Case No. 2013-00237

Exhibit 11

Utilities, Inc. and Subsidiaries

Consolidated Financial Statements
December 31, 2012 and 2011

pwc

Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Utilities, Inc. and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2012 and 2011, and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Utilities, Inc. and its subsidiaries at December 31, 2012 and 2011, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

March 4, 2013

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

	Year Ended December 31,	
	2012	2011
Operating revenues:		
Water	$ 66,087	$ 64,731
Wastewater	49,386	50,879
Other	2,343	2,325
Non-regulated services	702	627
Total	118,518	118,562
Operating expenses:		
Operations and maintenance	67,977	66,702
Cost associated with sale of Company	8,909	-
Depreciation and amortization	15,292	13,522
Taxes other than income	10,179	10,398
Provision for income taxes	2,024	6,333
Total	104,381	96,955
Operating income	14,137	21,607
Non-operating expense (income):		
Interest expense, net	12,232	12,288
Allowance for funds used during construction	(389)	(282)
Total	11,843	12,006
Gain (loss) on sale of utility systems	18,812	(2,520)
Income taxes related to sale of utility systems	7,266	(951)
Net gain (loss) on sale of utility systems	11,546	(1,569)
Net income	**$ 13,840**	**$ 8,032**

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

Utilities, Inc. and Subsidiaries
Consolidated Balance Sheets
(In thousands)

	December 31, 2012	December 31, 2011
Property, plant and equipment:		
Property, plant and equipment, at cost	$ 806,529	$ 805,512
Less accumulated depreciation	138,548	130,448
Property, plant and equipment, net	667,981	675,064
Current assets:		
Cash and cash equivalents	686	6,254
Restricted cash	437	440
Accounts receivable, net	13,747	14,671
Prepayments and other assets	4,114	3,198
Total	18,984	24,563
Regulatory and other assets:		
Regulatory assets	11,179	11,715
Deferred charges	5,496	3,311
Goodwill	17,238	17,238
Total	33,913	32,264
Total assets	**$ 720,878**	**$ 731,891**
Equity:		
Common shares. $.10 par value, 1,000 shares authorized and issued	$ -	$ -
Paid-in capital	106,623	99,112
Retained earnings	56,635	77,895
Total	163,258	177,007
Long-term debt	180,000	180,000
Commitments and contingencies (See note 15)	-	-
Current liabilities:		
Short-term debt	500	-
Accounts payable	12,679	10,408
Customer deposits	2,553	2,368
Accrued taxes	1,561	742
Accrued interest	5,912	5,903
Other	197	205
Total	23,402	19,626
Deferred credits and other liabilities:		
Deferred income taxes	50,982	42,554
Deferred investment tax credits	813	880
Other	-	323
Total	51,795	43,757
Contributions in aid of construction	298,792	307,856
Advances in aid of construction	3,631	3,645
Total capitalization and liabilities	**$ 720,878**	**$ 731,891**

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

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

	Common Shares		Paid-in	Retained	
	Shares	Amount	Capital	Earnings	Total
Balance at December 31, 2010	1,000	$ -	$ 99,112	$ 77,463	$176,575
Net income	-	-	-	8,032	8,032
Dividend to parent	-	-	-	(7,600)	(7,600)
Balance at December 31, 2011	1,000	-	99,112	77,895	177,007
Net income	-	-	-	13,840	13,840
Dividend to parent	-	-	-	(35,100)	(35,100)
Contribution from parent	-	-	7,511	-	7,511
Balance at December 31, 2012	**1,000**	**$ -**	**$ 106,623**	**$ 56,635**	**$163,258**

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

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

	Year Ended December 31, 2012	Year Ended December 31, 2011
Cash flows from operating activities:		
Net income	$ 13,840	$ 8,032
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	15,292	13,522
Deferred income taxes and investment tax credits, net	7,408	5,763
Amortization of deferred charges and regulatory assets	3,139	3,200
Amortization of debt and acquisition charges	39	244
Allowance for funds used during construction-equity	(190)	(141)
(Gain) loss on sale of assets	(18,812)	2,520
Other, net	1,823	336
Changes in assets and liabilities:		
Accounts receivable	855	(470)
Prepayments	(1,188)	(1,405)
Deferred charges being amortized	(2,312)	(731)
Regulatory assets	(1,597)	(3,251)
Accounts payable and accrued liabilities	2,273	(375)
Accrued taxes and interest	827	(1,242)
Other assets and liabilities, net	178	382
Net cash provided by operating activities	21,575	26,384
Cash flows from investing activities:		
Capital expenditures	(29,892)	(28,167)
Acquisition expenditures	(53)	-
Change in restricted cash	3	4
Proceeds from the sale of utility systems	28,036	5,722
Net cash used in investing activities	(1,906)	(22,441)
Cash flows from financing activities:		
Contributions and advances in aid of construction, net	1,852	1,593
Dividend to parent	(35,100)	(7,600)
Contribution from parent	7,511	-
Increase in short-term borrowing	500	-
Net cash used in financing activities	(25,237)	(6,007)
Net decrease in cash and cash equivalents	(5,568)	(2,064)
Cash and cash equivalents at beginning of period	6,254	8,318
Cash and cash equivalents at end of period	**$ 686**	**$ 6,254**

Supplemental cash flow information:		
Interest paid (net of amounts capitalized)	$ 11,753	$ 11,828
Income taxes paid	$ 1,879	$ 1,571
Non-cash property, plant and equipment contributions	$ 896	$ 3,420

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

1. Basis of Presentation

Business Description

Utilities, Inc. (the "Company"), is a holding company, which, at December 31, 2012, owned and operated approximately 500 regulated water and wastewater utility systems through 75 subsidiary operating companies. The Company operates in 15 states with primary service areas in North Carolina, Florida, South Carolina, Nevada and Louisiana.

Principles of Consolidation

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

Impact of Prior Year Items

During the year ended December 31, 2012, the Company identified errors related to rate orders issued in rate case proceedings finalized prior to 2012 for which it did not previously record the accounting impacts. These errors related to years ending December 31, 2008 or prior and were not significant to any given year. The cumulative impact of these errors was recorded in the current year which decreased net income by $744. The impact of these items on the financial statements, whether taken individually or in the aggregate, is not considered material to any period presented.

2. Summary of Significant Accounting Policies

Regulation

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

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

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

Fair Value of Financial Instruments

Cash and cash equivalents, customer receivables, accounts payable, deferred revenue and other accrued liabilities are stated at carrying value, which reasonably approximates fair market value due to the nature and short term duration of these items.

Property, Plant and Equipment

All costs incurred to bring an asset to the condition and location necessary for its intended use are capitalized. Costs include contracted labor, direct labor, materials, and indirect costs including an allowance for funds used during construction. When assets are replaced, retired or abandoned, the recorded value of the asset is reduced to zero with a corresponding reduction in accumulated depreciation.

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

Property in service is generally depreciated using the straight-line method over the estimated useful lives of the related property. Depreciation rates typically range between 1.5% and 5.0% per year. In certain instances, the composite or group method is used in which a single depreciation rate is applied to the total cost of a particular property class. This method pools similar assets and depreciates each group as a whole. Depreciation expense is a recoverable cost of service included in rates charged to customers.

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

Plant Acquisition Adjustments

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

Cash and Cash Equivalents

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

Restricted Cash

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

Accounts Receivable

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

Regulatory Assets and Deferred Charges

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

Goodwill

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

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

Customer Deposits

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

Advances and Contributions in Aid of Construction

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

Revenue Recognition

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

Allowance for Funds Used During Construction

The allowance for funds used during construction (“AFUDC”) represents the capitalized cost of funds used to finance the construction of utility plant. AFUDC is not applied to projects funded by advances and contributions in aid of construction. AFUDC is recovered through rate base as the utility plant is depreciated. The AFUDC rate approximated 8.4% during 2012 and 2011.

Income Taxes

Prior to its acquisition by Corix Utilities (see Note 3), the Company was a wholly owned subsidiary of Hydro Star Holdings Corporation (“HSHC”) whose parent is Hydro Star, LLC. The Company was included in the consolidated federal income tax return of Hydro Star, LLC. Under a tax allocation arrangement, subsidiaries of Hydro Star, LLC contribute to the consolidated tax liability based on their share of taxable income or loss for each period. In the Company’s financial statements, income tax expense and income taxes payable have been determined on a separate return basis. After the acquisition, the Company will be included in the federal income tax return of Corix Utilities.

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

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

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

Recently Adopted Financial Accounting Standards

In September 2011, the Financial Accounting Standards Board issued Accounting Standards Update No. 2011-08, "Testing Goodwill for Impairment." This guidance allows an entity to assess qualitative factors to determine whether it is necessary to perform a quantitative goodwill impairment test. Under the new guidance, an entity is not required to calculate the fair value of a reporting unit unless the entity determines, based on the qualitative assessment, that it is more likely than not that its fair value is less than its carrying value. This standard is effective for annual periods beginning after December 15, 2011. The Company adopted the provisions of this revised guidance for its 2012 annual goodwill impairment test, and the adoption of this revised guidance did not have an impact on the Company's financial position or results of operations.

3. Acquisition of Utilities, Inc.

On December 18, 2012, Corix Utilities acquired 100% of the membership interests in Hydro Star, LLC from Highstar Capital Fund II, L.P. and certain of its affiliates and co-investors ("Highstar Capital"). Hydro Star, LLC, through its wholly owned subsidiary, Hydro Star Holdings Corporation, was the sole shareholder of Utilities, Inc.

In connection with the acquisition, the Company recorded $8,909 of transaction related expenses, the most significant of which were payments made under the Value Creation Shares Plan (see Note 17) and other retention bonuses. In order to fund these payments, Highstar Capital made an equity contribution to the Company of $7,511.

4. Acquisitions and Dispositions

Regulated Businesses

In 2012, four of the Company's subsidiaries sold utility systems with a combined net book value of $9,207. Net proceeds from the sales were $27,834. Revenues related to these utility systems are $377 and $3,385 for the years ended December 31, 2012 and 2011, respectively.

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

(In thousands of dollars)

Company filed a Notice of Appeal and Petition for Discretionary Review with the Supreme Court of North Carolina.

In 2011, one of the Company's subsidiaries sold utility systems with a combined net book value of $5,331. Net proceeds from the sales were $3,606. Revenues related to this utility system were $585 for the year ended December 31, 2011.

Non-regulated Business

In the fourth quarter of 2010, one of the Company's subsidiaries, Bio Tech, ceased operating its non-regulated sludge hauling business. In 2011, all remaining assets of Bio Tech were sold, the net book value of which was $2,443. Net proceeds were $1,861.

5. Property, Plant and Equipment

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

	2012	2011
Plant in service		
Water	$ 408,933	$ 406,938
Wastewater	369,575	372,056
Other	40,036	41,031
Total	818,544	820,025
Plant under construction	12,755	12,414
Accumulated depreciation	(138,548)	(130,448)
Plant acquisition adjustments, net	(24,770)	(26,927)
Property, plant and equipment, net	**$ 667,981**	**$ 675,064**

6. Accounts Receivable

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

	2012	2011
Billed utility revenue	$ 8,961	$ 10,417
Unbilled utility revenue	5,697	5,717
Total	14,658	15,864
Less allowance for doubtful accounts	911	1,193
Accounts receivable, net	**$ 13,747**	**$ 14,671**

(In thousands of dollars)

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

	2012	2011
Balance at January 1,	$ 1,193	$ 1,408
Amounts charges to expense	730	784
Amounts written-off	(1,012)	(999)
Balance at December 31,	**$ 911**	**$ 1,193**

7. Goodwill

A qualitative goodwill impairment test was performed at December 31, 2012, which indicated that it was not more likely than not that the fair value of the Company was less than its carrying value and therefore, a quantitative test was not performed.

There were no changes in the carrying amounts of goodwill during 2012 and there are no accumulated impairment losses.

8. Regulatory Assets and Deferred Charges

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

	2012	2011
Regulatory assets		
Rate case filing expenses	$ 7,676	$ 8,260
Deferred income taxes	3,503	3,455
Total	**$ 11,179**	**$ 11,715**
Deferred charges		
Debt acquisition expense	$ 1,003	$ 1,042
Maintenance and testing	2,291	1,272
Other	2,202	997
Total	**$ 5,496**	**$ 3,331**

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

(In thousands of dollars)

9. Long-term Debt

In July 2006, the Company entered into a Master Note Purchase Agreement for the issuance, in series, of collateral trust notes in an aggregate amount of up to $400,000. The initial issuance of $180,000 6.58% notes are due July 21, 2036. Interest is payable semi-annually in January and July. Annual principal payments of $9,000 are due beginning in 2017 and continue through 2036.

The common stock and indebtedness of subsidiary companies have been pledged as collateral for the long-term debt.

The fair value of the long-term debt has been determined by discounting the future cash flows using current market interest rates for similar financial instruments of the same duration.

The following table summarizes the carrying amounts and fair value of long-term debt at December 31:

	2012	2011
Carrying value	$ 180,000	$ 180,000
Fair value	$ 244,720	$ 250,259

10. Lines of Credit

At December 31, 2012 the Company had a $25,000 unsecured revolving credit facility (the "Credit Facility") with a maturity date of July 8, 2013. Borrowings under the existing Credit Facility bear interest at the existing prime rate or LIBOR plus a spread of between 195 and 245 basis points (depending on the Company's debt to capitalization ratio), at the option of the Company. Under the terms of the Credit Facility, the Company was subject to financial covenants which consist of a debt to capitalization ratio and a minimum interest coverage ratio.

There was $500 outstanding under the Credit Facility at December 31, 2012 while no borrowings were outstanding at December 31, 2011. The Company also has letters of credit outstanding against the Credit Facility in the amount of $6,599 and $6,619 at December 31, 2012 and 2011, respectively. During 2012 and 2011, the Company was in compliance with the financial covenants of the Credit Facility.

Consistent with historic practice, the Company has negotiated with its current lender to amend and extent the existing Credit Facility prior to its maturity date. On March 4, 2013, the Company amended the current Credit Facility, at terms consistent with or favorable to the previous facility, extending it through April 3, 2017 and increasing the borrowing capacity to $40,000.

11. Dividends

In February 2012, the Company paid a dividend of $26,100 to HSHC, the parent of the Company. The dividend was funded by the proceeds from the sale of one of the Company's utility systems in January 2012.

In July 2012, the Company paid a second dividend of $9,000 to HSHC. Approximately $1,000 of the dividend was funded by the proceeds from the sale of certain of the Company's utility systems and the remainder was funded by ongoing operations.

In August 2011, the Company paid a dividend of $7,600 to HSHC. The dividend was funded by a combination of the proceeds from the sale of certain of the Company's utility systems and funds from ongoing operations.

12. Asset Retirement Obligation

Potential future asset retirement costs relating to certain water and wastewater properties have been identified. However, the Company has determined that it does not have any legal obligations to retire assets that would result in a material cost to the Company. In addition, the Company intends on using its assets indefinitely. Therefore, the Company has not recognized a liability for these potential asset retirement costs at December 31, 2012.

13. Employee Benefit Plans

The Company maintains a 401(k) plan. Under the terms of the plan, the Company will match $.50 on every $1.00 contributed by participants up to a maximum contribution equal to 3% of eligible compensation per participant or to the maximum permitted by law. The Company match expense was $271 and $247 for the years ended December 31, 2012 and 2011, respectively. The plan also includes a non elective Company contribution made annually on 4% of eligible wages. The non elective contribution was $890 and $1,177 for the years ended December 31, 2012 and 2011, respectively.

(In thousands of dollars)

14. Income Taxes

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

	2012	2011
Current		
Federal	$ -	$ (390)
State and local	329	363
Deferred		
Federal	1,358	4,305
State and local	337	2,055
Provision for income taxes	**$ 2,024**	**$ 6,333**

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

	2012	2011
Current		
Federal	$ 262	$ -
State and local	1,363	-
Deferred		
Federal	5,687	(801)
State and local	(46)	(150)
Provision for (benefit from) income taxes	**$ 7,266**	**$ (951)**

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

	2012	2011
Statutory federal income tax rate	34.0%	34.0%
State income taxes, net of federal tax benefit	4.9	2.6
Valuation allowance on state net operating losses	1.1	5.6
Equity component of AFUDC, not subject to tax	-	0.1
Amortization of investment tax credits	(0.2)	(0.2)
Other	0.4	(2.0)
Effective income tax rate	**40.2%**	**40.1%**

(In thousands of dollars)

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

	2012	2011
Deferred tax assets		
State net operating losses	$ 3,591	$ 3,222
Federal net operating losses	1,238	6,044
Valuation allowances related to state net operating losses	(3,414)	(3,017)
Alternative minimum taxes	951	689
Bad debt	394	418
Other	218	327
Total	**$ 2,978**	**$ 7,683**
Deferred tax liabilities		
Plant related differences	$ 42,668	$ 39,612
Deferred charges	4,623	3,988
Regulatory assets	3,503	3,445
Organizational costs	3,166	3,192
Total	**$ 53,960**	**$ 50,238**
Net deferred tax liability	**$ 50,982**	**$ 42,554**

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

The federal net operating loss carry forward expires in 2030. A deferred tax asset related to state net operating losses, which vary in different amounts over different periods, has been recorded. The state net operating losses expire generally from 2013 to 2030. Alternative minimum tax credits can be carried forward indefinitely. The Company does not expect that the change in ownership will impact the full utilization of the federal net operating losses within the carry forward period.

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

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

(In thousands of dollars)

15. Commitments and Contingencies

Operating Leases

The Company leases office space in various buildings for its own use. Most of the lease terms are for relatively short periods of time, many of which are less than two years. The Company also leases parcels of land on which treatment plants and other facilities are situated. These land leases expire at various dates through 2085. Rent expense, for both office and land, was $396 and $382 for the years ended December 31, 2012 and 2011, respectively.

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

	Office Leases	Land Leases	Total
Year ended December 31,			
2013	$ 209	$ 33	$ 242
2014	114	3	117
2015	45	1	46
2016	46	1	47
2017	46	2	48
Thereafter	14	336	350
Total	**$ 474**	**$ 376**	**$ 850**

Litigation

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

Contingencies

In the normal course of business, the Company may enter into agreements with real estate developers related to the provision of water and/or wastewater service. These agreements may require payments to these developers that are contingent upon the number of customers added to the systems of the various operating companies. Connection charges are collected from customers as they sign up for service. Amounts due to developers are accrued as new customers are added. Amounts paid to developers were $64 and $114 for the years ended December 31, 2012 and 2011, respectively.

On December 18, 2012, Nye County Nevada filed an action in Nye County District Court against, among other defendants, Utilities, Inc. of Central Nevada ("UICN"), a subsidiary of the Company, and other parties in connection with damage to a county road in the Pahrump Nevada area following a significant rain event in December 2010. The County's complaint alleges, among other things, that the road damage was caused by the negligence by UICN, Corrections Corporation of America ("CCA") and their respective contractors in connection with the construction of offsite improvements related to a new detention facility constructed and operated by CCA, and provided with water and sewer service by UICN. On December 21, 2012, UICN filed a partial answer and counterclaims against Nye County for the County's own negligence in overseeing the project, and for interfering with the work at issue. In addition to the County's lawsuit, on December 18, 2012, several business owners filed an action naming UICN, among others, and claiming lost profits during the time Blagg Road was closed as a result of the damage that occurred following the rain event and road damage.

At this time, there is not sufficient information to estimate the Company's exposure or the potential amount of any loss that may be incurred. Given the uncertainty of events, the Company believes it is reasonably possible that a material loss may be incurred. As of December 31, 2012, no amounts have been accrued for this loss contingency.

16. Rate Increases Subject to Refund

On August 7, 2007, a regulated operating subsidiary of the Company filed an application with the South Carolina Public Service Commission (the "Commission") in an attempt to increase water and wastewater rates. In the Commission's order issued on February 11, 2008, they denied the Company's request for rate increases. The Company petitioned the Commission to put the proposed rate increases in effect under bond and subject to refund to which the Commission agreed. The Company filed a Notice of Appeal with the South Carolina Supreme Court (the "Court") on July 2, 2009. Oral arguments were heard by the Court on November 4, 2010 and on April 13, 2011 the Court issued a judgment reversing the Commission's order and remanding the case to the Commission for further proceedings.

The Commission issued an order on February 13, 2013 approving rates that are consistent with the rates charged under bond and subject to refund and therefore no refund was required. The Commission also authorized the operating subsidiary to cancel the surety bond that was required to secure any potential refunds. The rate increases billed to customers, from their effective date of May 8, 2008, total $3,239 through December 31, 2012.

(In thousands of dollars)

17. Value Creation Shares Plan

The Company's Board of Directors (the "Board") approved a Value Creation Shares Plan, (the "Plan") on May 1, 2006 and has subsequently amended the Plan on two occasions, most recently on May 21, 2010. The Plan provides for the issuance of Value Creation Shares ("VCS") that entitle participants, subject to vesting restrictions, to receive an amount equal to the difference between the VCS award value of $1.40 and the fair market value of a VCS upon a liquidity event, based on a formula set forth in the Plan. A liquidity event is defined in the Plan as a "change in control event" as defined for purposes of Internal Revenue Code Section 409A. Holders of VCS will have no equity interest in the Company and, therefore, no rights as shareholders.

VCS awards vest at such time and are subject to the restrictions and conditions as set forth in each award agreement, the form of which has been approved by the Board. All VCS awards granted before December 31, 2010 and outstanding on May 1, 2011, the fifth anniversary of the Plan's effective date, became vested at that time. All VCS awards granted after December 31, 2010 and outstanding at December 31, 2011 become fully vested upon any of the following events:

a) On the eighth anniversary of the Plan's effective date if the participant has remained in employment with the Company continuously until that date.
b) Upon a liquidity event, if the participant has remained in employment with the Company continuously until that date.

VCS awards may also become partially vested if the participant's employment with the Company terminates due to disability or death, or if the participant's employment with the Company is terminated without cause.

Under the Plan, 10,000,000 VCS have been authorized for issuance. The following table summarizes VCS activity for the years ended December 31, 2011 and 2010:

	Number of Value Creation Shares
Outstanding at December 31, 2010	6,772,984
Granted	1,358,110
Forfeited	(14,824)
Outstanding at December 31, 2011	8,116,270
Granted	1,429,427
Forfeited	(25,300)
Final plan adjustments	(24,473)
Settled	(9,495,924)
Outstanding at December 31, 2012	**-**

As a result of the acquisition of the Company by Corix Utilities on December 18, 2012, the Company recorded $6,010 of expense related to the VSC awards that were vested and settled in cash at that time. All VSC awards were satisfied and cancelled at closing and no awards remained outstanding at December 31, 2012.

18. Subsequent Events

The Company has evaluated events and transaction subsequent to the balance sheet date through March 3, 2013, the date the financial statements were available to be issued. Based on this evaluation, the Company is not aware of any additional events or transactions that occurred subsequent to the balance sheet date but prior to March 4, 2013 that would require recognition or disclosure in its Consolidated Financial Statements.

Utilities, Inc. and Subsidiaries

Consolidated Financial Statements
December 31, 2011 and 2010

pwc

Report of Independent Auditors

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, changes in shareholders' equity, and cash flows present fairly, in all material respects, the financial position of Utilities, Inc. and its subsidiaries at December 31, 2011 and 2010 and the results of their operations and their cash flows for each of the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

March 14, 2012

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

	Year Ended December 31, 2011	2010
Operating revenues:		
Water	$ 64,731	$ 59,326
Wastewater	50,879	52,132
Other	2,325	2,577
Non-regulated services	627	1,055
Total	118,562	115,090
Operating expenses:		
Operations and maintenance	66,702	70,716
Depreciation and amortization	13,522	14,015
Taxes other than income	10,398	9,952
Provision for income taxes	6,333	3,514
Total	96,955	98,197
Operating income	21,607	16,893
Non-operating expense (income):		
Interest expense, net	12,288	12,887
Allowance for funds used during construction	(282)	(131)
Total	12,006	12,756
(Loss) gain on disposal of utility systems	(2,520)	16,677
Income taxes related to disposal of utility systems	(951)	7,165
Net (loss) gain on sale of utility systems	(1,569)	9,512
Net income	**$ 8,032**	**$ 13,649**

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

Utilities, Inc. and Subsidiaries

Consolidated Balance Sheets

(In thousands)

	December 31, 2011	December 31, 2010
Property, plant and equipment:		
Property, plant and equipment, at cost	$ 805,512	$ 793,188
Less accumulated depreciation	130,448	121,317
Property, plant and equipment, net	675,064	671,871
Current assets:		
Cash and cash equivalents	6,254	8,318
Restricted cash	440	444
Accounts receivable, net	14,671	14,476
Prepayments and other assets	3,198	2,252
Total	24,563	25,490
Regulatory and other assets:		
Regulatory assets	11,715	10,923
Deferred charges	3,311	2,715
Goodwill	17,238	17,238
Total	32,264	30,876
Total assets	**$ 731,891**	**$ 728,237**
Equity:		
Common shares. $.10 par value, 1,000 shares authorized and issued	$ -	$ -
Paid-in capital	99,112	99,112
Retained earnings	77,895	77,463
Total	177,007	176,575
Long-term debt	180,000	180,000
Commitments and contingencies (See note 15)	-	-
Current liabilities:		
Accounts payable	10,408	10,783
Customer deposits	2,368	1,999
Accrued taxes	742	2,043
Accrued interest	5,903	5,844
Other	205	206
Total	19,626	20,875
Deferred credits and other liabilities:		
Deferred income taxes	42,554	36,758
Deferred investment tax credits	880	913
Other	323	323
Total	43,757	37,994
Contributions in aid of construction	307,856	309,133
Advances in aid of construction	3,645	3,660
Total capitalization and liabilities	**$ 731,891**	**$ 728,237**

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

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

	Common Shares		Paid-in	Retained	
	Shares	Amount	Capital	Earnings	Total
Balance at December 31, 2009	1,000	$ -	$ 99,112	$ 63,814	$ 162,926
Net income	-	-	-	13,649	13,649
Balance at December 31, 2010	1,000	-	99,112	77,463	176,575
Net income	-	-	-	8,032	8,032
Dividend to parent	-	-	-	(7,600)	(7,600)
Balance at December 31, 2011	**1,000**	**$ -**	**$ 99,112**	**$ 77,895**	**$ 177,007**

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

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

	Year Ended December 31, 2011	Year Ended December 31, 2010
Cash flows from operating activities:		
Net income	$ 8,032	$ 13,649
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	13,522	14,015
Deferred income taxes and investment tax credits, net	5,763	9,387
Amortization of deferred charges and regulatory assets	3,200	3,054
Amortization of debt and acquisition charges	244	235
Allowance for funds used during construction-equity	(141)	(65)
Loss (gain) on disposition of assets	2,520	(16,677)
Other, net	336	1,322
Changes in assets and liabilities:		
Accounts receivable	(470)	414
Prepayments	(1,405)	(140)
Deferred charges being amortized	(731)	(560)
Regulatory assets	(3,251)	(3,120)
Accounts payable and accrued liabilities	(375)	(2,183)
Accrued taxes and interest	(1,242)	197
Other assets and liabilities, net	382	(343)
Net cash provided by operating activities	26,384	19,185
Cash flows from investing activities:		
Capital expenditures	(28,167)	(29,434)
Change in restricted cash	4	414
Proceeds from disposition of utility systems	5,722	29,111
Net cash (used in) provided by investing activities	(22,441)	91
Cash flows from financing activities:		
Contributions in aid of construction, net	1,608	5,246
Payments to developers	(15)	(125)
Dividend to parent	(7,600)	-
Decrease in short term borrowing	-	(17,000)
Net cash used in financing activities	(6,007)	(11,879)
Net (decrease) increase in cash and cash equivalents	(2,064)	7,397
Cash and cash equivalents at beginning of period	8,318	921
Cash and cash equivalents at end of period	**$ 6,254**	**$ 8,318**

<u>Supplemental cash flow information:</u>

	2011	2010
Interest paid (net of amounts capitalized)	$ 11,828	$ 12,397
Income taxes paid	$ 1,571	$ 1,020
Non-cash property, plant and equipment contributions	$ 3,420	$ 4,003

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

(In thousands of dollars)

1. Basis of Presentation

Business Description

Utilities, Inc. (the "Company"), is a holding company, which, at December 31, 2011, owned and operated approximately 500 regulated water and wastewater utility systems through 75 subsidiary operating companies. The Company operates in 15 states with primary service areas in North Carolina, Florida, South Carolina, Nevada and Louisiana.

Principles of Consolidation

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

Certain reclassifications have been made to the prior period financial statements to conform to the current year presentation.

2. Revision of Prior Period Financial Statements

During 2011, the Company identified errors in its prior financial statements related to its accounting for deferred income taxes. These errors were primarily the result of incorrect accounting for certain acquisitions in prior years, affecting income tax expense and depreciation expense. These errors also affected the accounting for utility systems that were sold. In addition, the Company did not correctly account for certain deferred income tax items, including those related to certain regulatory accounting matters.

The Company assessed the materiality of these errors on prior period financial statements and concluded that they were not material to any prior period, but that the cumulative impact of these errors could be material if they were recorded entirely in 2011. As a result, Company has revised its 2010 financial statements as follows:

	As Reported	As Revised
Depreciation and amortization	$ 14,239	$ 14,015
Operating income	15,997	16,893
Net gain on sale of utility systems	10,300	9,512
Provision for income taxes	4,186	3,514
Net income	13,541	13,649
Equity	177,771	176,575

Note: The 2010 revisions had no impact on cash flows.

In addition, equity as of January 1, 2010 was revised from $164,230 to $162,926, primarily as a result of the impact of the errors described above in periods prior to 2010.

3. Summary of Significant Accounting Policies

Regulation

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

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

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

Fair Value of Financial Instruments

Cash and cash equivalents, customer receivables, accounts payable, deferred revenue and other accrued liabilities are stated at carrying value, which reasonably approximates fair market value due to the nature and short term duration of these items.

Property, Plant and Equipment

All costs incurred to bring an asset to the condition and location necessary for its intended use are capitalized. Costs include contracted labor, direct labor, materials, and indirect costs including an allowance for funds used during construction. When assets are replaced, retired or abandoned, the recorded value of the asset is reduced to zero with a corresponding reduction in accumulated depreciation.

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

Property in service is generally depreciated using the straight-line method over the estimated useful lives of the related property. Depreciation rates typically range between 1.5% and 5.0% per year. In certain instances, the composite or group method is used in which a single depreciation rate is applied to the total cost of a particular property class. This method pools similar assets and depreciates each group as a whole. Depreciation expense is a recoverable cost of service included in rates charged to customers.

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

Plant Acquisition Adjustments

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

Cash and Cash Equivalents

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

Restricted Cash

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

Accounts Receivable

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

Regulatory Assets and Deferred Charges

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

Goodwill

The Company evaluates its goodwill for impairment on an annual basis during the fourth quarter, or whenever indicators of impairment exist. The goodwill impairment test compares the fair value of the Company with its carrying amount, including goodwill. The fair value of the Company was determined using a discounted cash flow model. If the carrying amount exceeds the fair value, goodwill would be considered impaired. To measure the amount of the impairment loss, the implied fair value of goodwill is compared to the carrying amount of goodwill. If the carrying amount of goodwill exceeds the implied fair value of goodwill, an impairment loss is recognized in an amount equal to that excess. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination is determined.

Customer Deposits

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

Advances and Contributions in Aid of Construction

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

Revenue Recognition

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

Allowance for Funds Used During Construction

The allowance for funds used during construction ("AFUDC") represents the capitalized cost of funds used to finance the construction of utility plant. AFUDC is not applied to projects funded by advances and contributions in aid of construction. AFUDC is recovered through rate base as the utility plant is depreciated. The AFUDC rate approximated 8.4% during 2011 and 7.5% during 2010.

Income Taxes

The Company is a wholly owned subsidiary of Hydro Star Holdings Corporation ("HSHC") whose parent is Hydro Star, LLC. The Company is included in the federal income tax return of Hydro Star, LLC. Under a tax allocation arrangement, subsidiaries of Hydro Star, LLC contribute to the consolidated tax liability based on their share of taxable income or loss for each period. In the

Company's financial statements, income tax expense and income taxes payable have been determined on a separate return basis.

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

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

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

Recently Adopted Financial Accounting Standards

The Company does not believe that there are any recently issued Accounting Standard Updates issued by the Financial Accounting Standards Board that have a material effect on its financial position or results of operations.

4. Acquisitions and Dispositions

Regulated Businesses

In 2011, one of the Company's subsidiaries sold utility systems with a combined book value of $5,331. Net proceeds from the sales were $3,606. Revenues related to this utility system were $585 and $1,270 for the years ended December 31, 2011 and 2010, respectively.

In 2010, three of the Company's subsidiaries sold utility systems with a combined net book value of $11,830. Net proceeds from the sales were $28,658. Revenues related to these utility systems were $3,096 for the year ended December 31, 2010.

Non-regulated Business

In the fourth quarter of 2010, one of the Company's subsidiaries, Bio Tech, ceased operating its non-regulated sludge hauling business. Goodwill of $602, directly related to this business, was written off at that time and is included as a component of operations and maintenance expense. Also during 2010, Bio Tech sold certain of its land with a net book value of $470 for net proceeds of $454.

(In thousands of dollars)

In 2011, the remaining assets of Biotech were sold, the book value of which was $2,443. Net proceeds were $1,861.

5. Property, Plant and Equipment

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

	2011	2010
Plant in service		
Water	$ 406,938	$ 406,503
Wastewater	372,056	367,176
Other	41,031	42,906
Total	820,025	816,585
Plant under construction	12,414	4,533
Accumulated depreciation	(130,448)	(121,317)
Plant acquisition adjustments, net	(26,927)	(27,930)
Property, plant and equipment, net	**$ 675,064**	**$ 671,871**

6. Accounts Receivable

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

	2011	2010
Billed utility revenue	$ 10,147	$ 10,219
Unbilled utility revenue	5,717	5,665
Total	15,864	15,884
Less allowance for doubtful accounts	1,193	1,408
Accounts receivable, net	**$ 14,671**	**$ 14,476**

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

	2011	2010
Balance at January 1,	$ 1,408	$ 1,381
Amounts charged to expense	784	1,237
Amounts written off, net	(999)	(1,210)
Balance at December 31,	**$ 1,193**	**$ 1,408**

(In thousands of dollars)

7. Goodwill

The following table summarizes the changes in the carrying amounts of goodwill for the years ended December 31:

	2011	2010
Balance at January 1,	$ 17,238	$ 17,840
Discontinued non-regulated business	-	(602)
Balance at December 31,	**$ 17,238**	**$ 17,238**

Note: There are no accumulated impairment losses.

8. Regulatory Assets and Deferred Charges

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

	2011	2010
Regulatory assets		
Rate case filing expenses	$ 8,270	$ 7,860
Deferred income taxes	3,445	3,063
Total	**$ 11,715**	**$ 10,923**
Deferred charges		
Debt acquisition expense	$ 1,042	$ 1,260
Maintenance and testing	1,272	1,197
Other	997	258
Total	**$ 3,311**	**$ 2,715**

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

9. Long-term Debt

In July 2006, the Company entered into a Master Note Purchase Agreement for the issuance, in series, of collateral trust notes in an aggregate amount of up to $400,000. The initial issuance of $180,000 6.58% notes are due July 21, 2036. Interest is payable semi-annually in January and July. Annual principal payments of $9,000 are due beginning in 2017 and continue through 2036.

The common stock and indebtedness of subsidiary companies have been pledged as collateral for the long-term debt.

(In thousands of dollars)

The fair value of the long-term debt has been determined by discounting the future cash flows using current market interest rates for similar financial instruments of the same duration. The following table summarizes the carrying amounts and fair value of long-term debt at December 31:

	2011	2010
Carrying value	$ 180,000	$ 180,000
Fair value	$ 250,259	$ 178,355

10. Lines of Credit

The Company has a $25,000 unsecured revolving credit facility (the "Credit Facility") which expires on July 1, 2013. Borrowings under the Credit Facility bear interest at the existing prime rate or LIBOR plus a spread of between 195 and 245 basis points (depending on the Company's debt to capitalization ratio), at the option of the Company. Under the terms of the Credit Facility, the Company is subject to financial covenants which consist of a debt to capitalization ratio and a minimum interest coverage ratio.

There were no borrowings outstanding under the Credit Facility at December 31, 2011 or 2010. The Company also has letters of credit outstanding against the Credit Facility in the amount of $6,619 and $6,589 at December 31, 2011 and 2010, respectively. During 2011 and 2010, the Company was in compliance with the financial covenants of the Credit Facility.

11. Dividend

In August 2011, the Company paid a dividend of $7,600 to HSHC, the parent of the Company. The dividend was funded by a combination of the proceeds from the sale of certain of the Company's utility systems and funds from ongoing operations.

12. Asset Retirement Obligation

Potential future asset retirement costs relating to certain water and wastewater properties have been identified. However, the Company has determined that it does not have any legal obligations to retire assets that would result in a material cost to the Company. In addition, the Company intends on using its assets indefinitely. Therefore, the Company has not recognized a liability for these potential asset retirement costs at December 31, 2011.

13. Employee Benefit Plans

The Company maintains a 401(k) plan. Under the terms of the plan, the Company will match $.50 on every $1.00 contributed by participants up to a maximum contribution equal to 3% of eligible compensation per participant or to the maximum permitted by law. The Company match expense was $247 and $225 for the years ended December 31, 2011 and 2010, respectively. The plan also includes a discretionary contribution based on the financial performance of the Company. The discretionary contribution was $1,177 and $813 for the years ended December 31, 2011 and 2010, respectively.

(In thousands of dollars)

14. Income Taxes

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

	2011	2010
Current		
Federal	$ (390)	$ 422
State and local	363	(23)
Deferred		
Federal	4,305	2,655
State and local	2,055	460
Provision for income taxes	**$ 6,333**	**$ 3,514**

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

	2011	2010
Current		
Federal	$ -	$ 456
State and local	-	73
Deferred		
Federal	(801)	5,654
State and local	(150)	982
Provision for (benefit from) income taxes	**$ (951)**	**$ 7,165**

(In thousands of dollars)

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

	2011	2010
Statutory federal income tax rate	34.0%	34.0%
State income taxes, net of federal tax benefit	2.6	4.1
Valuation allowance on state net operating losses	5.6	0.8
Equity component of AFUDC, not subject to tax	0.1	(0.1)
Amortization of investment tax credits	(0.2)	(0.1)
Other	(2.0)	5.2
Effective income tax rate	**40.1%**	**43.9%**

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

	2011	2010
Deferred tax assets		
State net operating losses	$ 3,222	$ 2,482
Federal net operating losses	6,044	-
Valuation allowances related to state net operating losses	(3,017)	(1,889)
Alternative minimum taxes	689	689
Bad debt	418	469
Other	327	603
Total	**$ 7,683**	**$ 2,354**
Deferred tax liabilities		
Plant related differences	$ 39,612	$ 30,502
Deferred charges	3,988	3,388
Regulatory assets	3,445	3,063
Organizational costs	3,192	2,159
Total	**$ 50,237**	**$ 39,112**
Net deferred tax liability	**$ 42,554**	**$ 36,758**

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

A deferred tax asset related to state net operating losses, which vary in different amounts over different periods, has been recorded. Alternative minimum tax credits can be carried forward indefinitely.

(In thousands of dollars)

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

At December 31, 2011, the Company has $16,968 of corporate interest expense deductions currently disallowed under Internal Revenue Code Section 163(j). This amount may be carried forward indefinitely.

15. Commitments and Contingencies

Operating Leases

The Company leases office space in various buildings for its own use. Most of the lease terms are for relatively short periods of time, many of which are less than two years. The Company also leases parcels of land on which treatment plants and other facilities are situated. These land leases expire at various dates through 2085. Rent expense, for both office and land, was $382 and $580 for the years ended December 31, 2011 and 2010, respectively.

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

	Office Leases	Land Leases	Total
Year ending December 31,			
2012	$ 223	$ 28	$ 251
2013	152	4	156
2014	91	3	94
2015	38	1	39
2016	39	1	40
Thereafter	54	330	384
Total	**$ 597**	**$ 367**	**$ 964**

Litigation

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

Contingencies

In the normal course of business, the Company may enter into agreements with real estate developers related to the provision of water and/or wastewater service. These agreements may require payments to these developers that are contingent upon the number of customers added to the systems of the various operating companies. Connection charges are collected from customers as they sign up for service. Amounts due to developers are accrued as new customers are added and were $23 at December 31, 2011 and 2010.

Naturally occurring elements are present in all ground water sources. In the western region of the United States, one of those elements is arsenic. After the federal limit on arsenic was lowered from 50 ppb to 10 ppb, one section of Spring Creek Utility Company ("SCUC"), like many other water utilities in Nevada, was granted a waiver by the Nevada Department of Environmental Protection. Subsequent to the expiration of this waiver on January 23, 2009, SCUC negotiated an Administrative Order on Consent which required the Company to become compliant with current arsenic limits by December 31, 2011. The Company completed the construction of treatment facilities at the well sites in the system and is now delivering water that is compliant with the new federal limit. The prudency of the project was approved by the Public Utility Commission of Nevada ("PUCN") as part of the SCUC Integrated Resource Plan and the recovery of the approximate $6,000 overall cost is part of the SCUC rate case filed in December 2011 with the PUCN.

16. Reserve for Customer Refunds

On August 7, 2007, a regulated operating subsidiary of the Company filed an application with the South Carolina Public Service Commission (the "Commission") in an attempt to increase water rates. In their final order issued on February 11, 2008, the Commission denied the Company's request for rate increases. The Company petitioned the Commission to put the proposed rate increases in effect under bond and subject to refund to which the Commission agreed. The Company filed a Notice of Appeal with the South Carolina Supreme Court (the "Court") on July 2, 2009. Oral arguments were heard by the Court on November 4, 2010 and the matter is still pending.

At this time, the Company believes it is not probable that it will be required to refund the amounts collected from customers. This determination is, in part, based on briefs filed by the Office of Regulatory Staff ("ORS") to the Court during 2010 in which they argued that the rate increase is appropriate and that the Commission erred in finding that the Company failed to meet its burden of proof in establishing the need for rate increases. In addition, in October 2011, the ORS determined that the Company's testimony in this matter was consistent with their audit findings and did not contest any information provided by the Company. The rate increases billed to customers, from their effective date of May 8, 2008, total $2,534 through December 31, 2011.

(In thousands of dollars)

17. Value Creation Shares Plan

The Company's Board of Directors (the "Board") approved a Value Creation Shares Plan, (the "Plan") on May 1, 2006 and has subsequently amended the Plan on two occasions, most recently on May 21, 2010. The Plan provides for the issuance of Value Creation Shares ("VCS") that entitle participants, subject to vesting restrictions, to receive an amount equal to the difference between the VCS award value of $1.40 and the fair market value of a VCS upon a liquidity event, based on a formula set forth in the Plan. A liquidity event is defined in the Plan as a "change in control event" as defined for purposes of Internal Revenue Code Section 409A. Holders of VCS will have no equity interest in the Company and, therefore, no rights as shareholders.

VCS awards vest at such time and are subject to the restrictions and conditions as set forth in each award agreement, the form of which has been approved by the Board. All VCS awards granted before December 31, 2010 and outstanding on May 1, 2011, the fifth anniversary of the Plan's effective date, became vested at that time. All VCS awards granted after December 31, 2010 and outstanding at December 31, 2011 become fully vested upon any of the following events:

a) On the eighth anniversary of the Plan's effective date if the participant has remained in employment with the Company continuously until that date.
b) Upon a liquidity event, if the participant has remained in employment with the Company continuously until that date.

VCS awards may also become partially vested if the participant's employment with the Company terminates due to disability or death, or if the participant's employment with the Company is terminated without cause.

Under the Plan, 10,000,000 VCS have been authorized for issuance. The following table summarizes VCS activity for the years ended December 31, 2011 and 2010:

	Number of Value Creation Shares
Outstanding at December 31, 2009	5,098,012
Granted	1,751,806
Forfeited	(76,834)
Outstanding at December 31, 2010	6,772,984
Granted	1,358,110
Forfeited	(14,824)
Outstanding at December 31, 2011	**8,116,270**

As of December 31, 2011, 6,758,160 VCS were vested. The Company has not recognized any compensation expense for awards granted under this plan as the occurrence of a liquidity event cannot be reasonably determined and is not considered probable until occurrence and the value of the VCS cannot be reasonably estimated.

18. Subsequent Events

On February 20, 2012, Corix Utilities entered into a definitive agreement to acquire 100% of the membership interest in Hydro Star, LLC from Highstar Capital Fund II, L.P. and certain of its affiliates and co-investors. Hydro Star, LLC, through its wholly owned subsidiary, HSHC, is the sole shareholder of the Company. The transaction is subject to customary approvals including state regulatory approvals, expirations of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act and review by the Committee of Foreign Investment in the United States.

In January 2012, one of the Company's subsidiaries sold a utility system with a net book value of $6,632. Net proceeds from the sale were of $26,098. Revenues related to this utility system were $3,017 and $2,790 for the years ended December 31, 2011 and 2010, respectively. In connection with this sale, the local utility commission ruled in December 2011, that a portion of the gain on sale should flow back through to rate payers. On January 23, 2012, the Company filed a Notice of Appeal and Exception as they believe the commission's ruling is without merit.

In February 2012, the Company paid a dividend of $19,100 to HSHC. The dividend was funded by the proceeds from the sale of one of the Company's utility systems in January 2012. Also in February 2012, the Company made a tax distribution payment of $7,000 to HSHC, related to the gain on the sale of one of its utility systems in January 2012, in accordance with an existing Tax Allocation Agreement, as amended.

The Company has evaluated events and transaction subsequent to the balance sheet date through March 13, 2012, the date the financial statements were available to be issued. Based on this evaluation, the Company is not aware of any additional events or transactions that occurred subsequent to the balance sheet date but prior to March 14, 2012 that would require recognition or disclosure in its Consolidated Financial Statements.

Utilities, Inc. and Subsidiaries

Consolidated Financial Statements
December 31, 2010, 2009 and 2008

Report of Independent Auditors

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, changes in shareholders' equity, and cash flows present fairly, in all material respects, the financial position of Utilities, Inc. and its subsidiaries (the Company) at December 31, 2010 and 2009 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2010 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

March 6, 2011

Utilities, Inc. and Subsidiaries

Consolidated Statements of Operations

(In thousands)

	Year Ended December 31, 2010	2009	2008
Operating revenues:			
Water	$ 59,326	$ 58,085	$ 55,284
Wastewater	52,132	53,186	51,119
Other	2,577	2,728	2,575
Non-regulated services	1,055	1,698	2,143
Total	115,090	115,697	111,121
Operating expenses:			
Operations and maintenance	70,716	75,079	79,864
Depreciation and amortization	14,239	15,360	13,333
Taxes other than income	9,952	9,838	8,984
Provision for (benefit from) income taxes	4,186	488	(1,012)
Total	99,093	100,765	101,169
Operating income	15,997	14,932	9,952
Non-operating expense (income):			
Interest expense, net	12,887	13,558	13,888
Allowance for funds used during construction	(131)	(559)	(2,625)
Total	12,756	12,999	11,263
Gain on disposal of utility systems	16,491	5,391	1,247
Income taxes related to disposal of utility systems	6,191	1,831	571
Net gain on sale of utility systems	10,300	3,560	676
Net income (loss)	**$ 13,541**	**$ 5,493**	**$ (635)**

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

Utilities, Inc. and Subsidiaries
Consolidated Balance Sheets
(In thousands)

	December 31, 2010	December 31, 2009
Property, plant and equipment:		
Property, plant and equipment, at cost	$ 798,473	$ 804,130
Less accumulated depreciation	121,317	115,855
Property, plant and equipment, net	677,156	688,275
Current assets:		
Cash and cash equivalents	8,318	921
Restricted cash	444	858
Accounts receivable, net	14,476	15,026
Prepayments and other assets	2,252	2,465
Total	25,490	19,270
Regulatory and other assets:		
Regulatory assets	10,923	9,968
Deferred charges	2,715	3,336
Goodwill	17,238	17,840
Total	30,876	31,144
Total assets	**$ 733,522**	**$ 738,689**
Equity:		
Common shares. $.10 par value, 1,000 shares authorized and issued	$ -	$ -
Paid-in capital	99,112	99,112
Retained earnings	78,659	65,118
Total	177,771	164,230
Long-term debt	180,000	180,000
Commitments and contingencies (See note 13)	-	-
Current liabilities:		
Short-term debt	-	17,000
Accounts payable	10,783	13,058
Customer deposits	1,999	1,802
Accrued taxes	2,152	2,035
Accrued interest	5,844	5,763
Other	206	262
Total	20,984	39,920
Deferred credits and other liabilities:		
Deferred income taxes	40,738	31,620
Deferred investment tax credits	913	946
Other	323	983
Total	41,974	33,549
Contributions in aid of construction	309,133	317,316
Advances in aid of construction	3,660	3,674
Total capitalization and liabilities	**$ 733,522**	**$ 738,689**

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

Utilities, Inc. and Subsidiaries

Consolidated Statements of Changes in Shareholders' Equity

(Dollars in thousands)

	Common Shares		Paid-in	Retained	
	Shares	Amount	Capital	Earnings	Total
Balance at December 31, 2007	1,000	$ -	$ 98,112	$ 60,260	$ 158,372
Net loss	-	-	-	(635)	(635)
Balance at December 31, 2008	1,000	-	98,112	59,625	157,737
Net income	-	-	-	5,493	5,493
Contribution from parent	-	-	1,000	-	1,000
Balance at December 31, 2009	1,000	-	99,112	65,118	164,230
Net income	-	-	-	13,541	13,541
Balance at December 31, 2010	**1,000**	**$ -**	**$ 99,112**	**$ 78,659**	**$ 177,771**

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

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

	Year Ended December 31,		
	2010	2009	2008
Cash flows from operating activities:			
Net income (loss)	$ 13,541	$ 5,493	$ (635)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	14,239	15,360	13,333
Deferred income taxes and investment tax credits, net	9,085	2,161	25
Amortization of deferred charges and regulatory assets	3,054	2,793	3,757
Amortization of debt and acquisition charges	235	771	201
Allowance for funds used during construction-equity	(65)	(267)	(1,231)
Gain on disposition of assets	(16,491)	(5,391)	(1,247)
Other, net	1,322	450	192
Changes in assets and liabilities:			
Accounts receivable	414	3,206	(1,062)
Prepayments	(140)	(513)	476
Deferred charges being amortized	(560)	(1,413)	(563)
Regulatory assets	(3,120)	(2,629)	(3,763)
Accounts payable and accrued liabilities	(2,183)	(2,382)	(7,524)
Accrued taxes and interest	197	(1,122)	111
Other assets and liabilities, net	(343)	(690)	(1,131)
Net cash provided by operating activities	19,185	15,827	939
Cash flows from investing activities:			
Capital expenditures	(29,434)	(25,893)	(46,027)
Acquisition expenditures	-	(880)	-
Change in restricted cash	414	2,064	(1,750)
Proceeds from disposition of utility systems	29,111	30,504	3,894
Net cash provided by (used in) investing activities	91	5,795	(43,883)
Cash flows from financing activities:			
Contributions in aid of construction, net	5,246	9,927	9,447
Payable to developers	(125)	11	(435)
Capital contribution from parent	-	1,000	-
Debt and acquisition charges	-	(412)	(823)
Increase (decrease) in short term borrowing	(17,000)	(32,775)	34,275
Net cash provided by (used in) financing activities	(11,879)	(22,249)	42,464
Net increase (decrease) in cash and cash equivalents	7,397	(627)	(480)
Cash and cash equivalents at beginning of period	921	1,548	2,028
Cash and cash equivalents at end of period	**$ 8,318**	**$ 921**	**$ 1,548**

Supplemental cash flow information:

Interest paid (net of amounts capitalized)	$ 12,397	$ 13,192	$ 12,120
Income taxes paid	$ 1,020	$ 312	$ 18
Non-cash property, plant and equipment contributions	$ 4,003	$ 6,778	$ 5,748

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

1. Basis of Presentation

Business Description

Utilities, Inc. (the "Company"), is a holding company, which, at December 31, 2010, owned and operated approximately 500 regulated water and wastewater utility systems through 77 subsidiary operating companies. The Company operates in 15 states with primary service areas in North Carolina, Florida, South Carolina, Nevada and Louisiana. The Company also owns certain unregulated land application facilities providing solid waste collection services on a fee basis to third parties as well as to the Company's regulated utility operations.

Principles of Consolidation

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

Certain reclassifications have been made to the prior period financial statements to conform to the current year presentation.

Impact of Prior Year Items

During the year ended December 31, 2010, the Company identified an error in its income tax accounting related to years ending December 31, 2009 and prior. The error accumulated over time, such that its impact was not significant on any given year. The cumulative impact of this error was recorded in the current year which increased income tax expense and reduced net income by $547. The impact of this item on the financial statements is not considered material to any period presented.

During the year ended December 31, 2009, the Company identified several errors that related to years ended December 31, 2008 and prior. The errors related to prior periods were recorded in the current period which increased 2009 pre-tax income and net income by $234 and $145, respectively. The impact of these items on the financial statements, whether taken individually or in the aggregate, is not considered material to any period presented.

2. Summary of Significant Accounting Policies

Regulation

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

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

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

Fair Value of Financial Instruments

Cash and cash equivalents, customer receivables, accounts payable, deferred revenue and other accrued liabilities are stated at carrying value, which reasonably approximates fair market value due to the nature and short term duration of these items.

Property, Plant and Equipment

All costs incurred to bring an asset to the condition and location necessary for its intended use are capitalized. Costs include contracted labor, direct labor, materials, and indirect costs including an allowance for funds used during construction. When assets are replaced, retired or abandoned, the recorded value of the asset is reduced to zero with a corresponding reduction in accumulated depreciation.

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

Property in service is generally depreciated using the straight-line method over the estimated useful lives of the related property. Depreciation rates typically range between 1.5% and 5.0% per year. In certain instances, the composite or group method is used in which a single depreciation rate is applied to the total cost of a particular property class. This method pools similar assets and depreciates each group as a whole. Depreciation expense is a recoverable cost of service included in rates charged to customers.

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

Plant Acquisition Adjustments

For utility plant subject to traditional cost-of-service regulation, the depreciated original cost of an acquired asset is typically equal to its fair value. If an amount paid for utility plant exceeds its depreciated original cost, and that amount is recoverable through future rates, the fair value is deemed to have been increased and an acquisition adjustment is recorded as a component of utility plant. If the excess amount paid is not included in future rates, the amount is recorded as goodwill.

Cash and Cash Equivalents

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

Restricted Cash

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

Accounts Receivable

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

Regulatory Assets and Deferred Charges

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

Goodwill

The Company evaluates its goodwill for impairment on an annual basis during the fourth quarter, or whenever indicators of impairment exist. The goodwill impairment test compares the fair value of the Company with its carrying amount, including goodwill. The fair value of the Company was determined using a discounted cash flow model. If the carrying amount exceeds the fair value, goodwill would be considered impaired. To measure the amount of the impairment loss, the implied fair value of goodwill is compared to the carrying amount of goodwill. If the carrying amount of goodwill exceeds the implied fair value of goodwill, an impairment loss is recognized in an amount equal to that excess. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination is determined.

Customer Deposits

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

Advances and Contributions in Aid of Construction

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

Revenue Recognition

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

Allowance for Funds Used During Construction

The allowance for funds used during construction ("AFUDC") represents the capitalized cost of funds used to finance the construction of utility plant. AFUDC is not applied to projects funded by advances and contributions in aid of construction. AFUDC is recovered through rate base as the utility plant is depreciated. The AFUDC rate approximated 7.5% during 2010 and 8.5% during 2009 and 2008.

Income Taxes

The Company is a wholly owned subsidiary of Hydro Star Holdings Corporation whose parent is Hydro Star, LLC. The Company is included in the federal income tax return of Hydro Star, LLC. Under a tax sharing arrangement, subsidiaries of Hydro Star, LLC contribute to the consolidated tax liability based on their share of taxable income or loss for each period. In the Company's financial statements, income tax expense and income taxes payable have been determined on a separate return basis.

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

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

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

Recently Adopted Financial Accounting Standards

The Company does not believe that there are any recently issued Accounting Standard Updates issued by the Financial Accounting Standards Board that have a material effect on its financial position or results of operations.

3. Acquisitions and Dispositions

In the fourth quarter of 2010, one of the Company's subsidiaries, Bio Tech, ceased operating its non-regulated sludge hauling business. At December 31, 2010, the Company was actively marketing the remaining assets of Bio Tech which primarily include property, plant, structures, equipment and vehicles. These assets are considered as held for sale and are recorded at their net book value of $2,119 which is lower than their estimated aggregate fair value. However, certain individual assets may be sold for less than their net book value. In the first quarter 2010, Bio Tech sold certain of its land with a net book value of $470 for net proceeds of $454. Goodwill of $602, directly related to this business, was written off in the fourth quarter of 2010 and is included as a component of operations and maintenance expense.

In 2010, three of the Company's subsidiaries sold utility systems with a combined book value of $11,643. Net proceeds from the sales of $28,658 were used to pay off the entire balance of the revolving credit facility. Revenues related to these utility systems were $3,096, $4,171 and $4,025 for the years ended December 31, 2010, 2009 and 2008, respectively.

In 2009, nine of the Company's subsidiaries sold utility systems with a combined book value of $23,298. Net proceeds from the sales of $30,504 were used to pay down the revolving credit facility. Revenues related to these utility systems were $5,620 and $7,960 for the years ended December 31, 2009 and 2008, respectively.

Also in 2009, the Company purchased the assets of a wastewater utility system for $880. No intangible assets or liabilities were acquired in conjunction with this transaction.

In 2008, two of the Company's subsidiaries sold utility systems with a combined book value of $2,616. Net proceeds from the sales of $3,894 were used to pay down the revolving credit facility. Revenues related to these utility systems were $227 for the year ended December 31, 2008.

(In thousands of dollars)

4. Property, Plant and Equipment

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

	2010	2009
Plant in service		
Water	$ 406,503	$ 393,822
Wastewater	367,176	381,121
Other	42,906	43,328
Total	816,585	818,271
Plant under construction	4,533	9,599
Accumulated depreciation	(121,317)	(115,855)
Plant acquisition adjustments, net	(22,645)	(23,740)
Property, plant and equipment, net	**$ 677,156**	**$ 688,275**

5. Accounts Receivable

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

	2010	2009
Billed utility revenue	$ 10,219	$ 10,129
Unbilled utility revenue	5,665	6,278
Total	15,884	16,407
Less allowance for doubtful accounts	1,408	1,381
Accounts receivable, net	**$ 14,476**	**$ 15,026**

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

	2010	2009	2008
Balance at January 1,	$ 1,381	$ 522	$ 434
Amounts charged to expense	1,237	2,510	1,226
Amounts written off, net	(1,210)	(1,651)	(1,138)
Balance at December 31,	**$ 1,408**	**$ 1,381**	**$ 522**

(In thousands of dollars)

6. Goodwill

The following table summarizes the changes in the carrying amounts of goodwill for the years ended December 31:

	2010	2009
Balance at January 1,	$ 17,840	$ 20,148
Discontinued non-regulated business	(602)	-
Sold utility systems	-	(2,308)
Balance at December 31,	**$ 17,238**	**$ 17,840**

Note: There are no accumulated impairment losses.

7. Regulatory Assets and Deferred Charges

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

	2010	2009
Regulatory assets		
Rate case filing expenses	$ 7,860	$ 6,541
Deferred income taxes	3,063	3,427
Total	**$ 10,923**	**$ 9,968**
Deferred charges		
Debt acquisition expense	$ 1,260	$ 1,476
Maintenance and testing	1,197	1,524
Other	258	336
Total	**$ 2,715**	**$ 3,336**

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

8. Long-term Debt

In July 2006, the Company entered into a Master Note Purchase Agreement for the issuance, in series, of collateral trust notes in an aggregate amount of up to $400,000. The initial issuance of $180,000 6.58% notes are due July 21, 2036. Interest is payable semi-annually in January and July. Annual principal payments of $9,000 are due beginning in 2017 and continue through 2036.

(In thousands of dollars)

The common stock and indebtedness of subsidiary companies have been pledged as collateral for the long-term debt.

The fair value of the long-term debt has been determined by discounting the future cash flows using current market interest rates for similar financial instruments of the same duration. The following table summarizes the carrying amounts and fair value of long-term debt at December 31:

	2010	2009
Carrying value	$ 180,000	$ 180,000
Fair value	$ 178,355	$ 161,329

9. Lines of Credit

The Company has a $55,000 unsecured revolving credit facility (the "Credit Facility") with three banks which expires on November 10, 2011. Borrowings under the Credit Facility bear interest at the existing prime rate or LIBOR plus 250 basis points, at the option of the Company. Under the terms of the Credit Facility, the Company is subject to financial covenants which consist of a debt to capitalization ratio and a minimum interest coverage ratio.

Consistent with historic practice, the Company intends to extend or refinance the existing facility prior to its maturity date. Completion of this extension or refinancing is subject to a number of uncertainties. Accordingly, there is no assurance that the Company will be able to extend or refinance this debt when it becomes due or that the terms will not be substantially different from those under the current facility. If the Company is unable to refinance the revolving credit facility as described above, it expects to generate sufficient cash flows from operations to fund paydown of the facility, if needed, at its current maturity and to be able to continue in business for the foreseeable future and realize its assets and discharge its liabilities in the normal course of business. However, there is no assurance that sufficient cash flows will be generated. Insufficient cash flows from operations and an inability to refinance or extend the facility could have an adverse impact on the Company's financial position and results of operations.

There were no borrowings outstanding under the Credit Facility at December 31, 2010 while $17,000 was outstanding at December 31, 2009. The Company also has letters of credit outstanding against the Credit Facility in the amount of $6,589 and $6,634 at December 31, 2010 and 2009, respectively. During 2010 and 2009, the Company was in compliance with the financial covenants of the Credit Facility.

10. Asset Retirement Obligation

Potential future asset retirement costs relating to certain water and wastewater properties have been identified. However, the Company has determined that it does not have any legal obligations to retire assets that would result in a material cost to the Company. In addition, the Company intends on using its assets indefinitely. Therefore, the Company has not recognized a liability for these potential asset retirement costs at December 31, 2010.

11. Employee Benefit Plans

During 2009 and 2008, the Company maintained a defined contribution retirement plan for all eligible employees. Contributions to the plan were based on a percentage of eligible compensation per participant. Contributions were expensed as incurred and were $608 and $585 for the years ended December 31, 2009 and 2008, respectively.

Also during 2009 and 2008, a non-matching 401(k) plan was available to eligible employees which allowed for pre-tax and after-tax contributions ranging from 1% to 100% of their eligible compensation up to a combined maximum permitted by law. The Company also had the option of making discretionary contributions into the plan as approved by its Board of Directors. Contributions were expensed as incurred and were $788 and $746 for the years ended December 31, 2009 and 2008, respectively.

As of January 1, 2010, the Company merged the defined contribution retirement plan into the 401(k) plan. Under the terms of the newly merged plan, the Company will match $.50 on every $1.00 contributed by participants up to a maximum contribution equal to 3% of eligible compensation per participant or to the maximum permitted by law. The Company match expense is $225 for the year ended December 31, 2010. The newly merged plan also includes a discretionary contribution based on the financial performance of the Company. The discretionary contribution was $813 for the year ended December 31, 2010.

(In thousands of dollars)

12. Income Taxes

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

	2010	2009	2008
Current			
Federal	$ 872	$ 2,277	$ (1,812)
State and local	67	654	65
Deferred			
Federal	2,764	(2,477)	630
State and local	483	34	105
Provision for (benefit from) income taxes	**$ 4,186**	**$ 488**	**$ (1,012)**

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

	2010	2009	2008
Current			
Federal	$ 6	$ 1,700	$ 818
State and local	(17)	391	74
Deferred			
Federal	5,295	(251)	(318)
State and local	907	(9)	(3)
Provision for income taxes	**$ 6,191**	**$ 1,831**	**$ 571**

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

	2010	2009	2008
Statutory federal income tax rate	34.0%	34.0%	34.0%
Equity component of AFUDC, not subject to tax	(0.1)	(1.2)	38.9
Amortization of investment tax credits	(0.1)	(0.4)	3.3
Amortization of excess book value	(0.5)	(1.5)	10.8
State income taxes, net of federal tax benefit	4.1	6.3	(15.0)
Reversal of tax reserve	-	(2.2)	-
Valuation allowance on state net operating losses	-	(3.6)	-
Other	6.1	(1.8)	(31.0)
Effective income tax rate	**43.5%**	**29.6%**	**41.0%**

(In thousands of dollars)

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

	2010	2009
Deferred tax assets		
State net operating losses	$ 2,482	$ 2,189
Valuation allowances related to state net operating losses	(1,889)	(1,577)
Alternative minimum taxes	689	689
Bad debt	488	520
Other	603	584
Total	**$ 2,373**	**$ 2,405**
Deferred tax liabilities		
Plant related differences	$ 33,841	$ 24,912
Deferred charges	3,393	2,990
Regulatory assets	3,063	3,427
Organizational costs	2,814	2,696
Total	**$ 43,111**	**$ 34,025**
Net deferred tax liability	**$ 40,738**	**$ 31,620**

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

A deferred tax asset related to state net operating losses has been recorded, which will more likely than not be realized through future operations and the reversal of temporary differences. The state net operating losses vary in different amounts over different periods. Alternative minimum tax credits can be carried forward indefinitely.

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

13. Commitments and Contingencies

Operating Leases

The Company leases office space in various buildings for its own use. Most of the lease terms are for relatively short periods of time, many of which are less than two years. The Company also leases parcels of land on which treatment plants and other facilities are situated. These land leases expire at various dates through 2019. Rent expense, for both office and land, was $580, $667 and $615 for the years ended December 31, 2010, 2009 and 2008 respectively.

(In thousands of dollars)

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

	Office Leases	Land Leases	Total
Year ending December 31,			
2011	$ 117	$ 27	$ 144
2012	74	2	76
2013	16	2	18
2014	1	2	3
2015	1	-	1
Thereafter	4	-	4
Total	**$ 213**	**$ 33**	**$ 246**

Litigation

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

Contingencies

In the normal course of business, the Company may enter into agreements with real estate developers related to the provision of water and/or wastewater service. These agreements may require payments to these developers that are contingent upon the number of customers added to the systems of the various operating companies. Connection charges are collected from customers as they sign up for service. Amounts due to developers are accrued as new customers are added and were $23 and $199 at December 31, 2010 and 2009, respectively.

Naturally occurring elements are present in all ground water sources. In the western region of the United States, one of those elements is arsenic. After the federal limit on arsenic was lowered from 50 ppb to 10 ppb, one section of Spring Creek Utility Company ("SCUC"), like many other water utilities in Nevada, was granted a waiver by the Nevada Department of Environmental Protection. Subsequent to the expiration of this waiver on January 23, 2009, SCUC negotiated an Administrative Order on Consent which requires the Company to become compliant with current arsenic limits by December 31, 2011. In order to achieve compliance, the Company has begun a capital project to construct two new wells, water mains and appurtenances which is expected to cost approximately $8,000 and be completed by December 31, 2011. Approximately $700 has been spent on this project through December 31, 2010.

14. Reserve for Customer Refunds

On August 7, 2007, a regulated operating subsidiary of the Company filed an application with the South Carolina Public Service Commission (the "Commission") in an attempt to increase water rates. In their final order issued on February 11, 2008, the Commission denied the Company's request for rate increases. The Company petitioned the Commission to put the proposed rate increases in effect under bond and subject to refund to which the Commission agreed. The Company filed a Notice of Appeal with the South Carolina Supreme Court (the "Court") on July 2, 2009. Oral arguments were heard by the Court on November 4, 2010 and the matter is still pending.

At this time, the Company believes it is not probable that it will be required to refund the amounts collected from customers. This determination is, in part, based on briefs filed by the Office of Regulatory Staff to the Court during 2010 in which they argued that the rate increase is appropriate and that the Commission erred in finding that the Company failed to meet its burden of proof in establishing the need for rate increases. The rate increases billed to customers, from their effective date of May 8, 2008, total $1,814 through December 31, 2010.

15. Value Creation Shares Plan

The Company's Board of Directors (the "Board") approved a Value Creation Shares Plan, (the "Plan") on May 1, 2006 and has subsequently amended the Plan on two occasions, most recently on May 21, 2010. The Plan provides for the issuance of Value Creation Shares ("VCS") that entitle participants, subject to vesting restrictions, to receive an amount equal to the difference between the VCS award value of $1.40 and the fair market value of a VCS upon a liquidity event, based on a formula set forth in the Plan. A liquidity event is defined in the Plan as a "change in control event" as defined for purposes of Internal Revenue Code Section 409A. Holders of VCS will have no equity interest in the Company and, therefore, no rights as shareholders. The VCS do not have a contractual expiration date.

VCS awards vest at such time and are subject to the restrictions and conditions as set forth in each award agreement, the form of which has been approved by the Board. All VCS awards outstanding at December 31, 2010 become fully vested upon any of the following events:

a) On the fifth anniversary of the Plan's effective date, if the participant has remained in employment with the Company continuously until that date.
b) Upon a liquidation event, if the participant has remained in employment with the Company continuously until that date.

(In thousands of dollars)

VCS awards may also become partially vested if the participant's employment with the Company terminates due to disability or death, or if the participant's employment with the Company is terminated without cause.

Under the Plan, 10,000,000 VCS have been authorized for issuance. The following table summarizes VCS activity for the years ended December 31, 2010 and 2009:

	Number of Value Creation Shares
Outstanding at December 31, 2008	4,786,051
Granted	1,760,200
Forfeited	(1,448,239)
Outstanding at December 31, 2009	5,098,012
Granted	1,751,806
Forfeited	(76,834)
Outstanding at December 31, 2010	**6,772,984**

As of December 31, 2010, 1,895,449 VCS were vested. The Company has not recognized any compensation expense for awards granted under this plan as the occurrence of a liquidity event cannot be reasonably determined and is not considered probable until occurrence and the value of the VCS cannot be reasonably estimated.

16. Subsequent Events

Two subsidiaries of the Company entered into definitive agreements to sell utility systems. These sales are subject to approval by the state public utility commission. Total proceeds are expected to be in excess of the net book value of the assets to be sold.

The Company has evaluated events and transaction subsequent to the balance sheet date through March 6, 2011, the date the financial statements were available to be issued. Based on this evaluation, the Company is not aware of any additional events or transactions that occurred subsequent to the balance sheet date but prior to March 6, 2011 that would require recognition or disclosure in its Consolidated Financial Statements.