592	3,088
Other assets	11,688	-
Current liabilities	(4,025)	(65)
Contributions in aid of construction, net	(36,557)	(1,456)
Other liabilities	(4,790)	(519)
Total identifiable assets acquired and liabilities assumed	104,696	1,278
Goodwill	262,613	7,290
Total purchase price consideration	$ 367,309	$ 8,568

In January 2020, the Company acquired the assets of two regulated water and wastewater utilities in South Carolina for $2.1 million in cash. Goodwill of $2.0 million associated with the acquisition is tax deductible. This acquisition allowed the Company to expand its operations in the state of South Carolina.

In May 2020, the Company acquired the assets of a nonregulated septic hauling operation in Oregon for $1.5 million in cash. This acquisition allowed the Company to expand its operations in the state of Oregon.

3. Current Assets

Accounts Receivable

At December 31, 2021 and 2020, $12.5 million and $8.4 million, respectively, of estimated unbilled regulated operations revenue was recorded representing customer water and wastewater usage revenue since the previous billing cycles and estimates of revenue earned but not yet billed.

At December 31, 2021 and 2020, $1.4 million and $1.3 million, respectively, of estimated unbilled nonregulated operations revenue was recorded, primarily representing contractual base fee revenue and estimates of time and material revenue earned on work completed but not yet billed.

The Company maintains allowances for doubtful accounts for receivables whose collection is uncertain based on management's periodic review of past due or delinquent accounts. Accounts receivable are net of an allowance for doubtful accounts of $5.9 million and $5.1 million at December 31, 2021 and 2020, respectively.

Prepaid Expenses and Other Current Assets
Prepaid expenses and other current assets consist of the following:

	December 31,	
(in thousands)	**2021**	**2020**
Prepaid expenses	$ 6,280	$ 8,257
Parts and supply inventory	2,492	2,308
Other receivables	1,749	302
Regulatory assets (Note 5)	9,459	5,374
Other	912	937
Total prepaid expenses and other current assets	$ 20,892	$ 17,178

4. Property, Plant and Equipment

Property, plant and equipment ("PP&E"), recorded at cost, consists of the following:

(in thousands)	December 31, 2021	December 31, 2020
Regulated utilities		
Land and land rights	$ 17,465	$ 16,601
General plant	209,828	188,965
Transmission and distribution	744,886	682,102
Construction work-in-progress	69,713	37,320
Total cost	1,041,892	924,988
Accumulated depreciation	(282,763)	(239,321)
Net regulated utilities	759,129	685,667
Nonregulated operations		
Land	122	122
Property and equipment	6,748	6,024
Software for internal use	43,336	40,478
Construction work-in-progress	490	935
Total cost	50,696	47,559
Accumulated depreciation	(41,485)	(38,865)
Net nonregulated operations	9,211	8,694
Net property, plant and equipment	$ 768,340	$ 694,361

Depreciation expense was $39.7 million and $33.0 million for the years ended December 31, 2021 and 2020, respectively. Depreciation expense for regulated utility PP&E was $36.8 million and $30.5 million for the years ending December 31, 2021 and 2020, respectively. Depreciation expense for regulated utility PP&E was reduced by the amortization of contributions in aid of construction totaling $6.5 million and $4.8 million for the years ending December 31, 2021 and 2020, respectively. Capitalized interest additions to PP&E were $1.0 million and $0.4 million for the years ended December 31, 2021 and 2020, respectively.

Certain expenditures relating to the development of software for internal use are capitalized. PP&E at December 31, 2021 and 2020 includes $7.7 million and $7.4 million, respectively, of capitalized software costs, net of accumulated depreciation.

For regulated utilities in Texas using the straight-line method of depreciation that meet the requirements of ASC 980, the cost of property, net of salvage value, is deferred and recorded in net property, plant, and equipment upon retirement in accordance with the FASB's accounting guidance for regulated operations as the Company expects to recover these costs in future rates. There were $2.0 million and $2.4 million of these costs included in net property, plant and equipment at December 31, 2021 and 2020, respectively.

5. Regulatory Assets and Liabilities

As described in Note 1, in accordance with authoritative guidance for regulated utilities, costs and credits on the balance sheet are deferred as regulatory assets and liabilities when it is probable that revenue or expense in an amount at least equal to the capitalized cost or credit will result from inclusion of those costs or credits in allowable costs for ratemaking purposes in the future.

All of the Company's regulated utilities met the regulated accounting criteria during 2021. The resulting regulatory assets and liabilities are shown in the following table. The following regulatory assets and liabilities are included in prepaid and other current assets, other long-term assets, other current liabilities and other long-term liabilities on the consolidated balance sheets:

	December 31,	
(in thousands)	**2021**	**2020**
Regulatory assets		
Short-term		
Supply cost balancing account	$ 2,024	$ 2,024
Interim rates	3,344	3,330
COVID-19 financial impacts	2,018	-
Other	2,073	20
Total short term	9,459	5,374
Long-term		
Regulatory tax assets	9,557	8,921
Supply cost balancing account	8,232	10,979
ARO and future removal costs	5,137	3,259
Rate case expenses	867	2,407
COVID-19 financial impacts	1,499	2,154
PRC Plant	6,386	8,206
Other	8,233	3,547
Total long-term	39,911	39,473
Total regulatory assets	49,370	44,847
Regulatory liabilities		
Short-term		
Regulatory tax liability	-	(131)
Total short term	-	(131)
Long-term		
Regulatory tax liability	(10,408)	(11,614)
Drought surcharge regulatory liability	(254)	(254)
Other	(2,853)	(2,523)
Total long-term	(13,515)	(14,391)
Total regulatory liabilities	(13,515)	(14,522)
Net regulatory assets	$ 35,855	$ 30,325

The Company continues to monitor the global outbreak of the COVID-19 pandemic. To date, the Company has experienced COVID-19 financial impacts, including an increase in uncollectible accounts expense and certain incremental operation and maintenance expenses. The Company has also experienced decreased revenues as a result of the waiver of late fees and foregone reconnect fees. These impacts are collectively referred to as “financial impacts.”

In Texas, South Carolina, and Oregon, the Company has commission orders authorizing deferred accounting for COVID-19 financial impacts. In California, the Company has a CPUC approved Catastrophic Event Memorandum Account (CEMA). The CEMA allows the Company to track and recover certain financial impacts related to the COVID-19 pandemic.

The Company recorded $3.5 million and $2.2 million in regulatory assets for the financial impacts related to the COVID-19 pandemic as of December 31, 2021 and December 31, 2020, respectively. The Company believes that these regulatory assets are probable for recovery through future regulatory proceedings and other available state funds. In February 2022, the Company received $2.0 million for recovery of some of these regulatory assets in California.

On December 22, 2017, President Trump signed into law legislation referred to as the “Tax Cuts and Jobs Act” (the “TCJA”), which reduced the Federal corporate income tax rate from 35% to 21%. Reductions in accumulated deferred income tax balances due to the reduction in the corporate income tax rate to 21% under the provisions of the TCJA will result in amounts previously collected from utility customers for these deferred taxes to be refundable to such customers, generally through reductions in future rates. The TCJA includes provisions that stipulate how these excess deferred taxes relating to certain accelerated tax depreciation benefits are to be passed back to customers. Potential refunds of other deferred taxes will be determined by our state regulators. The December 31, 2021 consolidated balance sheet reflects impact of the TCJA on our regulatory assets and liabilities. The impact reduced our regulatory assets by $2.2 million and increased our regulatory liabilities by $8.1 million. These adjustments had no impact on our cash flows.

In January 2017, SWS filed an application for a general rate increase (“GRC”) with the CPUC for authority to increase rates charged for water service in 2018, 2019, and 2020. The scheduled January 2018 effective date of new rates and the January 2019 effective date of the 2018 step filing were delayed by the CPUC. In December 2017, the CPUC approved an interim rates memorandum account to track the difference between the interim rates (which represented existing rates) and the final adopted rates effective January 2018. In May 2019, the CPUC issued Decision No. 19-05-029 adopting the GRC for years 2018, 2019, and 2020. The decision resulted in an overall rate increase of $4.86 million or 6.40% for 2018, $2.2 million or 2.72% for 2019, and $2.2 million for 2020. The decision also authorized SWS to recover the revenue associated with the delay in adopting new 2018 and 2019 rates (the difference between the interim rates and the adopted rates). As of December 31, 2020, the regulatory asset related to the interim rates under-collection is approximately $3.3 million.

In March 2020, SWS filed an application for a general rate increase (“GRC”) with the CPUC for authority to increase rates charged for water service in 2021, 2022, and 2023. The scheduled January 2021 effective date of new rates was delayed by the CPUC. In December 2020, the CPUC approved an interim rates memorandum account to track the difference between the interim rates (which represented an increase of 1.2% over the exiting rates) and the final adopted rates effective January 1, 2021. In October 2021, the CPUC issued Decision No. 21-10-024 adopting the GRC for years 2021, 2022, and 2023. The decision resulted in an overall rate increase of $7.78 million or 9.10% for 2021, $4.2 million or 4.41% for 2022, and $4.3 million or 4.38% for 2023. The

Administrative Law Judge's Ruling in December 2020 also authorized SWS to recover the revenue associated with the delay in adopting new 2021 rates (the difference between the interim rates and the adopted rates). As of December 31, 2021, the regulatory asset related to the interim rates under-collection is approximately $6.7 million.

As permitted by the CPUC, SWS maintains water supply cost balancing accounts. Balancing accounts track pricing differences between noncontrollable costs authorized in rates such as purchased water, purchased power and pump taxes and actual recorded costs, and defers the under-collected amounts for future surcharge ("regulatory assets"), or over-collected amounts for future surcredit ("regulatory liabilities") to customers. Deferred amounts are charged or credited to customers over a 12-to 36-month period once approved in accordance with the CPUC Standard Practice U-27-W. This Standard Practice requires the Company to accrue interest on its supply cost balancing accounts at the rate prevailing for 90-day nonfinancial commercial paper established by the CPUC.

For the years ended December 31, 2021 and 2020, approximately $1.2 million and $7.7 million of net undercollections (including interest), respectively, were recorded in the water supply cost balancing accounts. Amortization of surcharges that are in rates to recover under-collections from customers also decreased the water supply cost balancing accounts, as applicable. During the years ended December 31, 2021 and 2020, approximately $4.0 million and $6.0 million of surcharges (excluding interest), respectively, were billed to customers which reduced under-collections in the water supply cost balancing accounts.

As of December 31, 2021, the water supply cost balancing accounts have approximately $10.2 million in net cost under-collections. Currently, there are surcharges in place to recover approximately $2.0 million of these under-collections by December 31, 2022. It is considered probable that the remaining $8.2 million will be recovered through a future surcharge allowed by the CPUC.

The low-income ratepayer assistance ("LIRA") program provides monthly credits to qualifying low income customers. A regulatory asset or liability account captures the net cost of the program that provides monthly credits to qualifying low income customers in the form of a surcredit, and also related monthly charges to nonqualifying residential customers in the form of a surcharge.

On April 1, 2015, the Governor of California issued an Executive Order that directed the State Water Resources Control Board to impose restrictions on urban water suppliers to achieve a statewide 25 percent reduction in potable urban usage through February 2016. This order was subsequently extended through October 2016. SWS developed a plan in accordance with this directive and received authorization of Schedule no. 141.1-Water Shortage Contingency Plan which went into effect on August 1, 2015. Included in this plan is a drought surcharge which was billed to applicable customers that use more than a prescribed volume of water. This drought surcharge when billed to customers was recorded as a regulatory liability. In August 2016, this drought surcharge was lifted and is no longer billed to customers. As approved by the CPUC, the Company reduced the drought surcharge liability by $1.0 million in 2020 through a combination of refunds to customers and recognition of revenue. The Company recognized revenue of $0.3 million for the year ended December 31, 2020, to offset Monterey-style Water Revenue Adjustment Mechanism ("Monterey WRAM") under collections. At December 31, 2021, the drought surcharge regulatory liability balance was $0.3 million.

In 2012, Palmetto, which was acquired by the Company in September 2020 (see Note 2), purchased certain sewer collection system assets (“PRC Plant”) owned by the city of Columbia, South Carolina. The purchase resulted in disputed ratemaking treatment of the purchase price Palmetto paid to acquire the assets of Columbia, a municipality. In November 2019, the Palmetto utility that purchased the PRC Plant filed a rate case with the SCPSC (see Note 14) which included a request to recover the cost of the PRC Plant. In August 2020, the SCPSC issued its order in the case which authorized Palmetto to recover $8.5 million of the PRC Plant as a regulatory asset over a 9.31-year amortization period which began in September 2020.

The regulatory asset related to cost of property, net of salvage value, upon retirement is described in Note 4.

6. Other Assets

Goodwill

The table below summarizes the changes in the carrying amount of goodwill during the two years ended December 31, 2021.

(in thousands)		Total
Balance at December 31, 2019	$	198,507
Additions to Goodwill		271,948
Balance at December 31, 2020		470,455
Additions to Goodwill		13,616
Balance at December 31, 2021	$	484,071

During 2021 and 2020, the annual assessment of goodwill was performed and there was no impairment. There can be no assurances that the Company will not be required to recognize an impairment of goodwill in the future due to market conditions or other factors related to the Company’s performance. These market events could include a decline over a period of time in valuation multiples of comparable water utility and service companies, declines in the forecasted results in the Company’s business plan, such as changes in rate case results or capital investment budgets or changes in interest rates. Recognition of impairment of a significant portion of goodwill could negatively affect the Company’s reported results of operations and total capitalization.

Intangible Assets
Intangible assets of $57.3 million and $59.3 million (net of $14.3 million and $12.2 million of accumulated amortization) at December 31, 2021 and 2020, respectively, include purchased contracts, acquired customer relationships and impact fees, and are amortized on the straight-line basis over estimated useful lives ranging from ten to fifty years. The changes in intangibles in 2021 include additional purchased water rights of $15.4 thousand and $6.3 thousand of organization costs. The changes in intangibles in 2020 include additional purchased pipeline capacity of $2.9 million and additional purchased water rights of $1.7 million.

Intangible assets are comprised of the following:

	December 31, 2021			
(in thousands)	Cost	Accumulated Amortization	Net	Amortization Expense
Customer lists	$ 27,815	$ 6,834	$ 20,981	$ 1,197
Pipeline capacity	36,511	5,556	30,955	826
Impact fees	1,922	1,712	210	21
Water rights	4,961	-	4,961	-
Other	349	151	198	4
Total intangible assets	$ 71,558	$ 14,253	$ 57,305	$ 2,048

	December 31, 2020			
(in thousands)	Cost	Accumulated Amortization	Net	Amortization Expense
Customer lists	$ 27,815	$ 5,638	$ 22,177	$ 1,156
Pipeline capacity	36,511	4,729	31,782	785
Impact fees	1,922	1,690	232	43
Water rights	4,946	-	4,946	-
Other	343	142	201	5
Total intangible assets	$ 71,537	$ 12,199	$ 59,338	$ 1,989

Water rights are not amortizable as they represent indefinite rights to a portion of the annual yield of certain watersheds and groundwater basins.

Estimated future annual amortization expense for all identifiable intangible assets with finite useful lives for the five succeeding years is as follows:

(in thousands)	Intangible Assets Amortization Expense
Years Ending December 31,	
2022	$ 2,048
2023	2,048
2024	2,048
2025	2,048
2026	2,048

Other Long-Term Assets
Other long-term assets consist of the following:

	December 31,	
(in thousands)	2021	2020
Regulatory assets (Note 5)	$ 39,911	$ 39,473
Investments in Company-owned life insurance policies	9,693	9,448
CoBank equity	2,245	2,147
Self insurance recoveries	857	1,251
Other	3,291	2,966
Total other long-term assets	$ 55,997	$ 55,285

To assist in funding the liabilities related to its deferred compensation liabilities, the Company has invested in Company-owned life insurance policies (See Note 12, "Employee Benefit Plans").

A portion of the Company's long-term debt is held by CoBank, a cooperative bank owned by the customers it serves. As a stockholder, the Company is eligible to receive a yearly patronage distribution. Patronage distribution amounts are determined by CoBank's board of directors and allocated among customers on the basis of average loan volume. At the discretion of the board of directors, the patronage refund can be distributed as cash or equity as class "A" common stock of CoBank in the cooperative. The Company has recorded a long-term asset related to the CoBank equity of $2.2 million and $2.1 million at December 31, 2021 and 2020, respectively.

7. Long-term Debt

Long-term debt consists of the following:

(in thousands)	December 31, 2021	December 31, 2020
6.84% Series "A" Senior Unsecured Notes due 2035	$ 32,667	$ 35,000
4.48% Series "B" Senior Unsecured Notes due 2038	83,337	83,337
4.39% Series "C" Senior Unsecured Notes due 2033	20,000	20,000
4.48% Series "D" Senior Unsecured Notes due 2038	21,663	21,663
4.13% Series "E" Senior Unsecured Notes due 2028	25,000	25,000
4.38% Series "F" Senior Unsecured Notes due 2033	25,000	25,000
4.50% Series "G" Senior Unsecured Notes due 2043	20,000	20,000
4.54% Series "H" Senior Unsecured Notes due 2048	20,000	20,000
3.40% Series "I" Senior Unsecured Notes due 2034	20,000	20,000
3.68% Series "J" Senior Unsecured Notes due 2039	30,000	30,000
2.43% Series "K" Senior Unsecured Notes due 2030	100,000	100,000
3.17% Series "L" Senior Unsecured Notes due 2040	68,000	68,000
3.39% Series "M" Senior Unsecured Notes due 2050	32,000	32,000
Revolving Credit Facility	80,000	-
Bank of America Auto-Borrow Facility	675	-
CUC Promissory Note due 2046	4,915	-
Capital Lease Obligations	11	234
Monarch term loans		
Monarch Utilities I, LP ("Monarch")		
7.37% fixed rate term loan due 2022	256	1,027
5.77% fixed rate term loan due 2022	22	75
6.10% fixed rate term loan due 2031	20,000	20,000
First mortgage bonds		
Suburban Water Systems		
9.09% series "B" first mortgage bond due 2022	8,000	8,000
5.64% series "D" first mortgage bond due 2024	15,000	15,000
6.295% series "E" first mortgage bond due 2026	10,000	10,000
4.42% series "F" first mortgage bond due 2035	25,000	25,000
3.70% series "G" first mortgage bond due 2059	32,000	32,000
Total long-term debt payment obligations	693,546	611,336
Unamortized debt issuance costs	(4,921)	(4,804)
Unamortized discount on Senior Unsecured Notes	(16,473)	(17,026)
Unamortized fair market value adjustments [a]	(628)	(674)
Total debt	671,524	588,832
Less: Current portion of long-term debt	(11,298)	(1,046)
Long-term debt less current portion	$ 660,226	$ 587,786

(a) Monarch and Suburban Water Systems debt.

Senior Unsecured Notes

In September 2020, the Company entered into a note purchase agreement ("September 2020 NPA") relating to the issuance of par value $200.0 million aggregate principal amount of Series "K", "L" and "M" Senior Unsecured Notes. Interest is payable semi-annually in arrears on March 14 and September 14 of each year, which commenced on March 14, 2021. All notes issued under the September 2020 NPA are due in their entirety on their respective maturity dates. Debt issuance costs of $1.5 million were incurred related to the issuance of notes under the September 2020 NPA and are included in Long-term Debt on the consolidated balance sheet. The Company allocated the total debt issuance costs incurred for the notes on a prorated basis using the aggregate principal balance.

In September 2019, the Company entered into a note purchase agreement ("September 2019 NPA") relating to the issuance of par value $50.0 million aggregate principal amount of Series "I" and "J" Senior Unsecured Notes. Interest is payable semi-annually in arrears on March 13 and September 13 of each year, which commenced on March 13, 2020. All notes issued under the September 2019 NPA are due in their entirety on their respective maturity dates. Debt issuance costs of $0.2 million were incurred related to the issuance of notes under the September 2019 NPA and are included in Long-term Debt on the consolidated balance sheet. The Company allocated the total debt issuance costs incurred for the notes on a prorated basis using the aggregate principal balance.

In May 2018, the Company entered into a note purchase agreement ("May 2018 NPA") relating to the issuance of par value $90.0 million aggregate principal amount of Series "E", "F", "G," and "H" Senior Unsecured Notes. Interest is payable semi-annually in arrears on May 17 and November 17 of each year, which commenced on November 17, 2018. All notes issued under the May 2018 NPA are due in their entirety on their respective maturity dates.

In April 2018, the Company entered into a note purchase agreement ("April 2018 NPA") relating to the issuance of $160.0 million aggregate principal amount of Series "A", "B", "C," and "D" Senior Unsecured Notes. The Series "A" notes were issued at par in an exchange for $35.0 million of the Company's previously issued senior secured notes. The Series "B" notes, in the original principal amount of $83.3 million, were issued in an exchange for $65.0 million of the Company's previously issued senior secured notes, resulting in a discount of $18.3 million. The Company accounted for the exchanges of these notes as a debt modification. The Series "C" and "D" notes were new issuances at par value. Interest is payable semi-annually in arrears on March 13 and September 13 of each year, which commenced on September 13, 2018. The Company is required to make $2.3 million annual principal payments on the Series "A" Notes which commenced on September 13, 2021 and will continue each anniversary thereof to and including the maturity date. All other series of the notes issued under the April 2018 NPA are due in their entirety on their respective maturity dates.

Debt issuance costs of $1.3 million were incurred related to the issuance of notes under the April 2018 NPA and May 2018 NPA and are included in Long-term Debt on the consolidated balance sheets. The Company allocated the total debt issuance costs incurred for the notes on a prorated basis using the aggregate principal balance.

The terms of the Senior Unsecured Notes issued under the April 2018 NPA, May 2018 NPA, September 2019 NPA, and September 2020 NPA are subject to standard debt covenants including a capitalization ratio not to exceed 65% and an interest coverage ratio of less than 2 to 1. The Company was in compliance with the covenants for the year ended December 31, 2021. The Company may redeem the Senior Unsecured Notes, in whole or in part, at a redemption price equal to 100% of the principal amount plus a “make-whole” premium as set forth in the respective note purchase agreements.

Revolving Credit Facility

In April 2018, the Company entered into a bank credit agreement (“2018 Revolver”) with various financial institutions. In February 2020, the 2018 Revolver was amended to add an additional lender. The amendment also increased the total commitments from $100.0 million to $110.0 million. In April 2021, the 2018 Revolver was amended to increase the total commitments from $110.0 million to $200.0 million, extend the maturity from 2023 to 2026, and replace an existing lender with a new lender. Borrowings under the 2018 Revolver bear interest, at the Company’s option, at a base rate or a LIBOR rate, in each case plus an applicable margin. The base rate is equal to the greater of the federal funds rate plus 0.50%, the LIBOR rate based on a one-month interest period plus 1%, and floating rate announced by PNC Bank as its “prime rate.” The rate as of December 31, 2021 was 3.375%. The 2018 Revolver is subject to standard financial and other restrictive covenants, including maintenance of a capitalization ratio not to exceed 65% and an interest coverage ratio not to exceed 2 to 1. The bank credit agreement also supports periodic issuance of contingent standby letters of credit as needed for general business purposes. There were $0.8 million in letters of credit outstanding against the 2018 Revolver at December 31, 2021.

CUC Promissory Note

In February 2021, the Company acquired regulated water and wastewater assets serving approximately 2,200 equivalent dwelling units in South Carolina (see Note 2) for a seller financed note of $5.0 million (“CUC Note”) and $0.3 million in cash. The CUC Note has a stated annual interest of 5.0% with principal and interest payments due monthly through the maturity date.

Capital Lease Obligations

The Company has a master lease agreement for the purpose of financing a portion of its vehicle fleet. Leases under the agreement have an initial term of 367 days with automatic annual extensions until terminated by either party, have variable end dates determined by type of vehicle, are structured as capital leases and are secured by the leased assets. The lease rate is based on the 90-day LIBOR rate in effect on each lease commencement date plus 190 basis points and is updated monthly. At December 31, 2021 and 2020, the Company’s outstanding balance under this agreement was $11 thousand and $0.2 million, respectively.

Monarch Term Loans

The Company’s wholly owned subsidiary, Monarch Utilities I, LP (“Monarch”), has term loans that are secured by substantially all of the assets of Monarch, which had a net book value of $165.9 million at December 31, 2021. Monarch is subject to the maintenance of certain financial and other restrictive covenants. Monarch was in compliance with these covenants for the years ended December 31, 2021 and 2020.

First Mortgage Bonds

The Company’s wholly owned subsidiary, SWS, has five series of first mortgage bonds. The bonds are secured by a first mortgage indenture and deed of trust against substantially all of the assets of SWS.

Interest on the first mortgage bonds is payable semiannually and they may be redeemed at any time prior to maturity at par plus a call premium. Additional mortgage bonds may be issued subject to the provisions of the SWS mortgage bond indentures and the bond purchase agreement of each series. The mortgage bond indenture limits the amount of dividends that SWS may pay to the

Company. The Company was in compliance with loan agreement covenants at December 31, 2021 and 2020.

Aggregate Maturities
Total annual maturities of the revolving credit facility and debt outstanding at December 31, 2021 are as follows:

(in thousands)		Annual Maturities
Years Ending December 31,		
2022	$	11,298
2023		2,554
2024		17,452
2025		2,458
2026		92,465
2027 and thereafter		567,319
Total annual maturities	$	693,546

8. Other Liabilities

Other Current Liabilities
Other current liabilities and deferred credits consist of the following:

	December 31,			
(in thousands)		2021		2020
Accrued salaries, wages and benefits	$	12,943	$	9,717
Purchased water and power accrual		8,034		7,117
Short term deposit liabilities and deferred revenue		3,405		4,489
Accrued interest payable		6,139		6,130
Accrued income taxes payable		-		2,817
Accrued other taxes payable		7,944		7,943
Regulatory liabilities (Note 5)		-		131
Other		2,315		1,907
Total other current liabilities	$	40,780	$	40,251

Other Long-Term Liabilities

Other long-term liabilities consist of the following:

(in thousands)	December 31, 2021	December 31, 2020
Self insurance liabilities	$ 880	$ 1,274
Regulatory liabilities (Note 5)	13,515	14,391
Deferred compensation and other plan obligations	10,819	9,388
Long-term incentive	3,658	2,586
Asset retirement obligation	2,935	2,802
Related party payable to Parent	8,929	5,908
Other	1,441	3,490
Total other long-term liabilities	$ 42,177	$ 39,839

Asset Retirement Obligations

As described in Note 1, the Company records obligations for the fair value of the legal liability for asset retirement obligations associated with its wells and other infrastructure. Because retirement costs for the utilities' assets have been recovered through rates prior to the time of retirement, the Company defers any timing differences between rate recovery and depreciation expense as either a regulatory asset or a regulatory liability.

The following is a reconciliation of the beginning and ending aggregate carrying amount of asset retirement obligations, which is included in "Other Long-Term Liabilities" on the consolidated balance sheets as of December 31, 2021 and 2020:

(in thousands)	Total
Obligation at December 31, 2019	$ 2,678
Retirements	(30)
Accretion	154
Obligation at December 31, 2020	2,802
Retirements	(10)
Accretion	143
Obligation at December 31, 2021	$ 2,935

9. Income Taxes

The components of the provisions (benefit) for income taxes are as follows:

(in thousands)	Year Ended December 31, 2021	Year Ended December 31, 2020
Current		
Federal	$ (911)	$ 2,485
State	727	879
Total current	(184)	3,364
Deferred		
Federal	6,905	510
State	1,646	(240)
Total deferred	8,551	270
Net provision for income taxes	$ 8,367	$ 3,634

A reconciliation of the statutory federal income tax rate to the Company's effective tax rate is as follows:

	Year Ended December 31, 2021	Year Ended December 31, 2020
Provision computed at statutory rates	21 %	21 %
State income taxes, net of federal tax benefit	7	7
Rate change effect	0	(6)
Valuation allowance	0	1
Other, net	(2)	(4)
Effective tax rate	26 %	19 %

Deferred tax assets and liabilities consist of the following:

(in thousands)	December 31, 2021	December 31, 2020
Deferred tax liabilities		
Depreciation and amortization	$ (34,099)	$ (29,893)
Production cost balancing accounts	(3,573)	(4,609)
Goodwill and other intangibles	(13,941)	(7,445)
Other	(2,007)	(1,181)
Total deferred tax liabilities	(53,620)	(43,128)
Deferred tax assets		
Asset retirement obligation	641	634
Contributions in aid of construction and advances for construction	368	399
Allowances and other reserves	3,789	3,666
Net operating loss carryforwards	1,709	1,020
Capitalized interest	2,112	1,865
Deferred compensation	2,374	2,012
SERP expense	216	234
Gross up of revenues necessary to recover, in rates, the effect of temporary differences	1,636	1,650
Total deferred tax assets	12,845	11,480
Valuation allowance	(427)	(427)
Net deferred tax liabilities	$ (41,202)	$ (32,075)

The Company had $0.2 million and no net federal operating loss carryforwards at December 31, 2021 and 2020, respectively.

At December 31, 2021 and 2020, the Company had net state operating loss carryforwards of $1.5 million and $1.0 million, respectively, prior to the consideration of a valuation allowance. The Company had a $0.4 million valuation allowance at December 31, 2021 and 2020 in a jurisdiction for which the Company determined utilization is remote.

Based upon the Company's current and historical pre-tax operating results, management believes it is more likely than not that the Company will realize the benefit of its remaining deferred income tax assets. Management believes the existing net deductible temporary differences will reverse during periods in which the Company generates net taxable income. However, there can be no assurance that the Company will generate any earnings or any specific level of continuing earnings in future years. Management regularly reviews the recoverability of deferred income tax assets and has determined that no additional valuation allowances were necessary at December 31, 2021 and 2020.

The Company is subject to federal and various state income taxes. Tax regulations within each jurisdiction are subject to the interpretation of related tax laws and regulations and require significant judgment to apply. The statute of limitations for federal income tax return examinations is 3 years and 4 years for most states. The federal income tax liabilities of the Company have been determined whether by reason of completed audits or the statute of limitations having run for all tax years up to and including 2017. Refer to the chart below for the federal statute of limitations for the open tax years.

Tax Year Ending	Return	Filed Date	Statute of Limitations
12/31/2018	Amended	1/31/2021	1/31/2024
12/31/2019	Original	10/15/2020	10/15/2023
12/31/2020	Original	10/15/2021	10/15/2024

The Company is included in its parent company consolidated tax return. For 2021 and 2020, the Company did not record any uncertain tax positions as a tax expense line item in the consolidated statement of operations.

In response to the COVID-19 pandemic, President Donald Trump signed into law the Coronavirus Aid, Relief, and Economic Security ("CARES") Act on March 27, 2020. The CARES Act provides numerous tax provisions and other stimulus measures, including temporary changes regarding the prior and future utilization of net operating losses, temporary changes to the prior and future limitations on interest deductions, temporary suspension of certain payment requirements for the employer portion of Social Security taxes, technical corrections from prior tax legislation for tax depreciation of certain qualified improvement property, and the creation of certain refundable employee retention credits. The Company evaluated the provisions of the CARES Act and concluded that the associated impacts do not have a material effect on its financial position or liquidity.

10. Commitments and Contingencies

Lease Commitments

The Company leases equipment and office facilities under operating and capital leases that expire through 2050. Aggregate rental expense under all operating leases was $1.7 million for each the years ended December 31, 2021 and 2020. At December 31, 2021, the future minimum commitments under existing noncancelable capital and operating leases are as follows:

(in thousands)	Operating Leases	Capital Leases
Years Ending December 31,		
2022	$ 1,319	$ 17
2023	1,270	-
2024	1,211	-
2025	963	-
2026	750	-
2027 and thereafter	1,627	-
Total minimum payments required	$ 7,140	17
Less: Amounts representing interest		(6)
Total capital lease obligation		11
Less: Current portion of capital lease obligation		(11)
Long-term capital lease obligation, net of current portion		$ -

Water Supply Commitments

Certain of the Texas Utilities regulated utilities and a wholesale water entity have water supply contracts providing for the purchase of water. These agreements require the Company to purchase minimum quantities of water or capacity annually at a specified price. In some cases, the amount is subject to increases in future periods for production costs increases and may also increase, but not decrease, if average actual usage exceeds a specified amount. At December 31, 2021, the estimated minimum annual purchase commitment for the agreements is $3.0 million in 2022. The commitment is reduced to $2.8 million in 2024 and increases to $5.2 million by 2060 due to further volumetric purchase commitment escalation.

Litigation and Other Matters

The Company is involved in other routine legal and administrative proceedings arising during the ordinary course of business. Management believes that the ultimate disposition of such matters will not have a material adverse effect on the Company’s consolidated financial position, results of operations or cash flows. Any related legal costs are expensed when incurred.

Certain Contractual Commitments and Indemnities

During the normal course of business, the Company enters into agreements containing indemnities pursuant to which it may be required to make payments in the future. These indemnities are in connection with facility leases and liabilities and operations and maintenance, and construction contracts entered into by the Company’s contract services businesses. The duration of these indemnities, commitments and guarantees varies, and in certain cases, is indefinite. Substantially all of these indemnities provide no limitation on the maximum potential future payments the Company could be obligated to make and is not quantifiable. The Company has not recorded any liability for these indemnities.

11. Consolidated Statements of Cash Flows

The following information supplements the Company's consolidated statements of cash flows.

(in thousands)	Year Ended December 31, 2021	2020
Cash paid during the period for		
Interest	$ 26,203	$ 19,985
Income taxes, net	641	1,208
Noncash investing and financing activities		
Noncash contributions in aid of construction and advances for construction conveyed to the Company by developers	$ 1,736	$ 1,004
Accrued purchase price	124	-
Change in capital items in accounts payable	14,004	6,875

12. Employee Benefit Plans

401(k) Retirement Plans

Substantially all employees are eligible to participate in the 401(k) retirement plan the Company sponsors, which is a defined contribution plan. For the years ended December 31, 2021 and 2020, the Company made discretionary matching contributions to the plan that vested immediately. The Company's expense related to its matching contributions was $2.5 million and $2.2 million for the years ended December 31, 2021 and 2020, respectively.

Supplemental Executive Retirement Plan ("SERP")

A nonqualified supplemental executive retirement plan ("SERP") was originally established for certain key executives and officers for the purpose of providing supplemental income benefits to plan participants or their survivors upon retirement or death. The sole remaining participant in the SERP is a former Chief Executive Officer of the Company who retired in May 2009. Accordingly, there are no current employees participating. Additionally, there are no intentions of selecting any other participants. The total SERP liability was $0.9 million and $1.0 million at December 31, 2021 and 2020, respectively. The SERP is an unfunded plan.

Deferred Compensation Plan ("DCP")

The Company has a nonqualified deferred compensation plan ("DCP") that permits key employees to annually elect to defer a portion of their compensation until their retirement. The retirement benefit to be provided is based upon the amount of compensation deferred. Interest expense on deferred compensation was $0.3 million and $0.4 million for each for the years ended December 31, 2021 and 2020, respectively. The total deferred compensation liability was $9.9 million and $8.4 million for the years ended December 31, 2021 and 2020, respectively.

To assist in funding the deferred compensation liability, the Company has invested in company-owned life insurance policies. The cash surrender value of these policies was $9.7 million and $9.4 million for years ending December 31, 2021 and 2020, respectively and is included in other long-term assets in the accompanying consolidated balance sheets (see Note 6).

13. Related Party Transactions

Parent Debt

In September 2010, the Parent entered into a $130 million note payable with its shareholders (the "Shareholders' Note"). In August 2015, the Shareholders' Note was amended to include all outstanding principal and interest in the balance, extend the maturity from September 2025 to September 2030 and modify the annual interest rate from 10.5% to 7.7%. The new balance was $169.5 million. Interest payments were made semi-annually during 2021 and 2020. The Company made a $85.0 million and $31.0 million dividend to the Parent in 2021 and 2020, respectively, to fund interest payments.

The Shareholders' Note has one financial covenant which references the Company, specifically that the consolidated debt of the Parent and the Company is limited to 80% of the consolidated capitalization of the Parent and the Company. Should this ratio exceed 80%, and the default not be cured within the 30-day cure period, the Shareholders' Notes are automatically accelerated and become immediately fully due and payable to its shareholder.

14. Rate Case Matters

SWS

In March 2020, SWS filed an application for a GRC with the CPUC for authority to increase rates charged for water service by $14.3 million or 17.33% in 2021, by $5.8 million or 6.04% in 2022, and by $5.8 million or 5.70% in 2023. The scheduled January 1, 2021 effective date of new rates was delayed by the CPUC. In December 2020, the CPUC approved interim rates and approved an interim rates memorandum account for the purpose of tracking the difference between the interim rates (which represented an inflationary increase of 1.2% over the existing rates) and the final adopted rates scheduled to be effective retroactively to January 1, 2021.

In October 2021, the CPUC issued Decision No. 21-10-024 adopting rate increases in 2021, 2022, and 2023. The decision results in an overall rate increase of $7.8 million or 9.10% for 2021, $4.2 million or 4.41% for 2022, and $4.3 million or 4.38% for 2023.

In November 2021, the CPUC authorized the company to implement the 2022 step rate increase of $4.2 million or 4.41% for 2022, and $4.3 million or 4.38% for 2023.

In November 2019, the CPUC authorized the Company to implement the 2020 step rate increase of $2.2 million with new rates effective January 1, 2020.

Monarch

In July 2020, Monarch filed an application with the PUCT for authority to increase rates charged for water service by $3.2 million or 9.8% and wastewater service by $0.6 million or 14.3%. In February 2022, the PUCT issued an order approving final rates supporting a revenue increase of $2.7 million or 8.2% for water service and $0.2 million or 4.2% for wastewater service.

KIU

In November 2021, KIU filed an application requesting authority to increase annual revenues for water and sewer by $1.4 million, or 14.1%. The case is currently pending before the SCPSC with an expected decision in May 2022.

Palmetto
In November 2019, one of Palmetto's wastewater utilities filed a rate case with the SCPSC for a base rate increase of $6.0 million or 27.9%. In August 2020, the SCPSC issued its order in the case which authorized a base rate increase of $3.2 million or 14.9%.

In June 2021, a South Carolina utility filed an application requesting authority to increase annual revenues for sewer service by $0.5 million, or 13.6%. In December 2021, the SCPSC issued its decision in the case authorizing a revenue increase of $0.1 million, or 3.7%.

Other Subsidiaries
In September 2020, two of the Company's utilities in Oregon filed applications for rate increases with the Oregon Public Utility Commission ("OPUC") to increase rates charged for water service by $0.1 million or 10.3% and $0.2 million or 32.1%. In January 2021, the Company entered into a settlement agreement with all parties resulting in a rate increase of $0.1 million or 9.0% and $0.1 million or 17.1%. New rates were effective in May 2021.

15. Noncontrolling Interest

The financial results of a majority-owned subsidiary are consolidated into the Company's operating results and financial position, with the noncontrolling ownership interest recognized in the consolidated statement of operations as net income attributable to noncontrolling interest, and as equity attributable to the noncontrolling interest within total stockholder's equity. In September 2017, the Company formed Shelby Ridge Utility Systems, LLC ("SRUS") and is the Class A member of SRUS. The noncontrolling interest represents a 20% third-party interest in SRUS, which is comprised of Class B units issued in conjunction with the 2018 acquisition of the assets of a nonregulated wastewater utility in Alabama. The Company, as the Class A Member, has the option to purchase all Class B units, which is exercisable at any time following the fifteenth anniversary of the acquisition, and also has the contingent obligation to purchase all of the Class B units if the Class B member exercises their option to do so, which is exercisable either on the tenth or fifteenth anniversary of the acquisition.

16. Other Operating Gain

In April 2021, the Company sold intangible water rights in California for $1.3 million and recognized a gain on the sale of $1.2 million and is included in other operating gain, net in the 2021 statement of operations.

The Company's utilities in Texas generally operate under Certificates of Public Convenience and Necessity ("CCN"). Texas state laws provide that no public or private agency can install facilities within the service area of a public utility which has a CCN for that jurisdiction, in order to compete with it, without the agreement of the CCN holder. However, Texas Senate Bill 573 allows landowners with at least 25 acres of land to "opt out" of CCNs by filing with the Public Utilities Commission of Texas. In May 2021, the Company received $5.0 million from a third party related to an opt out from a CCN in Texas. This is included in other operating gain, net on the consolidated statements of operations for 2021.

In association with a final rate case order for one of the Company's utilities in Oregon, the Company recorded a gain of $0.7 million related to excess asset capacity becoming used and useful. This gain is included in other operation gain, net in the 2021 statement of operations.

In February 2020, the Company sold intangible water rights in California for $2.4 million. The gain on the sale was $2.1 million and is included in other operating gain in the 2020 statement of operations.

17. Subsequent Events

Management has evaluated events and transactions that occurred after December 31, 2021, through April 14, 2022, which is the date these financial statements were available to be issued, for inclusion in these financial statements.

In April 2022, the Company made a $20.0 million dividend payment to the Parent.

In March 2022, the Company acquired the assets of two water utility systems serving approximately 100 equivalent dwelling units in in Cooke County, Texas area for $0.2 million in cash. This acquisition allowed the Company to expand its operations in the state of Texas.

In March 2022, the Company acquired the assets of wastewater collection and treatment systems serving approximately 2,600 equivalent dwelling units in portions of Fairfield, Lexington, Richland, and Orangeburg Counties outside of Columbia, South Carolina for $4.0 million in cash. This acquisition allowed the Company to expand its operations in the state of South Carolina.

SouthWest Water Company

Consolidated Financial Statements

December 31, 2021 and 2020

SouthWest Water Company
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Report of Independent Auditors

To the Board of Directors of
SouthWest Water Company

Opinion

We have audited the accompanying consolidated financial statements of SouthWest Water Company (the "Company") and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of operations, changes in stockholder's equity and cash flows for the years then ended, including the related notes (collectively referred to as the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

PricewaterhouseCoopers LLP

Houston, Texas
April 14, 2022

SouthWest Water Company
Consolidated Balance Sheets
December 31, 2021 and 2020

(in thousands)	2021	2020
Assets		
Current assets		
Cash and cash equivalents	$ 69	$ 4,607
Accounts receivable, net	26,597	24,890
Prepaid expenses and other current assets	20,892	17,178
Total current assets	47,558	46,675
Property, plant and equipment, net	768,340	694,361
Other assets		
Goodwill	484,071	470,455
Intangible assets	57,305	59,338
Other assets	55,997	55,285
Total assets	$ 1,413,271	$ 1,326,114
Liabilities and Stockholder's Equity		
Current liabilities		
Accounts payable	$ 21,201	$ 13,837
Current portion of long-term debt	11,298	1,046
Other current liabilities	40,780	40,251
Total current liabilities	73,279	55,134
Other liabilities and deferred credits		
Long-term debt, less current portion and less unamortized discount and debt issuance costs	660,226	587,786
Deferred income taxes	41,202	32,075
Advances for construction and developer deposits	21,037	19,679
Contributions in aid of construction	119,532	117,568
Other liabilities and deferred credits	42,177	39,839
Total liabilities	957,453	852,081
Commitments and Contingencies (Note 10)		
Stockholder's equity		
Common stock [(a)]	-	-
Additional paid-in capital	440,241	459,736
Retained earnings	2,995	1,145
Noncontrolling interest	12,582	13,152
Total stockholder's equity	455,818	474,033
Total liabilities and stockholder's equity	$ 1,413,271	$ 1,326,114

(a) 10,000 shares authorized, issued and outstanding at December 31, 2021 and 2020. Par value is $.01 per share.

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

SouthWest Water Company
Consolidated Statements of Operations
Years Ended December 31, 2021 and 2020

(in thousands)	**2021**	**2020**
Operating revenue	$ 248,906	$ 211,672
Expenses		
Operating expenses	161,097	142,016
Depreciation and amortization	36,994	30,659
Other operating gain, net	(7,736)	(2,243)
Total operating expenses	190,355	170,432
Operating income	58,551	41,240
Other income (expense)		
Interest expense	(26,606)	(22,429)
Interest income	84	103
Income before income taxes	32,029	18,914
Income tax expense	(8,367)	(3,634)
Net income	23,662	15,280
Net income attributable to noncontrolling interest	(407)	(410)
Net income attributable to SouthWest Water Company	$ 23,255	$ 14,870

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

SouthWest Water Company
Consolidated Statements of Changes in Stockholder's Equity
Years Ended December 31, 2021 and 2020

(amounts in thousands)	Common Stock # of Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Noncontrolling Interest ("NCI")	Total
Balances at December 31, 2019	10	$ -	$ 257,500	$ 3,016	$ 13,623	$ 274,139
Net income	-	-	-	14,870	410	15,280
Contribution from Parent	-	-	216,495	-	-	216,495
Dividend to Parent	-	-	(14,259)	(16,741)	-	(31,000)
Dividend to noncontrolling interest	-	-	-	-	(881)	(881)
Balances at December 31, 2020	10	-	459,736	1,145	13,152	474,033
Net income	-	-	-	23,255	407	23,662
Contribution from Parent	-	-	44,100	-	-	44,100
Dividend to Parent	-	-	(63,595)	(21,405)	-	(85,000)
Dividend to noncontrolling interest	-	-	-	-	(977)	(977)
Balances at December 31, 2021	10	$ -	$ 440,241	$ 2,995	$ 12,582	$ 455,818

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

SouthWest Water Company
Consolidated Statements of Cash Flows
Years Ended December 31, 2021 and 2020

(in thousands)	2021	2020
Operating activities		
Net income	$ 23,662	$ 15,280
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	36,994	30,659
Deferred income taxes	9,127	(360)
Provision for doubtful accounts	1,438	1,158
Other operating gain, net	(2,315)	(2,243)
Write off of unamortized deferred financing costs	71	-
Amortization of deferred financing costs	585	531
Amortization of discount on senior note	553	518
Other, net	19	141
Changes in operating assets and liabilities		
Accounts receivable	(3,119)	(5,593)
Prepaid expenses and other current assets	(3,673)	6,162
Other assets	(2,215)	(739)
Accounts payable	(1,491)	(1,880)
Other current liabilities	1,915	4,296
Other liabilities	485	1,635
Net cash provided by operating activities	62,036	49,565
Investing activities		
Purchase of property, plant and equipment	(76,202)	(56,690)
Proceeds from sale of property, plant and equipment	201	383
Proceeds from sale of water rights	1,335	2,432
Purchase of pipeline capacity and water rights	(15)	(4,538)
Payments for acquisitions, net of cash acquired	(31,988)	(376,372)
Net cash used in investing activities	(106,669)	(434,785)
Financing activities		
Proceeds from borrowing on line of credit	162,549	64,042
Payments on line of credit	(81,874)	(65,042)
Payments on long-term debt	(3,241)	(823)
Payments on long-term capital leases	(214)	(326)
Proceeds from advances for construction	6,344	6,141
Proceeds from issuance of new long term debt	-	200,000
Repayment of advances for construction	(819)	-
Capital contributed by Parent	44,100	216,495
Dividends paid to Parent	(85,000)	(31,000)
Dividends paid to noncontrolling interest	(977)	(881)
Payments for deferred financing costs	(773)	(1,694)
Net cash provided by financing activities	40,095	386,912
Increase (decrease) in cash and cash equivalents	(4,538)	1,692
Cash and cash equivalents		
Beginning of year	4,607	2,915
End of year	$ 69	$ 4,607

1. Business, Basis of Presentation, and Summary of Significant Accounting Policies

Description of Business
SouthWest Water Company and its subsidiaries (the "Company" or "SWWC") owns, operates, and maintains water and wastewater infrastructure and provides a broad range of operations, maintenance and management services, including water production; treatment and distribution; wastewater collection and treatment; customer service; and utility infrastructure construction management. The Company owns water and wastewater public utilities and to a lesser extent also serves municipalities and private companies under operating contracts.

On September 13, 2010, the Company completed an agreement and plan of acquisition and merger ("Acquisition Agreement") with SW Merger Acquisition Corp. ("Parent") and SW Merger Sub Corp., a direct wholly owned subsidiary of Parent ("Merger Sub"). The Company is the surviving corporation of the merger with SW Merger Sub Corp. and is a wholly owned subsidiary of Parent.

Principles of Consolidation
The consolidated financial statements include the accounts of SouthWest Water Company and its subsidiaries. The financial results of majority-owned subsidiaries are consolidated into the Company's operating results and financial position, with the minority ownership interest recognized in the consolidated statement of operations as net income attributable to noncontrolling interests, and as equity attributable to the noncontrolling interests within total stockholder's equity. See Note 15 for further explanation of the Company's noncontrolling interests.

Basis of Presentation and Use of Estimates
The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, also referred to as the Accounting Standards Codification ("ASC") and include the accounts of SouthWest Water Company and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

Preparation of the financial statements in conformity with the ASC requires management to make estimates and assumptions. The reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses reported could be affected by both changes in those estimates and actual results.

The current novel coronavirus ("COVID-19") pandemic has caused significant social and economic restrictions that have been imposed in the United States and abroad, which has resulted in significant volatility in the global economy and led to reduced economic activity in some industries. In the preparation of these financial statements and related disclosures, the Company has assessed the impact that the COVID-19 pandemic has had on its estimates, assumptions, forecasts, and accounting policies. Because of the essential nature of its business, the Company does not believe the COVID-19 pandemic had a material impact on its estimates, assumptions and forecasts used in the preparation of its financial statements. As the COVID-19 situation is unprecedented and ever evolving, future events and effects related to the COVID-19 pandemic cannot be determined with precision, and actual results could significantly differ from estimates or forecasts.

Regulated Utility Accounting
The Company's regulated utilities are subject to regulation by the public utility commissions and the local governments of the states in which they operate (the "Regulators"). These Regulators have allowed recovery of costs and credits which the Company has recorded as regulatory assets and

liabilities. In accordance with regulated accounting as prescribed by ASC 980, costs and credits on the balance sheet are deferred as regulatory assets and liabilities when it is probable that previously incurred costs or credits will be recognized in future operating results. These deferred amounts, both assets and liabilities, are recognized in the income statement in the same period that they are reflected in rates charged for water and wastewater service. In the event that the assessment as to the probability of the inclusion in the rate-making process changes, the associated regulatory asset or liability would be adjusted to reflect the change in assessment or change in regulatory approval.

The Company's Alabama wastewater utilities, Oregon wastewater utilities, and a wholesale water business wholly owned by a Texas subsidiary do not meet the criteria for regulatory accounting because the rates charged by these entities are not established by or subject to approval by an independent third-party regulator. During 2021, all the regulated utilities in the Company met all criteria to apply regulated accounting except two utilities in Texas. During 2020, all the regulated utilities in the Company met all criteria to apply regulated accounting. During 2021 and 2020, the Company acquired additional regulated and nonregulated utilities (see Note 2). All acquired regulated utilities meet the requirements of ASC 980 except one utility in Texas during 2021.

Cash and Cash Equivalents
The Company considers all highly liquid investments such as certificates of deposit, commercial paper and money market accounts with a maturity of three months or less when acquired to be cash equivalents. Cash equivalents are stated at cost, which approximates fair value.

Property, Plant and Equipment
Additions to property, plant and equipment are recorded at cost and include capitalized interest for major projects. Depreciation expense for regulated utility plants is recorded using the straight-line method over useful lives primarily ranging from five to eighty-five years, using either the composite method of depreciation as prescribed by the applicable regulatory authorities, or the straight-line method, depending upon the state in which the regulated utility resides. Property, plant and equipment used in nonregulated operations are depreciated using the straight-line method over estimated useful lives ranging from two to forty years. For regulated utilities using the composite method of depreciation, the cost of the property, net of salvage value, is charged to accumulated depreciation upon retirement. For regulated utilities in Texas using the straight-line method of depreciation that meet the requirements of ASC 980, the cost of the property, net of salvage value, is recorded in net property, plant, and equipment upon retirement if it is probable that the cost is subject to recovery in future revenues. For the regulated utilities using the straight-line method of depreciation that do not meet the requirements of ASC 980, any gains or losses resulting from retirements are recorded in the results of operations. For the other utilities and service businesses using the straight-line method of depreciation, any gains and losses resulting from retirements are recorded in the results of operations in the period of the retirement.

The costs to acquire and develop computer software for internal use are deferred and amortized on the straight-line basis over periods of primarily three to seven years.

Maintenance costs, including those for planned major maintenance projects, are recognized in the period in which they are incurred.

Long-Lived Asset Impairment
The Company evaluates long-lived assets, including identifiable intangible assets, for impairment whenever events or changes in circumstances indicate that the asset's carrying value may not be

recoverable. When it is probable that undiscounted future cash flows are not sufficient to recover the asset's carrying amount, the asset is written-down to its estimated fair value.

Goodwill
Goodwill at December 31, 2021 and 2020 represents the excess of purchase price paid by the Parent, over the fair value assigned to the net tangible and identifiable intangible assets of SWWC and the excess of the purchase price over the net amount of identifiable assets acquired and liabilities assumed in a business combination measured at fair value. Goodwill is tested annually for impairment or more frequently if events or circumstances indicate carrying values may not be recoverable. Goodwill is evaluated for impairment using discounted cash flow methodologies, transaction values for comparable companies, and other valuation techniques for its reporting units with goodwill balances.

Qualitative factors are first assessed to determine whether a quantitative goodwill impairment test is necessary. If considered necessary, a quantitative test comparing the fair value of a reporting unit with its carrying amount, including goodwill, is performed. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is not impaired. If the carrying amount of a reporting unit exceeds its fair value, an impairment loss is recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting

Intangible Assets
Finite-lived intangible assets are amortized on the straight-line basis over their estimated useful lives, ranging from ten to fifty years. Indefinite-lived intangible assets consist of water rights to a portion of the annual yield of certain watersheds and ground water basins and are not amortized.

Inventories
Inventories generally consist of parts and supplies held for use in the ordinary course of business and are valued at the lower of cost or net realizable value generally using the moving average cost method. Where shipping and handling costs are borne by us, these charges are included in inventory and charged to cost of services upon use in construction or the providing of services.

Debt Issuance Costs
Debt issuance costs are amortized to interest expense using the straight-line method over the term of the related debt.

Income Taxes
Income taxes are accounted for using the asset and liability method and deferred income taxes are provided for all significant temporary differences. Deferred tax assets and liabilities are recorded using enacted tax rates expected to apply to taxable income in the years in which the temporary differences are recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in the period that the change occurs.

Deferred tax assets have to be assessed for the likelihood of future recovery from taxable income, to the extent we believe that more likely than not, some portion will not be realized. In that scenario, upon consideration of all positive and negative evidence, a valuation allowance may be recorded. Liabilities are recorded based on estimates of potential tax related exposures. Accounting for these assessments requires significant judgment as uncertainties often exist with respect to existing tax laws, new interpretations of existing laws and rulings by taxing authorities. Differences between actual results and assumptions, or changes in assumptions are recorded in the period they become known.

Suburban Water Systems ("SWS"), a subsidiary of SWWC, recorded deferred income taxes for regulatory assets and liabilities because recovery/refund of these amounts is expected to be allowable in future rates by the California Public Utilities Commission (the "CPUC"). In addition, investment tax credits have been deferred and are amortized over the estimated productive lives of the related assets as allowed by the CPUC.

Advances for Construction and Contributions in Aid of Construction
Developers, builders, governmental agencies and municipalities contribute property or cash to extend water and wastewater service to their properties. For ratemaking purposes, these contributions in aid of construction ("CIAC") generally serve as a rate base reduction since they represent noninvestor supplied funds. The Company depreciates utility plants funded by contributions and amortizes the CIAC balance as a reduction to depreciation expense, producing a result which is functionally equivalent to reducing the original cost of the utility plant for the contributions. Advances for construction are contributed property or cash which is refundable for limited periods as new customers begin to receive service or other contractual obligations are fulfilled. Advances which are no longer refundable are reclassified to CIAC.

Asset Retirement Obligations
The Company records the fair value of the legal liability for asset retirement obligations ("AROs") associated with Company-owned wells and other regulated utility infrastructure. Amounts recorded as AROs are subject to various assumptions and determinations such as determining whether a legal obligation exists to remove assets, estimating the fair value of the costs of removal, estimating when final removal will occur, and the credit-adjusted risk-free interest rates to be utilized on discounting future liabilities. Changes that may arise over time with respect to these assumptions will change amounts recorded in the future. Estimating the fair value of the costs of removal were determined based on third party costs.

When the liability is initially incurred, the Company capitalizes the cost of the ARO by increasing the carrying amount of the related long-lived asset. The liability is accreted to its estimated future obligation and the capitalized cost is depreciated over the useful life of the related asset. Upon the asset's retirement and the settlement of the ARO, any difference between the cost to retire the asset and the liability recorded is recognized as a gain or loss in the consolidated statement of operations.

Revenue Recognition
Most of the Company's revenues are accounted for under the revenue recognition accounting standard, "Revenue from Contracts with Customers (Topic 606)." As a nonpublic company, the Company has elected not to apply the quantitative disaggregation of revenue. The Company's water and wastewater utility, wholesale, and operating contract revenues are recognized over time as customers simultaneously receive and use the services provided. To a much lesser extent, the Company recognizes revenue at a point in time for equipment installation and other service work when the installation is complete and control transfers to the customer.

The location of the Company's customers and the types of contracts entered into may affect the nature, amount, timing, and uncertainty of revenue and cash flows. There are no significant financing components or variable consideration.

Revenue is measured based on the amount of consideration specified in the contracts with our customers and excludes any amounts collected on behalf of third parties. We have elected the practical expedient to exclude amounts collected from customers for all sales (and other similar) taxes.

The Company provides water and wastewater utility services to customers as specified by its Regulators. The transaction prices for water and wastewater utility revenues are based on tariff rates authorized by the Regulators, which include both quantity-based and flat-rate charges. These contracts contain a single performance obligation, the delivery of water and wastewater services, as the promise to transfer the individual good or service is not separately identifiable from other promises within the contracts and, therefore, is not distinct. Tariff revenues represent the adopted revenue requirement authorized by the Regulators intended to provide the Company with an opportunity to recover its costs and earn a reasonable return on its net capital investment. The annual revenue requirements are comprised of operation and maintenance costs, administrative and general costs, depreciation and taxes in amounts authorized by the Regulators and a return on rate base consistent with the capital structure authorized by the Regulators.

Water and wastewater utility revenues include amounts billed to customers on a cyclical basis, which are based on meter readings for services provided. The amounts that the Company has a right to invoice are determined by each customer's actual usage, an indicator that the invoice amount corresponds directly to the value transferred to the customer. Although rates for the Company's Alabama and Oregon wastewater utilities are not established by or subject to approval by an independent third-party regulator, revenue is recognized in the same way.

Unbilled revenues are amounts estimated to be billed for usage since the last meter-reading date to the end of the accounting period.

Customer bills may include surcharges for cost-recovery activities, which represent Regulator authorized balancing and memorandum accounts that allow for the recovery of previously incurred operating costs. Revenues from these surcharges result in no impact to earnings as they are offset by corresponding increases in operating expenses to reflect the recovery of the associated costs.

As authorized by the CPUC, SWS records in revenues the difference between the adopted level of volumetric revenues as authorized by the California Public Utilities Commission ("CPUC") for metered accounts (volumetric revenues) and the actual volumetric revenues recovered in customer rates. The difference is tracked under the Monterey-style Water Revenue Adjustment Mechanism ("Monterey WRAM"). If this difference results in an under-collection of revenues, the Company records the additional revenue only to the extent that they are expected to be collected within 24 months following the year in which they are recorded in accordance with ASC 980.

The Company also recognizes revenue when it is probable that future recovery of previously incurred costs or future refunds that are to be credited to customers will occur through the ratemaking process.

For the Company's operating contracts, the performance obligation is performing ongoing operation and maintenance of the water and/or wastewater systems and treatment plants. The ongoing performance of operation and maintenance of the water and/or wastewater systems and treatment plants is viewed as a single performance obligation for each contract. The Company recognizes revenue for operations and maintenance over time as the Company has a right to consideration from its contract customers in an amount that corresponds directly to the value to the customers of the Company's performance completed to-date. The level of effort or resources expended in completing the performance obligation is largely consistent over the contract term.

Removal Costs
When regulatory authorities approve rates which allow recovery in advance for the cost of removal of assets required by the normal on-going maintenance and repair of the water system, the Company recognizes a regulatory liability until the actual costs to retire those assets are incurred.

Fair Value Measurements
The Company follows the authoritative accounting guidance for fair value measurements and disclosures, which defines fair value and establishes a framework for using fair value to measure assets and liabilities. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access;

Level 2 Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted market prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in nonactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; or

Level 3 Inputs that are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. There have been no changes in the valuation techniques used to measure fair value for the years ended December 31, 2021 and 2020.

Recent Accounting Pronouncements
In February 2016, the FASB issued ASU No. 2016-02, Leases, which will require lessees to recognize assets and liabilities arising from operating leases on the balance sheet. Lessees and lessors will be required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The modified retrospective approach includes a number of optional practical expedients that entities may elect to apply. These practical expedients relate to the identification and classification of leases that commenced before the effective date, initial direct costs for leases that commenced before the effective date and the ability to use hindsight in evaluating lessee options to extend a lease, terminate a lease or to purchase the underlying asset. In June 2020, the FASB deferred the effective dates for nonpublic entities to annual reporting periods beginning after December 15, 2021 and interim periods within annual reporting periods beginning after December 15, 2022. Earlier application is permitted for all entities. The Company is evaluating the potential impact of this ASU on its financial statements and related disclosures.

In June 2016, the FASB issued ASU No. 2016-13 on accounting for impairments of financial instruments, including trade receivables, which requires companies to estimate expected credit losses on trade receivables over their contractual life. Historically, companies reserve for expected credit losses by applying historical loss percentages to respective aging categories. Under the updated accounting guidance, companies will use a forward-looking methodology that incorporates lifetime expected credit losses, which will result in an allowance for expected credit losses for receivables that are either current or not yet due, which historically have not been reserved for. In November 2019, the FASB ASU No. 2019-10, Financial instruments - Credit losses (Topic 326), Derivatives and hedging (Topic 815), and Leases (Topic 842) - Effective dates extending the effective dates to annual and interim reporting periods in 2023 for nonpublic entities, with early adoption available. The Company is evaluating the requirements of the updated guidance to determine the impact of adoption.

In August 2018, the FASB issued ASU No. 2018-13, which modifies the disclosure requirements on fair value measurements. The modifications in this update eliminates, amends, and adds disclosure requirements for fair value measurements, which is expected to reduce costs for preparers while providing more decision-useful information for financial statement users. The updated accounting guidance is effective for fiscal years beginning after December 15, 2019, with early adoption available. The adoption of this standard on January 1, 2020 did not have a material impact on the Company’s financial statements and related disclosures.

In December 2019, the FASB issued ASU No. 2019-12, Income Taxes (Topic 740) - Simplifying the Accounting for Income Taxes. The amendments in this update simplify the accounting for income taxes by removing certain exceptions and clarifying certain requirements regarding franchise taxes, goodwill, consolidated tax expenses, and annual effective tax rate calculations. For nonpublic entities, the ASU is effective for fiscal years beginning after December 15, 2022. Early adoption is permitted. The Company is evaluating the impact of this ASU on its consolidated financial statements.

2. Acquisitions

In March 2021, the Company acquired all of the ownership interest in Ni Florida LLC (“Ni FL”) for $12.5 million in cash. Ni FL owns regulated water and wastewater utilities which provide services to approximately 4,400 equivalent dwelling units across Pasco and Lee counties in Florida. The utilities are regulated by the Florida Public Service Commission and meet the criteria for regulatory accounting. Goodwill associated with the acquisition is tax deductible. The Company incurred acquisition-related costs in conjunction with the acquisition of Palmetto described below. The total acquisition-related costs for both acquisitions were $0.2 million and $5.0 million for the years ended December 31, 2021 and 2020, respectively. These costs are recorded in the consolidated statements of operations. This acquisition allowed the Company to expand its operations to the state of Florida.

In December 2021, the Company acquired regulated assets of 17 water and 3 wastewater systems (“UIC”) serving approximately 3,600 equivalent dwelling units throughout the Greater Houston area for $12.2 million. The Company paid $12.1 million and $0.1 million in cash in December 2021 and March 2022, respectively. The acquired systems are regulated by the Public Utility Commission of Texas (“PUCT”) and meet the criteria for regulatory accounting. There is no goodwill associated with this transaction. The Company incurred total acquisition-related costs of $0.1 million during the years ended December 31, 2021 and 2020, which are recorded in the consolidated statements of operations. This acquisition allowed the Company to expand its operations in the state of Texas.

The recognized amounts of identifiable assets acquired and liabilities assumed for the two acquisitions in 2021 noted above are presented in the table below (in thousands):

	Ni Florida	UIC
Cash and cash equivalents	$ 76	$ -
Other current assets	190	239
Property, plant and equipment, net	6,020	12,060
Other assets	31	-
Current liabilities	(452)	(78)
Contributions in aid of construction, net	(1,557)	-
Other liabilities	(93)	-
Total identifiable assets acquired and liabilities assumed	4,215	12,221
Goodwill	8,309	-
Total purchase price consideration	$ 12,524	$ 12,221

In February 2021, the Company acquired regulated water and wastewater assets serving approximately 2,200 equivalent dwelling units in South Carolina for a seller financed note of $5.0 million and $0.3 million in cash. Goodwill of $5.0 million associated with the acquisition is tax deductible. The Company incurred total acquisition-related costs of $0.1 million during the years ended December 31, 2021 and 2020, which are recorded in the consolidated statements of operations. This acquisition allowed the Company to expand its operations in the state of South Carolina.

In March 2021, the Company acquired regulated water and wastewater assets serving approximately 2,500 equivalent dwelling units in Texas for $1.9 million in cash. Goodwill of $0.3 million associated with the acquisition is tax deductible. This acquisition allowed the Company to expand its operations in the state of Texas.

In June 2021, the Company acquired regulated water and wastewater assets serving approximately 70 equivalent dwelling units in Texas for $0.1 million in cash. There was no goodwill in this transaction. This acquisition allowed the Company to expand its operations in the state of Texas.

In August 2021, the Company acquired unregulated wastewater assets serving approximately 1,200 equivalent dwelling units in Alabama for $5.0 million in cash. There is no goodwill associated with this transaction. This acquisition allowed the Company to expand its operations in the state of Alabama.

In September 2020, the Company acquired all of the ownership interest in Ni South Carolina Utilities, Inc., Ni South Carolina LLC, and Ni America Operating LLC and their direct subsidiaries (collectively “Palmetto”) for $367.3 million in cash. Palmetto owns three regulated wastewater utilities which provide services to approximately 42,000 equivalent dwelling units across Kershaw, Richland, and Lexington counties in South Carolina and to a much lesser extent, non-regulated septic receiving operations in South Carolina. The wastewater utilities are regulated by the South Carolina Public Service Commission (”SCPSC”) and meet the criteria for regulatory accounting. Goodwill associated with the acquisition is tax deductible. The Company incurred acquisition-related costs in conjunction with the acquisition of Ni FL described above. The total acquisition-related costs for both acquisitions were $0.2 million and $5.0 million for the years ended December 31, 2021 and 2020, respectively. These costs are recorded in the consolidated statements of operations. This acquisition allowed the Company to significantly expand its operations in the state of South Carolina.

In June 2020, the Company acquired the assets of four regulated water and wastewater systems (“Double Diamond”) serving approximately 2,800 equivalent dwelling units near Dallas, Texas for $8.6 million in cash. The acquired systems are regulated by the PUCT and meet the criteria for regulatory accounting. Goodwill associated with the acquisition is tax deductible. The Company incurred total acquisition-related costs of $0.2 million during the years ended December 31, 2020 and 2019, which are recorded in the consolidated statements of operations. This acquisition allowed the Company to expand its operations in the state of Texas.

The recognized amounts of identifiable assets acquired and liabilities assumed for the two acquisitions in 2020 noted above are presented in the table below (in thousands):

	Palmetto	Double Diamond
Cash and cash equivalents	$ 3,135	$ -
Other current assets	4,653	230
Property, plant and equipment, net	130,592	3,088
Other assets	11,688	-
Current liabilities	(4,025)	(65)
Contributions in aid of construction, net	(36,557)	(1,456)
Other liabilities	(4,790)	(519)
Total identifiable assets acquired and liabilities assumed	104,696	1,278
Goodwill	262,613	7,290
Total purchase price consideration	$ 367,309	$ 8,568

In January 2020, the Company acquired the assets of two regulated water and wastewater utilities in South Carolina for $2.1 million in cash. Goodwill of $2.0 million associated with the acquisition is tax deductible. This acquisition allowed the Company to expand its operations in the state of South Carolina.

In May 2020, the Company acquired the assets of a nonregulated septic hauling operation in Oregon for $1.5 million in cash. This acquisition allowed the Company to expand its operations in the state of Oregon.

3. Current Assets

Accounts Receivable

At December 31, 2021 and 2020, $12.5 million and $8.4 million, respectively, of estimated unbilled regulated operations revenue was recorded representing customer water and wastewater usage revenue since the previous billing cycles and estimates of revenue earned but not yet billed.

At December 31, 2021 and 2020, $1.4 million and $1.3 million, respectively, of estimated unbilled nonregulated operations revenue was recorded, primarily representing contractual base fee revenue and estimates of time and material revenue earned on work completed but not yet billed.

The Company maintains allowances for doubtful accounts for receivables whose collection is uncertain based on management's periodic review of past due or delinquent accounts. Accounts receivable are net of an allowance for doubtful accounts of $5.9 million and $5.1 million at December 31, 2021 and 2020, respectively.

Prepaid Expenses and Other Current Assets
Prepaid expenses and other current assets consist of the following:

	December 31,	
(in thousands)	**2021**	**2020**
Prepaid expenses	$ 6,280	$ 8,257
Parts and supply inventory	2,492	2,308
Other receivables	1,749	302
Regulatory assets (Note 5)	9,459	5,374
Other	912	937
Total prepaid expenses and other current assets	$ 20,892	$ 17,178

4. Property, Plant and Equipment

Property, plant and equipment ("PP&E"), recorded at cost, consists of the following:

(in thousands)	December 31, 2021	December 31, 2020
Regulated utilities		
Land and land rights	$ 17,465	$ 16,601
General plant	209,828	188,965
Transmission and distribution	744,886	682,102
Construction work-in-progress	69,713	37,320
Total cost	1,041,892	924,988
Accumulated depreciation	(282,763)	(239,321)
Net regulated utilities	759,129	685,667
Nonregulated operations		
Land	122	122
Property and equipment	6,748	6,024
Software for internal use	43,336	40,478
Construction work-in-progress	490	935
Total cost	50,696	47,559
Accumulated depreciation	(41,485)	(38,865)
Net nonregulated operations	9,211	8,694
Net property, plant and equipment	$ 768,340	$ 694,361

Depreciation expense was $39.7 million and $33.0 million for the years ended December 31, 2021 and 2020, respectively. Depreciation expense for regulated utility PP&E was $36.8 million and $30.5 million for the years ending December 31, 2021 and 2020, respectively. Depreciation expense for regulated utility PP&E was reduced by the amortization of contributions in aid of construction totaling $6.5 million and $4.8 million for the years ending December 31, 2021 and 2020, respectively. Capitalized interest additions to PP&E were $1.0 million and $0.4 million for the years ended December 31, 2021 and 2020, respectively.

Certain expenditures relating to the development of software for internal use are capitalized. PP&E at December 31, 2021 and 2020 includes $7.7 million and $7.4 million, respectively, of capitalized software costs, net of accumulated depreciation.

For regulated utilities in Texas using the straight-line method of depreciation that meet the requirements of ASC 980, the cost of property, net of salvage value, is deferred and recorded in net property, plant, and equipment upon retirement in accordance with the FASB's accounting guidance for regulated operations as the Company expects to recover these costs in future rates. There were $2.0 million and $2.4 million of these costs included in net property, plant and equipment at December 31, 2021 and 2020, respectively.

5. Regulatory Assets and Liabilities

As described in Note 1, in accordance with authoritative guidance for regulated utilities, costs and credits on the balance sheet are deferred as regulatory assets and liabilities when it is probable that revenue or expense in an amount at least equal to the capitalized cost or credit will result from inclusion of those costs or credits in allowable costs for ratemaking purposes in the future.

All of the Company's regulated utilities met the regulated accounting criteria during 2021. The resulting regulatory assets and liabilities are shown in the following table. The following regulatory assets and liabilities are included in prepaid and other current assets, other long-term assets, other current liabilities and other long-term liabilities on the consolidated balance sheets:

(in thousands)	December 31, 2021	December 31, 2020
Regulatory assets		
Short-term		
Supply cost balancing account	$ 2,024	$ 2,024
Interim rates	3,344	3,330
COVID-19 financial impacts	2,018	-
Other	2,073	20
Total short term	9,459	5,374
Long-term		
Regulatory tax assets	9,557	8,921
Supply cost balancing account	8,232	10,979
ARO and future removal costs	5,137	3,259
Rate case expenses	867	2,407
COVID-19 financial impacts	1,499	2,154
PRC Plant	6,386	8,206
Other	8,233	3,547
Total long-term	39,911	39,473
Total regulatory assets	49,370	44,847
Regulatory liabilities		
Short-term		
Regulatory tax liability	-	(131)
Total short term	-	(131)
Long-term		
Regulatory tax liability	(10,408)	(11,614)
Drought surcharge regulatory liability	(254)	(254)
Other	(2,853)	(2,523)
Total long-term	(13,515)	(14,391)
Total regulatory liabilities	(13,515)	(14,522)
Net regulatory assets	$ 35,855	$ 30,325

The Company continues to monitor the global outbreak of the COVID-19 pandemic. To date, the Company has experienced COVID-19 financial impacts, including an increase in uncollectible accounts expense and certain incremental operation and maintenance expenses. The Company has also experienced decreased revenues as a result of the waiver of late fees and foregone reconnect fees. These impacts are collectively referred to as "financial impacts."

In Texas, South Carolina, and Oregon, the Company has commission orders authorizing deferred accounting for COVID-19 financial impacts. In California, the Company has a CPUC approved Catastrophic Event Memorandum Account (CEMA). The CEMA allows the Company to track and recover certain financial impacts related to the COVID-19 pandemic.

The Company recorded $3.5 million and $2.2 million in regulatory assets for the financial impacts related to the COVID-19 pandemic as of December 31, 2021 and December 31, 2020, respectively. The Company believes that these regulatory assets are probable for recovery through future regulatory proceedings and other available state funds. In February 2022, the Company received $2.0 million for recovery of some of these regulatory assets in California.

On December 22, 2017, President Trump signed into law legislation referred to as the "Tax Cuts and Jobs Act" (the "TCJA"), which reduced the Federal corporate income tax rate from 35% to 21%. Reductions in accumulated deferred income tax balances due to the reduction in the corporate income tax rate to 21% under the provisions of the TCJA will result in amounts previously collected from utility customers for these deferred taxes to be refundable to such customers, generally through reductions in future rates. The TCJA includes provisions that stipulate how these excess deferred taxes relating to certain accelerated tax depreciation benefits are to be passed back to customers. Potential refunds of other deferred taxes will be determined by our state regulators. The December 31, 2021 consolidated balance sheet reflects impact of the TCJA on our regulatory assets and liabilities. The impact reduced our regulatory assets by $2.2 million and increased our regulatory liabilities by $8.1 million. These adjustments had no impact on our cash flows.

In January 2017, SWS filed an application for a general rate increase ("GRC") with the CPUC for authority to increase rates charged for water service in 2018, 2019, and 2020. The scheduled January 2018 effective date of new rates and the January 2019 effective date of the 2018 step filing were delayed by the CPUC. In December 2017, the CPUC approved an interim rates memorandum account to track the difference between the interim rates (which represented existing rates) and the final adopted rates effective January 2018. In May 2019, the CPUC issued Decision No. 19-05-029 adopting the GRC for years 2018, 2019, and 2020. The decision resulted in an overall rate increase of $4.86 million or 6.40% for 2018, $2.2 million or 2.72% for 2019, and $2.2 million for 2020. The decision also authorized SWS to recover the revenue associated with the delay in adopting new 2018 and 2019 rates (the difference between the interim rates and the adopted rates). As of December 31, 2020, the regulatory asset related to the interim rates under-collection is approximately $3.3 million.

In March 2020, SWS filed an application for a general rate increase ("GRC") with the CPUC for authority to increase rates charged for water service in 2021, 2022, and 2023. The scheduled January 2021 effective date of new rates was delayed by the CPUC. In December 2020, the CPUC approved an interim rates memorandum account to track the difference between the interim rates (which represented an increase of 1.2% over the exiting rates) and the final adopted rates effective January 1, 2021. In October 2021, the CPUC issued Decision No. 21-10-024 adopting the GRC for years 2021, 2022, and 2023. The decision resulted in an overall rate increase of $7.78 million or 9.10% for 2021, $4.2 million or 4.41% for 2022, and $4.3 million or 4.38% for 2023. The

Administrative Law Judge's Ruling in December 2020 also authorized SWS to recover the revenue associated with the delay in adopting new 2021 rates (the difference between the interim rates and the adopted rates). As of December 31, 2021, the regulatory asset related to the interim rates under-collection is approximately $6.7 million.

As permitted by the CPUC, SWS maintains water supply cost balancing accounts. Balancing accounts track pricing differences between noncontrollable costs authorized in rates such as purchased water, purchased power and pump taxes and actual recorded costs, and defers the under-collected amounts for future surcharge ("regulatory assets"), or over-collected amounts for future surcredit ("regulatory liabilities") to customers. Deferred amounts are charged or credited to customers over a 12-to 36-month period once approved in accordance with the CPUC Standard Practice U-27-W. This Standard Practice requires the Company to accrue interest on its supply cost balancing accounts at the rate prevailing for 90-day nonfinancial commercial paper established by the CPUC.

For the years ended December 31, 2021 and 2020, approximately $1.2 million and $7.7 million of net undercollections (including interest), respectively, were recorded in the water supply cost balancing accounts. Amortization of surcharges that are in rates to recover under-collections from customers also decreased the water supply cost balancing accounts, as applicable. During the years ended December 31, 2021 and 2020, approximately $4.0 million and $6.0 million of surcharges (excluding interest), respectively, were billed to customers which reduced under-collections in the water supply cost balancing accounts.

As of December 31, 2021, the water supply cost balancing accounts have approximately $10.2 million in net cost under-collections. Currently, there are surcharges in place to recover approximately $2.0 million of these under-collections by December 31, 2022. It is considered probable that the remaining $8.2 million will be recovered through a future surcharge allowed by the CPUC.

The low-income ratepayer assistance ("LIRA") program provides monthly credits to qualifying low income customers. A regulatory asset or liability account captures the net cost of the program that provides monthly credits to qualifying low income customers in the form of a surcredit, and also related monthly charges to nonqualifying residential customers in the form of a surcharge.

On April 1, 2015, the Governor of California issued an Executive Order that directed the State Water Resources Control Board to impose restrictions on urban water suppliers to achieve a statewide 25 percent reduction in potable urban usage through February 2016. This order was subsequently extended through October 2016. SWS developed a plan in accordance with this directive and received authorization of Schedule no. 141.1-Water Shortage Contingency Plan which went into effect on August 1, 2015. Included in this plan is a drought surcharge which was billed to applicable customers that use more than a prescribed volume of water. This drought surcharge when billed to customers was recorded as a regulatory liability. In August 2016, this drought surcharge was lifted and is no longer billed to customers. As approved by the CPUC, the Company reduced the drought surcharge liability by $1.0 million in 2020 through a combination of refunds to customers and recognition of revenue. The Company recognized revenue of $0.3 million for the year ended December 31, 2020, to offset Monterey-style Water Revenue Adjustment Mechanism ("Monterey WRAM") under collections. At December 31, 2021, the drought surcharge regulatory liability balance was $0.3 million.

In 2012, Palmetto, which was acquired by the Company in September 2020 (see Note 2), purchased certain sewer collection system assets ("PRC Plant") owned by the city of Columbia, South Carolina. The purchase resulted in disputed ratemaking treatment of the purchase price Palmetto paid to acquire the assets of Columbia, a municipality. In November 2019, the Palmetto utility that purchased the PRC Plant filed a rate case with the SCPSC (see Note 14) which included a request to recover the cost of the PRC Plant. In August 2020, the SCPSC issued its order in the case which authorized Palmetto to recover $8.5 million of the PRC Plant as a regulatory asset over a 9.31-year amortization period which began in September 2020.

The regulatory asset related to cost of property, net of salvage value, upon retirement is described in Note 4.

6. Other Assets

Goodwill

The table below summarizes the changes in the carrying amount of goodwill during the two years ended December 31, 2021.

(in thousands)	**Total**
Balance at December 31, 2019	$ 198,507
Additions to Goodwill	271,948
Balance at December 31, 2020	470,455
Additions to Goodwill	13,616
Balance at December 31, 2021	$ 484,071

During 2021 and 2020, the annual assessment of goodwill was performed and there was no impairment. There can be no assurances that the Company will not be required to recognize an impairment of goodwill in the future due to market conditions or other factors related to the Company's performance. These market events could include a decline over a period of time in valuation multiples of comparable water utility and service companies, declines in the forecasted results in the Company's business plan, such as changes in rate case results or capital investment budgets or changes in interest rates. Recognition of impairment of a significant portion of goodwill could negatively affect the Company's reported results of operations and total capitalization.

Intangible Assets

Intangible assets of $57.3 million and $59.3 million (net of $14.3 million and $12.2 million of accumulated amortization) at December 31, 2021 and 2020, respectively, include purchased contracts, acquired customer relationships and impact fees, and are amortized on the straight-line basis over estimated useful lives ranging from ten to fifty years. The changes in intangibles in 2021 include additional purchased water rights of $15.4 thousand and $6.3 thousand of organization costs. The changes in intangibles in 2020 include additional purchased pipeline capacity of $2.9 million and additional purchased water rights of $1.7 million.

Intangible assets are comprised of the following:

	December 31, 2021			
(in thousands)	Cost	Accumulated Amortization	Net	Amortization Expense
Customer lists	$ 27,815	$ 6,834	$ 20,981	$ 1,197
Pipeline capacity	36,511	5,556	30,955	826
Impact fees	1,922	1,712	210	21
Water rights	4,961	-	4,961	-
Other	349	151	198	4
Total intangible assets	$ 71,558	$ 14,253	$ 57,305	$ 2,048

	December 31, 2020			
(in thousands)	Cost	Accumulated Amortization	Net	Amortization Expense
Customer lists	$ 27,815	$ 5,638	$ 22,177	$ 1,156
Pipeline capacity	36,511	4,729	31,782	785
Impact fees	1,922	1,690	232	43
Water rights	4,946	-	4,946	-
Other	343	142	201	5
Total intangible assets	$ 71,537	$ 12,199	$ 59,338	$ 1,989

Water rights are not amortizable as they represent indefinite rights to a portion of the annual yield of certain watersheds and groundwater basins.

Estimated future annual amortization expense for all identifiable intangible assets with finite useful lives for the five succeeding years is as follows:

(in thousands)	**Intangible Assets Amortization Expense**
Years Ending December 31,	
2022	$ 2,048
2023	2,048
2024	2,048
2025	2,048
2026	2,048

Other Long-Term Assets
Other long-term assets consist of the following:

(in thousands)	**December 31, 2021**	**2020**
Regulatory assets (Note 5)	$ 39,911	$ 39,473
Investments in Company-owned life insurance policies	9,693	9,448
CoBank equity	2,245	2,147
Self insurance recoveries	857	1,251
Other	3,291	2,966
Total other long-term assets	$ 55,997	$ 55,285

To assist in funding the liabilities related to its deferred compensation liabilities, the Company has invested in Company-owned life insurance policies (See Note 12, “Employee Benefit Plans”).

A portion of the Company’s long-term debt is held by CoBank, a cooperative bank owned by the customers it serves. As a stockholder, the Company is eligible to receive a yearly patronage distribution. Patronage distribution amounts are determined by CoBank’s board of directors and allocated among customers on the basis of average loan volume. At the discretion of the board of directors, the patronage refund can be distributed as cash or equity as class “A” common stock of CoBank in the cooperative. The Company has recorded a long-term asset related to the CoBank equity of $2.2 million and $2.1 million at December 31, 2021 and 2020, respectively.

7. Long-term Debt

Long-term debt consists of the following:

(in thousands)	December 31, 2021	December 31, 2020
6.84% Series "A" Senior Unsecured Notes due 2035	$ 32,667	$ 35,000
4.48% Series "B" Senior Unsecured Notes due 2038	83,337	83,337
4.39% Series "C" Senior Unsecured Notes due 2033	20,000	20,000
4.48% Series "D" Senior Unsecured Notes due 2038	21,663	21,663
4.13% Series "E" Senior Unsecured Notes due 2028	25,000	25,000
4.38% Series "F" Senior Unsecured Notes due 2033	25,000	25,000
4.50% Series "G" Senior Unsecured Notes due 2043	20,000	20,000
4.54% Series "H" Senior Unsecured Notes due 2048	20,000	20,000
3.40% Series "I" Senior Unsecured Notes due 2034	20,000	20,000
3.68% Series "J" Senior Unsecured Notes due 2039	30,000	30,000
2.43% Series "K" Senior Unsecured Notes due 2030	100,000	100,000
3.17% Series "L" Senior Unsecured Notes due 2040	68,000	68,000
3.39% Series "M" Senior Unsecured Notes due 2050	32,000	32,000
Revolving Credit Facility	80,000	-
Bank of America Auto-Borrow Facility	675	-
CUC Promissory Note due 2046	4,915	-
Capital Lease Obligations	11	234
Monarch term loans		
Monarch Utilities I, LP ("Monarch")		
7.37% fixed rate term loan due 2022	256	1,027
5.77% fixed rate term loan due 2022	22	75
6.10% fixed rate term loan due 2031	20,000	20,000
First mortgage bonds		
Suburban Water Systems		
9.09% series "B" first mortgage bond due 2022	8,000	8,000
5.64% series "D" first mortgage bond due 2024	15,000	15,000
6.295% series "E" first mortgage bond due 2026	10,000	10,000
4.42% series "F" first mortgage bond due 2035	25,000	25,000
3.70% series "G" first mortgage bond due 2059	32,000	32,000
Total long-term debt payment obligations	693,546	611,336
Unamortized debt issuance costs	(4,921)	(4,804)
Unamortized discount on Senior Unsecured Notes	(16,473)	(17,026)
Unamortized fair market value adjustments [(a)]	(628)	(674)
Total debt	671,524	588,832
Less: Current portion of long-term debt	(11,298)	(1,046)
Long-term debt less current portion	$ 660,226	$ 587,786

(a) Monarch and Suburban Water Systems debt.

Senior Unsecured Notes
In September 2020, the Company entered into a note purchase agreement ("September 2020 NPA") relating to the issuance of par value $200.0 million aggregate principal amount of Series "K", "L" and "M" Senior Unsecured Notes. Interest is payable semi-annually in arrears on March 14 and September 14 of each year, which commenced on March 14, 2021. All notes issued under the September 2020 NPA are due in their entirety on their respective maturity dates. Debt issuance costs of $1.5 million were incurred related to the issuance of notes under the September 2020 NPA and are included in Long-term Debt on the consolidated balance sheet. The Company allocated the total debt issuance costs incurred for the notes on a prorated basis using the aggregate principal balance.

In September 2019, the Company entered into a note purchase agreement ("September 2019 NPA") relating to the issuance of par value $50.0 million aggregate principal amount of Series "I" and "J" Senior Unsecured Notes. Interest is payable semi-annually in arrears on March 13 and September 13 of each year, which commenced on March 13, 2020. All notes issued under the September 2019 NPA are due in their entirety on their respective maturity dates. Debt issuance costs of $0.2 million were incurred related to the issuance of notes under the September 2019 NPA and are included in Long-term Debt on the consolidated balance sheet. The Company allocated the total debt issuance costs incurred for the notes on a prorated basis using the aggregate principal balance.

In May 2018, the Company entered into a note purchase agreement ("May 2018 NPA") relating to the issuance of par value $90.0 million aggregate principal amount of Series "E", "F", "G," and "H" Senior Unsecured Notes. Interest is payable semi-annually in arrears on May 17 and November 17 of each year, which commenced on November 17, 2018. All notes issued under the May 2018 NPA are due in their entirety on their respective maturity dates.

In April 2018, the Company entered into a note purchase agreement ("April 2018 NPA") relating to the issuance of $160.0 million aggregate principal amount of Series "A", "B", "C," and "D" Senior Unsecured Notes. The Series "A" notes were issued at par in an exchange for $35.0 million of the Company's previously issued senior secured notes. The Series "B" notes, in the original principal amount of $83.3 million, were issued in an exchange for $65.0 million of the Company's previously issued senior secured notes, resulting in a discount of $18.3 million. The Company accounted for the exchanges of these notes as a debt modification. The Series "C" and "D" notes were new issuances at par value. Interest is payable semi-annually in arrears on March 13 and September 13 of each year, which commenced on September 13, 2018. The Company is required to make $2.3 million annual principal payments on the Series "A" Notes which commenced on September 13, 2021 and will continue each anniversary thereof to and including the maturity date. All other series of the notes issued under the April 2018 NPA are due in their entirety on their respective maturity dates.

Debt issuance costs of $1.3 million were incurred related to the issuance of notes under the April 2018 NPA and May 2018 NPA and are included in Long-term Debt on the consolidated balance sheets. The Company allocated the total debt issuance costs incurred for the notes on a prorated basis using the aggregate principal balance.

The terms of the Senior Unsecured Notes issued under the April 2018 NPA, May 2018 NPA, September 2019 NPA, and September 2020 NPA are subject to standard debt covenants including a capitalization ratio not to exceed 65% and an interest coverage ratio of less than 2 to 1. The Company was in compliance with the covenants for the year ended December 31, 2021. The Company may redeem the Senior Unsecured Notes, in whole or in part, at a redemption price equal to 100% of the principal amount plus a “make-whole” premium as set forth in the respective note purchase agreements.

Revolving Credit Facility
In April 2018, the Company entered into a bank credit agreement (“2018 Revolver”) with various financial institutions. In February 2020, the 2018 Revolver was amended to add an additional lender. The amendment also increased the total commitments from $100.0 million to $110.0 million. In April 2021, the 2018 Revolver was amended to increase the total commitments from $110.0 million to $200.0 million, extend the maturity from 2023 to 2026, and replace an existing lender with a new lender. Borrowings under the 2018 Revolver bear interest, at the Company’s option, at a base rate or a LIBOR rate, in each case plus an applicable margin. The base rate is equal to the greater of the federal funds rate plus 0.50%, the LIBOR rate based on a one-month interest period plus 1%, and floating rate announced by PNC Bank as its “prime rate.” The rate as of December 31, 2021 was 3.375%. The 2018 Revolver is subject to standard financial and other restrictive covenants, including maintenance of a capitalization ratio not to exceed 65% and an interest coverage ratio not to exceed 2 to 1. The bank credit agreement also supports periodic issuance of contingent standby letters of credit as needed for general business purposes. There were $0.8 million in letters of credit outstanding against the 2018 Revolver at December 31, 2021.

CUC Promissory Note
In February 2021, the Company acquired regulated water and wastewater assets serving approximately 2,200 equivalent dwelling units in South Carolina (see Note 2) for a seller financed note of $5.0 million (“CUC Note”) and $0.3 million in cash. The CUC Note has a stated annual interest of 5.0% with principal and interest payments due monthly through the maturity date.

Capital Lease Obligations
The Company has a master lease agreement for the purpose of financing a portion of its vehicle fleet. Leases under the agreement have an initial term of 367 days with automatic annual extensions until terminated by either party, have variable end dates determined by type of vehicle, are structured as capital leases and are secured by the leased assets. The lease rate is based on the 90-day LIBOR rate in effect on each lease commencement date plus 190 basis points and is updated monthly. At December 31, 2021 and 2020, the Company’s outstanding balance under this agreement was $11 thousand and $0.2 million, respectively.

Monarch Term Loans
The Company’s wholly owned subsidiary, Monarch Utilities I, LP (“Monarch”), has term loans that are secured by substantially all of the assets of Monarch, which had a net book value of $165.9 million at December 31, 2021. Monarch is subject to the maintenance of certain financial and other restrictive covenants. Monarch was in compliance with these covenants for the years ended December 31, 2021 and 2020.

First Mortgage Bonds
The Company’s wholly owned subsidiary, SWS, has five series of first mortgage bonds. The bonds are secured by a first mortgage indenture and deed of trust against substantially all of the assets of SWS.

Interest on the first mortgage bonds is payable semiannually and they may be redeemed at any time prior to maturity at par plus a call premium. Additional mortgage bonds may be issued subject to the provisions of the SWS mortgage bond indentures and the bond purchase agreement of each series. The mortgage bond indenture limits the amount of dividends that SWS may pay to the

Company. The Company was in compliance with loan agreement covenants at December 31, 2021 and 2020.

Aggregate Maturities
Total annual maturities of the revolving credit facility and debt outstanding at December 31, 2021 are as follows:

(in thousands)	Annual Maturities
Years Ending December 31,	
2022	$ 11,298
2023	2,554
2024	17,452
2025	2,458
2026	92,465
2027 and thereafter	567,319
Total annual maturities	$ 693,546

8. Other Liabilities

Other Current Liabilities
Other current liabilities and deferred credits consist of the following:

(in thousands)	December 31, 2021	December 31, 2020
Accrued salaries, wages and benefits	$ 12,943	$ 9,717
Purchased water and power accrual	8,034	7,117
Short term deposit liabilities and deferred revenue	3,405	4,489
Accrued interest payable	6,139	6,130
Accrued income taxes payable	-	2,817
Accrued other taxes payable	7,944	7,943
Regulatory liabilities (Note 5)	-	131
Other	2,315	1,907
Total other current liabilities	$ 40,780	$ 40,251

Other Long-Term Liabilities

Other long-term liabilities consist of the following:

(in thousands)	December 31, 2021	December 31, 2020
Self insurance liabilities	$ 880	$ 1,274
Regulatory liabilities (Note 5)	13,515	14,391
Deferred compensation and other plan obligations	10,819	9,388
Long-term incentive	3,658	2,586
Asset retirement obligation	2,935	2,802
Related party payable to Parent	8,929	5,908
Other	1,441	3,490
Total other long-term liabilities	$ 42,177	$ 39,839

Asset Retirement Obligations

As described in Note 1, the Company records obligations for the fair value of the legal liability for asset retirement obligations associated with its wells and other infrastructure. Because retirement costs for the utilities' assets have been recovered through rates prior to the time of retirement, the Company defers any timing differences between rate recovery and depreciation expense as either a regulatory asset or a regulatory liability.

The following is a reconciliation of the beginning and ending aggregate carrying amount of asset retirement obligations, which is included in "Other Long-Term Liabilities" on the consolidated balance sheets as of December 31, 2021 and 2020:

(in thousands)	Total
Obligation at December 31, 2019	$ 2,678
Retirements	(30)
Accretion	154
Obligation at December 31, 2020	2,802
Retirements	(10)
Accretion	143
Obligation at December 31, 2021	$ 2,935

9. Income Taxes

The components of the provisions (benefit) for income taxes are as follows:

(in thousands)	Year Ended December 31, 2021	2020
Current		
Federal	$ (911)	$ 2,485
State	727	879
Total current	(184)	3,364
Deferred		
Federal	6,905	510
State	1,646	(240)
Total deferred	8,551	270
Net provision for income taxes	$ 8,367	$ 3,634

A reconciliation of the statutory federal income tax rate to the Company's effective tax rate is as follows:

	Year Ended December 31, 2021	2020
Provision computed at statutory rates	21 %	21 %
State income taxes, net of federal tax benefit	7	7
Rate change effect	0	(6)
Valuation allowance	0	1
Other, net	(2)	(4)
Effective tax rate	26 %	19 %

Deferred tax assets and liabilities consist of the following:

(in thousands)	December 31, 2021	December 31, 2020
Deferred tax liabilities		
Depreciation and amortization	$ (34,099)	$ (29,893)
Production cost balancing accounts	(3,573)	(4,609)
Goodwill and other intangibles	(13,941)	(7,445)
Other	(2,007)	(1,181)
Total deferred tax liabilities	(53,620)	(43,128)
Deferred tax assets		
Asset retirement obligation	641	634
Contributions in aid of construction and advances for construction	368	399
Allowances and other reserves	3,789	3,666
Net operating loss carryforwards	1,709	1,020
Capitalized interest	2,112	1,865
Deferred compensation	2,374	2,012
SERP expense	216	234
Gross up of revenues necessary to recover, in rates, the effect of temporary differences	1,636	1,650
Total deferred tax assets	12,845	11,480
Valuation allowance	(427)	(427)
Net deferred tax liabilities	$ (41,202)	$ (32,075)

The Company had $0.2 million and no net federal operating loss carryforwards at December 31, 2021 and 2020, respectively.

At December 31, 2021 and 2020, the Company had net state operating loss carryforwards of $1.5 million and $1.0 million, respectively, prior to the consideration of a valuation allowance. The Company had a $0.4 million valuation allowance at December 31, 2021 and 2020 in a jurisdiction for which the Company determined utilization is remote.

Based upon the Company's current and historical pre-tax operating results, management believes it is more likely than not that the Company will realize the benefit of its remaining deferred income tax assets. Management believes the existing net deductible temporary differences will reverse during periods in which the Company generates net taxable income. However, there can be no assurance that the Company will generate any earnings or any specific level of continuing earnings in future years. Management regularly reviews the recoverability of deferred income tax assets and has determined that no additional valuation allowances were necessary at December 31, 2021 and 2020.

The Company is subject to federal and various state income taxes. Tax regulations within each jurisdiction are subject to the interpretation of related tax laws and regulations and require significant judgment to apply. The statute of limitations for federal income tax return examinations is 3 years and 4 years for most states. The federal income tax liabilities of the Company have been determined whether by reason of completed audits or the statute of limitations having run for all tax years up to and including 2017. Refer to the chart below for the federal statute of limitations for the open tax years.

Tax Year Ending	Return	Filed Date	Statute of Limitations
12/31/2018	Amended	1/31/2021	1/31/2024
12/31/2019	Original	10/15/2020	10/15/2023
12/31/2020	Original	10/15/2021	10/15/2024

The Company is included in its parent company consolidated tax return. For 2021 and 2020, the Company did not record any uncertain tax positions as a tax expense line item in the consolidated statement of operations.

In response to the COVID-19 pandemic, President Donald Trump signed into law the Coronavirus Aid, Relief, and Economic Security ("CARES") Act on March 27, 2020. The CARES Act provides numerous tax provisions and other stimulus measures, including temporary changes regarding the prior and future utilization of net operating losses, temporary changes to the prior and future limitations on interest deductions, temporary suspension of certain payment requirements for the employer portion of Social Security taxes, technical corrections from prior tax legislation for tax depreciation of certain qualified improvement property, and the creation of certain refundable employee retention credits. The Company evaluated the provisions of the CARES Act and concluded that the associated impacts do not have a material effect on its financial position or liquidity.

10. Commitments and Contingencies

Lease Commitments

The Company leases equipment and office facilities under operating and capital leases that expire through 2050. Aggregate rental expense under all operating leases was $1.7 million for each the years ended December 31, 2021 and 2020. At December 31, 2021, the future minimum commitments under existing noncancelable capital and operating leases are as follows:

(in thousands)	Operating Leases	Capital Leases
Years Ending December 31,		
2022	$ 1,319	$ 17
2023	1,270	-
2024	1,211	-
2025	963	-
2026	750	-
2027 and thereafter	1,627	-
Total minimum payments required	$ 7,140	17
Less: Amounts representing interest		(6)
Total capital lease obligation		11
Less: Current portion of capital lease obligation		(11)
Long-term capital lease obligation, net of current portion		$ -

Water Supply Commitments

Certain of the Texas Utilities regulated utilities and a wholesale water entity have water supply contracts providing for the purchase of water. These agreements require the Company to purchase minimum quantities of water or capacity annually at a specified price. In some cases, the amount is subject to increases in future periods for production costs increases and may also increase, but not decrease, if average actual usage exceeds a specified amount. At December 31, 2021, the estimated minimum annual purchase commitment for the agreements is $3.0 million in 2022. The commitment is reduced to $2.8 million in 2024 and increases to $5.2 million by 2060 due to further volumetric purchase commitment escalation.

Litigation and Other Matters

The Company is involved in other routine legal and administrative proceedings arising during the ordinary course of business. Management believes that the ultimate disposition of such matters will not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows. Any related legal costs are expensed when incurred.

Certain Contractual Commitments and Indemnities

During the normal course of business, the Company enters into agreements containing indemnities pursuant to which it may be required to make payments in the future. These indemnities are in connection with facility leases and liabilities and operations and maintenance, and construction contracts entered into by the Company's contract services businesses. The duration of these indemnities, commitments and guarantees varies, and in certain cases, is indefinite. Substantially all of these indemnities provide no limitation on the maximum potential future payments the Company could be obligated to make and is not quantifiable. The Company has not recorded any liability for these indemnities.

11. Consolidated Statements of Cash Flows

The following information supplements the Company's consolidated statements of cash flows.

(in thousands)	Year Ended December 31, 2021	Year Ended December 31, 2020
Cash paid during the period for		
Interest	$ 26,203	$ 19,985
Income taxes, net	641	1,208
Noncash investing and financing activities		
Noncash contributions in aid of construction and advances for construction conveyed to the Company by developers	$ 1,736	$ 1,004
Accrued purchase price	124	-
Change in capital items in accounts payable	14,004	6,875

12. Employee Benefit Plans

401(k) Retirement Plans

Substantially all employees are eligible to participate in the 401(k) retirement plan the Company sponsors, which is a defined contribution plan. For the years ended December 31, 2021 and 2020, the Company made discretionary matching contributions to the plan that vested immediately. The Company's expense related to its matching contributions was $2.5 million and $2.2 million for the years ended December 31, 2021 and 2020, respectively.

Supplemental Executive Retirement Plan ("SERP")

A nonqualified supplemental executive retirement plan ("SERP") was originally established for certain key executives and officers for the purpose of providing supplemental income benefits to plan participants or their survivors upon retirement or death. The sole remaining participant in the SERP is a former Chief Executive Officer of the Company who retired in May 2009. Accordingly, there are no current employees participating. Additionally, there are no intentions of selecting any other participants. The total SERP liability was $0.9 million and $1.0 million at December 31, 2021 and 2020, respectively. The SERP is an unfunded plan.

Deferred Compensation Plan ("DCP")

The Company has a nonqualified deferred compensation plan ("DCP") that permits key employees to annually elect to defer a portion of their compensation until their retirement. The retirement benefit to be provided is based upon the amount of compensation deferred. Interest expense on deferred compensation was $0.3 million and $0.4 million for each for the years ended December 31, 2021 and 2020, respectively. The total deferred compensation liability was $9.9 million and $8.4 million for the years ended December 31, 2021 and 2020, respectively.

To assist in funding the deferred compensation liability, the Company has invested in company-owned life insurance policies. The cash surrender value of these policies was $9.7 million and $9.4 million for years ending December 31, 2021 and 2020, respectively and is included in other long-term assets in the accompanying consolidated balance sheets (see Note 6).

13. Related Party Transactions

Parent Debt
In September 2010, the Parent entered into a $130 million note payable with its shareholders (the "Shareholders' Note"). In August 2015, the Shareholders' Note was amended to include all outstanding principal and interest in the balance, extend the maturity from September 2025 to September 2030 and modify the annual interest rate from 10.5% to 7.7%. The new balance was $169.5 million. Interest payments were made semi-annually during 2021 and 2020. The Company made a $85.0 million and $31.0 million dividend to the Parent in 2021 and 2020, respectively, to fund interest payments.

The Shareholders' Note has one financial covenant which references the Company, specifically that the consolidated debt of the Parent and the Company is limited to 80% of the consolidated capitalization of the Parent and the Company. Should this ratio exceed 80%, and the default not be cured within the 30-day cure period, the Shareholders' Notes are automatically accelerated and become immediately fully due and payable to its shareholder.

14. Rate Case Matters

SWS
In March 2020, SWS filed an application for a GRC with the CPUC for authority to increase rates charged for water service by $14.3 million or 17.33% in 2021, by $5.8 million or 6.04% in 2022, and by $5.8 million or 5.70% in 2023. The scheduled January 1, 2021 effective date of new rates was delayed by the CPUC. In December 2020, the CPUC approved interim rates and approved an interim rates memorandum account for the purpose of tracking the difference between the interim rates (which represented an inflationary increase of 1.2% over the existing rates) and the final adopted rates scheduled to be effective retroactively to January 1, 2021.

In October 2021, the CPUC issued Decision No. 21-10-024 adopting rate increases in 2021, 2022, and 2023. The decision results in an overall rate increase of $7.8 million or 9.10% for 2021, $4.2 million or 4.41% for 2022, and $4.3 million or 4.38% for 2023.

In November 2021, the CPUC authorized the company to implement the 2022 step rate increase of $4.2 million or 4.41% for 2022, and $4.3 million or 4.38% for 2023.

In November 2019, the CPUC authorized the Company to implement the 2020 step rate increase of $2.2 million with new rates effective January 1, 2020.

Monarch
In July 2020, Monarch filed an application with the PUCT for authority to increase rates charged for water service by $3.2 million or 9.8% and wastewater service by $0.6 million or 14.3%. In February 2022, the PUCT issued an order approving final rates supporting a revenue increase of $2.7 million or 8.2% for water service and $0.2 million or 4.2% for wastewater service.

KIU
In November 2021, KIU filed an application requesting authority to increase annual revenues for water and sewer by $1.4 million, or 14.1%. The case is currently pending before the SCPSC with an expected decision in May 2022.

Palmetto
In November 2019, one of Palmetto's wastewater utilities filed a rate case with the SCPSC for a base rate increase of $6.0 million or 27.9%. In August 2020, the SCPSC issued its order in the case which authorized a base rate increase of $3.2 million or 14.9%.

In June 2021, a South Carolina utility filed an application requesting authority to increase annual revenues for sewer service by $0.5 million, or 13.6%. In December 2021, the SCPSC issued its decision in the case authorizing a revenue increase of $0.1 million, or 3.7%.

Other Subsidiaries
In September 2020, two of the Company's utilities in Oregon filed applications for rate increases with the Oregon Public Utility Commission ("OPUC") to increase rates charged for water service by $0.1 million or 10.3% and $0.2 million or 32.1%. In January 2021, the Company entered into a settlement agreement with all parties resulting in a rate increase of $0.1 million or 9.0% and $0.1 million or 17.1%. New rates were effective in May 2021.

15. Noncontrolling Interest

The financial results of a majority-owned subsidiary are consolidated into the Company's operating results and financial position, with the noncontrolling ownership interest recognized in the consolidated statement of operations as net income attributable to noncontrolling interest, and as equity attributable to the noncontrolling interest within total stockholder's equity. In September 2017, the Company formed Shelby Ridge Utility Systems, LLC ("SRUS") and is the Class A member of SRUS. The noncontrolling interest represents a 20% third-party interest in SRUS, which is comprised of Class B units issued in conjunction with the 2018 acquisition of the assets of a nonregulated wastewater utility in Alabama. The Company, as the Class A Member, has the option to purchase all Class B units, which is exercisable at any time following the fifteenth anniversary of the acquisition, and also has the contingent obligation to purchase all of the Class B units if the Class B member exercises their option to do so, which is exercisable either on the tenth or fifteenth anniversary of the acquisition.

16. Other Operating Gain

In April 2021, the Company sold intangible water rights in California for $1.3 million and recognized a gain on the sale of $1.2 million and is included in other operating gain, net in the 2021 statement of operations.

The Company's utilities in Texas generally operate under Certificates of Public Convenience and Necessity ("CCN"). Texas state laws provide that no public or private agency can install facilities within the service area of a public utility which has a CCN for that jurisdiction, in order to compete with it, without the agreement of the CCN holder. However, Texas Senate Bill 573 allows landowners with at least 25 acres of land to "opt out" of CCNs by filing with the Public Utilities Commission of Texas. In May 2021, the Company received $5.0 million from a third party related to an opt out from a CCN in Texas. This is included in other operating gain, net on the consolidated statements of operations for 2021.

In association with a final rate case order for one of the Company's utilities in Oregon, the Company recorded a gain of $0.7 million related to excess asset capacity becoming used and useful. This gain is included in other operation gain, net in the 2021 statement of operations.

In February 2020, the Company sold intangible water rights in California for $2.4 million. The gain on the sale was $2.1 million and is included in other operating gain in the 2020 statement of operations.

17. Subsequent Events

Management has evaluated events and transactions that occurred after December 31, 2021, through April 14, 2022, which is the date these financial statements were available to be issued, for inclusion in these financial statements.

In April 2022, the Company made a $20.0 million dividend payment to the Parent.

In March 2022, the Company acquired the assets of two water utility systems serving approximately 100 equivalent dwelling units in in Cooke County, Texas area for $0.2 million in cash. This acquisition allowed the Company to expand its operations in the state of Texas.

In March 2022, the Company acquired the assets of wastewater collection and treatment systems serving approximately 2,600 equivalent dwelling units in portions of Fairfield, Lexington, Richland, and Orangeburg Counties outside of Columbia, South Carolina for $4.0 million in cash. This acquisition allowed the Company to expand its operations in the state of South Carolina.

Combined Company
Consolidated Pro-Forma Statements of Operations
Year Ended December 31, 2021
(In thousands)

	Corix US	SWW	Combined
Operating revenues	$ 273,988	$ 248,906	$ 522,894
Operating expenses:			
Operations and maintenance	170,398	150,895	321,293
Other operating gain, net	-	(7,736)	(7,736)
Depreciation and amortization	37,000	36,994	73,994
Taxes other than income taxes	15,259	10,202	25,461
Total	222,657	190,355	413,012
Operating income	51,331	58,551	109,882
Non-operating expense (income):			
Interest expense, net	25,614	26,522	52,136
Allowance for funds used during construction	(1,957)	-	(1,957)
Gain on sale of assets	(596)	-	(596)
Other non-operating income	(358)	-	(358)
Total	22,703	26,522	49,225
Income before taxes	28,628	32,029	60,657
Provision for income taxes	4,363	8,367	12,730
Net income	**$ 24,265**	**$ 23,662**	**$ 47,927**

Combined Company
Consolidated Pro-Forma Balance Sheets
Year Ended December 31, 2021
(In thousands)

	Corix US	SWW	Combined
Property, plant, and equipment, net:			
Property, plant, and equipment, at cost	$ 1,624,613	$ 1,092,588	$ 2,717,201
Less accumulated depreciation	512,540	324,248	836,788
Total	1,112,073	768,340	1,880,413
Current assets:			
Cash and cash equivalents	2,677	69	2,746
Accounts receivable, net	22,901	12,749	35,650
Unbilled revenues	16,186	13,848	30,034
Prepayments and other assets	11,014	20,892	31,906
Total	52,778	47,558	100,336
Regulatory and other non-current assets:			
Regulatory assets and deferred charges	43,830	39,911	83,741
Goodwill	26,541	484,071	510,612
Intangible assets	35,217	57,305	92,522
Other assets	14,895	16,086	30,981
Total	120,483	597,373	717,856
Total assets	**$ 1,285,334**	**$ 1,413,271**	**$ 2,698,605**
Shareholder's equity	$ 269,930	$ 455,818	$ 725,748
Long-term debt	549,012	660,226	1,209,238
Current liabilities:			
Current portion of long-term debt	27,788	11,298	39,086
Accounts payable	11,670	21,201	32,871
Customer deposits	3,039	1,884	4,923
Accrued taxes	12,401	7,944	20,345
Accrued interest	6,367	6,139	12,506
Other accrued liabilities	24,111	24,813	48,924
Total	85,376	73,279	158,655
Deferred credits and other liabilities:			
Deferred income taxes	71,653	41,202	112,855
Regulatory liabilities	33,425	13,515	46,940
Due to affiliated companies	12,694	8,929	21,623
Other liabilities and deferred credits	20,282	19,733	40,015
Total	138,054	83,379	221,433
Contributions in aid of construction	241,684	119,532	361,216
Advances in aid of construction	1,278	21,037	22,315
Total equity and liabilities	**$ 1,285,334**	**$ 1,413,271**	**$ 2,698,605**

Combined Company
Consolidated Pro Forma Statements of Cash Flows
Year Ended December 31, 2021
(In thousands)

	Corix	SWW	Combined
Cash flows from operating activities:			
Net income	$ 24,265	$ 23,662	$ 47,927
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	37,079	36,994	74,073
Deferred income taxes	678	9,127	9,805
Provision for uncollectible receivables	1,997	1,438	3,435
Amortization of debt acquisition costs	255	1,138	1,393
Allowance for funds used during construction-equity	(968)	-	(968)
(Gain) loss on sale of assets	(596)	(2,315)	(2,911)
Other, net	3,777	90	3,867
Changes in assets and liabilities:			-
Accounts receivable, net	(4,089)	(3,119)	(7,208)
Prepayments and other assets	(282)	(3,673)	(3,955)
Accounts payable and accrued liabilities	8	424	432
Other assets and liabilities, net	599	(1,730)	(1,131)
Net cash provided by operating activities	62,723	62,036	124,759
Cash flows from investing activities:			
Capital expenditures	(107,196)	(76,202)	(183,398)
Software implementation costs	(554)	-	(554)
Acquisitions	(672)	(32,003)	(32,675)
Proceeds from the sale of assets	1,644	1,536	3,180
Net cash used in investing activities	(106,778)	(106,669)	(213,447)
Cash flows from financing activities:			
Contributions and advances in aid of construction	10,151	5,525	15,676
Dividends to Parent	-	(85,000)	(85,000)
Dividends to noncontrolling interest	-	(977)	(977)
Contribution from Parent	14,000	44,100	58,100
Borrowings under revolving credit facility	76,000	162,549	238,549
Repayments of revolving credit facility	(67,000)	(81,874)	(148,874)
Borrowings under term notes	9,000	-	9,000
Debt issuance costs	-	(773)	(773)
Payment on capital lease obligations	(343)	(214)	(557)
Repayments of term notes	(9,759)	(3,241)	(13,000)
Net cash provided by financing activities	32,049	40,095	72,144
Net decrease in cash and cash equivalents	(12,006)	(4,538)	(16,544)
Cash and cash equivalents at beginning of year	14,683	4,607	19,290
Cash, cash equivalents, and restricted cash at end of year	**$ 2,677**	**$ 69**	**$ 2,746**

Combined Company
Notes to Combined Pro-Forma Financial Statements
Year Ended December 31, 2021

1. The combined company pro-forma financial statements include the following:

   The audited financial statements of:
   Southwest Water Company
   Corix Regulated Utilities (US) Inc.
   Fairbanks Sewer & Water Inc.

   Note that certain line items of the various financial statements have been reclassified for consistency in presentation.

   The unaudited financial statements of:
   West Shore Environmental Services LP
   Corix Utilities (Foothills Water) Inc.
   Corix Utilities (Foothills Wastewater) Inc.

   The unaudited carveout financial statements of the Canadian regulated entities.

2. The combined company pro-forma financial statements exclude Gillem Enclave, which is included in the merger, but is not material.

3. The combined company pro-forma financial statements exclude goodwill of $164.1 million related to Corix Infrastructure (US) Inc.'s acquisition of Corix Regulated Utilities (US) Inc.

4. The Corix Infrastructure (US) Inc. pro-forma financial statements include $185.9 million of implied debt at an interest rate of 3.23%

5. Excludes any potential purchase accounting adjustments upon merger.

Table 1: Size of Intermediate Newco Relative to Current SouthWest and Corix

(US $, 000)	Corix (a)	SouthWest	Intermediate Newco	Relative Size (b)	(c)
Operating revenues	273,988	248,906	522,894	2.1	1.9
Operating income	51,331	58,551	109,882	1.9	2.1
Net income	24,265	23,662	47,927	2.0	2.0
Property, Plant & Equipmt.					
Net of Depreciation	1,112,073	768,340	1,880,413	2.4	1.7
Long-Term Capital	818,942	1,116,044	1,934,986	1.7	2.4

a. Adjusted to eliminate Corix businesses not included in the business combination.
b. Intermediate Newco divided by SouthWest; c. Divided by original Corix.

Table 2: Intermediate Newco

	Intermediate Newco
Period	12/31/21 PF
RATIOS	
FFO to Debt	10.2%
Debt to EBITDA	6.8
FFO interest coverage	3.4
EBITDA Margin	35.2%