CONNECTICUT WATER SERVICE INC / CT
Form 10-K
February 28, 2019

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

Form 10-K

ý Annual Report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2018 or

o Transition report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period to from

Commission File Number 0-8084
Connecticut Water Service, Inc.
(Exact name of registrant as specified in its charter)

Connecticut (State or other jurisdiction of incorporation or organization)	06-0739839 (I.R.S. Employer Identification No.)
93 West Main Street, Clinton, CT (Address of principal executive office)	06413 (Zip Code)

Registrant’s telephone number, including area code (860) 669-8636
Registrant’s website: www.ctwater.com

Securities registered pursuant to Section 12 (b) of the Act:

Title of each Class	Name of each exchange on which registered
Common Stock, without par value	The Nasdaq Stock Market, LLC

Securities registered pursuant to Section 12 (g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No ý

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes o No ý

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ý No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ý

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act:

Large Accelerated Filer x	Accelerated Filer o
Non-Accelerated Filer o	Smaller reporting company o Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No ý

As of June 30, 2018, the aggregate market value of the registrant's voting Common Stock held by non-affiliates of the registrant was $775,510,970 based on the closing sale price on such date as reported on the NASDAQ.

Number of shares of Common Stock, no par value, outstanding as of February 1, 2019 was 12,060,120, including 99,476 common stock equivalent shares.

DOCUMENTS INCORPORATED BY REFERENCE

Document	Part of Form 10-K Into Which Document is Incorporated
Definitive Proxy Statement, to be filed on or about March 29, 2019, for Annual Meeting of Shareholders to be held on May 9, 2019.	Part III

INDEX TO ANNUAL REPORT ON FORM 10-K
For the Year Ended December 31, 2017

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this Annual Report on Form 10-K (“10-K”), or incorporated by reference into this 10-K, are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 (“Exchange Act”) that are made based upon, among other things, our current assumptions, expectations and beliefs concerning future developments and their potential effect on Connecticut Water Service, Inc. (referred to as “the Company”, “we”, “us”, or “our”). These forward-looking statements involve risks, uncertainties and other factors, many of which are outside our control, which may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. In some cases you can identify forward-looking statements where statements are preceded by, followed by or include the words “believes,” “expects,” “anticipates,” “plans,” “future,” “potential,” “probably,” “predictions,” “continue” or the negative of such terms or similar expressions. Forward-looking statements included in this 10-K, or incorporated by reference into this 10-K, include, but are not limited to, statements regarding:

- the proposed Merger between the Company and SJW Group, the anticipated timing of the Merger and our ability to successfully complete the Merger;
- projected capital expenditures and related funding requirements;
- the availability and cost of capital;
- developments, trends and consolidation in the water and wastewater utility industries;
- dividend payment projections;
- our ability to successfully acquire and integrate regulated water and wastewater systems, as well as unregulated businesses, that are complementary to our operations and the growth of our business;
- the capacity of our water supplies, water facilities and wastewater facilities;
- the impact of limited geographic diversity on our exposure to unusual weather;
- the impact of conservation awareness of customers and more efficient plumbing fixtures and appliances on water usage per customer;
- our capability to pursue timely rate increase requests;
- our authority to carry on our business without unduly burdensome restrictions;
- our ability to maintain our operating costs at the lowest possible level, while providing good quality water service;
- our ability to obtain fair market value for condemned assets;
- the impact of fines and penalties;
- changes in laws, governmental regulations and policies, including environmental, health and water quality and public utility regulations and policies;
- the decisions of governmental and regulatory bodies, including decisions to raise or lower rates;
- our ability to successfully extend and expand our service contract work within our Service and Rentals Segment in both Connecticut and Maine;
- the development of new services and technologies by us or our competitors;
- the availability of qualified personnel;
- the condition of our assets;
- the impact of legal proceedings;
- general economic conditions;
- the profitability of our Real Estate Segment, which is subject to the amount of land we have available for sale and/or donation, the demand for any available land, the continuation of the current state tax benefits relating to the donation of land for open space purposes and regulatory approval for land dispositions;
- the amount of repair tax deductions and the Internal Revenue Service’s ultimate acceptance of the deduction methodology; and
- acquisition-related costs and synergies.

Because forward-looking statements involve risks and uncertainties, there are important factors that could cause actual results to differ materially from those expressed or implied by these forward-looking statements, including but not limited to:

- the risks associated with the proposed Merger between the Company and SJW Group, the anticipated timing of the Merger and our ability to successfully complete the Merger;
- changes in public utility regulations and policies;
- changes in general economic, business, credit and financial market conditions;
- changes in environmental conditions, including those that result in water use restrictions;
- the determination of what qualifies for a repair expense tax deduction;
- abnormal weather conditions;
- increases in energy and fuel costs;

- unfavorable changes to the federal and/or state tax codes;
- significant changes in, or unanticipated, capital requirements;
- significant changes in our credit rating or the market price of our common stock;
- our ability to integrate businesses, technologies or services which we may acquire;
- our ability to manage the expansion of our business;
- the continuous and reliable operation of our information technology systems, including the impact of cyber security attacks or other cyber-related events;
- the extent to which we are able to develop and market new and improved services;
- the continued demand by telecommunication companies for antenna site leases on our property;
- the effect of the loss of major customers;
- our ability to retain the services of key personnel and to hire qualified personnel as we expand;
- labor disputes;
- increasing difficulties in obtaining insurance and increased cost of insurance;
- cost overruns relating to improvements or the expansion of our operations;
- increases in the costs of goods and services;
- civil disturbance or terroristic threats or acts; and
- changes in accounting pronouncements.

Given these uncertainties, you should not place undue reliance on these forward-looking statements. You should read this 10-K and the documents that we incorporate by reference into this 10-K completely and with the understanding that our actual future results, performance and achievements may be materially different from what we expect. These forward-looking statements represent our assumptions, expectations and beliefs only as of the date of this 10-K. Except for our ongoing obligations to disclose certain information under the federal securities laws, we are not obligated, and assume no obligation, to update these forward-looking statements, even though our situation may change in the future. For further information or other factors which could affect our financial results and such forward-looking statements, see Part I, Item 1A “Risk Factors.” We qualify all of our forward-looking statements by these cautionary statements.

PART I

ITEM 1. BUSINESS

The Company

The Registrant, Connecticut Water Service, Inc. (referred to as “the Company”, “we”, “us”, or “our”) was incorporated in 1974, with The Connecticut Water Company (“Connecticut Water”) as its largest subsidiary which was organized in 1956. Connecticut Water Service, Inc. is a non-operating holding company, whose income is derived from the earnings of its six wholly-owned subsidiary companies as of December 31, 2018. In 2018, approximately 85% of the Company’s net income, which includes the impact of merger costs, was attributable to water operations carried out within its four regulated water companies, Connecticut Water, The Heritage Village Water Company (“HVWC”), The Avon Water Company (“Avon Water”) and The Maine Water Company (“Maine Water”), together the “Regulated Companies”. As of December 31, 2018, the Regulated Companies supplied water to 139,574 customers, representing a population of approximately 450,000, in 80 municipalities throughout Connecticut and Maine and approximately 3,000 wastewater customers in Southbury, CT. The Regulated Companies are subject to state regulation regarding financial issues, rates, and operating issues, and to various other state and federal regulatory agencies concerning water quality and environmental standards.

In addition to its Regulated Companies, the Company owns two active unregulated companies. In 2018, these unregulated companies, together with real estate transactions and Maine Water’s unregulated operations, contributed the remaining 15% of the Company’s net income through real estate transactions as well as services and rentals. The two active unregulated companies are Chester Realty, Inc., a real estate company in Connecticut; and New England Water Utility Services, Inc. (“NEWUS”), which provides contract water and sewer operations and other water related services.

Our mission centers on passionate employees delivering life sustaining, high quality water service to families and communities while providing a fair return to our shareholders.

Our corporate headquarters are located at 93 West Main Street, Clinton, Connecticut 06413. Our telephone number is (860) 669-8636, and our Internet address is www.ctwater.com. The references to our website and the Securities and Exchange Commission’s (“SEC”) website are intended to be inactive textual references only, and the contents of those websites are not incorporated by reference herein and should not be considered part of this or any other report that we file with or furnish to the SEC.

The Company’s annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements and all amendments to these documents will be made available free of charge through the “INVESTORS” section of the Company’s Internet website (www.ctwater.com) as soon as practicable after such material is electronically filed with, or furnished to, the SEC. The following documents are also available through the “INVESTORS” section of our website, under the “Governance” tab:

- Board of Directors Code of Conduct
- Compensation Committee Charter
- Corporate Finance and Investments Committee Charter
- Corporate Governance Committee Charter
- Bylaws of Connecticut Water Service, Inc.
- Employee Code of Conduct
- Audit Committee Charter

Additionally, information concerning the Company's 2019 Annual Meeting Materials (2018 Annual Report and 2019 Proxy Statement) can be found under the "INVESTORS" menu, under the "Investor Resources" tab when the Annual Meeting Materials are filed with the SEC on or about March 29, 2019.

The SEC maintains a website that contains reports, proxy statements and other information regarding issuers that file electronically with the SEC. These materials may be obtained electronically by accessing the SEC's website at http://www.sec.gov. Copies of each of the Company's SEC filings (without exhibits) and corporate governance documents mentioned above will also be mailed to investors, upon request, by contacting the Company's Corporate Secretary, Kristen A. Johnson, at Connecticut Water, 93 West Main Street, Clinton, CT 06413.

Proposed Merger with SJW Group

On August 5, 2018, the Company entered into a Second Amended and Restated Agreement and Plan of Merger (the “Revised Merger Agreement”) with SJW Group, a Delaware corporation (“SJW”), and Hydro Sub, Inc., a Connecticut corporation and a direct wholly owned subsidiary of SJW (“Merger Sub”), pursuant to which Merger Sub will merge with and into the Company, with the Company surviving the merger as a wholly owned subsidiary of SJW (the “Merger”). Subject to the terms and conditions of the Revised Merger Agreement, at the effective time of the Merger, each outstanding share of our common stock (other than certain cancelled shares) will be automatically converted into the right to receive an amount in cash equal to $70.00 per share, payable without interest. The Revised Merger Agreement amends and restates in its entirety the Amended and Restated Agreement and Plan of Merger (the “First Amended and Restated Merger Agreement”), dated as of May 30, 2018, by and among the Company, SJW and Merger Sub, which amended and restated in its entirety the Agreement and Plan of Merger (the “Original Merger Agreement”), dated as of March 14, 2018, by and among the Company, SJW and Merger Sub.

The Board of Directors approved, adopted and declared advisable the Revised Merger Agreement and the Merger and recommended that the Company’s shareholders approve the Revised Merger Agreement following a comprehensive review of the transaction. The Revised Merger Agreement was approved by the Company’s shareholders on November 16, 2018.

The Merger is subject to certain customary closing conditions, including, among other things, approval of the Revised Merger Agreement by the Company’s shareholders (which was received on November 16, 2018) and regulatory approvals (including the approval of the Connecticut Public Utilities Regulatory Authority (“PURA”) and the Maine Public Utilities Commission (“MPUC”)). The required waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the rules and regulations promulgated thereunder (the “HSR Act”), was terminated early on April 27, 2018. The early termination will expire and the Company and SJW will need to re-file the necessary notifications under the HSR Act if the Merger is not consummated by April 27, 2019. On October 15, 2018, the Federal Communications Commission (“FCC”) consented to the joint application for transfer of control filed by the Company and SJW on October 4, 2018 and amended on October 12, 2018, and no further clearance from the FCC is required.

On May 4, 2018, Maine Water filed with MPUC an application for approval of the Merger. On May 7, 2018, the Company and SJW filed with PURA a joint application for approval of the Merger. Following the start on May 31, 2018 of a 45-day go-shop process permitted by the First Amended and Restated Merger Agreement, the Company and SJW withdrew their joint PURA application on June 19, 2018, and filed a new joint application on July 18, 2018 following the end of the go-shop process. On January 9, 2019, the Company and SJW withdrew their current application before PURA and announced that they were continuing to evaluate their regulatory approach, including the possibility of submitting a new application to PURA in connection with the Merger. On January 23, 2019, Maine Water voluntarily requested to withdraw its application before MPUC, aligning the Maine regulatory process with the regulatory process in Connecticut. After a thorough review conducted by the management and boards of the Company and SJW, and with the support of their respective Connecticut regulatory counsel, the Company disclosed on February 21, 2019 that the companies decided to file new applications with PURA and MPUC which are intended to address PURA’s concerns. The Company and SJW expect that the new applications will be filed during the second quarter of 2019. PURA must make a ruling on the merger within 120 days after the filing of an application, unless the Company and SJW agree to an extension of the 120-day timeframe. MPUC must make a ruling on the merger within 60 days after the filing of an application, unless it determines that the necessary investigation cannot be concluded within 60 days, in which event it can extend the review period for up to an additional 120 days.

On July 20, 2018, the California Public Utilities Commission (“CPUC”) formally issued an Order Instituting Investigation (the “Order”) providing that CPUC will investigate whether the Merger is subject to CPUC approval and the Merger’s anticipated impacts within California. CPUC held a public participation hearing on January 31, 2019 in connection with the Order.

Our Regulated Companies

Our Regulated Companies are subject to seasonal fluctuations and weather variations. The demand for water is generally greater during the warmer months than the cooler months due to customers’ incremental water consumption related to cooling systems and various outdoor uses such as private and public swimming pools and lawn sprinklers. Demand will vary with rainfall and temperature levels from year to year and season to season, particularly during the warmer months. The financial risk associated with changes in demand was mitigated in the State of Connecticut due to the adoption of the Water Revenue Adjustment (“WRA”) by Connecticut Water in 2013 and by HVWC in 2015. Currently, Avon Water does not utilize the WRA.

In general, the profitability of the water utility industry is largely dependent on the timeliness and adequacy of rates allowed by utility regulatory commissions. In addition, profitability is affected by numerous factors over which we have little or no control, such as costs to comply with security, environmental, and water quality regulations. Inflation and other factors also impact costs for construction, materials and personnel related expenses.

The Company believes that we are presently in compliance with current environmental and water quality regulations, but the regulations are subject to change at any time. The costs to comply with future changes in state or federal regulations, which could require us to modify existing filtration facilities and/or construct new ones, or to replace any reduction of the safe yield from any of our current sources of supply, could be substantial.

Regulatory Matters

The rates we charge our water and wastewater customers in Connecticut and Maine are established under the jurisdiction of and are approved by PURA and MPUC, respectively. It is our policy to seek rate relief as necessary to enable us to achieve an adequate rate of return. The Regulated Companies' allowed returns on equity and allowed returns on rate base are as follows:

As of December 31, 2018	Allowed Return on Equity	Allowed Return on Rate Base
Connecticut Water	9.75 %	7.32 %
HVWC (blended water and wastewater rates)	10.10 %	7.19 %
Avon Water	10.00 %	7.79 %
Maine Water	9.50 %	7.96 %

The PURA establishes rates in Connecticut on a company-wide basis while the MPUC approves Maine Water's rates on a division-by-division basis. Each of Connecticut Water, HVWC, Avon Water and Maine Water are allowed to add surcharges to customers' bills in order to recover certain costs associated with approved capital projects in between full rate cases, as well as approved surcharges for the WRA, in Connecticut, as discussed in more detail below. HVWC has not added surcharges to customers' bills in order to recover certain approved capital projects as of December 31, 2018, however, HVWC, as authorized by PURA, began to utilize the WRA as of May 1, 2015.

On January 3, 2018, PURA reopened the most recent rate case decisions for the Company's Connecticut Regulated Companies to determine what, if any, adjustments to rates are appropriate to account for revisions to tax laws, including corporate tax rates, contained in the Federal Tax Cuts and Jobs Act ("Tax Act"). On January 23, 2019, PURA issued a decision that determined the appropriate accounting and rate treatments for the reduction in the Federal Corporate Income Tax rate from 35 to 21 percent. The reduction in the Federal Corporate Income Tax impacts two specific areas of corporate income tax that the regulated water utilities must account for: a) the income tax expense included in rates charged to customers; and b), the Excess Accumulated Deferred Income Tax ("EADIT") liability accrued on the regulated utilities books.

PURA has directed regulated water companies, including Avon and HVWC, to create a regulatory liability as of January 1, 2018 to account for the reduced Federal Corporate Income Tax expense and defer treatment until the companies file their next general rate cases, at which point the companies will propose a method to return the regulatory liability to customers. During the year ended December 31, 2018, Avon and HVWC recorded regulatory liabilities in the amounts of $154,000 and $89,000, respectively, in anticipation of the final decision. Additionally, PURA directed Avon and HVWC, to establish a liability account for the EADIT from January 1, 2018, going forward, which will also be returned to customers commencing with the companies' next rate cases. As discussed below, Connecticut Water has entered into a settlement agreement with the Connecticut Office of Consumer Counsel ("OCC"), which was approved by PURA, which covers treatment of the Tax Act.

On January 11, 2018, the MPUC issued a notice of investigation to determine the impact of the Tax Act on Maine Water. The investigation will allow the MPUC to determine what, if any, adjustments to rates are appropriate to account for revisions to tax laws, including corporate tax rates contained in the Tax Act. In addition to determining the impact of the Tax Act, the MPUC will consider whether to issue an accounting order to establish a regulatory liability as of January 1, 2018 to account for the reduced Federal Corporate Income Tax expense and defer treatment until the divisions file their next general rate case, at which point each division will propose a method to return the regulatory liability to customers. Following discovery, technical conferences were held on April 19, 2018, July 17, 2018, and October 15, 2018. A settlement conference was held on December 6, 2018. The Company expects to reach a settlement with the MPUC in the first quarter of 2019. During the year ended December 31, 2018, Maine Water recorded a regulatory liability in the amount of $167,000, in anticipation of a settlement.

The Heritage Village Water Company Acquisition

As previously reported, on May 10, 2016, the Company announced that it had reached an agreement to acquire HVWC, pending a vote of HVWC shareholders, approval by PURA and MPUC and the satisfaction of other various closing conditions, pursuant to the terms of Agreement and Plan of Merger dated May 10, 2016 between and among HVWC, the Company, and HAC, Inc., the Company's wholly-owned Connecticut subsidiary (the "Merger Agreement"). HVWC serves approximately 4,700 water customers in the Towns of Southbury, Middlebury, and Oxford, Connecticut and approximately 3,000 wastewater customers in the Town of Southbury, Connecticut.

The acquisition was executed through a stock-for-stock merger transaction valued at approximately $16.9 million. Holders of HVWC common stock received shares of the Company's common stock in a tax-free exchange. In addition, the transaction reflected a total enterprise value of HVWC of approximately $21.5 million, with the $16.9 million paid to shareholders in a stock exchange and the assumption by the Company of approximately $4.6 million of debt held by HVWC at the time of the acquisition.

The Company received regulatory approval from MPUC on September 28, 2016 and from PURA on December 5, 2016, to proceed with the transaction. The shareholders of HVWC voted to approve the acquisition at a special meeting of HVWC's shareholders held on February 27, 2017.

On February 27, 2017, the Company completed the acquisition of HVWC by completing the merger of the Company's wholly-owned subsidiary HAC, Inc. with and into HVWC, with HVWC as the surviving corporation, pursuant to the terms of the Merger Agreement and Connecticut corporate law. Upon the effective time of the Merger, the holders of HVWC's 1,620 issued and outstanding shares of common stock became entitled to receive an aggregate of 300,445 shares of the Company's common stock in a tax-free exchange, which exchange was commenced promptly by the issuance of a letter of transmittal and related materials by Connecticut Water's exchange agent.

The Avon Water Company Acquisition

As previously reported, on October 12, 2016, the Company announced that it had reached an agreement to acquire Avon Water, pending a vote of Avon Water shareholders, approval by PURA and the MPUC and the satisfaction of other various closing conditions, pursuant to the terms of that certain Agreement and Plan of Merger dated October 11, 2016 as amended on March 29, 2017 between and among Avon Water, the Company, and WC-A I, Inc., the Company's wholly-owned Connecticut subsidiary (the "Merger Agreement"). Avon Water serves approximately 4,800 customers in the Farmington Valley communities of Avon, Farmington, and Simsbury, Connecticut.

On February 10, 2017, Connecticut Water received regulatory approval from MPUC and on April 12, 2017, Connecticut Water received regulatory approval from PURA to proceed with the transaction. The shareholders of Avon Water voted to approve the acquisition at a special meeting of Avon Water's shareholders held on June 16, 2017.

Effective July 1, 2017, the Company completed the acquisition of Avon Water by completing the merger of Connecticut Water's wholly-owned subsidiary WC-A I, Inc. with and into Avon Water, with Avon Water as the surviving corporation, pursuant to the terms of the Merger Agreement and Connecticut corporate law. Upon the effective time of the Merger, the holders of Avon Water's 122,289 issued and outstanding shares of common stock became entitled to receive the following merger consideration for each share of Avon Water common stock held: (i) a cash payment of $50.11; and (ii) a stock consideration component, consisting of 3.97 shares of the Company's common stock.

The transaction was completed through a stock-for-stock exchange where Avon Water shareholders received the Company's common stock valued at approximately $26.9 million, in a tax-free exchange, and a cash payment of $6.1 million for a total payment to shareholders of $33.0 million. The transaction reflects a total enterprise value of approximately $39.1 million, with the $33.0 million paid to shareholders and the assumption by the Company of approximately $6.1 million of debt held by Avon Water at the time of acquisition.

Connecticut Rates

Connecticut Water's Water Infrastructure Conservation Adjustment ("WICA") was 0.00%, 9.81% and 7.13% above base rates at December 31, 2018, 2017, and 2016, respectively. As of December 31, 2018 and 2017, Avon Water's WICA surcharge was 9.31% and 8.09%. As of December 31, 2018, HVWC has not filed for a WICA surcharge. On December 27, 2018, PURA issued a final decision authorizing Connecticut Water to implement a 2.15% WICA surcharge on customers' bills effective January 1, 2019, representing approximately $19.5 million in WICA related projects.

On February 6, 2018, Connecticut Water filed a petition with PURA to reopen Connecticut Water's 2010 rate case (previously reopened in 2013) proceeding for the limited purpose of approving a Settlement Agreement entered into by Connecticut Water and the Connecticut Office of Consumer Counsel ("OCC") (the "Agreement"). The Agreement contemplates a change in Connecticut Water's customer rates effective for bills rendered on and after April 1, 2018 made up of the following two components: (1) the revenue requirements associated with a $36.3 million addition to rate base to reflect necessary upgrades to Connecticut Water's Rockville Water Treatment Plant; and (2) the folding in to base rates of the Company's present WICA surcharges. In addition, the Agreement provides that:

1. Upon implementation of new rates under the Agreement, until such time as new rates are adopted in a general rate case, through a temporary modification of the earnings sharing mechanism, Connecticut Water customers will receive one hundred percent of any earnings in excess of levels allowed by law rather than limiting such customer credits to 50% as contemplated by applicable law;
2. Connecticut Water agrees it will not file for a general increase of Connecticut Water's base rates unless those rates are to be effective on or after January 1, 2020;
3. The pending proceeding initiated by PURA in Docket No. 09-12-11RE03, Application of The Connecticut Water Company for Amended Rates – Federal Tax Cuts and Jobs Act shall be closed; and
4. Connecticut Water shall continue to make investments in infrastructure replacement consistent with its approved WICA plan. Connecticut Water shall be allowed to continue to pursue recovery of eligible projects through WICA.

On August 15, 2018, PURA issued a final decision that accepted the conditions of a revised settlement agreement. The primary facets of the revised settlement agreement were the revenue requirements associated with the Rockville Water Treatment Plant, discussed above, and the folding of previously approved WICA surcharges into base rates, which reset Connecticut Water's WICA to zero and resolution of the Company's obligations related to the Tax Act. New rates were effective as of April 1, 2018.

Since 2013, Connecticut law has authorized a Water Revenue Adjustment ("WRA") to reconcile actual water demands with the demands projected in the last general rate case and allows companies to adjust rates as necessary to recover the revenues approved by PURA in the last general rate case. The WRA removes the financial disincentive for water utilities to develop and implement effective water conservation programs. The WRA allows water companies to defer on the balance sheet, as a regulatory asset or liability, for later collection from or crediting to customers the amount by which actual revenues deviate from the revenues allowed in the most recent general rate proceedings. A similar WICA reconciliation adjustment mechanism allows the Connecticut water utilities that have WICA to be made whole, and not more than whole for their allowed WICA revenues during a calendar year. Additionally, projects eligible for WICA surcharges were expanded to include energy conservation projects, improvements required to comply with streamflow regulations, and improvements to acquired systems.

Connecticut Water and HVWC's allowed revenues for the year ended December 31, 2018, as approved by PURA during each company's last general rate case and including subsequently approved WICA surcharges, were approximately $88.9 million. Through normal billing for the year ended December 31, 2018 operating revenue for Connecticut Water and HVWC would have been approximately $80.7 million had the WRA not been implemented. As a result of the implementation of the WRA, Connecticut Water and HVWC recorded $8.2 million in additional revenue for the year ended December 31, 2018, which reflects increased allowed revenues, effective April 1, 2018, resulting from the application of the rate settlement approved by PURA during 2018. During the years ended December 31, 2017 and 2016, Connecticut Water recorded $4.3 million and $1.1 million, respectively, in additional revenue related to the WRA. Avon Water does not currently use the WRA mechanism.

Maine Rates

In Maine, the overall, approved cumulative Water Infrastructure Charge ("WISC") for all of Maine Water's divisions was 6.8%, 5.6% and 4.7% above base rates as of December 31, 2018, 2017, and 2016, respectively. The WISC rates for the Biddeford and Saco division were reset to zero with the approval of the general rate increase discussed below. In January 2019, Maine Water filed six additional WISC applications which have been approved by the MPUC. These six new filings will add approximately $369,000 in annualized revenues.

On June 29, 2017, Maine Water filed for a rate increase in its Biddeford and Saco division. The rate request was for an approximate $1.6 million, or 25.1%, increase in revenues. The rate request was designed to recover higher operating expenses, depreciation and property taxes since Biddeford and Saco's last rate increase in 2015. Maine Water and the Maine Office of the Public Advocate reached an agreement that increases annual revenue by $1.56 million. The agreement was approved by the MPUC on December 5, 2017, with new rates effective December 1, 2017.

A water revenue adjustment mechanism law in Maine became available to regulated water utilities in Maine on October 15, 2015. Maine Water is currently precluded from seeking new rates in the Biddeford and Saco division due to provisions in the settlement agreement with the MPUC. Maine's rate-adjustment mechanism could provide revenue stabilization in divisions with declining water consumption and Maine Water expects to request usage of this mechanism in future rate filings when consumption trends support its use.

Maine Water Land Sale

On March 11, 2016, Maine Water entered into a purchase and sale agreement with the Coastal Mountains Land Trust, a Maine nonprofit corporation (the “Land Trust”) pursuant to which Maine Water agreed to sell two conservation easements to the Land Trust on approximately 1,400 acres of land located in the towns of Rockport, Camden and Hope, in Knox County, Maine valued in the aggregate at $3.1 million. The land had a book value of approximately $600,000 at December 31, 2018 and December 31, 2017 and is included in “Other Property and Investments” and “Utility Plant”, respectively, on the Company’s Consolidated Balance Sheets. The easements and purchase prices are as follows:

1. Ragged Mountain Mirror Lake Conservation Easement: $1,875,000; and
2. Grassy Pond Conservation Easement: $600,000.

The first transaction regarding Mirror Lake was completed on September 27, 2018. As a result of the transaction, Maine Water has recognized $435,000 in net income in the period and has recorded a regulatory liability of $435,000 that will be refunded to customers over a one-year period, beginning January, 2019. In addition to the net income recorded as a result of the transaction, the Company recorded a $100,000 deferred income tax benefit due to the timing difference related to the cash refund to customers. The total net income benefit recorded by the Company for this transaction was $535,000 presented as $625,000 in gain on real estate transactions offset by $90,000 of donation deduction in the Other line item. Maine Water also made a $250,000 contribution to the Land Trust at the closing.

The second transaction regarding Grassy pond is scheduled to close on or before December 31, 2019. The second transaction is structured such that Maine Water will sell a conservation easement valued at $1,200,000 for $600,000. Accordingly, Maine Water expects to claim a $600,000 charitable deduction on the bargain sale. Similarly to the first transaction, net proceeds from the second transaction will be shared equally between the customers of the Camden Rockland division and Maine Water.

Our Water Systems

As of December 31, 2018, our water infrastructure consisted of 77 noncontiguous water systems in the States of Connecticut and Maine. Our system, in total, consists of approximately 2,300 miles of water main and reservoir storage capacity of 9.4 billion gallons. The safe, dependable yield from our 249 active wells and 25 surface water supplies is approximately 185 million gallons per day. Water sources vary among the individual systems, but overall approximately 80% of the total dependable yield comes from surface water supplies and 20% from wells.

For the year-ended December 31, 2018, our Regulated Companies’ 139,574 customers consumed approximately 10.1 billion gallons of water, generating $116,665,000 in operating revenues. We supply water, and in most cases, fire protection to all or portions of 80 towns throughout Connecticut and Maine.

The following table breaks down the above total figures by customer class as of December 31, 2018, 2017, and 2016:

	2018	2017	2016
Customers:			
Residential	119,390	118,493	111,494
Commercial	9,358	9,386	8,626
Industrial	530	536	479
Public Authority	1,070	1,072	948
Fire Protection	3,250	3,178	2,876
Other water customers (including non-metered accounts)	2,964	2,980	545
Wastewater	3,012	3,012	—
Total	139,574	138,657	124,968
Water Revenues (in thousands):			
Residential	$69,134	$62,831	$59,884
Commercial	15,123	13,676	12,250
Industrial	3,395	3,196	3,176
Public Authority	3,917	3,845	3,510
Fire Protection	21,731	20,235	18,486
Other (including non-metered accounts)	3,365	3,271	1,361
Total	$116,665	$107,054	$98,667
Customer Water Consumption (millions of gallons):			
Residential	6,678	6,408	6,583
Commercial	2,126	2,026	1,954
Industrial	729	711	724
Public Authority	536	575	539
Total	10,069	9,720	9,800

The Regulated Companies own various small, discrete parcels of land that are no longer required for water supply purposes. At December 31, 2018, this land totaled over 600 acres. Over the past several years, we have been disposing of these land parcels through sales and/or donations, primarily to towns and municipalities. For more information, please refer to Segments of Our Business below.

Additional information on land dispositions can be found in Item 7 – “Management’s Discussion and Analysis of Financial Conditions and Results of Operations – Commitments and Contingencies”.

Competition

Our Regulated Companies face competition from a few small privately-owned water systems operating within, or adjacent to, our franchise areas and from municipal and public authority systems whose service areas in some cases overlap portions of our franchise areas.

Employees

As of December 31, 2018, we employed a total of 297 people. Our employees are not covered by collective bargaining agreements.

Executive Officers of the Registrant

The following is a list of the executive officers of the Company as of February 28, 2019:

Name	Age in 2019*	Offices	Period Held or Prior Position	Term of Office Expires
D. C. Benoit	61	President and Chief Executive Officer	Held current position or other executive position with the Company since April 1996	2019 Annual Meeting
R. J. Doffek	56	Chief Financial Officer, Treasurer and Controller	Held current position or other finance position with the Company since November 2015	2019 Annual Meeting
C. J. Patla	51	Vice President – Service Delivery	Held current position or other engineering position with the Company since June 1990	2019 Annual Meeting
M. P. Westbrook	60	Vice President – Customer and Regulatory Affairs	Held current position or other management position with the Company since September 1988	2019 Annual Meeting
K. A. Johnson	52	Vice President – Human Resources and Corporate Secretary	Held current position or other human resources position with the Company since May 2007	2019 Annual Meeting
R. L. Knowlton	60	Division President – The Maine Water Company	Vice President of Operations of The Maine Water Company (and its predecessor companies) since 1993	2019 Annual Meeting

* - Age shown is as of filing date of February 28, 2019.

For further information regarding the executive officers see the Company's Proxy Statement to be filed on or about March 29, 2019.

Segments of Our Business

For management and financial reporting purposes we divide our business into three segments: Water Operations (our Regulated Companies), Real Estate Transactions (through either our regulated or unregulated companies), and Services and Rentals (our unregulated companies and certain unregulated transactions within Maine Water).

Water Operations – The Water Operations segment is comprised of our core regulated water operations to supply public drinking water and provide wastewater services to our customers. This segment encompasses all transactions of our Regulated Companies with the exception of certain real estate transactions, including costs associated with acquisitions of Regulated Companies. More detailed information, including revenues, costs and income taxes associated with the segment can be found in Note 15, "Segment Reporting" in the Company's "Notes to the Consolidated Financial Statements".

Real Estate Transactions – Our Real Estate Transactions segment involves the sale or donation for income tax benefits of our real estate holdings. These transactions can be effected by any of our subsidiary companies. Through land donations and sales in previous years, the Company earned tax credits to use in future years. The Company is limited by time and the amount of taxable income when using these credits. For the year ended December 31, 2016, the Company sold a small parcel of land and adjusted previously adjusted tax reserves related to previously completed land sales/donations resulting in a loss of $54,000. During 2017, the Company sold small parcels of land in Connecticut and Maine. These transactions generated $33,000 in net income in the Real Estate segment. During the year ended December 31, 2018, the Company completed the first phase of the previously discussed sale of conservation easement in Maine. Net income from the Real Estate Transactions segment is shown net in the “Other Income (Deductions), Net of Taxes” portion of the Company’s Consolidated Statements of Income. More detailed information, including revenues, costs and income taxes associated with the segment can be found in Note 15, “Segment Reporting” in the Company’s “Notes to the Consolidated Financial Statements”.

A breakdown of the net income of this segment between our regulated and unregulated companies for the past three years is as follows:

	Income (Loss) from Real Estate Transactions		
	Regulated	Unregulated	Total
2018	$629,000	$ —	$629,000
2017	$33,000	$ —	$33,000
2016	$(54,000)	$ —	$(54,000)

Services and Rentals – Our Services and Rentals segment provides contracted services to water utilities and other clients and also leases certain of our properties to third parties through our unregulated companies in the State of Connecticut and through Maine Water in the State of Maine. The types of services provided include contract operations of water facilities and Linebacker®, our service line protection plan for public drinking water customers. Our lease and rental income comes primarily from the renting of residential and commercial property. Net income from the Services and Rentals segment is shown net in the "Other Income (Deductions), Net of Taxes" portion of the Company's "Consolidated Statements of Income". More detailed information, including revenues, costs and income taxes associated with the segment can be found in Note 15, "Segment Reporting" in the Company's "Notes to the Consolidated Financial Statements".

Linebacker is an optional service line protection program offered by the Company to eligible residential customers through NEWUS in Connecticut and Maine Water in Maine covering the cost of repairs for leaking or broken water service lines which provide drinking water to a customer's home. For customers who enroll in this program, the Company will repair or replace a leaking or broken water service line, curb box, curb box cover, meter pit, meter pit cover, meter pit valve plus in-home water main shut off valve before the meter. This was the sixth year that NEWUS has successfully offered expanded coverage to Connecticut Water customers for failure of in-home plumbing, sewer and septic drainage lines and implemented modified terms and conditions with limitations on certain coverages. As of December 31, 2018, NEWUS had approximately 20,000 customers enrolled in its Linebacker protection program and over 35% were enrolled in one of our expanded coverage plans. Depending on the coverage selected, Linebacker prices range between $88 to $190, effective March 1, 2018. Maine Water offers basic service line protection under Linebacker to its customers at a rate of $85. As of December 31, 2018, Maine Water had approximately 2,500 customers enrolled in Linebacker.

Some of the services listed above have limited competition. However, the Company has seen competitors in the service line protection business begin to market to Connecticut Water and Maine Water customers. Additionally, there can be considerable competition for contract operations of large water facilities and systems. The Company sought to develop a niche market by attaching our name to service line protection plans and by seeking to serve smaller facilities and systems in our service areas where there is less competition. The Services and Rentals segment has provided between 5-11% of our overall net income in 2018, 2017, and 2016. Net income generated by this segment of our business was $1,807,000, $1,167,000 and $1,219,000 for the years 2018, 2017, and 2016, respectively.

ITEM 1A. RISK FACTORS

Our business, financial condition, operating results and cash flows can be impacted by a number of factors, including, but not limited to, those set forth below, any one of which could cause our actual results to vary materially from recent results or anticipated future results. For a discussion identifying additional risk factors and important factors that could cause actual results to differ materially from those anticipated, see the discussion in “Special Note Regarding Forward-Looking Information”, in Item 7 below – “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Notes to Consolidated Financial Statements.”

We may fail to consummate the Merger, and uncertainties related to the consummation of the Merger may have a material adverse effect on our business, results of operations and financial condition and negatively impact the price of our common stock.

As previously discussed, on August 5, 2018, the Company entered into the Revised Merger Agreement with SJW and Merger Sub, a direct wholly owned subsidiary of SJW. Pursuant to the Revised Merger Agreement, Merger Sub will merge with and into the Company, with the Company surviving the Merger as a wholly owned subsidiary of SJW. Subject to the terms and conditions of the Revised Merger Agreement, at the effective time of the Merger, each outstanding share of our common stock (other than certain cancelled shares) will be automatically converted into the right to receive an amount in cash equal to $70.00 per share, payable without interest. The Revised Merger Agreement was approved by the Company’s shareholders on November 16, 2018. The Merger is subject to the satisfaction of a number of additional conditions beyond our control, including regulatory approvals (including, without limitation, the approval of PURA and MPUC) and other customary closing conditions. The conditions to the Merger could prevent or delay the completion of the Merger. Further, regulators may impose conditions, obligations or restrictions on the Merger that may have the effect of delaying or preventing its completion.

On December 3, 2018, PURA issued a proposed decision that would deny approval of the Merger. On January 4, 2019, PURA denied the Company and SJW’s joint motion, filed on December 14, 2018, requesting that PURA reopen the record and grant an extension to admit substantial new evidence. On January 9, 2019, the Company and SJW withdrew their current application before PURA and announced that they were continuing to evaluate their regulatory approach, including the possibility of submitting a new application to PURA in connection with the Merger. On January 23, 2019, Maine Water voluntarily requested to withdraw its application before MPUC, aligning the Maine regulatory process with the regulatory process in Connecticut. After a thorough review conducted by the management and boards of the Company and SJW, and with the support of their respective Connecticut regulatory counsel, the Company disclosed on February 21, 2019 that the companies decided to file new applications with PURA and MPUC which are intended to address PURA’s concerns. The Company and SJW expect that the new applications will be filed during the second quarter of 2019. There can be no assurance that PURA and MPUC will approve any new applications submitted in connection with the Merger in Connecticut and Maine, respectively, on a timely basis or at all. In addition, CPUC previously instituted an investigation into whether the Merger is subject to its approval and the Merger’s anticipated impacts in California. There can be no assurance that CPUC will determine that its prior authorization is not required for the Merger.

The efforts and costs to satisfy the closing conditions of the Merger, including the regulatory approval process, may place a significant burden on management and internal resources, and the Merger and related transactions, whether or not consummated, may result in a diversion of management’s attention from day-to-day operations. Any significant diversion of management’s attention away from ongoing business and difficulties encountered in the Merger process could have a material adverse effect on our business, results of operations and financial condition.

There also is no assurance that the Merger and the other transactions contemplated by the Revised Merger Agreement will occur on the terms and timeline currently contemplated or at all. When the parties entered into the Revised

Merger Agreement on August 5, 2018, they expected the closing of the Merger to occur during the first quarter of 2019. In light of recent regulatory developments, including the decision of the Company and SJW to withdraw their prior joint PURA application and Maine Water's MPUC application in January 2019 and the subsequent decision of the Company and SJW to file new applications with PURA and MPUC during the second quarter of 2019, the closing of the Merger will be delayed. PURA must make a ruling on the merger within 120 days after the filing of an application, unless the Company and SJW agree to an extension of the 120-day timeframe. MPUC must make a ruling on the merger within 60 days after the filing of an application, unless it determines that the necessary investigation cannot be concluded within 60 days, in which event it can extend the review period for up to an additional 120 days.

The Revised Merger Agreement also contains certain customary termination rights, including the right of each of the Company and SJW to terminate the Revised Merger Agreement if the Merger is not consummated by May 5, 2019, subject to two automatic three-month extensions up to November 5, 2019 if needed to satisfy the regulatory approvals. In addition, SJW may fail to obtain the necessary funds to complete the Merger. If the proposed Merger is not completed or the Revised Merger Agreement is terminated, the price of our common stock may decline, including to the extent that the current market price of our common stock reflects an assumption that the Merger and the other transactions contemplated by the Revised Merger Agreement will be consummated without further delays, which could have a material adverse effect on our business, results of operations and financial condition.

If the Revised Merger Agreement is terminated and the Company determines to seek another business combination, it may not be able to negotiate a transaction with another party on terms comparable to, or better than, the terms of the Merger.

We are subject to various uncertainties and restrictions on the conduct of our business while the Merger is pending, which could have a material adverse effect on our business, results of operations and financial condition.

Uncertainty about the pendency of the Merger and the effect of the Merger on employees, customers, vendors, communities and other third parties who deal with us may have a material adverse effect on our business, results of operations and financial condition. These uncertainties may impair our ability to attract, retain and motivate key personnel pending the consummation of the Merger, as such personnel may experience uncertainty about their future roles following the consummation of the Merger. Additionally, these uncertainties could cause customers, vendors and other third parties who deal with us to seek to change existing business relationships with us or fail to extend an existing relationship with us, all of which could have a material adverse effect on our business, results of operations, financial condition and market price of our common stock. In addition, the Revised Merger Agreement restricts us from taking certain actions without SJW's consent while the Merger is pending, and these restrictions have been in place since the Original Merger Agreement was executed on March 14, 2018. These restrictions may, among other matters, prevent us from pursuing otherwise attractive business opportunities, buying or selling assets, making certain capital expenditures, refinancing or incurring additional indebtedness, entering into transactions, or making other changes to our business prior to consummation of the Merger or termination of the Revised Merger Agreement. These restrictions and uncertainties could have a material adverse effect on our business, results of operations and financial condition.

We are subject to lawsuits relating to the Merger, which may impact the timing of the closing of the Merger and adversely impact our business.

On June 14, 2018, two nearly identical putative class action complaints were filed against the members of the Board of Directors, SJW and Mr. Eric W. Thornburg (the chief executive officer and president of SJW) on behalf of the Company's shareholders in the Connecticut Superior Court in the Judicial District of Middlesex under the captions Dunn v. Benoit, et al., Case No. MMX-CV18-6021536-S (Conn. Super. Ct.) and Tillotson v. Benoit, et al., Case No. MMX-CV18-6021537-S (Conn. Super. Ct.), respectively. The complaints, as amended on September 18, 2018 and September 20 2018, respectively, allege, among other things, that (i) the members of the Board of Directors breached their fiduciary duties owed to the Company's shareholders in connection with negotiating the Merger, (ii) the Company's preliminary proxy statement, filed with the Securities and Exchange Commission on August 20, 2018 in respect of the special meeting of the Company's shareholders held on November 16, 2018 in connection with the Merger, omits certain material information and (iii) SJW and Mr. Thornburg aided and abetted the alleged breaches by the Board of Directors. Among other remedies, the action seeks to recover rescissory and other damages and attorneys' fees and costs. The parties to these actions entered into an agreement in principle to settle and release all claims that were or could have been alleged by the plaintiffs in those actions. On November 20, 2018, the plaintiffs in these two actions filed motions seeking an award of attorneys' fees of $1.5 million, which the Company intends to oppose.

On October 5, 2018, a putative class action complaint and a direct action complaint were filed against the Company and the members of the Board of Directors in the United States District Court for the District of Connecticut under the captions Paskowitz v. Connecticut Water Service, et al., Case No. 3:18-cv-01663 (D. Conn.) and Assad v. Connecticut Water Service, et al., Case No. 3:18-cv-01664 (D. Conn.), respectively. The nearly identical complaints allege that the defendants violated Sections 14(a) and 20(a) of the Securities Exchange Act of 1934 by causing certain supposed misstatements or omissions to be included in the October 2, 2018 definitive proxy statement filed with the Securities and Exchange Commission in respect of the special meeting of the Company's shareholders held on November 16, 2018 in connection with the Merger. Among other remedies, the actions seek to recover rescissory and other damages and attorneys' fees and costs. The parties to these actions entered into an agreement in principle to settle and release all claims that were or could have been alleged by the plaintiffs in those actions.

The Company and our directors and officers may be subject to further lawsuits relating to the Merger, including, among other things, in relation to the change from stock consideration in the Original Merger Agreement and First Amended and Restated

Merger Agreement to cash consideration in the Revised Merger Agreement. Litigation is very common in connection with the sale of public companies, regardless of whether the claims have any merit. One of the conditions to consummating the Merger is that no order preventing or otherwise prohibiting the consummation of the Merger shall have been issued by any court. Consequently, if any lawsuit challenging the Merger is successful in obtaining an order preventing the consummation of the Merger, that order may delay or prevent the Merger from being completed. While we will evaluate and defend against any lawsuits, the time and costs of defending against litigation relating to the Merger may adversely affect our business.

Actions taken by parties who oppose the Merger could negatively impact the completion and timing of the proposed transaction and cause disruption and expense for the Company.

On April 5, 2018, the Company received an unsolicited proposal from Eversource Energy regarding the acquisition of all of the outstanding shares of our common stock, which the Company determined was neither a superior proposal nor reasonably likely to lead to a superior proposal. Additionally, Eversource Energy filed a preliminary proxy statement to solicit proxies in opposition to the Merger, issued multiple press releases in support of its proposal and in opposition to the Merger, and has intervened in the PURA and MPUC proceedings related to the Merger. It is unclear what additional actions Eversource Energy may take to further express its opposition to the Merger. Even if ultimately unsuccessful, actions taken by Eversource Energy or other third parties, including intervention in our regulatory proceedings, could disrupt the Company's business, cause the Company to incur substantial additional expense, and negatively impact the ability of the Company to consummate the Merger and the expected timing of the consummation of the Merger.

Because we incur significant capital expenditures annually, we depend on the rates we charge our customers, which are subject to regulation.

The water utility business is capital intensive. On an annual basis, we spend significant amounts of capital for additions to or replacement of property, plant and equipment. Our ability to maintain and meet our financial objectives is dependent upon the rates we charge our customers. These rates are subject to approval by PURA in Connecticut and the MPUC in Maine. Our Regulated Companies are entitled to file rate increase requests, from time to time, to recover our investments in utility plant and expenses. Once a rate increase petition is filed with the respective agency, the ensuing administrative and hearing process may be lengthy and costly. We can provide no assurances that any future rate increase requests will be approved by each agency; and, if approved, we cannot guarantee that any such rate increase requests will be granted in a timely or sufficient manner to cover the investments and expenses for which we initially sought the rate increase. Additionally, a regulatory agency may rule that a company must reduce its rates.

Under a 2007 Connecticut law, PURA authorizes regulated water companies to use a rate adjustment mechanism, known as WICA, for eligible projects completed and in service for the benefit of the customers. During 2013, the Maine Legislature enacted a law that allows Maine Water for expedited recovery of investments in water systems infrastructure replacement, both treatment and distribution, through WISC, similar to WICA in Connecticut. Maine Water began to use the WISC during 2014.

If we are unable to pay the principal and interest on our indebtedness as it comes due, or we default under certain other provisions of our loan documents, our indebtedness could be accelerated and our results of operations and financial condition could be adversely affected.

As of December 31, 2018, we had approximately $257.5 million in long-term debt outstanding. Our ability to pay the principal and interest on our indebtedness as it comes due will depend upon our current and future performance. Our performance is affected by many factors, some of which are beyond our control. We believe that our cash generated from operations, and, if necessary, borrowing under our existing and planned credit facilities, will be sufficient to enable us to make our debt payments as they become due. If, however, we do not generate sufficient cash, we may be required to refinance our obligations or sell additional equity, which may be on terms that are not as favorable to the Company as current terms.

No assurance can be given that any debt refinancing or sale of equity will be possible when needed or that we will be able to negotiate acceptable terms. In addition, our failure to comply with certain provisions contained in our trust indentures and loan agreements relating to our outstanding indebtedness could lead to a default on these documents, which could result in an acceleration of our indebtedness.

Credit market volatility may affect our ability to refinance our existing debt, borrow funds under our existing lines of credit or incur additional debt.

During certain periods of the United States credit and liquidity crisis of 2008-2009, the volatility and disruption in the credit and banking markets reached unprecedented levels. In many cases, the markets contained limited credit capacity for certain issuers, and lenders had requested shorter terms. The market for new debt financing was limited and in some cases not available at all. In addition, the markets had increased the uncertainty that lenders will be able to comply with their previous commitments. The Company noted improvements that continued through 2018. If significant market disruption and volatility return, the Company may not be able to refinance our existing debt when it comes due, draw upon our existing lines of credit or incur additional debt, which may require us to seek other funding sources to meet our liquidity needs or to fund our capital expenditures budget. We cannot assure you that we will be able to obtain debt or other financing on reasonable terms, or at all.

Failure to maintain our existing credit ratings could affect our cost of funds and related margins and liquidity position.

Since 2003, Standard & Poor’s Ratings Services (“S&P”) has rated our outstanding debt and has given credit ratings to us and our largest subsidiary The Connecticut Water Company. Their evaluations are based on a number of factors, which include financial strength as well as transparency with rating agencies and timeliness of financial reporting. In January 2019, Standard & Poor’s Rating Services (“S&P”) reduced its ‘A’ corporate credit rating on the Company to ‘A-’ based on S&P’s uncertainty surrounding the Company's potential merger with SJW, including the increased likelihood that the pending transaction may not close as expected. Also, contributing to the revised rating was the Company’s elevated capital spending, regulatory lag and temporarily increased merger costs and the impact these factors are expected to have on certain financial measures. Additionally, S&P revised the Company’s ratings outlook to stable from negative due to their view that the Company will continue to effectively manage regulatory risk in key jurisdictions, including in Connecticut and in Maine.

We may sustain losses that exceed or are excluded from our insurance coverage or for which we are not insured.

We maintain insurance coverage as part of our overall legal and risk management strategy to minimize our potential liabilities. Our insurance programs have varying coverage limits, exclusions and maximums, and insurance companies may seek to deny claims we might make. Generally, our insurance policies cover property damage, worker’s compensation, employer’s liability, general liability and automobile liability. Each policy includes deductibles or self-insured retentions and policy limits for covered claims. As a result, we may sustain losses that exceed or that are excluded from our insurance coverage or for which we are not insured.

Although in the past we have been generally able to cover our insurance needs, there can be no assurances that we can secure all necessary or appropriate insurance in the future, or that such insurance can be economically secured. For example, catastrophic events can result in decreased coverage limits, more limited coverage, increased premium costs or deductibles.

We are subject to adverse publicity and reputational risks, which make us vulnerable to negative customer perception and could lead to increased regulatory oversight or other sanctions.

Water utilities, including our Regulated Companies, have a large consumer customer base and as a result are exposed to public criticism regarding, among other things, the reliability of their water services, the quality of water provided, and the timeliness and accuracy of bills that are provided for such services. Adverse publicity and negative consumer sentiment may render legislatures and other governing bodies, the MPUC, PURA and other regulatory authorities, and government officials less likely to view companies such the Company and its Regulated Companies in a favorable light, and may cause the Company and its Regulated Companies to be susceptible to less favorable legislative and regulatory outcomes, as well as increased regulatory oversight and more stringent regulatory requirements. Unfavorable regulatory outcomes may include the enactment of more stringent laws and regulations governing our operations, as well as fines, penalties or other sanctions or requirements. The imposition of any of the foregoing could have a material negative impact on the Company and each of our regulated companies' business, financial condition, results of operations and cash flows.

Our inability to comply with debt covenants under our credit facilities could result in prepayment obligations.

We are obligated to comply with debt covenants under our loan and debt agreements. Failure to comply with covenants under our credit facilities could result in an event of default, which if not timely cured or waived, could result in us being required to repay or finance these borrowings before their due date, could limit future borrowings, and result in cross default issues and increase our borrowing costs. The covenants are normal and customary in bank and loan agreements. The Company and its subsidiaries were in compliance with all covenants at December 31, 2018.

Market conditions, interest rate changes or changes in demographics may unfavorably impact the value of our benefit plan assets and liabilities which then could require significant additional funding.

The performance of the capital markets affects the values of the assets that are held in trust to satisfy future obligations under the Company's pension and post-retirement benefit plans and could significantly impact our results of operations and financial position. As detailed in the "Notes to Consolidated Financial Statements", the Company has significant obligations in these areas and the Company holds significant assets in these trusts. The market value of these assets are subject to market fluctuations, which may affect investment returns, which may fall below the Company's projected return rates. A decline in the market value of the pension and post-retirement benefit plan assets will increase the funding requirements under the Company's pension and post-retirement benefit plans if the actual asset returns do not recover these declines in value. Additionally, the Company's pension and post-retirement benefit plan liabilities are sensitive to changes in interest rates. As interest rates decrease, the liabilities increase, potentially increasing benefit expense and funding requirements. Further, changes in demographics, including increased numbers of retirements or changes in life expectancy assumptions may also increase the funding requirements of the obligations related to the pension and other post-retirement benefit plans. Also, future increases in pension and other post-retirement costs as a result of reduced plan assets may not be fully recoverable from our customers, and the results of operations and financial position of the Company could be negatively affected.

Our operating costs could be significantly increased because of state and federal environmental and health and safety laws and regulations.

Our water operations are governed by extensive federal and state environmental protection and health and safety laws and regulations, including the federal Safe Drinking Water Act, the Clean Water Act and similar state laws, and federal and state regulations issued under these laws by the U.S. Environmental Protection Agency and state environmental regulatory agencies. These laws and regulations establish, among other things, criteria and standards for drinking water and for discharges into the waters of the United States, the State of Connecticut or the State of Maine. Pursuant to these laws, we are required to obtain various environmental permits from environmental regulatory agencies for our operations. We cannot assure that we have been or will be at all times in full compliance with these laws, regulations and permits. If we violate or fail to comply with these laws, regulations or permits, we could be fined or otherwise sanctioned by regulators.

Environmental laws and regulations are complex and change frequently. These laws, and the enforcement thereof, have tended to become more stringent over time. For example, the State of Connecticut recently revised its Water Diversion Regulations. The revision modified the prior exemptions from Water Diversion permitting and permits are now required for certain expansions of service beyond Exclusive Service Areas identified as of October 2016. While we have budgeted for future capital and operating expenditures to maintain compliance with these laws and our permits, it is possible that new or stricter standards could be imposed that will raise our operating costs. Although these costs may be recovered in the form of higher rates, there can be no assurance that either the PURA or the MPUC would approve rate increases to enable us to fully recover such costs. In summary, we cannot be assured that our costs of complying with, or discharging liabilities under, current and future environmental and health and safety laws will not adversely affect our business, results of operations or financial condition.

Our business has inherently dangerous workplaces. If we fail to maintain safe work sites, we can be exposed to not only people impacts but also to financial losses such as penalties and other liabilities.

Our safety record is critical to our reputation. We maintain health and safety standards to protect our employees, customers, vendors and the public. Although we intend to adhere to such health and safety standards and aim for zero injuries, it is extremely difficult to avoid accidents at all times.

Our business sites, including construction and maintenance sites, often put our employees and others in close proximity with large pieces of equipment, moving vehicles, pressurized water, underground trenches and vaults, chemicals and other regulated materials. On many sites we are responsible for safety and, accordingly, must implement safety procedures. If we fail to implement such procedures or if the procedures we implement are ineffective or are not followed by our employees or others, our employees and others may be injured or die. Unsafe work sites also have the potential to increase employee turnover and raise our operating costs. Any of the foregoing could result in financial losses, which could have a material adverse impact on our business, financial condition, results of operations and cash flows.

In addition, our operations can involve the handling and storage of hazardous chemicals, which, if improperly handled, stored or disposed of, could subject us to penalties or other liabilities. We are also subject to regulations dealing with occupational health and safety. Although we maintain functional employee groups whose primary purpose is to ensure we implement effective health, safety, and environmental work procedures throughout our organization, including construction sites and maintenance sites, the failure to comply with such regulations or procedures could subject us to liability.

New and more stringent climate change laws and regulations may be adopted that could require compliance with greenhouse gas emissions standards and other climate change initiatives. Additional capital expenditures could be required and our operating costs could be increased in order to comply with new regulatory standards imposed by federal and state environmental agencies.

Climate change has been receiving ever increasing attention worldwide in the past decade. Many scientists, legislators, and others attribute global warming to increased levels of greenhouse gases, including carbon dioxide, which has led to significant legislative and regulatory efforts to limit greenhouse gas emissions. Possible new climate change laws and regulations, if enacted, may require us to monitor and/or change our utility operations. It is possible that new standards could be imposed that will require additional capital expenditures or raise our operating costs. Because it is uncertain what laws will be enacted, we cannot predict the potential impact of such laws on our future consolidated financial condition, results of operations, or cash flows. Although these expenditures and costs may be recovered in the form of higher rates, there can be no assurance that either PURA or the MPUC or other regulatory bodies that govern our business would permit us to recover such expenditures and costs. We cannot assure you that our costs of complying with new standards or laws will not adversely affect our business, results of operations or financial condition.

Streamflow Regulations in Connecticut could potentially impact our ability to serve our customers.

In December 2011, regulations concerning the flow of water in Connecticut's rivers and streams were adopted. As promulgated, the regulations require that certain downstream releases be made from seven of Connecticut Water's eighteen active reservoirs no later than ten years following the adoption of stream classifications by the Department of Energy and Environmental Protection ("DEEP"). Currently, downstream releases are made at two locations. No groundwater supply wells are affected by the regulations.

DEEP has finalized stream classifications in three areas of the state where Connecticut Water maintains and operates sources of supply. Other areas of the state, including areas where Connecticut Water operates, remain to be classified. The Company remains engaged in the process in order to minimize impact to our available water supply. Although modified from prior versions, the regulations still have the potential to lower our safe yield, raise our capital and operating expenses and adversely affect our revenues and earnings. Because they affect only a subset of the Company's supplies and allow for releases to be scaled back in response to drought events, the overall impact is anticipated to be manageable. Costs associated with the regulations may be recovered in the form of higher rates. Although there can be no assurance PURA would approve rate increases to enable us to recover all such costs, legislation passed in 2013 allows for a WICA surcharge to recover capital improvement costs necessary to achieve compliance with the regulations.

The State of Maine also has regulations that govern the flow of water in rivers and streams and also govern lake levels on great ponds. Code of Maine Rules Chapter 587 ("Chapter 587") regulates any activity that alters the flow or level of classified state waters after August 2007. Maine Water operates five water systems that use surface waters governed by this chapter. Maine Water has operated in full compliance with the chapter since its effective date and fully expects continued compliance. For public water systems, Chapter 587 allows the Maine Department of Environmental Protection ("MDEP") to impose site specific conditions in locations where Maine's water quality classifications are not being met. Any conditions proposed on a water withdrawal by a public water system must consider the provisions of any legislative charter, the watershed protection benefits provided by the utility and the financial viability of the utility. Further, any conditions imposed must be accommodated by the existing MPUC approved rate schedule for the utility and may not, in and of themselves, cause a utility to request a rate increase from their customers. To date, the MDEP has not imposed any withdrawal conditions on any public water system in Maine.

Maine Water's business is subject to seasonal fluctuations which could adversely affect demand for its water services and its revenues.

Demand for our water during the warmer months is generally greater than during cooler months due primarily to additional requirements for water in connection with irrigation systems, swimming pools, cooling systems and other outside water use. Throughout the year, and particularly during typically warmer months, demand will vary with temperature and rainfall levels. In the event that temperatures during the typically warmer months are cooler than normal, or if there is more rainfall than normal, the demand for our water may decrease and adversely affect our revenues. As Maine Water becomes eligible to use the recently passed water revenue adjustment mechanism upon the expiration of the agreed upon stay out period, this risk will be mitigated.

Declining per customer residential water usage in the State of Maine and at Avon Water may reduce our revenues, financial condition and results of operations in future years.

A trend of declining per customer residential water usage has been observed for the last several years, which we attribute to increased water conservation, including the use of more efficient household fixtures and appliances among residential users. While Connecticut Water and HVWC utilize the water revenue adjustment mechanism, our regulated businesses in Maine and at Avon Water are heavily dependent on revenue generated from rates we charge to our residential customers for the volume of water they use. The rate we charge for our water is regulated by the MPUC in Maine and PURA in Connecticut and we may not unilaterally adjust our rates to reflect changes in demand. Declining volume of residential water usage may have a negative impact on our operating revenues in the future if regulators do not reflect any usage declines in the rate setting design process. While Maine Water and Avon Water have legislative authorization to utilize the water revenue adjustment mechanism to mitigate this risk, these companies continue to evaluate the proper timing to seek the required approval of regulatory agencies to implement the mechanism.

Potential regulatory changes, drought conditions or other climate change related impacts may impede our ability to serve our current and future customers' demand for water and our financial results.

We depend on an adequate water supply to meet the present and future demands of our customers. Changes in regulatory requirements could affect our ability to utilize existing supplies and/or secure new sources, as required. Insufficient supplies or an interruption in our water supply could have a material adverse effect on our financial condition and results of operations. Drought conditions or other climate change related impacts could interfere with our sources of water supply and could adversely affect our ability to supply water in sufficient quantities to our existing and future customers. An interruption in our water supply could have a material adverse effect on our financial condition and results of operations. Moreover, governmental restrictions on water usage during drought conditions may result in a decreased demand for our water, even if our water reserves are sufficient to serve our customers during these drought conditions, which may adversely affect our revenues and earnings at Maine Water. Persistent dry weather and continued drought conditions in 2016 in the State of Connecticut prompted Connecticut Water to join other major water utilities in the state and request that all customers voluntarily reduce their water usage by 10% in July 2016 in an effort to extend the availability of existing supplies and to support the rivers and streams in the state. While supplies in our reservoirs were lower than normal, Connecticut Water also has groundwater sources in nearly all of its water systems that provide operational flexibility so we are not solely dependent on our reservoirs for water supply. Connecticut Water encouraged all customers to reduce their water usage by 10% and, in October 2016, began asking customers in the shoreline communities of Guilford, Madison, Clinton, Westbrook and Old Saybrook to reduce their water usage by 15%. On April 21, 2017, the Company announced that all of our reservoirs in the State of Connecticut had returned to full capacity and that the previously announced water supply advisory has been lifted.

Wastewater operations entail significant risks and may impose significant costs.

Wastewater collection and treatment and septage pumping and sludge hauling involve various unique risks. If collection or treatment systems operated by HVWC fail or do not operate properly, or if there is a spill, untreated or partially treated wastewater could discharge onto property or into nearby streams and rivers, causing various damages and injuries, including environmental damage. These risks are most acute during periods of substantial rainfall or flooding, which are the main causes of wastewater overflow and system failure. Liabilities resulting from such damages and injuries could harm our business, financial condition, and results of operations.

We are increasingly dependent on the continuous and reliable operation of our information technology systems, and a disruption of these systems, resulting from cyber security attacks or other events, could adversely affect our business.

We rely on our information technology systems in connection with the operation of our business, especially with respect to customer service and billing, accounting and, in some cases, the monitoring and operation of our treatment, storage and pumping facilities. In addition, we rely on our systems to track our utility assets and to manage maintenance and construction projects, materials and supplies, and our human resource functions. A loss of these systems, or major problems with the operation of these systems, could adversely affect our operations and have a material adverse effect on our business, financial condition, and results of operations. Our information technology systems may be vulnerable to damage or interruption from the following types of cyber security attacks or other events:

- power loss, computer systems failures, and internet, telecommunications or data network failures;
- operator negligence or improper operation by, or supervision of, employees;
- physical and electronic loss of data;
- computer viruses, cyber security attacks, intentional security breaches, hacking, denial of service actions, misappropriation of data and similar events;
- difficulties in the implementation of upgrades or modification to our information technology systems; and
- hurricanes, fires, floods, earthquakes and other natural disasters.

Recognizing the increasing importance of managing and protecting electronic data, the Company, beginning in 2014, partnered with a consulting firm to evaluate the Company's cyber security strengths and vulnerabilities and to help in creating an evaluation of the Company's current information technology (“IT”) structure within the organization. In April 2014, a cyber security assessment analysis identified and prioritized steps that the Company should take to enhance its security surrounding cyber security. In September 2014, the consultant delivered a report related to the IT structure which contained recommendations aimed at strengthening the IT organization. The Company has implemented the recommendations contained in the cyber security assessment.

Since the implementation of those recommendations, the Company has continued to evaluate its cyber security strengths and vulnerabilities on an ongoing basis. As a result, the Company has focused on the following initiatives:

- Cyber security architecture;
- Disaster recovery automation;
- Data loss prevention;
- Web security;
- Systems controls;
- Program awareness;
- Mobile security;
- Cyber training for employees;
- Phishing campaigns;
- Systems patch management; and
- Supporting cyber policy for all projects or ongoing practices.

Although we do not believe that our systems are at a materially greater risk of cyber security attacks than other similar organizations, our information technology systems may be vulnerable to damage or interruption from the types of cyber security attacks or other events listed above or other similar actions, and such incidents or other events may go undetected for a period of time. Such cyber security attacks or other events may result in: the loss or compromise of customer, financial or operational data; disruption of billing, collections or normal field service activities; disruption of electronic monitoring and control of operational systems; and delays in financial reporting and other normal management functions. Possible impacts associated with a cyber security attack or other events may include remediation costs related to lost, stolen, or compromised data, repairs to data processing systems, increased cyber security protection costs, adverse effects on our compliance with regulatory and environmental laws and regulation, including standards for drinking water, litigation and reputational damage.

The failure of, or the requirement to repair, upgrade or dismantle, any of our dams may adversely affect our financial condition and results of operations.

We own and operate numerous dams throughout the States of Connecticut and Maine. While the Company maintains robust dam maintenance and inspection programs, a failure of any of those dams could result in injuries and damage to residential and/or commercial property downstream for which we may be responsible, in whole or in part. The failure of a dam could also adversely affect our ability to supply water in sufficient quantities to our customers and could adversely affect our financial condition and results of operations. Any losses or liabilities incurred due to the failure of one of our dams might not be covered by insurance policies or be recoverable in rates, and such losses may make it difficult for us to secure insurance in the future at acceptable rates.

Any failure of our reservoirs, storage tanks, mains or distribution networks could result in losses and damages that may affect our financial condition and reputation.

Our Regulated Companies distribute water through an extensive network of mains and store water in reservoirs and storage tanks located across Connecticut and Maine. A failure of major mains, reservoirs, or tanks could result in injuries and damage to residential and/or commercial property for which we may be responsible, in whole or in part. The failure of major mains, reservoirs or tanks may also result in the need to shut down some facilities or parts of our water distribution network in order to conduct repairs. Such failures and shutdowns may limit our ability to supply water in sufficient quantities to our customers and to meet the water delivery requirements prescribed by governmental regulators, including PURA and the MPUC, and adversely affect our financial condition, results of operations, cash flow, liquidity and reputation. Any business interruption or other losses might not be covered by insurance policies or be recoverable in rates, and such losses may make it difficult for us to secure insurance in the future at acceptable rates.

Any future acquisitions we may undertake may involve risks and uncertainties.

An important element of our growth strategy is the acquisition and integration of water systems in order to move into new service areas and to broaden our current service areas. As of December 31, 2018, our Regulated Companies serve 139,574 customers, or a population of approximately 450,000 people, in 80 municipalities throughout Connecticut and Maine. We will be unable to acquire other businesses if we cannot identify suitable acquisition opportunities or reach mutually agreeable terms with acquisition candidates. It is our intent, when practical, to integrate any businesses we acquire with our existing operations. The negotiation of potential acquisitions as well as the integration of acquired businesses could require us to incur significant costs and cause diversion of our management’s time and resources. Future acquisitions by us could result in:

- dilutive issuances of our equity securities;
- incurrence of debt and contingent liabilities;
- failure to have effective internal control over financial reporting;
- fluctuations in quarterly results; and
- other acquisition-related expenses.

Some or all of these items could have a material adverse effect on our business as well as our ability to finance our business and comply with regulatory requirements. The businesses we acquire, including HVWC and Avon Water acquired in 2017, may not achieve sales and profitability that would justify our investment and any difficulties we encounter in the integration process, including the integration of controls necessary for internal control and financial reporting, could interfere with our operations, reduce our operating margins and adversely affect our internal controls. In addition, as consolidation becomes more prevalent in the water and wastewater industries, the prices for suitable acquisition candidates may increase to unacceptable levels and limit our ability to grow through acquisitions.

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Water supply contamination may adversely affect our business.

Our water supplies are subject to possible contamination, including contamination from the development of naturally-occurring compounds, chemicals in groundwater systems, pollution resulting from man-made sources, and possible terrorist attacks. In the event that our water supply is contaminated, we may have to interrupt the use of that water supply until we are able to substitute the flow of water from an uncontaminated water source or provide additional treatment. We may incur significant costs in order to treat the contaminated source through expansion of our current treatment facilities, or development of new treatment methods. If we are unable to substitute water supply from an uncontaminated water source, or to adequately treat the contaminated water source in a cost-effective manner, there may be an adverse effect on our revenues, operating results and financial condition. The costs we incur to decontaminate a water source or an underground water system could be significant and could adversely affect our business, operating results and financial condition and may not be recoverable in rates. We could also be held liable for consequences arising out of human exposure to hazardous substances in our water supplies or other environmental damage. For example, private plaintiffs have the right to bring personal injury or other toxic tort claims arising from the presence of hazardous substances in our drinking water supplies. Our insurance policies may not be sufficient to cover the costs of these claims.

Attention is being given to emerging contaminants, including, without limitation, chemicals and other substances that currently do not have any regulatory standard in drinking water or have been recently created or discovered (including by means of scientific achievements in the analysis and detection of trace amounts of substances). Examples of sources of emerging contaminants include, but are not limited to, newly created chemical compounds (including, for example, perfluorinated compounds and manufactured nanomaterials); human and veterinary products; microbes, viruses, amoebae and other pathogens; and residual by-products of disinfection. We rely upon governmental agencies to set appropriate regulatory standards to protect the public from these and other contaminants. Our role is to meet or surpass those standards, when established. PURA and/or MPUC may disapprove of cost recovery, in whole or in part, for implementation of treatment infrastructure for an emerging contaminant in the absence of a regulatory standard. Furthermore, depending on the regulatory standards and implementation schedules that might be established for any emerging contaminants, we may not be able to detect and/or mitigate all such substances in our drinking water system or supplies in a timely manner, which could have a material adverse impact on our financial condition, results of operations and reputation. In addition, we believe emerging contaminants may form the basis for additional or increased federal or state regulatory initiatives and requirements in the future, which could significantly increase the cost of our operations.

We operate a number of water and wastewater systems under Operation and Maintenance (“O&M”) contracts and face the risk that the owners of those systems may fail to provide capital to properly maintain those systems, which may negatively affect us as the operators of the systems.

We operate a number of water systems under O&M contracts. Pursuant to these contracts, we operate the system according to the standards set forth in the applicable contract, and it is generally the responsibility of the owner of the system to undertake capital improvements. In some cases, we may not be able to convince the owner to make needed improvements in order to maintain compliance with applicable regulations. Although violations and fines incurred by water and wastewater systems may be the responsibility of the owner of the system under these contracts, those non-compliance events may reflect poorly on us as the operator of the system and damage our reputation, and in some cases, may result in liability to the same extent as if we were the owner.

Increased security measures may continue to increase our operating costs.

In addition to the potential pollution of our water supply as described above, we have taken steps to increase security measures at our facilities and heighten employee awareness of threats to our water supply. We have also tightened our security measures regarding the delivery and handling of certain chemicals used in our business. We have and will continue to bear increased costs for security precautions to protect our facilities, operations and supplies. These costs may be significant. We are currently not aware of any specific threats to our facilities, operations or supplies; however, it is possible that we would not be in a position to control the outcome of terrorist events should they occur.

The accuracy of our judgments and estimates about financial and accounting matters will impact our operating results and financial condition.

We make certain estimates and judgments in preparing our financial statements regarding, among others:

- the number of years to depreciate certain assets;
- amounts to set aside for uncollectible accounts receivable and uninsured losses;
- our legal exposure and the appropriate accrual for claims, including medical and workers' compensation claims;
- future costs for pensions and other post-retirement benefit obligations; and
- possible tax allowances.

The quality and accuracy of those estimates and judgments will have an impact on our operating results and financial condition.

In addition, we must estimate unbilled revenues and costs at the end of each accounting period. If our estimates are not accurate, we will be required to make an adjustment in a future period.

The final determination of our income tax liability may be materially different from our income tax provision.

Significant judgment is required in determining our provision for income taxes. Our calculation of the provision for income taxes is subject to our interpretation of applicable business tax laws in the jurisdictions in which we file. In addition, our income tax returns are subject to periodic examination by the Internal Revenue Service and other taxing authorities. During 2013 and 2014, Connecticut Water and Maine Water, respectively, changed their tax method of accounting to permit the expensing of qualifying utility asset costs that were previously being capitalized and depreciated for tax purposes. Our determination of what qualifies as a capital cost versus a repair expense tax deduction is subject to subsequent adjustment and may impact the income tax benefits that have been recognized. Although we believe our income tax estimates, including any tax reserves or valuation allowances we have recorded or may record, are appropriate, there is no assurance that the final determination of our income tax liability will not be materially different; either higher or lower, from what is reflected in our income tax provision. In the event we are assessed additional income taxes, our business, financial condition, and results of operations could be adversely affected.

In addition, new Federal, state and local laws, changes in existing laws, rules or regulations, or administrative interpretations thereof, could impact us. On December 22, 2017, the Tax Cuts and Jobs Act ("Tax Act") was signed into law, which, among other things, enacted significant and complex changes to the Internal Revenue Code of 1986, including a reduction in the maximum U.S. federal corporate income tax rate from 35% to 21% as of January 1, 2018, and certain other provisions related specifically to the public utility industry, including continuation of interest expense deductibility, the exclusion from utilizing bonus depreciation and the normalization of deferred income taxes. The enactment of the Tax Act required a re-measurement of our deferred income taxes that impacted our 2017 results of operations and financial position. We have assumed that the predominant majority of our deferred tax assets and liabilities at our utility subsidiaries will remain subject to a normalization method of accounting pursuant to the U.S. tax code or applicable regulations and that we will be able to deduct for U.S. federal corporate income tax purposes substantially all of our interest expense, based upon our interpretation of U.S. tax law debt allocation methodologies, at the Tax Act's 21% corporate tax rate. The adoption or issuance of any related interpretations that impact these assumptions or with respect to provisions related specifically to the public utility industry or to corporate taxpayers in general may also impact our future financial performance, including our results of operations, cash flows and liquidity, which impacts will largely be determined through future regulatory proceedings. Moreover, we are unable to determine or predict the potential impacts, if any, of any other new or amended laws, rules or regulations, or interpretations thereof, to the extent they may be ultimately enacted, adopted or issued, on us or our businesses, financial condition, results of operations, cash flows and liquidity.

Key employee turnover may adversely affect our operating results.

Our success depends significantly on the continued individual and collective contributions of our management team. The loss of the services of any member or our senior management team or the inability to hire and retain experienced management personnel could harm our operating results.

We must continue to attract and retain qualified technical and managerial personnel in order to succeed.

Our future success will also depend largely upon our ability to attract and retain highly skilled technical, operational and financial managers. There is significant competition for such personnel in our industry. We try to ensure that we offer competitive compensation and benefits as well as opportunities for continued development, and we continually strive to recruit and train qualified personnel and retain key employees. There can be no assurance, however, that we will continue to be successful in attracting and retaining the personnel we require to grow and operate profitably.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. PROPERTIES

At December 31, 2018, the properties of our Regulated Companies consisted of land, easements, rights (including water rights), buildings, reservoirs, standpipes, dams, wells, supply lines, treatment plants, pumping plants, transmission and distribution mains and conduits, mains and other facilities and equipment used for the collection, purification, storage and distribution of water. In certain cases, Connecticut Water and Maine Water are or may be a party to limited contractual arrangements for the provision of water supply from neighboring utilities. Water mains are located, for the most part, in public streets and, in a few instances, are located on land that we own in fee simple and/or land utilized pursuant to easement right, most of which are perpetual and adequate for the purpose for which they are held. Substantially all of our treatment, storage, and distribution properties are owned by our subsidiaries, Connecticut Water, HVWC, Avon Water and Maine Water. A substantial portion of such properties owned by Maine Water are subject to liens of mortgage or indentures that secure bonds, notes and other evidences of long-term indebtedness.

The net utility plant of the Company at December 31, 2018 was solely owned by the Regulated Companies. The “Net Utility Plant” balance as of December 31, 2018 was $739,793,000, approximately $42.1 million more than the balance of “Net Utility Plant” as of December 31, 2017, due primarily to normal plant additions and construction spending related to infrastructure improvements, including WICA and WISC projects.

Sources of water supply owned, maintained, and operated by our Regulated Companies include 25 surface water supplies and 108 well fields, as of December 31, 2018. In addition, Connecticut Water, HVWC, Avon Water and Maine Water have agreements with various neighboring water utilities to provide water, at negotiated rates, to our water systems. Collectively, these sources have the capacity to deliver approximately 84 million gallons of potable water daily to the 27 major operating systems. The Regulated Companies own, maintain, and operate 50 small, non-interconnected satellite and consecutive water systems that, combined, have the ability to deliver about 3.5 million gallons of additional water per day to their respective systems. For some small consecutive water systems, purchased water may comprise substantially all of the total available supply of the system.

As of December 31, 2018, the Regulated Companies own and operate 30 water filtration facilities, having a combined treatment capacity of approximately 52 million gallons per day.

As of December 31, 2018, the transmission and distribution systems of the Regulated Companies consisted of approximately 2,300 miles of main. On that date, approximately 74% of our mains were 8 inch diameter or larger. Substantially all new main installations are cement-lined ductile iron pipe of 8 inch diameter or larger.

We believe that our properties are maintained in good condition and in accordance with current regulations and standards of good waterworks industry practice.

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ITEM 3. LEGAL PROCEEDINGS

On June 14, 2018, two nearly identical putative class action complaints were filed against the members of the Board of Directors, SJW and Mr. Eric W. Thornburg (the chief executive officer and president of SJW) on behalf of the Company's shareholders in the Connecticut Superior Court in the Judicial District of Middlesex under the captions Dunn v. Benoit, et al., Case No. MMX-CV18-6021536-S (Conn. Super. Ct.) and Tillotson v. Benoit, et al., Case No. MMX-CV18-6021537-S (Conn. Super. Ct.), respectively. The complaints, as amended on September 18, 2018 and September 20 2018, respectively, allege, among other things, that (i) the members of the Board of Directors breached their fiduciary duties owed to the Company's shareholders in connection with negotiating the Merger, (ii) the Company's preliminary proxy statement, filed with the Securities and Exchange Commission on August 20, 2018 in respect of the special meeting of its shareholders held on November 16, 2018 in connection with the Merger, omits certain material information and (iii) SJW and Mr. Thornburg aided and abetted the alleged breaches by the Board of Directors. Among other remedies, the actions seek to recover rescissory and other damages and attorneys' fees and costs. The parties to these actions entered into an agreement in principle to settle and release all claims that were or could have been alleged by the plaintiffs in those actions. On November 20, 2018, the plaintiffs in these two actions filed motions seeking an award of attorneys' fees of $1.5 million, which the Company intends to oppose.

On October 5, 2018, a putative class action complaint and a direct action complaint were filed against the Company and the members of the Board of Directors in the United States District Court for the District of Connecticut under the captions Paskowitz v. Connecticut Water Service, et al., Case No. 3:18-cv-01663 (D. Conn.) and Assad v. Connecticut Water Service, et al., Case No. 3:18-cv-01664 (D. Conn.), respectively. The nearly identical complaints allege that the defendants violated Sections 14(a) and 20(a) of the Securities Exchange Act of 1934 by causing certain supposed misstatements or omissions to be included in the October 2, 2018 definitive proxy statement filed with the Securities and Exchange Commission in respect of the special meeting of its shareholders held on November 16, 2018 in connection with the Merger. Among other remedies, the actions seek to recover rescissory and other damages and attorneys' fees and costs. The parties to these actions entered into an agreement in principle to settle and release all claims that were or could have been alleged by the plaintiffs in those actions.

We are involved in various other legal proceedings from time to time. Although the results of legal proceedings cannot be predicted with certainty, there are no pending legal proceedings to which we or any of our subsidiaries are a party or to which any of our properties is the subject that presents a reasonable likelihood of a material adverse impact on the Company.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable

PART II

ITEM 5. MARKET FOR THE REGISTRANTS'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our Common Stock is traded on the NASDAQ Global Select Market under the symbol "CTWS".

As of February 1, 2019, there were approximately 2,900 holders of record of our common stock.

The Company's Annual Meeting of Shareholders is scheduled for May 9, 2019 in Madison, Connecticut.

Purchases of Equity Securities by the Company – In May 2005, the Company adopted a common stock repurchase program ("Share Repurchase Program"). The Share Repurchase Program allows the Company to repurchase up to 10% of its outstanding common stock, at a price or prices that are deemed appropriate. As of December 31, 2018, no shares have been repurchased. Currently, the Company has no plans to repurchase shares under the Share Repurchase Program.

Performance Graph – Set forth below is a line graph comparing the cumulative total shareholder return for each of the years 2014 – 2018 on the Company's Common Stock, based on the market price of the Common Stock and assuming reinvestment of dividends, with the cumulative total shareholder return of companies in the S&P's 500 Index and the S&P's 500 Utility Index.

ITEM 6. SELECTED FINANCIAL INFORMATION

SUPPLEMENTAL INFORMATION (Unaudited)
SELECTED FINANCIAL DATA
Years Ended December 31, (thousands of dollars except per share amounts and where otherwise indicated)

	2018	2017	2016	2015	2014
CONSOLIDATED STATEMENTS OF INCOME					
Operating Revenues	$116,665	$107,054	$98,667	$96,041	$94,020
Operating Expenses	$80,564	$73,649	$70,462	$69,399	$68,856
Other Utility Income, Net of Taxes	$1,078	$824	$744	$797	$833
Total Utility Operating Income	$37,179	$34,229	$28,949	$27,439	$25,997
Interest and Debt Expense	$11,124	$8,841	$6,916	$6,737	$6,515
Net Income	$16,695	$25,054	$23,387	$22,761	$21,319
Cash Common Stock Dividends Paid	$14,899	$13,882	$12,514	$11,715	$11,188
Dividend Payout Ratio	89 %	55 %	54 %	51 %	52 %
Weighted Average Common Shares Outstanding	11,913,727	11,539,520	11,008,565	10,958,499	10,892,986
Basic Earnings Per Common Share from Continuing Operations	$1.40	$2.17	$2.12	$2.07	$1.95
Number of Shares Outstanding at Year End	12,054,712	12,065,016	11,248,458	11,192,882	11,124,630
ROE on Year End Common Equity	5.7 %	8.5 %	9.9 %	10.2 %	10.2 %
Declared Common Dividends Per Share	$1.235	$1.175	$1.115	$1.05	$1.01
CONSOLIDATED BALANCE SHEET					
Common Stockholders’ Equity	$294,136	$293,630	$236,028	$223,977	$209,451
Long-Term Debt (Consolidated, Excluding Current Maturities)	257,511	253,367	197,047	171,868	170,309
Preferred Stock	—	772	772	772	772
Total Capitalization	$551,647	$547,769	$433,847	$396,617	$380,532
Stockholders’ Equity (Includes Preferred Stock)	53 %	54 %	55 %	57 %	55 %
Long-Term Debt	47 %	46 %	45 %	43 %	45 %
Net Utility Plant	$739,793	$697,723	$601,396	$546,284	$506,939
Total Assets	$951,869	$898,783	$784,502	$710,715	$664,897
Book Value - Per Common Share	$24.40	$24.34	$20.98	$20.01	$18.83
OPERATING REVENUES BY REVENUE CLASS					
Residential	$69,134	$62,831	$59,884	$58,439	$57,095
Commercial	15,123	13,676	12,250	11,816	11,473
Industrial	3,395	3,196	3,176	3,229	2,984
Public Authority	3,917	3,845	3,510	3,193	3,215
Fire Protection	21,731	20,235	18,486	18,016	17,757
Other (Including Non-Metered Accounts)	3,365	3,271	1,361	1,348	1,496
Total Operating Revenues	$116,665	$107,054	$98,667	$96,041	$94,020
Number of Customers (End of Year)	139,574	135,657	124,968	123,633	123,071
Billed Consumption (Millions of Gallons)	10,069	9,720	9,800	9,772	9,428
Number of Employees	297	294	266	266	265

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FINANCIAL CONDITION
Executive Overview

Connecticut Water Service, Inc. (the "Company") is a non-operating holding company, whose income is derived from the earnings of its six wholly-owned subsidiary companies, as of December 31, 2018: The Connecticut Water Company ("Connecticut Water"), The Heritage Village Water Company ("HVWC"), The Avon Water Company ("Avon Water"), The Maine Water Company ("Maine Water"), New England Water Utility Services, Inc. ("NEWUS"), and Chester Realty Company ("Chester Realty"). Connecticut Water, HVWC, Avon Water and Maine Water are our regulated water companies (together, the "Regulated Companies").

In 2018, approximately 85% of the Company's net income was attributable to the water operations, which includes the impact of merger costs, of the Regulated Companies, which combined had 139,574 customers throughout 80 municipalities in Connecticut and Maine, as of December 31, 2018. The rates charged for service by Connecticut Water, HVWC and Avon Water are subject to review and approval by the Connecticut Public Utilities Regulatory Authority ("PURA"). The rates charged for service by Maine Water are subject to review and approval by the Maine Public Utilities Commission ("MPUC").

Proposed Merger with SJW
On August 5, 2018, the Company entered into the Revised Merger Agreement with SJW and Merger Sub, pursuant to which Merger Sub will merge with and into the Company, with the Company surviving the merger as a wholly owned subsidiary of SJW. Subject to the terms and conditions of the Revised Merger Agreement, at the effective time of the Merger, each outstanding share of our common stock (other than certain cancelled shares) will be automatically converted into the right to receive an amount in cash equal to $70.00 per share, payable without interest. The Revised Merger Agreement amends and restates in its entirety the First Amended and Restated Merger Agreement, dated as of May 30, 2018, which amended and restated in its entirety the Original Merger Agreement, dated as of March 14, 2018.

The Board of Directors approved, adopted and declared advisable the Revised Merger Agreement and the Merger and recommended that the Company's shareholders approve the Revised Merger Agreement following a comprehensive review of the transaction. The Revised Merger Agreement was approved by the Company's shareholders on November 16, 2018.

The Merger is subject to certain customary closing conditions, including, among other things, approval of the Revised Merger Agreement by the Company's shareholders (which was received on November 16, 2018) and regulatory approvals (including the approval of PURA and MPUC). The required waiting period under the HSR Act, was terminated early on April 27, 2018. The early termination will expire and the Company and SJW will need to re-file the necessary notifications under the HSR Act if the Merger is not consummated by April 27, 2019. On October 15, 2018, the FCC consented to the joint application for transfer of control filed by the Company and SJW on October 4, 2018 and amended on October 12, 2018, and no further clearance from the FCC is required.

On May 4, 2018, Maine Water filed with MPUC an application for approval of the Merger. On May 7, 2018, the Company and SJW filed with PURA a joint application for approval of the Merger. Following the start on May 31, 2018 of a 45-day go-shop process permitted by the First Amended and Restated Merger Agreement, the Company and SJW withdrew their joint PURA application on June 19, 2018, and filed a new joint application on July 18, 2018 following the end of the go-shop process. On January 9, 2019, the Company and SJW withdrew their current application before PURA and announced that they were continuing to evaluate their regulatory approach, including the possibility of submitting a new application to PURA in connection with the Merger. On January 23, 2019, Maine Water voluntarily requested to withdraw its application before MPUC, aligning the Maine regulatory process with the regulatory process in Connecticut. After a thorough review conducted by the management and boards of the Company and SJW, and with the support of their respective Connecticut regulatory counsel, the Company disclosed on February 21, 2019 that the companies decided to file new applications with PURA and MPUC which are intended to address PURA's concerns. The Company and SJW expect that the new applications will be filed during the second quarter of 2019. PURA must make a ruling on the merger within 120 days after the filing of an application, unless the Company and SJW agree to an extension of the 120-day timeframe. MPUC must make a ruling on the merger within 60 days after the filing of an application, unless it determines that the necessary investigation cannot be concluded within 60 days, in which event it can extend the review period for up to an additional 120 days.

On July 20, 2018, CPUC formally issued the Order providing that CPUC will investigate whether the Merger is subject to CPUC approval and the Merger's anticipated impacts within California. CPUC held a public participation hearing on January 31, 2019 in connection with the Order.

The Heritage Village Water Company Acquisition
As previously reported, on May 10, 2016, the Company announced that it had reached an agreement to acquire HVWC, pending a vote of HVWC shareholders, approval by PURA and MPUC and the satisfaction of other various closing conditions, pursuant to the terms of Agreement and Plan of Merger dated May 10, 2016 between and among HVWC, the Company, and HAC, Inc., the Company's wholly-owned Connecticut subsidiary (the "Merger Agreement"). HVWC serves approximately 4,700 water customers in the Towns of Southbury, Middlebury, and Oxford, Connecticut and approximately 3,000 wastewater customers in the Town of Southbury, Connecticut.

The acquisition was executed through a stock-for-stock merger transaction valued at approximately $16.9 million. Holders of HVWC common stock received shares of the Company's common stock in a tax-free exchange. In addition, the transaction reflected a total enterprise value of HVWC of approximately $21.5 million, with the $16.9 million paid to shareholders in a stock exchange and the assumption by the Company of approximately $4.6 million of debt held by HVWC at the time of the acquisition.

The Company received regulatory approval from MPUC on September 28, 2016 and from PURA on December 5, 2016, to proceed with the transaction. The shareholders of HVWC voted to approve the acquisition at a special meeting of HVWC's shareholders held on February 27, 2017.

On February 27, 2017, the Company completed the acquisition of HVWC by completing the merger of the Company's wholly-owned subsidiary HAC, Inc. with and into HVWC, with HVWC as the surviving corporation, pursuant to the terms of the Merger Agreement and Connecticut corporate law. Upon the effective time of the Merger, the holders of HVWC's 1,620 issued and outstanding shares of common stock became entitled to receive an aggregate of 300,445 shares of the Company's common stock in a tax-free exchange, which exchange was commenced promptly by the issuance of a letter of transmittal and related materials by Connecticut Water's exchange agent.

The Avon Water Company Acquisition
As previously reported, on October 12, 2016, the Company announced that it had reached an agreement to acquire Avon Water, pending a vote of Avon Water shareholders, approval by PURA and the MPUC and the satisfaction of other various closing conditions, pursuant to the terms of that certain Agreement and Plan of Merger dated October 11, 2016 as amended on March 29, 2017 between and among Avon Water, the Company, and WC-A I, Inc., the Company's wholly-owned Connecticut subsidiary (the "Merger Agreement"). Avon Water serves approximately 4,800 customers in the Farmington Valley communities of Avon, Farmington, and Simsbury, Connecticut.

On February 10, 2017, Connecticut Water received regulatory approval from MPUC and on April 12, 2017, Connecticut Water received regulatory approval from PURA to proceed with the transaction. The shareholders of Avon Water voted to approve the acquisition at a special meeting of Avon Water's shareholders held on June 16, 2017.

Effective July 1, 2017, the Company completed the acquisition of Avon Water by completing the merger of Connecticut Water's wholly-owned subsidiary WC-A I, Inc. with and into Avon Water, with Avon Water as the surviving corporation, pursuant to the terms of the Merger Agreement and Connecticut corporate law. Upon the effective time of the Merger, the holders of Avon Water's 122,289 issued and outstanding shares of common stock became entitled to receive the following merger consideration for each share of Avon Water common stock held: (i) a cash payment of $50.11; and (ii) a stock consideration component, consisting of 3.97 shares of the Company's common stock.

The transaction was completed through a stock-for-stock exchange where Avon Water shareholders received the Company's common stock valued at approximately $26.9 million, in a tax-free exchange, and a cash payment of $6.1 million for a total payment to shareholders of $33.0 million. The transaction reflects a total enterprise value of approximately $39.1 million, with the $33.0 million paid to shareholders and the assumption by the Company of approximately $6.1 million of debt held by Avon Water at the time of acquisition.

Regulatory Matters and Inflation

In 2007, the Connecticut General Assembly passed the Water Infrastructure and Conservation Adjustment ("WICA") Act. WICA allows Connecticut Water to add a surcharge to customers' bills, subject to an expedited review and approval by PURA and no more than twice a year, to reflect the replacement of certain types of aging utility plant; principally water mains, meters, service lines and water conservation related investments. Connecticut Water has been using the WICA surcharge since 2009. Similarly, beginning in June 2013, a Water Infrastructure Charge ("WISC") became available in Maine that allows for expedited recovery of investment in water system infrastructure replacement, both treatment and distribution. Maine Water implemented the WISC mechanism in all of their systems in 2014.

Since 2013, Connecticut law has authorized a Water Revenue Adjustment ("WRA") to reconcile actual water demands with the demands projected in the last general rate case and allows companies to adjust rates as necessary to recover the revenues approved by PURA in the last general rate case. The WRA removes the financial disincentive for water utilities to develop and implement effective water conservation programs. The WRA allows water companies to defer on the balance sheet, as a regulatory asset or liability, for later collection from or crediting to customers the amount by which actual revenues deviate from the revenues allowed in the most recent general rate proceedings. A similar WICA reconciliation adjustment mechanism allows the Connecticut water utilities that have WICA to be made whole, and not more than whole for their allowed WICA revenues during a calendar year. Additionally, projects eligible for WICA surcharges were expanded to include energy conservation projects, improvements required to comply with streamflow regulations, and improvements to acquired systems.

Connecticut Water and HVWC's allowed revenues for the year ended December 31, 2018, as approved by PURA during each company's last general rate case and including subsequently approved WICA surcharges, were approximately $88.9 million. Through normal billing for the year ended December 31, 2018 operating revenue for Connecticut Water and HVWC would have been approximately $80.7 million had the WRA not been implemented. As a result of the implementation of the WRA, Connecticut Water and HVWC recorded $8.2 million in additional revenue for the year ended December 31, 2018, which reflects increased allowed revenues, effective April 1, 2018, resulting from the application of the rate settlement approved by PURA during 2018. During the years ended December 31, 2017 and 2016, Connecticut Water recorded $4.3 million and $1.1 million, respectively, in additional revenue related to the WRA. Currently, Avon Water does not utilize the WRA.

On February 6, 2018, Connecticut Water filed a petition with PURA to reopen Connecticut Water's 2010 rate case (previously reopened in 2013) proceeding for the limited purpose of approving a Settlement Agreement entered into by Connecticut Water and the Connecticut Office of Consumer Counsel ("OCC") (the "Agreement"). The Agreement contemplates a change in Connecticut Water's customer rates effective for bills rendered on and after April 1, 2018 made up of the following two components: (1) the revenue requirements associated with a $36.3 million addition to rate base to reflect necessary upgrades to Connecticut Water's Rockville Water Treatment Plant; and (2) the folding in to base rates of the Company's present WICA surcharges. In addition, the Agreement provides that:

1. Upon implementation of new rates under the Agreement, until such time as new rates are adopted in a general rate case, through a temporary modification of the earnings sharing mechanism, Connecticut Water customers will receive one hundred percent of any earnings in excess of levels allowed by law rather than limiting such customer credits to 50% as contemplated by applicable law;
2. Connecticut Water agrees it will not file for a general increase of Connecticut Water's base rates unless those rates are to be effective on or after January 1, 2020;
3. The pending proceeding initiated by PURA in Docket No. 09-12-11RE03, Application of The Connecticut Water Company for Amended Rates – Federal Tax Cuts and Jobs Act shall be closed; and
4. Connecticut Water shall continue to make investments in infrastructure replacement consistent with its approved WICA plan. Connecticut Water shall be allowed to continue to pursue recovery of eligible projects through WICA.

On August 15, 2018, PURA issued a final decision that accepted the conditions of a revised settlement agreement. The primary facets of the revised settlement agreement were the revenue requirements associated with the Rockville Water Treatment Plant, discussed above, and the folding of previously approved WICA surcharges into base rates, which reset Connecticut Water's WICA to zero and resolution of the Company's obligations related to the Tax Act. New rates were effective as of April 1, 2018.

The Company has and will continue to focus on minimizing operating costs that are passed along to its customers without sacrificing the quality service it values and the customers demand. At the same time, the Company will continue to employ its current strategy of timely collection of appropriate costs and a fair rate of return for its shareholders through appropriate rates for its regulated water service while looking to expand through targeted acquisitions.

While the Company plans to file timely rate cases, continue to make acquisitions, similar to the completed HVWC and Avon Water acquisitions, and, in the future, utilize the WICA and WISC adjustments to allow for more timely recovery of investment in utility plant, it will also look to NEWUS and Maine Water to increase its earnings in unregulated businesses. The Company will continue to seek out maintenance and service contracts with new customers and renew existing contracts that have proven to be beneficial to the Company, as well as to continue the expansion of the Linebacker® program.

The Company, like all other businesses, is affected by inflation, most notably by the continually increasing costs required to maintain, improve, and expand its service capabilities. The cumulative effect of inflation over time results in significantly higher operating costs and facility replacement costs, which must be recovered from future cash flows.

Our regulated water companies' ability to recover its increased expenses and/or investment in utility plant is dependent on the rates we charge our customers. Changes to these rates must be approved by PURA and MPUC through formal rate proceedings. Due to the subjectivity of certain items involved in the process of establishing rates such as customer usage, future customer growth, inflation, and allowed return on investment, we have no assurance that we will be able to raise our rates to a level we consider appropriate, or to raise rates at all, through any future rate proceeding.

Our regulated water utilities are also subject to environmental and water quality regulations, which are continually modified and refined to ensure the safety of the Company's water sources and, ultimately, the public's health. Costs to comply with environmental and water quality regulations are substantial. The costs to comply with future changes in state or federal regulations, which could require us to modify current filtration facilities and/or construct new ones, or to replace any reduction of the safe yield from any of our current sources of supply, could be substantial. While there can be no guarantee that all expenditures related to increased regulation will be recoverable in rate proceedings, the Company believes that the regulatory environment in Connecticut and Maine would allow prudent expenditures to be recovered in rates. To date, the Company has never had any costs associated with water quality and environmental spending refused in a general rate proceeding. The Company believes that it is in compliance with current regulations, but the regulations are subject to change at any time.

Recognizing the increasing importance of managing and protecting electronic data, the Company, beginning in 2014, partnered with a consulting firm to evaluate the Company's cyber security strengths and vulnerabilities and to help in creating an evaluation of the Company's current information technology ("IT") structure within the organization. In April 2014, a cyber security assessment analysis identified and prioritized steps that the Company should take to enhance its security surrounding cyber security. In September 2014, the consultant delivered a report related to the IT structure which contained recommendations aimed at strengthening the IT organization. The Company has implemented the recommendations contained in the cyber security assessment.

Since the implementation of those recommendations, the Company has continued to evaluate its cyber security strengths and vulnerabilities on an ongoing basis. As a result, the Company has focused on the following initiatives:

- Cyber security architecture;
- Disaster recovery automation;
- Data loss prevention;
- Web security;
- Systems controls;
- Program awareness;
- Mobile security;
- Cyber training for employees;
- Phishing campaigns;
- Systems patch management; and
- Supporting cyber policy for all projects or ongoing practices.

Critical Accounting Policies and Estimates

The Company's Consolidated Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") and as directed by the regulatory commissions to which the Company's Regulated Companies are subject. (See Note 1 to the Consolidated Financial Statements for a discussion of our significant accounting policies). The Company believes the following policies and estimates are critical to the presentation of its Consolidated Financial Statements.

Public Utility Regulation – Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 980 "Regulated Operations" ("FASB ASC 980"), requires cost-based, rate-regulated enterprises such as the Regulated Companies to reflect the impact of regulatory decisions in their financial statements. The state regulators, through the rate regulation process, can create regulatory assets that result when costs are allowed for ratemaking purposes in a period after the period in which costs would be charged to expense by an unregulated enterprise. The balance sheet includes regulatory assets and liabilities as appropriate, primarily related to income taxes, post-retirement benefit costs and deferred revenues associated with the WRA. The Company believes, based on current regulatory circumstances, that the regulatory assets recorded are probable to be recovered and that its use of regulatory accounting is appropriate and in accordance with the provisions of FASB ASC 980.

Revenue Recognition – The Company's accounting policies regarding revenue recognition by segment are as follows:

Our revenues are primarily from tariff-based sales. We provide water and wastewater services to customers under these tariffs without a defined contractual term (at-will). As the revenue from these arrangements is based upon the amount of the water and wastewater services supplied and billed in that period (including estimated billings), there was not a shift in the timing or pattern of revenue recognition for such sales when compared to our revenue recognition prior to the adoption of ASU 2014-09. We have also completed the evaluation of our other revenue streams, including those tied to longer term contractual commitments and the Company's Linebacker program.

Customers are primarily billed quarterly on a cycle basis and bills are due upon receipt. To match revenues with associated expenses, we accrue unbilled revenues for water and wastewater services delivered to customers, but not yet billed at month end, creating a contract asset.

Water Operations – Most of our water customers are billed quarterly, with the exception of larger commercial and industrial customers, as well as certain public and private fire protection customers who are billed monthly. Most customers, except fire protection customers, are metered. Revenues from metered customers are based on their water usage multiplied by approved, regulated rates and are earned when water is delivered. Public fire protection revenues are based on the length of the water main, and number of hydrants in service and are earned on a monthly basis. Private fire protection charges are based on the diameter of the connection to the water main. Our Regulated Companies accrue an estimate for metered customers for the amount of revenues earned relating to water delivered but unbilled at the end of each quarter, which is reflected as "Accrued Unbilled Revenues" in the accompanying balance sheets. Beginning in 2013, Connecticut Water began to record deferred revenue to represent under collection from customers based upon allowed revenues as approved by PURA. On March 31, 2017, HVWC calculated its actual revenues compared to allowed revenues dating back to May 1, 2015, for collection from customers, as allowed by a PURA order. More detailed information, including revenues, costs and income taxes associated with the segment can be found in Note 15, "Segment Reporting" in the Company's "Notes to the Consolidated Financial Statements".

Real Estate Transactions – Revenues are recorded when a sale or other transaction has been completed and title to the real estate has been transferred. Net income from the Real Estate Transactions segment is shown net in the "Other Income (Deductions), Net of Taxes" portion of the Company's Consolidated Statements of Net Income. More detailed information, including revenues, costs and income taxes associated with the segment can be found in Note 15, "Segment Reporting" in the Company's "Notes to the Consolidated Financial Statements".

Services and Rentals – Revenues are recorded when the Company has delivered the services called for by contractual obligation. Net income from the Services and Rentals segment is shown net in the "Other Income (Deductions), Net of Taxes" portion of the Company's Consolidated Statements of Income. More detailed information, including revenues, costs and income taxes associated with the segment can be found in Note 15, "Segment Reporting" in the Company's "Notes to the Consolidated Financial Statements".

Income Taxes – The Company provides income tax expense for its utility operations in accordance with the regulatory accounting policies of the applicable jurisdictions. The Company's income tax provision is calculated on a separate return basis. For Connecticut Water, PURA requires the flow-through method of accounting for most state tax temporary differences as well as for certain federal temporary differences. For Avon Water, PURA requires the flow-through method of accounting for most state temporary differences and normalized accounting for most federal temporary differences. PURA has allowed the flow-through method of accounting stemming from Avon Water's adoption of the IRS' Repair Regulations. For HVWC, PURA requires normalized accounting for federal and state temporary differences. The MPUC requires the flow-through method of accounting for most state temporary differences and normalized accounting for most federal temporary differences. In its approvals of the stipulation agreements between Maine Water and the Office of the Public Advocate, issued in 2015, the MPUC has allowed the flow-through method of accounting stemming from Maine Water's adoption of the IRS' Repair Regulations in all of its divisions.

The Company computes deferred tax liabilities for all temporary book-tax differences using the liability method prescribed in FASB ASC 740 "Income Taxes" ("FASB ASC 740"). Under the liability method, deferred income taxes are recognized at currently enacted income tax rates to reflect the tax effect of temporary differences between the financial reporting and tax bases of assets and liabilities. Such temporary differences are the result of provisions in the income tax law that either require or permit certain items to be reported on the income tax return in a different period than they are reported in the financial statements. Deferred tax liabilities that have not been reflected in tax expense due to regulatory treatment are reflected as Unfunded Future Income Taxes, and are expected to be included in future years' rates. During the quarter ended December 31, 2017 the Company recorded provisional impacts of the Federal Tax Cuts and Jobs Act ("Tax Act"). During the year ended

December 31, 2018 the Company, as allowed by Staff Accounting Bulletin No. 118 (SAB 118), finalized its analysis and accounting for the Tax Act. As a result, the Company re-measured Deferred Tax Assets and Liabilities to reflect the enacted legislation and recorded a Regulatory Liability of $27.4 million to capture the excess accumulated deferred income taxes for items included in rates that follow the normalized method of accounting. Unrecovered Income Taxes and Unfunded Future Income Taxes were written down by $32.3 million to reflect the reduced tax rate for items that follow the flow-through method of accounting. Pursuant to ASU 2018-02, the Company has elected to reclassify the stranded tax effects of the 2017 Tax Act from AOCI to Retained Earnings in the amount of approximately $70,000. These stranded taxes relate to post-retirement obligations of the Company. For more information on the Tax Act, please see Note 2.

The Company believes that deferred income tax assets, net of provisions, will be realized in the future. The majority of Unfunded Future Income Taxes, prior to 2013, relate to deferred state income taxes regarding book to tax depreciation differences. Beginning in 2013, basis differences resulting from the repair tax deduction contributed to the change in unfunded income taxes.

Deferred Federal and State Income Taxes include amounts that have been provided for accelerated depreciation subsequent to 1981, as required by federal income tax regulations, as well as the basis differences associated with expenditures qualifying for repair tax deductions as clarified by the IRS in regulations issued in 2013. Deferred taxes have also been provided for temporary differences in the recognition of certain expenses for tax and financial statement purposes as allowed by regulatory ratemaking policies.

Employee Benefit Plan Accounting – Management evaluates the appropriateness of the discount rate through the modeling of a bond portfolio which approximates the pension and post-retirement plan liabilities. Management further considers rates of high quality corporate bonds of approximate maturities as published by nationally recognized rating agencies consistent with the duration of the Company's pension and post-retirement plans.

The discount rate assumption we use to value our pension and post-retirement benefit obligations has a material impact on the amount of expense we record in a given period. Our 2018 and 2017 pension expense was calculated using assumed discount rates of 3.60% and 4.10%, respectively. Our 2018 and 2017 post-retirement welfare expense was calculated using assumed discount rates of 3.50% and 3.95%, respectively. In 2019, our pension and post-retirement welfare expense will be calculated using assumed discount rates of 4.25% and 4.15%, respectively. The following table shows how much a one percent change in our assumed discount rate would have changed our reported 2018 pension and post-retirement expense:

	Increase (Decrease) in Pension Expense	Increase (Decrease) in Post-retirement Expense
1% Increase in the discount rate	$(1,618,000)	$ (181,000)
1% Decrease in the discount rate	$1,949,000	$ 212,000

Other assumptions that affect the costs associated with our benefit plans include the assumed rate of return on plan assets and the expected rate of compensation increase. The Company has assumed an 7.25% return on plan investments for 2018 and 2017, and a 4.00% rate of compensation increase for our pension and post-retirement welfare plans, in 2018 and 2017. The assumed health care trend rate was 8.00% and 8.25% at December 31, 2018 and 2017, respectively. RP 2018, a mortality table issued by the Society of Actuaries in 2018, was used in determination of our pension and post-retirement benefit obligations as of December 31, 2018 and projected costs for 2019.

Goodwill – As part of the purchase of regulated water companies, the Company recorded goodwill of $66.4 million and $67.0 million as of December 31, 2018 and 2017, respectively, representing the amount of the purchase price over net book value of the assets acquired. The decrease during 2018 is related to adjustments made to deferred taxes based on the Company's ability to utilize net operating loss carryforwards that had valuation allowances at the acquired companies. The Company accounts for goodwill in accordance with Accounting Standards Codification 350 "Intangibles – Goodwill and Other" ("FASB ASC 350").

As part of FASB ASC 350, the Company is required to perform an annual review of goodwill for any potential impairment, which we perform as of December 31 each year. We update the assessment between the annual testing if events or circumstances occur that would more likely than not reduce the fair value of a reporting unit below its carrying value. As allowed under FASB ASC 350, the Company performed a qualitative analysis of its goodwill for the year ended December 31, 2018. A qualitative analysis includes a review of internal and external factors that could have an impact on a reporting unit's fair value when compared to its carrying amount. These factors included a review of macroeconomic conditions, industry and market considerations, cost factors, overall financial performance, company specific events, changes in reporting units and a review of the Company's stock price. Based on these factors and other factors considered in its quantitative analysis performed in 2017, discussed below, the Company believes that it is more likely than not that the fair market value is more than the carrying value of the Water Operation Segment and therefore, no goodwill impairment was recognized in 2018 and 2017.

The Company performed a quantitative analysis of impairment as of December 31, 2017, which concluded that the estimated fair value of the Water Operations reporting unit, which has goodwill recorded, exceeded the reporting unit's carrying amount by at least 122% as of December 31, 2017. Additionally, the Company believes that no event has occurred which would trigger impairment.

We may be required to recognize an impairment of goodwill in the future due to market conditions or other factors that are beyond our control and unrelated to our performance. Those market events could include a decline in the forecasted results in our business plan, significant adverse rate case results, changes in capital investment budgets or changes in interest rates that could permanently impair the fair value of a reporting unit. Recognition of impairments of a significant portion of goodwill would negatively impact our reported results of operation and total capitalization, the effects of which could be material and could make it more difficult to maintain our credit ratings, secure financing on favorable terms, maintain compliance with debt covenants and meet expectations of our regulators.

Outlook

The Company's earnings and profitability are primarily dependent upon the sale and distribution of water. In the State of Maine and at Avon Water, the amount of water sold and distributed is dependent on seasonal weather fluctuations, particularly during the summer months when water demand will vary with rainfall and temperature levels. The Company's earnings and profitability in future years will also depend upon a number of other factors, such as the ability to maintain our operating costs at current or lower levels, customer growth in the Company's core regulated water utility businesses, growth in revenues attributable to non-water sales operations, availability and desirability of land no longer needed for water delivery for land sales, and the timing and adequacy of rate relief when requested, from time to time, by our Regulated Companies.

The Company believes that the factors described above and those described in detail below under the heading "Commitments and Contingencies" may have significant impact, either alone or in the aggregate, on the Company's earnings and profitability in fiscal years 2019 and beyond. Please also review carefully the risks and uncertainties described in Item 1A – Risk Factors and those described above under the heading "Special Note Regarding Forward Looking Statements".

The Company expects Net Income from its Water Operations segment, excluding merger costs, to increase in 2019 over 2018 levels, primarily due to the settlement agreement between Connecticut Water and Connecticut's OCC approved by PURA during 2018, revenue increases due to the utilization of WISC in Maine and WICA in Connecticut, continued cost containment efforts, and modest growth in its Services and Rentals segment. During 2019 and subsequent years, the ability of the Company to maintain and increase its Net Income will principally depend upon the effect on the Company of the factors described above in this "Outlook" section, those factors described in the section entitled "Commitments and Contingencies" and the risks and uncertainties described in the "Special Note Regarding Forward-Looking Statements" and Item 1A "Risk Factors".

FINANCIAL CONDITION

Liquidity and Capital Resources

The Company is not aware of any demands, events, or uncertainties that will result in a decrease of liquidity or a material change in the mix or relative cost of its capital resources, other than those outlined below.

Borrowing Facilities

The Company maintains a $15.0 million line of credit agreement with CoBank, ACB, which is currently scheduled to expire on July 1, 2020. The Company maintains an additional line of credit of $45.0 million with RBS Citizens, N.A. (“Citizens”), with an expiration date of April 25, 2021. On December 14, 2018, the Company and Citizens agreed to increase the amount of the line of credit from $45.0 million to $75.0 million and to extend the maturity date of the Line of Credit until December 14, 2023. The Company has delivered to Citizens an Amended and Restated Promissory Note, dated December 14, 2018, evidencing the debt payable pursuant to the Line of Credit. Additionally, Avon Water maintained a $3.0 million line of credit with Northwest Community Bank, which expired on September 30, 2018, at which point it converted to other short-term debt. As of December 31, 2018 the total lines of credit available to the Company were $90.0 million. As of December 31, 2018 and 2017, the Company had $52.6 million and $19.3 million outstanding under its lines of credit, respectively. As of December 31, 2018, the Company had $37.4 million in unused lines of credit. Interest expense charged on interim bank loans will fluctuate based on market interest rates. As of December 31, 2018, the Company had $1.7 million in other short-term debt outstanding.

At December 31, 2018 and 2017, the weighted average interest rates on these short-term borrowings outstanding was 4.6% and 3.4%, respectively.

On January 10, 2017, Maine Water executed and delivered to CoBank a new Promissory Note and Single Advance Term Loan Supplement, dated January 10, 2017 (the “Third Promissory Note”). On the terms and subject to the conditions set forth in the Third Promissory Note issued pursuant to the Agreement, CoBank agreed to make an unsecured loan (the “Loan”) to Maine Water in the principal amount of $5,000,000 at 4.18%, due December 30, 2026. The proceeds of the Loan are being used to finance new capital expenditures and refinance existing debt owed to the Company, incurred in connection with general water system improvements.

On August 28, 2017, the Company executed and delivered to CoBank a new Promissory Note and Supplement (2017 Single Advance Term Loan) (the “2017 Promissory Note”). On the terms and subject to the conditions set forth in the 2017 Promissory Note issued pursuant to the Company’s Master Loan Agreement, CoBank agreed to make a term loan (the “Loan”) to the Company in the principal amount of $15,000,000. Under the 2017 Promissory Note, the Company will pay interest on the Loan at a fixed rate of 4.15% per year through August 20, 2037, the maturity date of the Loan.

On September 28, 2017, Connecticut Water completed the issuance of $35,000,000 aggregate principal amount of its 3.53% unsecured Senior Notes due September 25, 2037 (the “Senior Notes”). The Senior Notes were issued pursuant to the Note Purchase Agreement dated as of September 28, 2017 (the “Purchase Agreement”) between and among Connecticut Water, NYL Investors, LLC (“NY Life”), as agent, and the Purchasers listed in the Purchaser Schedule attached to the Purchase Agreement, in a private placement financing exempt from registration pursuant to Section 4(a)(2) of the Securities Act of 1933, as amended. The proceeds of the sale of the Senior Notes were used by Connecticut Water to repay loans from the Company the proceeds of which were used for capital expenditure projects by Connecticut Water. The Senior Notes bear interest at the rate of 3.53% per annum, payable semi-annually on March 27 and September 27 of each year commencing on March 27, 2018. The principal amount of the Senior Notes, if not previously paid, shall be due on September 25, 2037. The Senior Notes are callable in whole or in part, subject to a make-whole amount.

On December 13, 2018, Maine Water executed and delivered to CoBank a new Promissory Note and Single Advance Term Loan Supplement, dated October 30, 2018 (the “Fourth Promissory Note”). On the terms and subject to the conditions set forth in the Fourth Promissory Note issued pursuant to the Agreement, CoBank agreed to make an unsecured loan (the “Loan”) to Maine Water in the principal amount of $8,000,000 at 5.51%, due December 30, 2043. The proceeds of the above described Loan from CoBank were used to refinance existing debt and to finance certain capital expenditures.

During the year ending December 31, 2018, the Company paid the following amounts related to Long-Term Debt: approximately $495,000 related to CTWS's 2017 CoBank issuance; $1,123,000 related to CTWS's Term Loan Note issued as part of the 2012 acquisition of Maine Water; approximately $1,970,000 in sinking funds related to Maine Water's outstanding bonds; an additional $2,250,000 related to a CoBank loan to Maine Water that matured in 2018; approximately $164,000 related to HVWC's mortgage loan; and $168,000 related to Avon Water's mortgage loan.

Capital Budget

In 2018, the Company spent $54.5 million on capital projects. The Company used a combination of its internally generated funds, borrowings under its lines of credit, including the increased line finalized in December 2018, and the December 2017 and December 2018 long term debt issuances by Maine Water to fund this construction budget.

The following table shows the total construction expenditures excluding non-cash contributed utility plant for each of the last three years and what we expect to invest on construction projects in 2019.

	Gross Construction Expenditures	Construction Funded by Developers & Others	Construction Funded by Company
2018	$57,495,000	$2,991,000	$54,504,000
2017	$53,796,000	$2,253,000	$51,543,000
2016	$67,887,000	$1,548,000	$66,339,000
2019 (Projected)	$85,700,000	**	$85,700,000

** – The Company cannot predict the amount of construction funded by others.

Credit Rating

In January 2019, Standard & Poor's Rating Services ("S&P") reduced its 'A' corporate credit rating on the Company to 'A-' based on S&P's uncertainty surrounding the Company's potential merger with SJW, including the increased likelihood that the pending transaction may not close as expected. Also, contributing to the revised rating was the Company's elevated capital spending, regulatory lag and temporarily increased merger costs and the impact these factors are expected to have on certain financial measures. Additionally, S&P revised the Company's ratings outlook to stable from negative due to their view that the Company will continue to effectively manage regulatory risk in key jurisdictions, including in Connecticut and in Maine.

Stock Plans

The Company offers a dividend reinvestment and stock purchase plan ("DRIP") to all registered shareholders, and to the customers and employees of our regulated water companies, whereby participants can opt to have cash dividends directly reinvested into additional shares of the Company. In August 2011, the Board of Directors approved amendments to the DRIP (effective as of January 1, 2012) that permit the Company to add, at the Company's discretion, an "up to 5.00% purchase price discount" feature to the DRIP which is intended to encourage greater shareholder, customer and employee participation in the DRIP. In August 2014, the Board of Directors approved further amendments to the DRIP to reflect the Company's appointment of a new common stock transfer agent. In August 2017, the Board of Directors approved amendments to the DRIP to permit persons who are not registered shareholders of the Company to participate in the plan with a minimum purchase of $500 and to modify the monthly minimum and quarterly maximum cash purchases permitted under the plan. During the years ended December 31, 2018 and 2017, participants reinvested $1,410,000 and $1,404,000, respectively, as part of the DRIP.

Construction Expenditures

During 2018, the Company incurred approximately $57.5 million of construction expenditures, including approximately $2,991,000 funded by developers and others. The Company financed the expenditures through internally generated funds, long-term debt issuances, proceeds from its dividend reinvestment plan, customers' advances, contributions in aid of construction and short-term borrowings.

Our Board of Directors has approved an $85.7 million construction budget for 2019, net of amounts to be financed by customer advances and contributions in aid of construction. The Company will fund the capital budget through a combination of its internally generated funds, borrowing under its available lines of credit and the January 2019 new debt issuance by Maine Water and other potential debt issuances in 2019.

As the Company looks forward to 2019 and 2020, it anticipates continued reinvestment to replace aging infrastructure and to seek recovery of these costs through periodic WICA and WISC applications. The total cost of that investment may exceed the amount of internally generated funds. The Company expects to rely upon its internally generated funds and short-term borrowing facilities and new debt issuances over the next 12-24 months.

Off-Balance Sheet Arrangements and Contractual Obligations

We do not use off-balance sheet arrangements such as securitization of receivables with any unconsolidated entities or other parties. The Company does not engage in trading or risk management activities and does not have material transactions involving related persons.

The following table summarizes the Company's future contractual cash obligations as of December 31, 2018:

Payments due by Periods
(in thousands)

Contractual Obligations	Total	Less than 1 year	Years 2 and 3	Years 4 and 5	More than 5 years
Long-Term Debt (LTD)	$265,450	$4,059	$38,313	$23,443	$199,635
Interest on LTD	127,165	10,753	20,937	17,023	78,452
Operating Lease Obligations	103	72	14	14	3
Purchase Obligations (1) (2) (3) (4)	99,182	1,867	3,640	3,766	89,909
Long-Term Compensation Agreements (5)	44,695	2,914	4,505	4,188	33,088
Total (6) (7)	$536,595	$19,665	$67,409	$48,434	$401,087

1. Connecticut Water has an agreement with the South Central Connecticut Regional Water Authority ("RWA") to purchase water from RWA. The agreement was signed in April 2006 and became effective upon the receipt of all regulatory approvals in 2008 and will remain in effect for a minimum of fifty years upon becoming effective. Connecticut Water will pay RWA $75,000 per year as part of a capacity agreement, for a total of 14 years, starting on the effective date of the agreement. In addition, Connecticut Water is able, but under no obligation, to purchase up to one million gallons of water per day at the then current wholesale rates per the agreement.
2. Connecticut Water has an agreement with The Metropolitan District ("MDC") to purchase water from MDC to serve the Unionville system. The agreement became effective on October 6, 2000 and has a term of fifty years beginning May 19, 2003, the date the water supply facilities related to the agreement were placed in service. Connecticut Water agrees to purchase 283 million gallons of water annually from MDC.
3. Connecticut Water has a 99 year lease with 19 Perry Street to obtain well water for its public water supply system. The agreement became effective in 1975 and is based on current water rates in effect each year. There is no limitation on the amount of water that can be withdrawn from the leased property.
4. Maine Water has an agreement with the Kennebec Water District for potable water service. The agreement was extended and became effective on November 7, 2015 for a new term of 5 years. Maine Water guarantees a minimum consumption of 63.5 million gallons of water annually. Water sales to Maine Water are billed at a flat rate per gallon plus the monthly minimum tariff rate for a 4-inch metered service.
5. Pension and post retirement contributions cannot be reasonably estimated beyond 2023 and may be impacted by such factors as return on pension assets, changes in the number of plan participants and future salary increases.
6. We pay refunds on Advances for Construction over a specific period of time based on operating revenues related to developer-installed water mains or as new customers are connected to and take service from such mains. After all refunds are paid, any remaining balance is transferred to Contributions in Aid of Construction. The refund amounts are not included in the above table because the refund amounts and timing are dependent upon several variables, including new customer connections, customer consumption levels and future rate increases, which cannot be accurately estimated. Portions of these refund amounts are payable annually through 2028 and amounts not paid by the contract expiration dates become non-refundable.
7. We intend to fund these contractual obligations with cash flows from operations and liquidity sources held by or available to us.

In addition to the obligations disclosed in the contractual obligations table above, we have uncertain tax positions of $3.3 million. Although we believe our tax positions comply with applicable law, we have made judgments as to the sustainability of each uncertain tax position based on its technical merits. Due to the uncertainty of future cash outflows, if any, associated with our uncertain tax positions, we are unable to make a reasonable estimate of the timing or amounts that may be paid.

RESULTS OF OPERATIONS

Our Use of Non-GAAP Financial Measures

We consider Adjusted Net Income as a key business metric, which is a Non-GAAP financial measure.

We define Adjusted Net Income as Net Income excluding certain material items outside of normal business operations. For this Non-GAAP financial measure, we consider these items to be income or expenses that have not been recorded within the prior two years and are not expected to recur within the next two years. Such items include costs incurred in 2018 for the proposed merger with SJW and the completed acquisitions of HVWC and Avon Water during 2017.

Adjusted Net Income is a supplemental financial measure used by us and by external users of our financial statements and is considered to be an indicator of the operational strength and performance of our business. Adjusted Net Income allows us to assess our performance without regard to the impact of matters that we do not consider indicative of the operating performance of our business.

We use Adjusted Net Income to facilitate a comparison of our operating performance on a consistent basis from period to period that, when viewed in combination with our results prepared in accordance with GAAP, provides a more complete understanding of factors and trends affecting our business. We believe Adjusted Net Income assists our Board of Directors, management and investors in comparing our operating performance on a consistent basis from period to period because they remove the impact of certain material items outside of normal business operations (such as the costs incurred for the proposed merger with SJW) from our operating results.

Despite the importance of this Non-GAAP financial measure in analyzing our business, measuring and determining incentive compensation and otherwise evaluating our operating performance, Adjusted Net Income is not a measurement of financial performance under GAAP, may have limitations as an analytical tool and should not be considered in isolation from, or as an alternative to, Net Income or any other measure of our performance derived in accordance with GAAP. Adjusted Net Income is not a measure of profitability under GAAP.

We also urge you to review the reconciliation of this Non-GAAP financial measure included in the Results of Operations section of this Annual Report. To properly and prudently evaluate our business, we encourage you to review the Consolidated Financial Statements and related notes included elsewhere in this Annual Report and to not rely on any single financial measure to evaluate our business. In addition, because the Adjusted Net Income measure is susceptible to varying calculations, such Non-GAAP financial measures may differ from, and may therefore not be comparable to, similarly titled measures used by other companies.

Overview of 2018 Results from Operations

Net Income

Net Income for 2018 was $16,695,000, or $1.40 basic earnings per share, a decrease of $8,359,000, or $0.77 basic earnings per share, compared to 2017. The decrease in earnings was due to lower net income in our Water Operations segment due to costs associated with the proposed merger with SJW. Changes in net income for our segments were as follows (in thousands):

Business Segment	2018 Net Income	2017 Net Income	Increase (Decrease)
Water Operations	$14,259	$23,854	$ (9,595)

Real Estate	629	33	596
Services and Rentals	1,807	1,167	640
Total	$16,695	$25,054	$ (8,359)

Adjusted Net Income
Adjusted Net Income for the years ended December 31, 2018 and 2017 was as follows (in follows):

	2018	2017	Increase (Decrease)
Net Income	$16,695	$25,054	$ (8,359)
Merger and Acquisition Costs	10,819	392	10,427
Financing Costs	177	—	177
Adjusted Net Income	$27,691	$25,446	$ 2,245

Non-GAAP Adjusted Net Income for the year ended December 31, 2018 increased from the same period in the prior year by $2,245,000.

See “Our Use of Non-GAAP Financial Measures” for a discussion of our use of Non-GAAP Adjusted Net Income.

Water Operations

A breakdown of the components of the decrease in net income from Water Operations is as follows (in thousands):

	2018	2017	Increase (Decrease)
Operating Revenues	$116,665	$107,054	$ 9,611
Operation and Maintenance	52,006	47,130	4,876
Depreciation	18,692	16,684	2,008
Income Taxes	(2,008)	(1,993)	(15)
Taxes Other than Income Taxes	11,874	10,941	933
Other Utility Income	1,078	824	254
Merger and Acquisition Costs	(10,819)	(392)	(10,427)
Other (Deductions)	(1,442)	(2,803)	1,361
Interest and Debt Expense (net of AFUDC)	10,659	8,067	2,592
Total Net Income from Water Operations	$14,259	$23,854	$ (9,595)

The decrease in net income from Water Operations for 2018 compared to 2017 was $9,595,000, or 40.2%. As discussed above, the results in each of these periods have been negatively impacted by merger and acquisition costs and the related interest costs due to increased borrowings on our lines of credit in order to finance these costs.

Revenue from our water customers increased by $9,611,000, or 9.0%, to $116,665,000 for the year ended December 31, 2018 when compared to the same period in 2017. The primary drivers of higher revenues were the settlement agreement reached between PURA and Connecticut Water, which increased rates effective as of April 1, 2018, and increased WISC charges in Maine. Additionally, the acquisitions of HVWC and Avon Water during 2017 contributed approximately $2,814,000 in additional revenues in 2018.

Operation and Maintenance ("O&M") expense increased by $4,876,000, or 10.3%, during the year ended December 31, 2018 when compared to the 2017 period, primarily due to the acquisitions of HVWC and Avon Water on February 27 and July 1, respectively. HVWC and Avon Water added approximately $2,457,000 of additional O&M expense during 2018. The following table presents the components of O&M expense for the year ended December 31, 2018 and 2017, both including and excluding the impact of the HVWC and Avon Water acquisitions (in thousands):

Expense Components	2018	2017	Increase / (Decrease)	HVWC and Avon Water O&M Impact	Adjusted Increase/(Decrease)
Medical	$3,939	$2,629	$ 1,310	$23	$ 1,287
Payroll	18,254	16,941	1,313	765	548
Vehicles	2,192	1,748	444	120	324
Utility costs	4,979	4,354	625	323	302
Purchased water	1,900	1,559	341	60	281
Maintenance	4,503	3,976	527	247	280
Water treatment (including chemicals)	2,852	2,695	157	116	41
Property and liability insurance	1,831	1,661	170	143	27
Pension	1,955	1,935	20	(2)	22
Customer	1,703	1,734	(31)	28	(59)
Investor relations	638	809	(171)	—	(171)
Post-retirement medical	325	507	(182)	—	(182)
Outside services	3,763	3,793	(30)	175	(205)
Other benefits	831	1,123	(292)	63	(355)
Other	2,341	1,666	675	396	279
Total	$52,006	$47,130	$ 4,876	$2,457	$ 2,419

The changes in individual items are described below:

- Medical costs increased in the year ending December 31, 2018 compared to the same period in 2017 primarily due to an increase in costs associated with claims filed by employees and their families and the costs associated with the administration of the Company's medical plans;
- Payroll costs increased primarily due to more employee time spent on capital projects in 2017 than in 2018, and therefore less time to O&M expense, and higher wages in the year ending December 31, 2018 compared to the year ending December 31, 2017;
- Utility costs increased in the period primarily due to an increase in electrical, heating and communications costs;
- Purchased water costs increased primarily due to an increase in the rates charged to the Company by neighboring utilities in the Unionville division of Connecticut Water during the year ending December 31, 2018;
- Water treatment costs increased primarily due to an increase in costs associated with laboratory testing and samples collection; and
- Property and liability insurance costs increased in 2018 over 2017 due to higher premiums on the Company's insurance coverage stemming from growth of insurable assets.

The O&M increases detailed above were offset by the following decreases to O&M expense:

- Investor relations decreased primarily due to a reduction costs associated with investor outreach during the year ending December 31, 2018 when compared to 2017 and costs associated with Board of Directors meetings. These decreases were partially off-set by increases in costs associated with the Company's annual stockholder report and meeting;

- Post-retirement medical costs decreased due to a regulatory asset established by the PURA that was fully amortized during 2017;
- Outside services decreased primarily due a reduction in non-acquisition related legal costs during the year ending December 31, 2018; and
- Other benefits decreased primarily due to an increase in capitalized benefits, which reduces O&M expense, partially offset by higher costs associated with certain awards granted to non-officer management employees.

The Company’s Depreciation expense increased $2,008,000, or 12.0%, when comparing 2018 to 2017, of which, approximately $528,000 is associated with depreciation at HVWC and Avon Water. The primary driver of the increase in

Depreciation expense was a higher Utility Plant balance in 2018 than in 2017 due to normal plant additions, including the upgrades to Connecticut Water's Rockville Water Treatment Plant that was completed in 2017. The Company takes one half-year of depreciation the year plant goes into service, therefore, 2018 was the first full-year of depreciation for the Rockville Water Treatment Plant.

Total Interest and Debt Expense, net of Allowance for Funds Used During Construction ("AFUDC") increased by $2,592,000 in the year ended December 31, 2018 when compared to 2017. Approximately $161,000 of this increase was attributable to the acquisitions of HVWC and Avon Water. The primary reason for the remainder of the increase was the higher interest costs related to new debt issued by Maine Water in 2018, increased borrowing under our lines of credit to finance merger and acquisition costs, and a full year's worth of interest on debt issued by the Company, Connecticut Water and Maine Water throughout 2017.

Real Estate

Income from the Real Estate segment is largely dependent on the tax deductions received on donations and, or, sales of available land. This typically occurs when utility-owned land is deemed to be unnecessary to protect water sources. During 2018, Maine Water completed the first phase of the previously announced easement sale to the Coastal Mountains Land Trust. This transaction, in addition to minor tax transactions in Connecticut generated approximately $629,000 in net income in the Real Estate segment.

During 2017, Maine Water sold a small parcel of land and Connecticut Water sold a small property and together these transactions generated approximately $33,000 in net income.

Other

The decrease in net loss seen in the year ended December 31, 2018 in "Other" under "Other Income (Deductions), Net of Taxes" was primarily due to the impacts of the implementation of the Tax Act and the resulting treatment of previously deferred federal income taxes during 2017.

Overview of 2017 Results from Operations

Net Income for 2017 was $25,054,000, or $2.17 basic earnings per share, an increase of $1,667,000, or $0.05 basic earnings per share, compared to 2016. The increase in earnings was principally due to higher net income in our Water Operations segment due to ongoing investment in water infrastructure and the recovery of that investment through WICA and WISC, the incremental impact the acquisitions of HVWC and Avon Water added in 2017, and the reduction in federal tax reserves no longer deemed necessary. Changes in net income for our segments were as follows (in thousands):

Business Segment	2017 Net Income	2016 Net Income	Increase (Decrease)
Water Operations	$23,854	$22,222	$ 1,632
Real Estate	33	(54)	87
Services and Rentals	1,167	1,219	(52)
Total	$25,054	$23,387	$ 1,667

Water Operations

The increase in net income from Water Operations for 2017 compared to 2016 was $1,632,000, or 7.3%. The Net Income from Water Operations for the years ended December 31, 2017 and 2016 were each impacted by non-recurring items. During the year ended December 31, 2017, the Company recorded the impact of the Federal Tax Cuts and Jobs Act (the “Tax Act”), which was enacted on December 22, 2017. Among other provisions, the Tax Act reduces the federal corporate tax rate to 21% from the existing maximum rate of 35%, effective January 1, 2018. As a result, the Company remeasured deferred tax assets and liabilities and incurred expense for the remeasurement of the deferred tax assets of $1.5 million on our income tax expense related to long-term deferred tax assets during the quarter ended December 31, 2017, which impacted the Other line on the Other Income (Deductions), Net of Taxes portion of the Consolidated Statement of Income.

The Net Income from Water Operations for the year ended December 31, 2017 was impacted positively by a partial reversal of previously established tax provisions. During the year ended December 31, 2017, new information caused the Company to undertake a review of its provision recorded associated with the repair deduction. While the Company maintains the belief that the deduction taken on its tax return is appropriate, the methodology for determining the deduction has not been agreed to by the taxing authorities. During the Company's review of the position through the quarter ended March 31, 2017, new information caused management to reassess the previously recorded provision. This reassessment resulted in the reversal of a portion of the provision related to the Maine subsidiary, in the amount of $1,164,000. During the Company's review of the position through the quarter ended June 30, 2017, the impact of new information on Connecticut Water caused management to reassess the previously recorded provision. The reassessment resulted in the reversal of a portion of the provision in the amount of $2,445,000. During the quarter ended September 30, 2017 an additional $810,000 was reversed due to statute expiration. In the quarter ended December 31, 2017, continued analysis resulted in the reversal of a portion of the provision in the amount of $1,620,000 for a total reversal of $6,039,000 during the year ended December 31, 2017. In future years, the Company expects to add to this provision based on capital spending and also decrease the provision based on statute expirations.

During the year ended December 31, 2017, the Company reversed incorrectly recorded mark-to-market expense as an out-of-period adjustment resulting in a one-time benefit (reduction) of approximately $1.6 million in Operation and Maintenance expense.

A breakdown of the components of the increase in net income from Water Operations was as follows (in thousands):

	2017	2016	Increase (Decrease)
Operating Revenues	$107,054	$98,667	$ 8,387
Operation and Maintenance	47,130	43,155	$ 3,975
Depreciation	16,684	13,905	$ 2,779
Income Taxes	(1,993)	2,570	$ (4,563)
Taxes Other than Income Taxes	10,941	9,796	$ 1,145
Other Utility Income	824	744	$ 80
Other (Deductions) Income (including Merger and Acquisition Costs)	(3,195)	(2,045)	$ (1,150)
Interest and Debt Expense (net of AFUDC)	8,067	5,718	$ 2,349
Total Net Income from Water Operations	$23,854	$22,222	$ 1,632

Revenue from our water customers increased by $8,387,000, or 8.5%, to $107,054,000 for the year ended December 31, 2017 when compared to the same period in 2016. The primary drivers of higher revenues were the acquisitions of HVWC and Avon Water on February 27 and July 1, respectively. These acquisitions added approximately $5,802,000 in new revenues during 2017. The remaining $2,585,000 increase was primarily attributable to increased rates in 2017 associated with recurring WICA charges in Connecticut and WISC charges in Maine.

Operation and Maintenance ("O&M") expense increased by $3,975,000, or 9.2%, during the year ended December 31, 2017 when compared to the 2016 period, primarily due to the acquisitions of HVWC and Avon Water on February 27 and July 1, respectively. HVWC and Avon Water added approximately $2,711,000 of additional O&M expense during 2017. The following table presents the components of O&M expense for the year ended December 31, 2017 and 2016, both including and excluding the impact of the HVWC and Avon Water acquisitions (in thousands):

Expense Components	2017	2016	Increase / (Decrease)	HVWC and Avon Water O&M	Adjusted Increase/(Decrease)
Mark-to-market	$13	$(1,401)	$ 1,414	$—	$ 1,414
Outside services	3,793	3,284	509	127	382
Maintenance	3,976	3,312	664	389	275
Payroll	16,941	15,812	1,129	948	181
Subscriptions and dues	393	247	146	3	143
Property and liability insurance	1,661	1,542	119	68	51
Investor relations	809	775	34	—	34
Medical	2,629	2,597	32	39	(7)
Utility costs	4,354	3,899	455	489	(34)
Vehicles	1,748	1,793	(45)	34	(79)
Purchased water	1,559	1,675	(116)	35	(151)
Customer	1,734	1,829	(95)	96	(191)
Water treatment (including chemicals)	2,695	2,702	(7)	201	(208)
Other benefits	1,123	1,947	(824)	79	(903)
Other	3,702	3,142	560	203	357
Total	$47,130	$43,155	$ 3,975	$2,711	$ 1,264

The changes in individual items are described below:

- The increase in mark-to-market expense was related to an out-of-period adjustment made during the second quarter of 2016 related to stock-based performance awards previously granted to officers of the Company. The Company had mistakenly marked certain stock-based performance awards classified as equity awards to the market price of the Company's common stock price at the end of each reporting period. During the second quarter of 2016, the Company reversed all of the incorrectly recorded mark-to-market expense resulting in a one-time benefit of $2.6 million, including a reversal of approximately $1.0 million in expense related to the first quarter of 2016 for a net out-of-period adjustment of $1.6 million;
- The increase in Outside services was primarily due to higher auditing fees, higher outside labor costs and an increase in the use of consultants during the year ended December 31, 2017 when compared to the year ending December 31, 2016. These increases were partially offset by a decrease in legal fees during 2017;
- Payroll costs increased primarily due to higher wages in the year ended December 31, 2017 compared to 2016;
- Subscriptions and dues increased primarily due to a new training module in use by the Company in 2017 that was not fully in use in 2016; and
- Property and liability insurance costs increased in 2017 over 2016 due to higher premiums on the Company's insurance coverage stemming from growth of insurable assets.

The O&M increases detailed above were offset by the following decreases to O&M expense:

- The decrease in the Other benefits was primarily due to the resignation of the Company's former Chief Executive Officer. As a result of his departure, the executive forfeited previously awarded performance stock awards that had not vested and, in the third quarter of 2017, the Company reversed the expense recognized in previous periods associated with those unvested awards;

- Water treatment costs decreased due to a decrease in the cost of chemicals used in the treatment process;
- Customer costs decreased due to a reduction in costs associated with a voluntary water conservation program that rewards customers for reducing their consumption by 10% that was in effect during 2016, lower uncollectible accounts charges, reduced costs associated with customer communications, and a decrease in outside collection efforts during the year ended December 31, 2017; and

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- Purchased water decreased in 2017 primarily due to the end of drought like conditions that persisted through much of 2016, causing the Company to purchase water from neighboring utilities to meet customer demand. As the drought conditions improved during 2017, the need to purchase water lessened.

The Company's Depreciation expense increased $2,779,000, or 20.0%, when comparing 2017 to 2016, of which, approximately $1,137,000 is associated with depreciation at HVWC and Avon Water. The primary driver of the increase in Depreciation expense was a higher Utility Plant balance in 2017 than in 2016 due to normal plant additions, including the upgrades to Connecticut Water's Rockville Water Treatment Plant that was completed in 2017.

Income Tax expense associated with "above the line" Water Operations decreased by $4,563,000 in the year ended December 31, 2017 when compared to the same period in 2016 due to the reversal of previously established provisions, as discussed above.

Total Interest and Debt Expense, net of Allowance for Funds Used During Construction ("AFUDC") increased by $2,349,000 in the year ended December 31, 2017 when compared to the same period in 2016. Approximately $307,000 of this increase is attributable to the acquisitions of HVWC and Avon Water. The primary reason for the remainder of the increase was the higher interest costs related to new debt issued by the Company, Connecticut Water and Maine Water in 2017 and a full year's worth of interest on Connecticut Water's 2016 issuance.

Real Estate

Income from the Real Estate segment is largely dependent on the tax deductions received on donations and, or, sales of available land. This typically occurs when utility-owned land is deemed to be unnecessary to protect water sources. During 2017, Maine Water sold a small parcel of land and Connecticut Water sold a small property, together these transactions generated approximately $33,000 in net income in the Real Estate segment.

During 2016, the Company recorded a valuation allowance on a previously completed land donation and the sale of a small parcel of land in Connecticut. These transactions generated $54,000 in net loss in the Real Estate segment.

Other

The increase in net loss seen in the year ended December 31, 2017 in "Other" under "Other Income (Deductions), Net of Taxes" was primarily due to the impacts of the implementation of the Tax Act and the resulting treatment of previously deferred federal income taxes, as discussed above.

COMMITMENTS AND CONTINGENCIES

Water Supply – Connecticut Water has an agreement with the South Central Connecticut Regional Water Authority ("RWA") to purchase water from RWA. The agreement was signed in April 2006 and became effective upon the receipt of all regulatory approvals in 2008 and remains in effect for a minimum of fifty years upon the effective date. Connecticut Water will pay RWA $75,000 per year, for a total of 14 years, starting on the effective date of the agreement. In addition, Connecticut Water is able, but under no obligation, to purchase up to one million gallons of water per day at the then current wholesale rates per the agreement. Connecticut Water has an agreement with The Metropolitan District ("MDC") to purchase water from MDC to serve the Unionville system. The agreement became effective on October 6, 2000 and has a term of fifty years beginning May 19, 2003, the date the water supply facilities related to the agreement were placed in service. Connecticut Water agrees to purchase 283 million gallons of water annually from MDC. Connecticut Water has a 99 year lease with 19 Perry Street to obtain well water for its public water supply system. The agreement became effective in 1975 and is based on current water rates in effect each year. There is no limitation on the amount of water that can be withdrawn from the leased property. Maine Water has an agreement with the Kennebec Water District for potable water service. The agreement was extended and became effective on November 7, 2015 for a new term of 5 years. Water sales to Maine Water are billed at a flat rate per gallon plus the monthly minimum tariff rate for a 4-inch metered service. During 2018, 2017, and 2016, the Company spent $1,823,000, $1,532,000 and $1,556,000, respectively, on water purchased under these agreements. The Company's expected payments related to these agreements for the years 2019 through 2023 will be as follows:

(in thousands)	
2019	$1,867
2020	$1,846
2021	$1,794
2022	$1,853
2023	$1,913

Reviews by Taxing Authorities – On its 2012 Federal tax return, filed in September 2013, Connecticut Water filed a change in accounting method to adopt the IRS temporary tangible property regulations. On its 2013 Federal tax return, filed in September 2014, Maine Water filed the same change in accounting method. This method change allowed the Company to take a current year deduction for expenses that were previously capitalized for tax purposes. Since the filing of the 2012 tax return, the IRS has issued final regulations. While the Company maintains the belief that the deduction taken on its tax return is appropriate, the methodology for determining the deduction has not been agreed to by the taxing authorities. Provisions for uncertain tax positions were recorded to reflect the possible challenge of the Company's methodology for determining its repair deduction as required by FASB ASC 740. During the quarter ended September 30, 2018, $1.3 million was reversed due to statute expiration. During the year ended December 31, 2018, in conjunction with its review of the impacts of the Tax Act, the Company reviewed its provision associated with the repair deduction. Should the IRS challenge the Company's tax treatment, and ultimately disallow a portion of the repair deduction, the Company expects the net operating loss carryforwards to offset any resulting liability. During the year ended December 31, 2018, a portion of the provision in the amount of $980,000 was reversed to reflect the offset by the remeasured net operating loss deferred tax asset. In addition, as required by FASB ASC 740, during the year ended December 31, 2018, the Company recorded a provision of $1.0 million for a portion of the benefit that is not being returned to customers resulting from any possible tax authority challenge. The Company had previously recorded a provision of $4.6 million in the prior year for a cumulative total of $3.3 million.

The Company remains subject to examination by federal and state tax authorities for the 2015 through 2017 tax years. On April 26, 2017, Avon Water was notified by the IRS that its stand-alone Federal tax filing for 2015 was selected to be reviewed beginning in the second quarter of 2017. On March 20, 2018, Avon Water received a notice of adjustment from the IRS related to the Federal tax audit for the tax years ended December 31, 2015 and 2016. As a result, a reduction in net operating loss carryover of $56,000 was recorded during the year ended December 31, 2018.

Purchases of Equity Securities by the Company – In May 2005, the Company adopted a common stock repurchase program (“Share Repurchase Program”). The Share Repurchase Program allows the Company to repurchase up to 10% of its outstanding common stock, at a price or prices that are deemed appropriate. As of December 31, 2018, no shares have been repurchased. Currently, the Company has no plans to repurchase shares under the Share Repurchase Program.

Environmental and Water Quality Regulation – The Company is subject to environmental and water quality regulations. Costs to comply with environmental and water quality regulations are substantial. We are presently in compliance with current regulations, but the regulations are subject to change at any time. The costs to comply with future changes in state or federal regulations, which could require us to modify current filtration facilities and/or construct new ones, or to replace any reduction of the safe yield from any of our current sources of supply, could be substantial.

Legal Proceedings – We are involved in various legal proceedings from time to time. Although the results of legal proceedings cannot be predicted with certainty, there are no pending legal proceedings to which we, or any of our subsidiaries are a party, or to which any of our properties is subject, that presents a reasonable likelihood of a material adverse impact on the Company's financial condition, results of operations or cash flows.

Rate Relief – The rates we charge our water and waste water customers in Connecticut and Maine are established under the jurisdiction of and are approved by PURA and MPUC, respectively. Connecticut Water's allowed return on equity and return on rate base, effective as of December 31, 2018 were 9.75% and 7.32%, respectively. HVWC's blended water and wastewater allowed return on equity and return on rate base, effective December 31, 2018, were 10.10% and 7.19%, respectively. Avon Water's allowed return on equity and return on rate base, effective December 31, 2018, were 10.00% and 7.79%, respectively. Maine Water's average allowed return on equity and return on rate base, as of December 31, 2018 were 9.50% and 7.96%, respectively.

Land Dispositions – The Company and its subsidiaries own additional parcels of land in Connecticut and Maine, which may be suitable in the future for disposition or for further protection through conservation easements, through sale or by donation to municipalities, other local governments or private charitable entities such as local land trusts. In Connecticut, these additional parcels would include certain Class I and II parcels previously identified for long term conservation by the Connecticut Department of Energy and Environmental Protection ("DEEP"), which have restrictions on development and resale based on provisions of the Connecticut General Statutes. In Maine, these parcels include primarily company-owned land used for water supply protection, and a permanent conservation easement may be appropriate for some parcels to ensure the permanent protection of the watersheds, while balancing the appropriate community and recreational use of the land.

Capital Expenditures – The Company has received approval from its Board of Directors to spend $85.7 million on capital expenditures in 2019, in part to fund improvements to water treatment plants and increased spending related to infrastructure improvements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The primary market risk faced by the Company is interest rate risk. As of December 31, 2018, the Company had no exposure to derivative financial instruments or financial instruments with significant credit risk or off-balance-sheet risks. In addition, the Company is not subject in any material respect to any currency or other commodity risk.

The Company maintains a $15.0 million line of credit agreement with CoBank, ACB, which is currently scheduled to expire on July 1, 2020. The Company maintains an additional line of credit of $45.0 million with RBS Citizens, N.A. ("Citizens"), with an expiration date of April 25, 2021. On December 14, 2018, the Company and Citizens agreed to increase the amount of the line of credit from $45.0 million to $75.0 million and to extend the maturity date of the Line of Credit until December 14, 2023. The Company has delivered to Citizens an Amended and Restated Promissory Note, dated December 14, 2018, evidencing the debt payable pursuant to the Line of Credit. Additionally, Avon Water maintained a $3.0 million line of credit with Northwest Community Bank, which expired on September 30, 2018. As of December 31, 2018 the total lines of credit available to the Company were $90.0 million. As of December 31, 2018 and 2017, the Company had $52.6 million and $19.3 million of "Interim Bank Loans Payable", respectively. As of December 31, 2018, the Company had $37.4 million in unused lines of credit. Interest expense charged on interim bank loans will fluctuate based on market interest rates.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The “Consolidated Financial Statements” of Connecticut Water Service, Inc., and the “Notes to Consolidated Financial Statements”, together with the reports of Baker Tilly Virchow Krause, LLP independent registered public accounting firm, are included herein on pages 50 through 95.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures – As of December 31, 2018, management, including the Company's President and Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)). Based upon, and as of the date of that evaluation, the President and Chief Executive Officer and the Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective.

Management's Report on Internal Control Over Financial Reporting – Internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. We have used the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) in conducting our evaluation of the effectiveness of the internal control over financial reporting. Based on our evaluation, we concluded that the Company's internal control over financial reporting was effective as of December 31, 2018. The effectiveness of the Company's internal control over financial reporting as of December 31, 2018 has been audited by Baker Tilly Virchow Krause, LLP, an independent registered public accounting firm, as stated in their report which appears herein.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Changes in Internal Control Over Financial Reporting – There were no significant changes in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None

PART III

Pursuant to General Instruction G(3), the information called for by Items 10, 11, 12, 13 and 14 is hereby incorporated by reference to the Company's definitive proxy statement to be filed in EDGAR on or about March 29, 2019 in connection with the annual meeting to be held on May 9, 2019. Certain information concerning the executive officers of the Company is included in Item 1 of this report.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

ITEM 11. EXECUTIVE COMPENSATION

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) 1 Financial Statements:

2 Financial Statement Schedule:

The following schedule of the Company is included on the attached page as indicated

All other schedules provided for in the applicable regulations of the Securities and Exchange Commission have been omitted because of the absence of conditions under which they are required or because the required information is set forth in the financial statements or notes thereto.

(b) Exhibits

Exhibits for Connecticut Water Service Inc., are in the Index to Exhibits 96

Exhibits heretofore filed with the Securities and Exchange Commission as indicated below are incorporated herein by reference and made a part hereof as if filed herewith. Exhibits marked by asterisk (* or **) are being filed or furnished herewith.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULE

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and the board of directors of Connecticut Water Service Inc.:

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Connecticut Water Service Inc. (the "Company") as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, and cash flows, for each of the three-year period ended December 31, 2018, and the related notes and consolidated financial statement schedule listed in Item 15(a)2 (collectively referred to as the "consolidated financial statements"). We also have audited the Company’s internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework: (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework: (2013) issued by COSO.

Basis for Opinions

The Company’s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's consolidated financial statements and an opinion on the Company’s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control
over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Baker Tilly Virchow Krause, LLP

We have served as the Company's auditor since 2013.

Wyomissing, Pennsylvania

February 28, 2019

CONNECTICUT WATER SERVICE, INC.

CONSOLIDATED STATEMENTS OF INCOME

For the Years Ended December 31, (in thousands, except per share data)	2018	2017	2016
Operating Revenues	$116,665	$107,054	$98,667
Operating Expenses			
Operation and Maintenance	52,006	47,130	43,155
Depreciation	18,692	16,684	13,905
Income Taxes	(2,008)	(1,993)	2,570
Taxes Other Than Income Taxes	11,874	10,941	9,796
Total Operating Expenses	80,564	72,762	69,426
Net Operating Revenues	36,101	34,292	29,241
Other Utility Income, Net of Taxes	1,078	824	744
Total Utility Operating Income	37,179	35,116	29,985
Other Income (Deductions), Net of Taxes			
Gain (Loss) on Real Estate Transactions	629	33	(54)
Non-Water Sales Earnings	1,807	1,167	1,219
Allowance for Funds Used During Construction	465	774	1,198
Merger and Acquisition Costs	(10,819)	(392)	(302)
Other	(1,442)	(2,803)	(1,743)
Total Other Income (Loss), Net of Taxes	(9,360)	(1,221)	318
Interest and Debt Expenses			
Interest on Long-Term Debt	10,387	9,054	7,714
Other Interest Expense (Income), Net	537	(359)	(922)
Amortization of Debt Expense and Premium, Net	200	146	124
Total Interest and Debt Expenses	11,124	8,841	6,916
Net Income	16,695	25,054	23,387
Preferred Stock Dividend Requirement	10	38	38
Total Net Income Applicable to Common Stock	$16,685	$25,016	$23,349
Weighted Average Common Shares Outstanding:			
Basic	11,914	11,540	11,009
Diluted	12,065	11,762	11,228
Earnings Per Common Share:			
Basic	$1.40	$2.17	$2.12
Diluted	$1.38	$2.13	$2.08

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Years Ended December 31, (in thousands)	2018	2017	2016
Net Income	$16,695	$25,054	$23,387
Other Comprehensive Income (Loss), net of tax			
Adjustment to post-retirement benefit plans, net of tax benefit (expense) of $(80), $(419), and $15 in 2018, 2017, and 2016, respectively	127	289	(24)
Unrealized Investment (loss) gain, net of tax benefit (expense) of $68, $(13) and $(22), in 2018, 2017, and 2016, respectively	(184)	207	35
Other Comprehensive (Loss) Income, net of tax	$(57)	$496	$11
Comprehensive Income	$16,638	$25,550	$23,398

The accompanying notes are an integral part of these Consolidated Financial Statements.

CONNECTICUT WATER SERVICE, INC.

CONSOLIDATED BALANCE SHEETS

December 31, (in thousands, except share amounts)	2018	2017
ASSETS		
Utility Plant	$983,220	$927,289
Construction Work in Progress	14,765	11,761
	997,985	939,050
Accumulated Provision for Depreciation	(258,192)	(241,327)
Net Utility Plant	739,793	697,723
Other Property and Investments	11,501	10,662
Cash and Cash Equivalents	2,856	3,618
Accounts Receivable (Less Allowance, 2018 - $1,236; 2017 - $1,265)	14,169	14,965
Accrued Unbilled Revenues	10,011	8,481
Materials and Supplies, at Average Cost	1,679	1,593
Prepayments and Other Current Assets	9,796	7,021
Total Current Assets	38,511	35,678
Unrecovered Income Taxes - Regulatory Asset	75,763	66,631
Pension Benefits - Regulatory Asset	9,337	11,339
Post-Retirement Benefits Other Than Pension - Regulatory Asset	133	116
Goodwill	66,403	67,016
Deferred Charges and Other Costs	10,428	9,618
Total Regulatory and Other Long-Term Assets	162,064	154,720
Total Assets	$951,869	$898,783
CAPITALIZATION AND LIABILITIES		
Common Stockholders' Equity:		
Common Stock Without Par Value: Authorized - 25,000,000 Shares		
Issued and Outstanding: 2018 - 12,054,712; 2017 - 12,065,016	$190,433	$191,641
Retained Earnings	104,188	102,417
Accumulated Other Comprehensive Loss	(485)	(428)
Common Stockholders' Equity	294,136	293,630
Preferred Stock	—	772
Long-Term Debt	257,511	253,367
Total Capitalization	551,647	547,769
Current Portion of Long-Term Debt	4,059	6,173
Interim Bank Loans Payable and Other Short-Term Debt	54,249	19,281
Accounts Payable and Accrued Expenses	13,782	11,319
Accrued Interest	1,531	1,439
Current Portion of Refund to Customers - Regulatory Liability	2,331	64
Other Current Liabilities	2,954	3,262
Total Current Liabilities	78,906	41,538
Advances for Construction	22,654	20,024
Deferred Federal and State Income Taxes	31,593	33,579
Unfunded Future Income Taxes	67,725	58,384
Long-Term Compensation Arrangements	31,043	32,649
Unamortized Investment Tax Credits - Regulatory Liability	1,057	1,133
Excess Accumulated Deferred Income Tax - Regulatory Liability	29,611	30,937
Refund to Customers - Regulatory Liability	534	—
Other Long-Term Liabilities	2,018	1,241

Total Long-Term Liabilities	186,235	177,947
Contributions in Aid of Construction	135,081	131,529
Commitments and Contingencies	—	—
Total Capitalization and Liabilities	$951,869	$898,783

The accompanying notes are an integral part of these Consolidated Financial Statements.

CONNECTICUT WATER SERVICE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, (in thousands)	2018	2017	2016
Operating Activities:			
Net Income	$16,695	$25,054	$23,387
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:			
Deferred Revenues	(3,701)	(3,945)	(893)
Provision for Deferred Income Taxes and Investment Tax Credits, Net	(3,157)	3,387	2,950
Allowance for Funds Used During Construction	(465)	(774)	(1,198)
Depreciation and Amortization (including $2,189 in 2018, $775 in 2017, and $732 in 2016 charged to other accounts)	20,881	17,459	13,173
(Gain) Loss on Real Estate Transactions	(629)	(33)	54
Change in Assets and Liabilities:			
Increase in Accounts Receivable and Accrued Unbilled Revenues	(734)	(1,053)	(1,925)
Decrease (Increase) in Other Current Assets	(2,880)	(1,278)	338
(Increase) Decrease in Other Non-Current Items, Net	5,156	200	(2,741)
Increase (Decrease) in Accounts Payable, Accrued Expenses and Other Current Liabilities	2,244	(2,404)	176
Total Adjustments	16,715	11,559	9,934
Net Cash and Cash Equivalents Provided by Operating Activities	33,410	36,613	33,321
Investing Activities:			
Additions to Utility Plant	(57,030)	(53,022)	(66,689)
Cash portion of The Avon Water Company Acquisition	—	(6,134)	—
Proceeds on Real Estate Transactions	1,350	212	9
Cash Acquired	—	1,791	—
Release of Restricted Cash	—	—	846
Net Cash and Cash Equivalents Used in Investing Activities	(55,680)	(57,153)	(65,834)
Financing Activities:			
Net Proceeds from Interim Bank Loans	54,249	19,281	32,953
Net Repayment of Interim Bank Loans	(19,281)	(35,453)	(16,085)
Repayment of Long-Term Debt	(6,170)	(5,195)	(22,772)
Proceeds from Issuance of Long-Term Debt	8,000	55,000	49,930
Proceeds from Issuance of Common Stock	1,410	1,404	1,610
Purchase of Treasury Stock	(3,525)	—	—
Redemption of Preferred Stock	(787)	—	—
Costs Incurred to Issue Long-Term Debt and Common Stock	(5)	(2)	(88)
Advances from Others for Construction	2,526	1,479	350
Cash Dividends Paid	(14,909)	(13,920)	(12,552)
Net Cash and Cash Equivalents Provided by Financing Activities	21,508	22,594	33,346
Net Increase in Cash and Cash Equivalents	(762)	2,054	833
Cash and Cash Equivalents at Beginning of Year	3,618	1,564	731
Cash and Cash Equivalents at End of Year	$2,856	$3,618	$1,564
Non-Cash Investing and Financing Activities:			
Stock-for-stock acquisition of The Heritage Village Water Company	$—	$16,903	$—
Stock-for-stock acquisition of The Avon Water Company	$—	$26,949	$—
Non-Cash Contributed Utility Plant (see Note 1 for details)	$4,147	$2,741	$1,394
Supplemental Disclosures of Cash Flow Information:			
Cash Paid During the Year for:			
Interest	$10,995	$8,445	$6,678

State and Federal Income Taxes	$445	$572	$445

The accompanying notes are an integral part of these Consolidated Financial Statements.

CONNECTICUT WATER SERVICE, INC.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION – The Consolidated Financial Statements include the operations of Connecticut Water Service, Inc. (the "Company"), an investor-owned holding company and its wholly-owned subsidiaries, including:

The Connecticut Water Company ("Connecticut Water")
The Maine Water Company ("Maine Water")
The Heritage Village Water Company ("HVWC")
The Avon Water Company ("Avon Water")
Chester Realty, Inc. ("Chester Realty")
New England Water Utility Services, Inc. ("NEWUS")

As of December 31, 2018, Connecticut Water, Maine Water, HVWC and Avon Water were our regulated public water utility companies (collectively the "Regulated Companies"), which together served 139,574 customers in 80 towns throughout Connecticut and Maine.

Chester Realty is a real estate company whose net profits from rental of property are included in the "Other Income (Deductions), Net of Taxes" section of the Consolidated Statements of Income in the "Non-Water Sales Earnings" category.

NEWUS is engaged in water-related services, including the Linebacker® program, emergency drinking water, and contract operations. Its earnings are included in the "Non-Water Sales Earnings" category of the Consolidated Statements of Income.

Intercompany accounts and transactions have been eliminated.

The results for interim periods are not necessarily indicative of results to be expected for the year since the consolidated earnings are subject to seasonal factors. Effective February 27, 2017 and July 1, 2017, the Company acquired HVWC and Avon Water, respectively, discussed further in Note 16 below. As a result, the Company's Consolidated Statements of Net Income, Consolidated Statements of Comprehensive Income, and Consolidated Statements of Cash Flows for the year-ended December 31, 2016 do not include HVWC or Avon Water. The Consolidated Statements of Net Income, Consolidated Statements of Comprehensive Income, and Consolidated Statements of Cash Flows for the years-ended December 31, 2018 and 2017 do include HVWC's and Avon Water's results for the periods the Company owned HVWC and Avon Water. HVWC's and Avon Water's assets and liabilities are included in the Consolidated Balance Sheet as of December 31, 2018 and 2017.

As noted in Note 16 "Acquisitions" below, HVWC serves approximately 4,700 water customers in the Towns of Southbury, Middlebury, and Oxford, Connecticut and approximately 3,000 wastewater customers in the Town of Southbury, Connecticut. The results of the wastewater line of business are included in the Company's Water Operations segment. Additionally, as noted in Note 16, Avon Water serves approximately 4,800 water customers in the Towns of Avon, Farmington, and Simsbury, Connecticut.

Certain prior year amounts have been restated to conform with the current presentation.

During the preparation of the Condensed Consolidated Financial Statements for the quarter ended June 30, 2016, the Company identified two errors related to the accounting treatment of stock based performance awards granted to officers of the Company. First, the Company had mistakenly classified certain stock based performance awards as equity awards and, secondly, incorrectly marked those awards to the market price of the Company's common stock price at the end of each reporting period. A portion of these awards should have been classified as liability awards and only those awards should have been marked-to-market based on the Company's common stock price. During the second quarter of 2016, the Company reversed all of the incorrectly recorded mark-to-market expense as a cumulative out-of-period adjustment resulting in a one-time benefit of approximately $2.6 million on the Operation and Maintenance line item on its Condensed Consolidated Statements of Income for the three months ended June 30, 2016. Approximately $1.6 million of the out of period adjustment pertained to years prior to 2016, with the remaining $1.0 million related to the first quarter of 2016.

The Company performed various quantitative and qualitative analyses and determined that these errors were not material to the previously reported quarterly and annual results. The Company also determined that recording these entries as an out-of- period adjustment during the second quarter of 2016 was not material to the full year ended December 31, 2016 results of operations.

CONNECTICUT WATER SERVICE, INC.

Proposed Merger with SJW Group

On August 5, 2018, the Company entered into a Second Amended and Restated Agreement and Plan of Merger (the "Revised Merger Agreement") with SJW Group, a Delaware corporation ("SJW"), and Hydro Sub, Inc., a Connecticut corporation and a direct wholly owned subsidiary of SJW ("Merger Sub"), pursuant to which Merger Sub will merge with and into the Company, with the Company surviving the merger as a wholly owned subsidiary of SJW (the "Merger"). Subject to the terms and conditions of the Revised Merger Agreement, at the effective time of the Merger, each outstanding share of our common stock (other than certain cancelled shares) will be automatically converted into the right to receive an amount in cash equal to $70.00 per share, payable without interest. The Revised Merger Agreement amends and restates in its entirety the Amended and Restated Agreement and Plan of Merger (the "First Amended and Restated Merger Agreement"), dated as of May 30, 2018, by and among the Company, SJW and Merger Sub, which amended and restated in its entirety the Agreement and Plan of Merger (the "Original Merger Agreement"), dated as of March 14, 2018, by and among the Company, SJW and Merger Sub.

The Board of Directors approved, adopted and declared advisable the Revised Merger Agreement and the Merger and recommended that the Company's shareholders approve the Revised Merger Agreement following a comprehensive review of the transaction. The Revised Merger Agreement was approved by the Company's shareholders on November 16, 2018.

The Merger is subject to certain customary closing conditions, including, among other things, approval of the Revised Merger Agreement by the Company's shareholders (which was received on November 16, 2018) and regulatory approvals (including the approval of the Connecticut Public Utilities Regulatory Authority ("PURA") and the Maine Public Utilities Commission ("MPUC")). The required waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the rules and regulations promulgated thereunder (the "HSR Act"), was terminated early on April 27, 2018. The early termination will expire and the Company and SJW will need to re-file the necessary notifications under the HSR Act if the Merger is not consummated by April 27, 2019. On October 15, 2018, the Federal Communications Commission ("FCC") consented to the joint application for transfer of control filed by the Company and SJW on October 4, 2018 and amended on October 12, 2018, and no further clearance from the FCC is required.

On May 4, 2018, Maine Water filed with MPUC an application for approval of the Merger. On May 7, 2018, the Company and SJW filed with PURA a joint application for approval of the Merger. Following the start on May 31, 2018 of a 45-day go-shop process permitted by the First Amended and Restated Merger Agreement, the Company and SJW withdrew their joint PURA application on June 19, 2018, and filed a new joint application on July 18, 2018 following the end of the go-shop process. On January 9, 2019, the Company and SJW withdrew their current application before PURA and announced that they were continuing to evaluate their regulatory approach, including the possibility of submitting a new application to PURA in connection with the Merger. On January 23, 2019, Maine Water voluntarily requested to withdraw its application before MPUC, aligning the Maine regulatory process with the regulatory process in Connecticut. After a thorough review conducted by the management and boards of the Company and SJW, and with the support of their respective Connecticut regulatory counsel, the Company disclosed on February 21, 2019 that the companies decided to file new applications with PURA and MPUC which are intended to address PURA's concerns. The Company and SJW expect that the new applications will be filed during the second quarter of 2019. PURA must make a ruling on the merger within 120 days after the filing of an application, unless the Company and SJW agree to an extension of the 120-day timeframe. MPUC must make a ruling on the merger within 60 days after the filing of an application, unless it determines that the necessary investigation cannot be concluded within 60 days, in which event it can extend the review period for up to an additional 120 days.

On July 20, 2018, the California Public Utilities Commission ("CPUC") formally issued an Order Instituting Investigation (the "Order") providing that CPUC will investigate whether the Merger is subject to CPUC approval and the Merger's anticipated impacts within California. CPUC held a public participation hearing on January 31, 2019 in connection with the Order.

PUBLIC UTILITY REGULATION – Connecticut Water, HVWC and Avon Water are subject to regulation for rates and other matters by the Connecticut Public Utility Regulatory Authority ("PURA") and follow accounting policies prescribed by PURA. Maine Water is subject to regulation for rates and other matters by the Maine Public Utilities Commission ("MPUC"). The Company prepares its financial statements in accordance with accounting principles generally accepted in the United States of America ("GAAP"), which includes the provisions of Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC") 980 "Regulated Operations" ("FASB ASC 980"). FASB ASC 980 requires cost-based, rate-regulated enterprises, such as the Regulated Companies, to reflect the impact of regulatory decisions in their financial statements. The state regulators, through the rate regulation process, can create regulatory assets and liabilities that result when costs and benefits are allowed for ratemaking purposes in a period after the period in which the costs or benefits would be charged to expense by an unregulated enterprise. The Consolidated Balance Sheets include regulatory assets and liabilities as appropriate, primarily related to income taxes, post-retirement benefit costs and deferred revenues associated with the Water Revenue Adjustment ("WRA") used by Connecticut Water and HVWC. In accordance with FASB ASC 980, costs which benefit future periods are amortized over the periods they benefit. The Company believes, based on current regulatory circumstances, that the regulatory assets recorded are probable to be recovered and that its use of regulatory accounting is appropriate and in accordance with the provisions of FASB ASC 980.

Regulatory assets and liabilities are comprised of the following:

(in thousands)	December 31,	
	2018	2017
Assets:		
Pension Benefits and Post-Retirement Benefits Other Than Pension	$9,470	$11,455
Unrecovered Income Taxes	75,763	66,631
Deferred revenue (included in Prepayments and Other Current Assets and Deferred Charges and Other Costs)	10,408	6,813
Other (included in Prepayments and Other Current Assets and Deferred Charges and Other Costs)	4,931	5,202
Total regulatory assets	$100,572	$90,101
Liabilities:		
Other (included in Other Current Liabilities)	$1,334	$1,117
Unamortized Investment Tax Credits	1,057	1,133
Refunds to Customers (including Current Portion of Refund to Customers)	2,865	64
Unfunded Future Income Taxes (including Other Long-Term Liabilities)	67,725	58,384
Excess Accumulated Deferred Income Tax	29,611	30,937
Total regulatory liabilities	$102,592	$91,635

Pension and post-retirement benefits include costs in excess of amounts funded. The Company believes these costs will be recoverable in future years, through rates, as funding is required and has recorded regulatory assets for those costs. The recovery period is dependent on contributions made to the plans and remaining life expectancy.

Certain items giving rise to deferred state income taxes, as well as a portion of deferred federal income taxes related primarily to differences between book and tax depreciation expense, are recognized for ratemaking purposes on a cash or flow-through basis and are recognized as unrecovered future income taxes that will be recovered in rates in future years as they reverse. In addition, basis differences resulting from the repair tax deduction adopted in 2013 contribute to the change in unfunded future income taxes.

Deferred revenue represents a portion of the rate increase granted in Connecticut Water's 2007 rate decision. This PURA decision required the Company to defer for future collection, beginning in 2008, a portion of the increase. Additionally, revenue recorded under the WRA, discussed below, is included in deferred revenue. At December 31, 2018 and 2017, the current portion of deferred revenue was $7,584,000 and $3,700,000, respectively.

Regulatory liabilities include deferred investment tax credits and amounts to be refunded to customers as a result of the adoption of the tangible property regulations in Connecticut and Maine. These liabilities will be given back to customers in rates as tax deductions occur in the future.

CONNECTICUT WATER SERVICE, INC.

Regulatory Matters

The rates we charge our water and wastewater customers in Connecticut and Maine are established under the jurisdiction of and are approved by PURA and MPUC, respectively. It is our policy to seek rate relief as necessary to enable us to achieve an adequate rate of return. The Regulated Companies' allowed returns on equity and allowed returns on rate base are as follows:

As of December 31, 2018	Allowed Return on Equity	Allowed Return on Rate Base
Connecticut Water	9.75 %	7.32 %
HVWC (blended water and wastewater rates)	10.10 %	7.19 %
Avon Water	10.00 %	7.79 %
Maine Water	9.50 %	7.96 %

The PURA establishes rates in Connecticut on a company-wide basis while the MPUC approves Maine Water's rates on a division-by-division basis. Each of Connecticut Water, HVWC, Avon Water and Maine Water are allowed to add surcharges to customers' bills in order to recover certain costs associated with approved capital projects in between full rate cases, as well as approved surcharges for the WRA, in Connecticut, as discussed in more detail below. HVWC has not added surcharges to customers' bills in order to recover certain approved capital projects as of December 31, 2018, however, HVWC, as authorized by PURA, began to utilize the WRA as of May 1, 2015.

On January 3, 2018, PURA reopened the most recent rate case decisions for the Company's Connecticut Regulated Companies to determine what, if any, adjustments to rates are appropriate to account for revisions to tax laws, including corporate tax rates, contained in the Federal Tax Cuts and Jobs Act ("Tax Act"). On January 23, 2019, PURA issued a decision that determined the appropriate accounting and rate treatments for the reduction in the Federal Corporate Income Tax rate from 35 to 21 percent. The reduction in the Federal Corporate Income Tax impacts two specific areas of corporate income tax that the regulated water utilities must account for: a) the income tax expense included in rates charged to customers; and b), the Excess Accumulated Deferred Income Tax ("EADIT") liability accrued on the regulated utilities books.

PURA has directed regulated water companies, including Avon and HVWC, to create a regulatory liability as of January 1, 2018 to account for the reduced Federal Corporate Income Tax expense and defer treatment until the companies file their next general rate cases, at which point the companies will propose a method to return the regulatory liability to customers. During the year ended December 31, 2018, Avon and HVWC recorded regulatory liabilities in the amounts of $154,000 and $89,000, respectively, in anticipation of the final decision. Additionally, PURA directed Avon and HVWC, to establish a liability account for the EADIT from January 1, 2018, going forward, which will also be returned to customers commencing with the companies' next rate cases. As discussed below, Connecticut Water has entered into a settlement agreement with the Connecticut Office of Consumer Counsel ("OCC"), which was approved by PURA, which covers treatment of the Tax Act.

On January 11, 2018, the MPUC issued a notice of investigation to determine the impact of the Tax Act on Maine Water. The investigation will allow the MPUC to determine what, if any, adjustments to rates are appropriate to account for revisions to tax laws, including corporate tax rates contained in the Tax Act. In addition to determining the impact of the Tax Act, the MPUC will consider whether to issue an accounting order to establish a regulatory liability as of January 1, 2018 to account for the reduced Federal Corporate Income Tax expense and defer treatment until the divisions file their next general rate case, at which point each division will propose a method to return the regulatory liability to customers. Following discovery, technical conferences were held on April 19, 2018, July 17, 2018, and October 15, 2018. A settlement conference was held on December 6, 2018. The Company expects to reach a settlement with the MPUC in the first quarter of 2019. During the year ended December 31, 2018, Maine Water recorded a regulatory liability in the amount of $167,000, in anticipation of a settlement.

Connecticut Rates

Connecticut Water's Water Infrastructure Conservation Adjustment ("WICA") was 0.00%, 9.81% and 7.13% above base rates at December 31, 2018, 2017, and 2016, respectively. As of December 31, 2018 and 2017, Avon Water's WICA surcharge was 9.31% and 8.09%. As of December 31, 2018, HVWC has not filed for a WICA surcharge. On December 27, 2018, PURA issued a final decision authorizing Connecticut Water to implement a 2.15% WICA surcharge on customers' bills effective January 1, 2019, representing approximately $19.5 million in WICA related projects.

On February 6, 2018, Connecticut Water filed a petition with PURA to reopen Connecticut Water's 2010 rate case (previously reopened in 2013) proceeding for the limited purpose of approving a Settlement Agreement entered into by Connecticut Water and the Connecticut Office of Consumer Counsel ("OCC") (the "Agreement"). The Agreement contemplates a change in

CONNECTICUT WATER SERVICE, INC.

Connecticut Water's customer rates effective for bills rendered on and after April 1, 2018 made up of the following two components: (1) the revenue requirements associated with a $36.3 million addition to rate base to reflect necessary upgrades to Connecticut Water's Rockville Water Treatment Plant; and (2) the folding in to base rates of the Company's present WICA surcharges. In addition, the Agreement provides that:

1. Upon implementation of new rates under the Agreement, until such time as new rates are adopted in a general rate case, through a temporary modification of the earnings sharing mechanism, Connecticut Water customers will receive one hundred percent of any earnings in excess of levels allowed by law rather than limiting such customer credits to 50% as contemplated by applicable law;
2. Connecticut Water agrees it will not file for a general increase of Connecticut Water's base rates unless those rates are to be effective on or after January 1, 2020;
3. The pending proceeding initiated by PURA in Docket No. 09-12-11RE03, Application of The Connecticut Water Company for Amended Rates – Federal Tax Cuts and Jobs Act shall be closed; and
4. Connecticut Water shall continue to make investments in infrastructure replacement consistent with its approved WICA plan. Connecticut Water shall be allowed to continue to pursue recovery of eligible projects through WICA.

On August 15, 2018, PURA issued a final decision that accepted the conditions of a revised settlement agreement. The primary facets of the revised settlement agreement were the revenue requirements associated with the Rockville Water Treatment Plant, discussed above, and the folding of previously approved WICA surcharges into base rates, which reset Connecticut Water's WICA to zero and resolution of the Company's obligations related to the Tax Act. New rates were effective as of April 1, 2018.

Since 2013, Connecticut law has authorized a Water Revenue Adjustment ("WRA") to reconcile actual water demands with the demands projected in the last general rate case and allows companies to adjust rates as necessary to recover the revenues approved by PURA in the last general rate case. The WRA removes the financial disincentive for water utilities to develop and implement effective water conservation programs. The WRA allows water companies to defer on the balance sheet, as a regulatory asset or liability, for later collection from or crediting to customers the amount by which actual revenues deviate from the revenues allowed in the most recent general rate proceedings. A similar WICA reconciliation adjustment mechanism allows the Connecticut water utilities that have WICA to be made whole, and not more than whole for their allowed WICA revenues during a calendar year. Additionally, projects eligible for WICA surcharges were expanded to include energy conservation projects, improvements required to comply with streamflow regulations, and improvements to acquired systems.

Connecticut Water and HVWC's allowed revenues for the year ended December 31, 2018, as approved by PURA during each company's last general rate case and including subsequently approved WICA surcharges, were approximately $88.9 million. Through normal billing for the year ended December 31, 2018 operating revenue for Connecticut Water and HVWC would have been approximately $80.7 million had the WRA not been implemented. As a result of the implementation of the WRA, Connecticut Water and HVWC recorded $8.2 million in additional revenue for the year ended December 31, 2018, which reflects increased allowed revenues, effective April 1, 2018, resulting from the application of the rate settlement approved by PURA during 2018. During the years ended December 31, 2017 and 2016, Connecticut Water recorded $4.3 million and $1.1 million, respectively, in additional revenue related to the WRA. Currently, Avon Water does not utilize the WRA.

Maine Rates

In Maine, the overall, approved cumulative Water Infrastructure Charge ("WISC") for all of Maine Water's divisions was 6.8%, 5.6% and 4.7% above base rates as of December 31, 2018, 2017, and 2016, respectively. The WISC rates for the Biddeford and Saco division were reset to zero with the approval of the general rate increase discussed below. In January 2019, Maine Water filed six additional WISC applications which have been approved by the MPUC. These six new filings will add approximately $369,000 in annualized revenues.

On June 29, 2017, Maine Water filed for a rate increase in its Biddeford and Saco division. The rate request was for an approximate $1.6 million, or 25.1%, increase in revenues. The rate request was designed to recover higher operating expenses, depreciation and property taxes since Biddeford and Saco's last rate increase in 2015. Maine Water and the Maine Office of the Public Advocate reached an agreement that increases annual revenue by $1.56 million. The agreement was approved by the MPUC on December 5, 2017, with new rates effective December 1, 2017.

A water revenue adjustment mechanism law in Maine became available to regulated water utilities in Maine on October 15, 2015. Maine Water is currently precluded from seeking new rates in the Biddeford and Saco division due to provisions in the settlement agreement with the MPUC. Maine's rate-adjustment mechanism could provide revenue stabilization in divisions with declining water consumption and Maine Water expects to request usage of this mechanism in future rate filings when consumption trends support its use.

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Maine Water Land Sale

On March 11, 2016, Maine Water entered into a purchase and sale agreement with the Coastal Mountains Land Trust, a Maine nonprofit corporation (the “Land Trust”) pursuant to which Maine Water agreed to sell two conservation easements to the Land Trust on approximately 1,400 acres of land located in the towns of Rockport, Camden and Hope, in Knox County, Maine valued in the aggregate at $3.1 million. The land had a book value of approximately $600,000 at December 31, 2018 and December 31, 2017 and is included in “Other Property and Investments” and “Utility Plant”, respectively, on the Company’s Consolidated Balance Sheets. The easements and purchase prices are as follows:

1. Ragged Mountain Mirror Lake Conservation Easement: $1,875,000; and
2. Grassy Pond Conservation Easement: $600,000.

The first transaction regarding Mirror Lake was completed on September 27, 2018. As a result of the transaction, Maine Water has recognized $435,000 in net income in the period and has recorded a regulatory liability of $435,000 that will be refunded to customers over a one-year period, beginning January, 2019. In addition to the net income recorded as a result of the transaction, the Company recorded a $100,000 deferred income tax benefit due to the timing difference related to the cash refund to customers. The total net income benefit recorded by the Company for this transaction was $535,000 presented as $625,000 in gain on real estate transactions offset by $90,000 of donation deduction in the Other line item. Maine Water also made a $250,000 contribution to the Land Trust at the closing.

The second transaction regarding Grassy pond is scheduled to close on or before December 31, 2019. The second transaction is structured such that Maine Water will sell a conservation easement valued at $1,200,000 for $600,000. Accordingly, Maine Water expects to claim a $600,000 charitable deduction on the bargain sale. Similarly to the first transaction, net proceeds from the second transaction will be shared equally between the customers of the Camden Rockland division and Maine Water.

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

REVENUES – The Company’s accounting policies regarding revenue recognition by segment are as follows:

Our revenues are primarily from tariff-based sales. We provide water and wastewater services to customers under these tariffs without a defined contractual term (at-will). As the revenue from these arrangements is based upon the amount of the water and wastewater services supplied and billed in that period (including estimated billings), there was not a shift in the timing or pattern of revenue recognition for such sales when compared to our revenue recognition prior to the adoption of ASU 2014-09. We have also completed the evaluation of our other revenue streams, including those tied to longer term contractual commitments and the Company’s Linebacker program.

Customers are primarily billed quarterly on a cycle basis and bills are due upon receipt. To match revenues with associated expenses, we accrue unbilled revenues for water and wastewater services delivered to customers, but not yet billed at month end, creating a contract asset.

Water Operations – Most of our water customers are billed quarterly, with the exception of larger commercial and industrial customers, as well as certain public and private fire protection customers who are billed monthly. Most customers, except fire protection customers, are metered. Revenues from metered customers are based on their water usage multiplied by approved, regulated rates and are earned when water is delivered. Public fire protection revenues are based on the length of the water main, and number of hydrants in service and are earned on a monthly basis. Private fire protection charges are based on the diameter of the connection to the water main. Our Regulated Companies accrue an estimate for metered customers for the amount of revenues earned relating to water delivered but unbilled at the end of each quarter, which is reflected as "Accrued Unbilled Revenues" in the accompanying Consolidated Balance Sheets. Beginning in 2013, Connecticut Water began to record deferred revenue related to the WRA, which represent under collection from customers based upon allowed revenues as approved by PURA. On March 31, 2017, HVWC calculated its actual revenues compared to allowed revenues dating back to May 1, 2015, for collection from customers, as allowed by a PURA order. More detailed information, including revenues, costs and income taxes associated with the segment can be found in Note 15, "Segment Reporting".

Real Estate Transactions – Revenues are recorded when a sale or other transaction has been completed and title to the real estate has been transferred. Net income from the Real Estate Transactions segment is shown net in the "Other Income

(Deductions), Net of Taxes" portion of the Company's Consolidated Statements of Income. More detailed information, including revenues, costs and income taxes associated with the segment can be found in Note 15, "Segment Reporting".

Services and Rentals – Revenues are recorded when the Company has delivered the services called for by contractual obligation. Net income from the Services and Rentals segment is shown net in the "Other Income (Deductions), Net of Taxes" portion of the Company's Consolidated Statements of Income. More detailed information, including revenues, costs and income taxes associated with the segment can be found in Note 15, "Segment Reporting".

UTILITY PLANT – Utility plant is stated at the original cost of such property when first devoted to public service. Utility plant accounts are charged with the cost of improvements and replacements of property including an Allowance for Funds Used During Construction ("AFUDC"). Retired or disposed depreciable plant is charged to accumulated provision for depreciation together with any costs applicable to retirement, less any salvage received. Maintenance of utility plant is charged to expense. Accounting policies relating to other areas of utility plant are listed below:

Allowance For Funds Used During Construction – AFUDC is the cost of debt and equity funds used to finance the construction of utility plant. The amount shown on the Consolidated Statements of Income relates to the equity portion. The debt portion is included as an offset to "Other Interest Income, Net". Generally, utility plant under construction is not recognized as part of rate base for ratemaking purposes until facilities are placed into service, and accordingly, AFUDC is charged to the construction cost of utility plant. Capitalized AFUDC, which does not represent current cash income, is recovered through rates over the service lives of the assets.

Our Regulated Companies' allowed rate of return on rate base is used to calculate AFUDC.

Customers' Advances For Construction, Contributed Plant and Contributions In Aid Of Construction –Under the terms of construction contracts with real estate developers and others, the Regulated Companies periodically receive either advances for the costs of new main installations or title to the main after it is constructed and financed by the developer. Refunds are made, without interest, as services are connected to the main, over periods not exceeding fifteen years and not in excess of the original advance. Unrefunded balances, at the end of the contract period, are credited to contributions in aid of construction ("CIAC") and are no longer refundable.

Utility Plant is added in two ways. The majority of the Company's plant additions occur from direct investment of Company funds that originated through operating or financings activities. The Company manages the construction of these plant additions. These plant additions are part of the Company's depreciable utility plant and are generally part of rate base. The Company's rate base is a key component of how its regulated rates are set, and is recovered through the depreciation component of the Company's rates. The second way in which plant additions occur are through developer advances and contributions. Under this scenario either the developer funds the additions through payments to the Company, who in turn manages the construction of the project, or the developer pays for the plant construction directly and contributes the asset to the Company after it is complete. Plant additions that are financed by a developer, either directly or indirectly, are excluded from the Company's rate base and not recovered through the rates process, and are also not depreciated.

The components that comprise net additions to Utility Plant during the last three years ending December 31 are as follows:

(in thousands)	2018	2017	2016
Additions to Utility Plant:			
Company Financed	$54,504	$51,543	$66,339

Allowance for Funds Used During Construction	465	774	1,198
Subtotal – Utility Plant Increase to Rate Base	54,969	52,317	67,537
Advances from Others for Construction	2,526	1,479	350
Net Additions to Utility Plant	$57,495	$53,796	$67,887

Depreciation – Depreciation is computed on a straight-line basis at various rates as approved by the state regulators on a company by company basis. Depreciation allows the Company to recover the investment in utility plant over its useful life. The overall consolidated company depreciation rate, based on the average balances of depreciable property, was 2.2%, 2.0%, and 1.9% for 2018, 2017, and 2016, respectively.

INCOME TAXES – The Company provides income tax expense for its utility operations in accordance with the regulatory accounting policies of the applicable jurisdictions. The Company's income tax provision is calculated on a separate return

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basis. For Connecticut Water, PURA requires the flow-through method of accounting for most state tax temporary differences as well as for certain federal temporary differences. For Avon Water , PURA requires the flow-through method of accounting for most state temporary differences and normalized accounting for most federal temporary differences. PURA has allowed the flow-through method of accounting stemming from Avon Water's adoption of the IRS' Repair Regulations. For HVWC, PURA requires normalized accounting for federal and state temporary differences. The MPUC requires the flow-through method of accounting for most state temporary differences and normalized accounting for most federal temporary differences. In its approvals of the stipulation agreements between Maine Water and the Office of the Public Advocate, issued in 2015, the MPUC has allowed the flow-through method of accounting stemming from Maine Water's adoption of the IRS' Repair Regulations in all of its divisions.

The Company computes deferred tax liabilities for all temporary book-tax differences using the liability method prescribed in FASB ASC 740 "Income Taxes" ("FASB ASC 740"). Under the liability method, deferred income taxes are recognized at currently enacted income tax rates to reflect the tax effect of temporary differences between the financial reporting and tax bases of assets and liabilities. Such temporary differences are the result of provisions in the income tax law that either require or permit certain items to be reported on the income tax return in a different period than they are reported in the financial statements. Deferred tax liabilities that have not been reflected in tax expense due to regulatory treatment are reflected as Unfunded Future Income Taxes, and are expected to be included in future years' rates. During the quarter ended December 31, 2017 the Company recorded provisional impacts of the Federal Tax Cuts and Jobs Act ("Tax Act"). During the year ended December 31, 2018 the Company, as allowed by Staff Accounting Bulletin No. 118 (SAB 118), finalized its analysis and accounting for the Tax Act. As a result, the Company re-measured Deferred Tax Assets and Liabilities to reflect the enacted legislation and recorded a Regulatory Liability of $27.4 million to capture the excess accumulated deferred income taxes for items included in rates that follow the normalized method of accounting. Unrecovered Income Taxes and Unfunded Future Income Taxes were written down by $32.3 million to reflect the reduced tax rate for items that follow the flow-through method of accounting. Pursuant to ASU 2018-02, the Company has elected to reclassify the stranded tax effects of the 2017 Tax Act from AOCI to Retained Earnings in the amount of approximately $70,000 for the year-ended December 31, 2017. These stranded taxes relate to post-retirement obligations of the Company. For more information on the Tax Act, please see Note 2.

The Company believes that deferred income tax assets, net of provisions, will be realized in the future. The majority of Unfunded Future Income Taxes, prior to 2013, relate to deferred state income taxes regarding book to tax depreciation differences. Beginning in 2013, basis differences resulting from the repair tax deduction contributed to the change in unfunded income taxes.

Deferred Federal and State Income Taxes include amounts that have been provided for accelerated depreciation subsequent to 1981, as required by federal income tax regulations, as well as the basis differences associated with expenditures qualifying for repair tax deductions as clarified by the IRS in regulations issued in 2013. Deferred taxes have also been provided for temporary differences in the recognition of certain expenses for tax and financial statement purposes as allowed by regulatory ratemaking policies.

MUNICIPAL TAXES – Municipal taxes are reflected as "Taxes Other Than Income Taxes" and are generally expensed over the twelve-month period beginning on July 1 following the lien date, corresponding with the period in which the municipal services are provided.

UNAMORTIZED DEBT ISSUANCE EXPENSE – The issuance costs of long-term debt, including the remaining balance of issuance costs on long-term debt issues that have been refinanced prior to maturity, and related call premiums, are amortized over the respective lives of the outstanding debt, as approved by PURA and the MPUC.

GOODWILL – As part of the purchase of regulated water companies, the Company recorded goodwill of $66.4 million and $67.0 million as of December 31, 2018 and 2017, respectively, representing the amount of the purchase price over net book value of the assets acquired. The decrease during 2018 is related to adjustments made to deferred taxes based on the Company's ability to utilize net operating loss carryforwards that had valuation allowances at the acquired companies. The Company accounts for goodwill in accordance with Accounting Standards Codification 350 "Intangibles – Goodwill and Other" ("FASB ASC 350").

As part of FASB ASC 350, the Company is required to perform an annual review of goodwill for any potential impairment, which we perform as of December 31 each year. We update the assessment between the annual testing if events or circumstances occur that would more likely than not reduce the fair value of a reporting unit below its carrying value. As allowed under FASB ASC 350, the Company performed a qualitative analysis of its goodwill for the year ended December 31, 2018. A qualitative analysis includes a review of internal and external factors that could have an impact on a reporting unit's fair value when compared to its carrying amount. These factors included a review of macroeconomic conditions, industry and market considerations, cost factors, overall financial performance, company specific events, changes in reporting units and a review of the Company's stock price. Based on these factors and other factors considered in its quantitative analysis performed in 2017, discussed below, the Company believes that it is more likely than not that the fair market value is more than the carrying value of the Water Operation Segment and therefore, no goodwill impairment was recognized in 2018 and 2017.

The Company performed a quantitative analysis of impairment as of December 31, 2017, which concluded that the estimated fair value of the Water Operations reporting unit, which has goodwill recorded, exceeded the reporting unit's carrying amount by at least 122% as of December 31, 2017. Additionally, the Company believes that no event has occurred which would trigger impairment.

We may be required to recognize an impairment of goodwill in the future due to market conditions or other factors that are beyond our control and unrelated to our performance. Those market events could include a decline in the forecasted results in our business plan, significant adverse rate case results, changes in capital investment budgets or changes in interest rates that could permanently impair the fair value of a reporting unit. Recognition of impairments of a significant portion of goodwill would negatively impact our reported results of operation and total capitalization, the effects of which could be material and could make it more difficult to maintain our credit ratings, secure financing on favorable terms, maintain compliance with debt covenants and meet expectations of our regulators.

EARNINGS PER SHARE – The following is a reconciliation of the numerators and denominators of the basic and diluted earnings per share for the years ended December 31:

Years ended December 31,	2018	2017	2016
Numerator (in thousands)			
Basic Net Income Applicable to Common Stock	$16,685	$25,016	$23,349
Diluted Net Income Applicable to Common Stock	$16,685	$25,016	$23,349
Denominator (in thousands)			
Basic Weighted Average Shares Outstanding	11,914	11,540	11,009
Dilutive Effect of Stock Awards	151	222	219
Diluted Weighted Average Shares Outstanding	12,065	11,762	11,228
Earnings per Share			
Basic Earnings per Share	$1.40	$2.17	$2.12
Dilutive Effect of Stock Awards	0.02	0.04	0.04
Diluted Earnings per Share	$1.38	$2.13	$2.08

NEW ACCOUNTING PRONOUNCEMENTS – In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers," ("ASU No. 2014-09") which amends its guidance related to revenue recognition. ASU No. 2014-09 requires an entity to recognize revenue as performance obligations are met, in order to reflect the transfer of promised goods or services to customers in an amount that reflects the consideration the entity is entitled to receive for those goods or services. The following steps are applied in the updated guidance: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when, or as, the entity satisfies a performance obligation. ASU No. 2014-09 is effective for public companies for fiscal years, and interim periods within those years, beginning after December 15, 2016, and can be adopted either retrospectively to each prior reporting period presented or as a cumulative-effect adjustment as of the date of adoption, however early adoption is not permitted. On April 1, 2015, the FASB voted for a one-year deferral of the effective date of ASU No. 2014-09, making ASU No. 2014-09 effective for public companies for fiscal years, and interim periods within those years, beginning after December 15, 2017. The

Company engaged in a project to analyze the impact that adoption of this standard would have on our consolidated financial statements, disclosures, and internal controls. The project included identification of the Company's revenue streams, creation of an inventory of its contracts with customers, evaluation of a representative sample of these contracts with respect to the new guidance and documentation of any required changes in reporting. The Company derives more than 90% of its revenue from regulated delivery of water and wastewater services to its retail customers, which is considered a contract with customers under ASU 2014-09, excluding revenue recognized as WRA. The majority of the remainder of the Company's revenue is derived from contract operations and unregulated revenues generated from its Linebacker® program, also considered a contract with customers under ASU 2014-09. The Company determined that revenue generated from the attachment of telecommunications equipment to its facilities through leases with third parties is outside the scope of ASU No. 2014-09. In 2017, the American Institute of Certified Public Accountants (AICPA) power and utility entities revenue recognition task force determined that contributions in aid of construction are not in the scope of ASU No. 2014-09. The Company's adoption of ASU No. 2014-09 on January 1, 2018 did not result in any change in the measurement and timing of recognition of its revenues. The Company used the modified retrospective approach when implementing ASU No. 2014-09. See Note 14 "Revenues From Contracts With Customers" for more information.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)", ("ASU No. 2016-02"), which will require lessees to recognize the following for all leases at the commencement date of a lease: a) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and b) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Public business entities should apply the amendments in ASU No. 2016-02 for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted for all public business entities and all nonpublic business entities upon issuance. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach. ASU No. 2016-02 became effective for the Company on January 1, 2019 and was adopted using the modified retrospective approach. The adoption did not have a material effect on our consolidated financial position.

In August 2016, the FASB issued ASU No. 2016-15, "Classification of Certain Cash Receipts and Cash Payments" ("ASU No. 2016-15"). The amendments in ASU No. 2016-15 clarify the classification for eight different types of activities, including debt prepayment and extinguishment costs, proceeds from insurance claims and distributions from equity method investees. For public business entities, ASU No. 2016-15 was effective for financial statements issued for fiscal years beginning after December 15, 2017. The adoption of ASU No. 2016-15 did not have a material impact on the Company's Consolidated Statements of Cash Flows.

In March 2017, the FASB issued ASU 2017-07, "Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost," ("No. ASU 2017-07") which amends the requirements related to the income statement presentation of the components of net periodic benefit cost for employer sponsored defined benefit pension and other postretirement benefit plans. Under No. ASU 2017-07, an entity must disaggregate and present the service cost component of net periodic benefit cost in the same income statement line item as other employee compensation costs arising from services rendered during the period, and only the service cost component will be eligible for capitalization. Other components of net periodic benefit cost will be presented separately from the line item that includes the service cost. The new standard was effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is permitted at the beginning of an annual period in which the financial statements have not been issued. Entities must use a retrospective transition method to adopt the requirement for separate presentation of the income statement service cost and other components, and a prospective transition method to adopt the requirement to limit the capitalization of benefit cost to the service component. As a result of the adoption of ASU 2017-07 during 2018, the Company reclassified $887,000 and $1,036,000 out of Operation and Maintenance expense and moved it to the "Other" line item in the "Other (Deductions) Income, Net of Taxes" section of the Consolidated Statements of Income for the periods ending December 31, 2017 and 2016, respectively.

In February 2018, the FASB issued ASU 2018-02, "Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income", (ASU No. 2018-02) to help businesses and other organizations present some effects from the Tax Act's reduction in the corporate tax rate in their income statements. ASU No. 2018-02 gives the option of reclassifying what are called the "stranded" tax effects within accumulated other comprehensive income to retained earnings during each fiscal year or quarter in which the effect of the lower tax rate is recorded. ASU No. 2018-02 instructs businesses and other organizations to provide a disclosure in their financial statement footnotes that describes the accounting policy they used to release the income tax effects from accumulated other comprehensive income, whether they are reclassifying the stranded income tax effects from the Tax Cut and Jobs Act, and information about the other effects on taxes from the reclassification. ASU 2018-02 is effective for all organizations for fiscal years that begin after December 15, 2018, and the quarterly and other interim periods in those years, with early adoption permissible. The Company adopted ASU No. 2018-02 effective December 31, 2017. The adoption of ASU No. 2018-02 resulted in an approximate $70,000 increase to Retained Earnings at December 31, 2017.

CONNECTICUT WATER SERVICE, INC.

NOTE 2: INCOME TAX EXPENSE

Under ASC 740, we recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate resolution. From time to time, the Company is assessed interest and penalties by taxing authorities. In those cases, the charges are recorded on the “Other” line item, within the “Other Income (Deductions), Net of Taxes” section of the Consolidated Statements of Income. There were no such charges or accruals for the years ended December 31, 2018, 2017, and 2016.

On December 22, 2017 H.R. 1, originally known as the Tax Act was enacted. Among the significant changes to the U.S. Internal Revenue Code, the Tax Act lowers the U.S. federal corporate income tax rate (“Federal Tax Rate”) from 35% to 21% effective January 1, 2018. In December 2017, the Securities and Exchange Commission staff issued Staff Accounting Bulletin No. 118 (SAB 118), which addresses how a company recognizes provisional amounts when a company does not have the necessary information available, prepared or analyzed (including computations) in reasonable detail to complete its accounting for the effect of the changes in the Tax Act. The measurement period ends when a company has obtained, prepared and analyzed the information necessary to finalize its accounting, but cannot extend beyond one year. Accounting for the income tax effects of the Tax Act was completed in December 2018. Amounts have been recorded as a Regulatory Liability to the extent that the tax savings over time will be returned to customers in utility rates, and a non-cash adjustment was recognized to record additional income tax expense to the extent revalued deferred income taxes are not believed to be recoverable in utility customer rates. These Regulatory Liabilities may be adjusted when decisions are reached by both PURA and the MPUC regarding the impact that will be reflected in utility customer rates.

As of December 31, 2017, the Company determined a reasonable estimate for remeasuring its net deferred tax assets and liabilities using the Federal Tax Rate that would apply when the amounts are expected to reverse. The Company recorded that estimate as a provisional amount. The effect of the provisional remeasurement is reflected entirely in the interim period that includes the enactment date and is allocated directly to income tax expense from continuing operations. The remeasurement of the deferred tax assets and liabilities resulted in a $1.5 million discrete tax expense which increased the effective tax rate by 6.1% in the year ended December 31, 2017. The Company remeasured deferred tax assets and liabilities to reflect the enacted legislation and recorded a regulatory liability of $27.1 million to capture the excess accumulated deferred income taxes for items included in rates that follow the normalized method of accounting. Unrecovered Income Taxes and Unfunded Future Income Taxes were written down by $32 million to reflect the reduced tax rate for items that follow the flow-through method of accounting.

As of December 31, 2018, the Company finalized its accounting for the Tax Act including remeasuring its net deferred tax assets and liabilities using the Federal Tax Rate that will apply when the amounts are expected to reverse. The effect of the adjustments to the remeasurement is reflected entirely in the measurement period as allowed by SAB 118 and is allocated directly to income tax expense from continuing operations. The completed analysis resulted in an additional remeasurement of the deferred tax assets and liabilities and resulted in a $900,000 discrete tax benefit which decreased the effective tax rate by 6.3% in the year ended December 31, 2018. In addition, the completed analysis resulted in an additional remeasurement of the deferred tax assets and liabilities to reflect the enacted legislation and the Company recorded an increase to its Regulatory Liability of $300,000 to capture the excess accumulated deferred income taxes for items included in rates that follow the normalized method of accounting. Unrecovered Income Taxes and Unfunded Future Income Taxes were written down by an additional $300,000 to reflect the reduced tax rate for items that follow the flow-through method of accounting.

Final accounting for the impacts of the Tax Act, recorded in the years ended December 31, 2018 and 2017 resulted in a remeasurement of deferred tax assets and liabilities resulting in $600,000 discrete tax expense. The Company remeasured deferred tax assets and liabilities to reflect the enacted legislation and recorded a regulatory liability of $27.4 million to capture the excess accumulated deferred income taxes for items included in rates that follow the normalized method of accounting. Unrecovered Income Taxes and Unfunded Future Income Taxes were written down by $32.3 million to reflect the reduced tax rate for items that follow the flow-through method of accounting.

On its 2012 Federal tax return, filed in September 2013, Connecticut Water filed a change in accounting method to adopt the IRS temporary tangible property regulations. On its 2013 Federal tax return, filed in September 2014, Maine Water filed the same change in accounting method. This method change allowed the Company to take a current year deduction for expenses that were previously capitalized for tax purposes. Since the filing of the 2012 tax return, the IRS has issued final regulations. While the Company maintains the belief that the deduction taken on its tax return is appropriate, the methodology for determining the deduction has not been agreed to by the taxing authorities. Provisions for uncertain tax positions were recorded to reflect the possible challenge of the Company’s methodology for determining its repair deduction as required by

FASB ASC 740. During the quarter ended September 30, 2018, $1.3 million was reversed due to statute expiration. During the year ended December 31, 2018, in conjunction with its review of the impacts of the Tax Act, the Company reviewed its provision associated with the repair deduction. Should the IRS challenge the Company's tax treatment, and ultimately disallow a portion of the repair deduction, the Company expects the net operating loss carryforwards to offset any resulting liability. During the year ended December 31, 2018, a portion of the provision in the amount of $980,000 was reversed to reflect the offset by the remeasured net operating loss deferred tax asset. In addition, as required by FASB ASC 740, during the year ended December 31, 2018, the Company recorded a provision of $1.0 million for a portion of the benefit that is not being returned to customers resulting from any possible tax authority challenge. The Company had previously recorded a provision of $4.6 million in the prior year for a cumulative total of $3.3 million.

The Company remains subject to examination by federal and state tax authorities for the 2015 through 2017 tax years. On April 26, 2017, Avon Water was notified by the IRS that its stand-alone Federal tax filing for 2015 was selected to be reviewed beginning in the second quarter of 2017. On March 20, 2018, Avon Water received a notice of adjustment from the IRS related to the Federal tax audit for the tax years ended December 31, 2015 and 2016. As a result, a reduction in net operating loss carryover of $56,000 was recorded during the year ended December 31, 2018.

Income Tax (Benefit) Expense for the years ended December 31, is comprised of the following:

(in thousands)	2018	2017	2016
Federal Classified as Operating (Benefit) Expense	$(1,931)	$(1,277)	$1,782
Federal Classified as Other Utility Income	287	434	385
Federal Classified as Other Income (Deduction)			
Land Sales and Donations	175	17	57
Non-Water Sales	328	774	702
Other	(857)	503	(686)
Total Federal Income Tax (Benefit) Expense	(1,998)	451	2,240
State Classified as Operating (Benefit) Expense	(77)	(716)	788
State Classified as Other Utility Income	111	104	92
State Classified as Other Income (Expense)			
Land Sales and Donations	130	5	—
Non-Water Sales	141	175	172
Other	(489)	149	(126)
Total State Income Tax (Benefit) Expense	(184)	(283)	926
Total Income Tax (Benefit) Expense	$(2,182)	$168	$3,166

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The components of the Federal and State income tax provisions are:

(in thousands)	2018	2017	2016
Current Income Taxes			
Federal	$(1,119)	$—	$(15)
State	4	521	463
Total Current	(1,115)	521	448
Deferred Income Taxes, Net			
Federal			
Investment Tax Credit	(76)	(76)	(75)
Excess Accumulated Deferred Taxes	(323)	(293)	(110)
Excess Accumulated Deferred Taxes - Tax Act	(657)	1,538	—
Deferred Revenue	415	731	(353)
Land Donations	(27)	—	37
Depreciation	1,165	2,151	1,769
Net Operating Loss Carry-forwards	(600)	817	(1,258)
NOL Carry-forwards valuation allowance	613	(613)	—
Provision for uncertain positions	(1,040)	(3,876)	2,487
Other	(349)	72	(242)
Total Federal	(879)	451	2,255
State			
Land Donations	126	—	55
Provision for uncertain positions	(240)	(958)	611
Other	(74)	154	(203)
Total State	(188)	(804)	463
Total Deferred Income Taxes	(1,067)	(353)	2,718
Total Income Tax	$(2,182)	$168	$3,166

Deferred income tax (assets) and liabilities are categorized as follows on the Consolidated Balance Sheets:

(in thousands)	2018	2017
Unrecovered Income Taxes - Regulatory Asset	$(75,763)	$(66,631)
Deferred Federal and State Income Taxes	31,593	33,579
Unfunded Future Income Taxes	67,725	58,384
Unamortized Investment Tax Credits - Regulatory Liability	1,057	1,133
Net Deferred Income Tax Liability	$24,612	$26,465

Net deferred income tax liability decreased from December 31, 2017 to December 31, 2018. The decrease was attributed to the current year tax effects of temporary differences, mostly related to the taxability of contributions in aid of construction under the Tax Act, and the releasing of provisions for uncertain tax positions.

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Deferred income tax (assets) and liabilities are comprised of the following:

(in thousands)	2018	2017
Tax Credit Carry-forward (1)	$(1,087)	$(1,092)
Charitable Contribution Carry-forwards (2)	(291)	(257)
Valuation Allowance on Charitable Contributions	49	63
Prepaid Income Taxes on CIAC	(1,480)	31
Net Operating Loss Carry-forwards (3)	(4,537)	(3,806)
Valuation Allowance on Net Operating Losses	1,871	1,671
Deferred Revenue	2,219	1,644
Other Comprehensive Income	(145)	(158)
Accelerated Depreciation	36,175	34,989
Provision on Repair Deductions	3,350	4,630
Long-Term Compensation Agreements	(3,341)	(3,260)
Unamortized Investment Tax Credits	1,057	1,133
Gross-up on Regulatory Liability - Excess Accumulated Deferred Taxes	(8,038)	(8,247)
Other	(1,190)	(876)
Net Deferred Income Tax Liability	$24,612	$26,465

(1) State tax credit carry-forwards expire beginning in 2019 and ending in 2040.

(2) Charitable Contribution carry-forwards expire beginning with the filing of the 2017 Federal and State Tax Returns in 2019 and ending in 2023.

(3) Net operating loss carry-forwards expire beginning in 2029 and ending in 2037. Federal net operating loss carry-forwards generated after December 31, 2017 have no expiration.

The calculation of Pre-Tax Income is as follows:

(in thousands)	2018	2017	2016
Pre-Tax Income			
Net Income	$16,695	$25,054	$23,387
Income Taxes	(2,182)	168	3,166
Total Pre-Tax Income	$14,513	$25,222	$26,553

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In accordance with required regulatory treatment, certain deferred income taxes are not provided for certain timing differences. This treatment, along with other items, causes differences between the statutory income tax rate and the effective income tax rate. The differences between the effective income tax rate recorded by the Company and the statutory federal tax rate are as follows:

	2018	2017	2016
Federal Statutory Tax Rate	21.0 %	34.0 %	34.0 %
Tax Effect Differences:			
State Income Taxes Net of Federal Benefit	0.3 %	(0.9)%	2.6 %
Property Related Items	(25.8)%	(19.9)%	(30.4)%
Pension Costs	(1.3)%	(2.3)%	(0.4)%
Repair Regulatory Liability (1)	(0.1)%	(1.2)%	(3.9)%
Change in Estimate of Prior Year Income Tax Expense	(2.8)%	2.7 %	0.3 %
Provision for Uncertain Tax Positions (2)	(2.1)%	(16.7)%	10.2 %
Valuation Allowance	3.8 %	(2.3)%	0.2 %
Impact of Tax Act	(6.3)%	6.1 %	— %
Excess Deferred Tax Amortizations (3)	(7.0)%	0.6 %	(0.3)%
Performance Shares (4)	(11.7)%	(0.1)%	(0.8)%
Acquisition Costs (5)	14.7 %	0.4 %	0.4 %
Other	2.3 %	0.3 %	— %
Effective Income Tax Rate	(15.0)%	0.7 %	11.9 %

(1) The return to customers of the repair tax benefit is reflected under Repair Regulatory Liability and was fully returned to customers in 2018.

(2) Provisions for uncertain tax positions were recorded to reflect the possible challenge of the Company's methodology for determining its repair deduction as required by FASB ASC 740. In 2017, the Company assessed new information in regards the previously recorded provision for uncertain tax positions and released a portion of the provision.

(3) In the quarter ended December 31, 2017, the Company recorded provisional charges to tax expense to account for the estimated impact of the Tax Act. In the year ended December 31, 2018, accounting for the impact was finalized and excess deferred tax balance began reversing under the average rate assumption method.

(4) Performance shares were issued to the former CEO upon his separation from the Company.

(5) Management has estimated a portion of the transaction costs related to acquisition activity will not be deductible.

NOTE 3: COMMON STOCK

The Company has 25,000,000 authorized shares of common stock, no par value. A summary of the changes in the common stock accounts for the period January 1, 2016 through December 31, 2018, appears below:

(in thousands, except share data)	Shares	Issuance Amount	Expense	Total
Balance, January 1, 2016	11,192,882	$148,624	$(4,090)	$144,534
Stock and equivalents issued through Performance Stock Program, Net of Forfeitures	22,128	(405)	—	(405)
Dividend Reinvestment Plan	33,448	1,610	—	1,610
Balance, December 31, 2016	11,248,458	149,829	(4,090)	145,739
Stock and equivalents issued through Performance Stock Program, Net of Forfeitures	5,925	645	—	645
Shares issued to acquire regulated water companies	785,814	43,853	—	43,853
Dividend Reinvestment Plan	24,819	1,404	—	1,404
Balance, December 31, 2017	12,065,016	195,731	(4,090)	191,641
Stock and equivalents issued through Performance Stock Program, Net of Forfeitures and Redemptions	(32,772)	(2,619)	—	(2,619)
Dividend Reinvestment Plan	22,468	1,411	—	1,411
Balance, December 31, 2018 (1)	12,054,712	$194,523	$(4,090)	$190,433

(1) Includes 2,498 restricted shares and 94,360 common stock equivalent shares issued through the Performance Stock Programs through December 31, 2018.

The Company may not pay any dividends on its common stock unless full cumulative dividends to the preceding dividend date for all outstanding shares of Preferred Stock of the Company have been paid or set aside for payment. All such Preferred Stock dividends have been paid.

NOTE 4: RETAINED EARNINGS

The summary of the changes in Retained Earnings for the period January 1, 2016 through December 31, 2018, appears below:

(in thousands, except per share data)	2018	2017	2016
Balance, beginning of year	$102,417	$91,213	$80,378
Net Income	16,695	25,054	23,387
Sub-total	119,112	116,267	103,765
Premium on Redemption of Preferred Stock	(15)	—	—
Impact of Tax Act on excess accumulated deferred income tax	—	70	—
Dividends declared:			
Cumulative Preferred Stock, Series A, $0.80 per share	4	12	12
Cumulative Preferred Stock, Series $0.90, $0.90 per share	6	26	26
Common Stock:			
$1.235, $1.175 and $1.115 per Common Share in 2018, 2017 and 2016, respectively	14,899	13,882	12,514
Total Dividends Declared	14,909	13,920	12,552
Balance, end of year	$104,188	$102,417	$91,213

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NOTE 5: ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The changes in Accumulated Other Comprehensive Income/(Loss) ("AOCI") by component, net of tax, for the years ended December 31, 2018, 2017, and 2016, appear below:

(in thousands)	Unrealized Gains on Investments	Defined Benefit Items	Total
Balance as of January 1, 2016 (a)	$ 200	$(1,135)	$(935)
Other Comprehensive Income (Loss) Before Reclassification	24	(227)	(203)
Amounts Reclassified from AOCI	11	203	214
Net current-period Other Comprehensive Income (Loss)	35	(24)	11
Balance as of December 31, 2016	$ 235	$(1,159)	$(924)
Other Comprehensive (Loss) Income Before Reclassification	152	74	226
Amounts Reclassified from AOCI	55	215	270
Net current-period Other Comprehensive (Loss) Income	207	289	496
Balance as of December 31, 2017	$ 442	$(870)	$(428)
Other Comprehensive Income (Loss) Before Reclassification	(231)	(165)	(396)
Amounts Reclassified from AOCI	47	292	339
Net current-period Other Comprehensive Income (Loss)	(184)	127	(57)
Balance as of December 31, 2018	$ 258	$(743)	$(485)

(a) All amounts shown are net of tax. Amounts in parentheses indicate loss.

The following table sets forth the amounts reclassified from AOCI by component and the affected line item on the Consolidated Statements of Income for the for the years ended December 31, 2018, 2017, and 2016:

Details about Other AOCI Components (in thousands)	Amounts Reclassified from AOCI for the Year Ended December 31, 2018(a)	Amounts Reclassified from AOCI for the Year Ended December 31, 2017(a)	Amounts Reclassified from AOCI for the Year Ended December 31, 2016(a)	Affected Line Items on Income Statement
Realized Gains on Investments	$ 59	$ 84	$ 17	Other
Tax expense	(12)	(29)	(6)	Other
Total Reclassified from AOCI	47	55	11	
Amortization of Recognized Net Gain from Defined Benefit Items	370	325	308	Other (b)
Tax expense	(78)	(110)	(105)	Other
Total Reclassified from AOCI	292	215	203	
Total Reclassifications for the period, net of tax	$ 339	$ 270	$ 214	

(a) Amounts in parentheses indicate loss/expense.
(b) Included in computation of net periodic pension cost (see Note 12 "Long-Term Compensation Arrangements" for additional details).

CONNECTICUT WATER SERVICE, INC.

NOTE 6: FAIR VALUE OF FINANCIAL INSTRUMENTS

FASB ASC 820, "Fair Value Measurements and Disclosures" ("FASB ASC 820") provides enhanced guidance for using fair value to measure assets and liabilities and expands disclosure with respect to fair value measurements.

FASB ASC 820 establishes a fair value hierarchy that distinguishes between assumptions based on market data (observable inputs) and the Company's assumptions (unobservable inputs). The hierarchy consists of three broad levels, as follows:

Level 1 – Quoted market prices in active markets for identical assets or liabilities.
Level 2 – Inputs other than Level 1 that are either directly or indirectly observable.
Level 3 – Unobservable inputs developed using the Company's estimates and assumptions, which reflect those that the Company believes market participants would use.

The following tables summarize our financial instruments measured at fair value on a recurring basis within the fair value hierarchy as of December 31, 2018 and 2017. These instruments are included in "Other Property and Investments" on the Company's Consolidated Balance Sheets:

December 31, 2018

(in thousands)	Level 1	Level 2	Level 3	Total
Asset Type:				
Money Market Fund	$97	$ —	$ —	$97
Mutual Funds:				
Equity Funds (1)	1,797	—	—	1,797
Fixed Income Funds (2)	647	—	—	647
Total	$2,541	$ —	$ —	$2,541

December 31, 2017

(in thousands)	Level 1	Level 2	Level 3	Total
Asset Type:				
Money Market Fund	$70	$ —	$ —	$70
Mutual Funds:				
Equity Funds (1)	2,051	—	—	2,051
Fixed Income Funds (2)	642	—	—	642
Total	$2,763	$ —	$ —	$2,763

(1) Mutual funds consisting primarily of equity securities.
(2) Mutual funds consisting primarily of fixed income securities.

The following methods and assumptions were used to estimate the fair value of each of the following financial instruments, which are not recorded at fair value on the financial statements.

CASH AND CASH EQUIVALENTS – Cash equivalents consist of highly liquid instruments with original maturities at the time of purchase of three months or less. The carrying amount approximates fair value. Under the fair value hierarchy the fair value of cash and cash equivalents is classified as a Level 1 measurement.

COMPANY OWNED LIFE INSURANCE – The fair value of Company Owned Life Insurance is based on the cash surrender value of the contracts. These contracts are based principally on a referenced pool of investment funds that actively redeem shares and are observable and measurable and are presented on the "Other Property and Investments" line item of the Company's Consolidated Balance Sheets. The value of Company Owned Life Insurance at December 31, 2018 and 2017 was $3,532,000 and $3,925,000, respectively.

LONG-TERM DEBT – The fair value of the Company's fixed rate long-term debt is based upon borrowing rates currently available to the Company for similar marketable securities. As of December 31, 2018 and 2017, the estimated fair value of the Company's long-term debt was $260,829,000 and $268,628,000, respectively, as compared to the carrying amounts of

$261,875,000 and $258,272,000, respectively. The estimated fair value of long term debt was calculated using a discounted cash flow model that uses comparable interest rates and yield curve data based on the A-rated MMD (Municipal Market Data) Index which is the benchmark of current municipal bond yields. Under the fair value hierarchy, the fair value of long term debt is classified as a Level 2 measurement.

ADVANCES FOR CONSTRUCTION – Customer advances for construction have a carrying amount of $22,654,000 and $20,024,000 at December 31, 2018 and 2017, respectively. Their relative fair values cannot be accurately estimated since future refund payments depend on several variables, including new customer connections, customer consumption levels and future rate increases.

The fair values shown above have been reported to meet the disclosure requirements of FASB ASC 825, “Financial Instruments” (“FASB ASC 825”) and do not purport to represent the amounts at which those obligations would be settled.

CONNECTICUT WATER SERVICE, INC.

NOTE 7: LONG-TERM DEBT

Long-Term Debt at December 31, consisted of the following:

(in thousands)			2018	2017
4.09%	CTWS	Term Loan Note and Supplement A, Due 2027	$11,235	$12,358
4.15%	CTWS	CoBank Term Note Payable, Due 2037	14,386	14,881
Total CTWS			25,621	27,239
Var.	Connecticut Water	2004 Series Variable Rate, Due 2029	12,500	12,500
Var.	Connecticut Water	2004 Series A, Due 2028	5,000	5,000
Var.	Connecticut Water	2004 Series B, Due 2028	4,550	4,550
5.00%	Connecticut Water	2011 A Series, Due 2021	22,717	22,920
3.16%	Connecticut Water	CoBank Note Payable, Due 2020	8,000	8,000
4.72%	Connecticut Water	CoBank Note Payable, Due 2022	14,795	14,795
4.29%	Connecticut Water	CoBank Note Payable, Due 2028	17,020	17,020
3.51%	Connecticut Water	CoBank Note Payable, Due 2032	14,795	14,795
4.75%	Connecticut Water	CoBank Note Payable, Due 2033	14,550	14,550
4.36%	Connecticut Water	CoBank Note Payable, Due May 2036	30,000	30,000
4.04%	Connecticut Water	CoBank Note Payable, Due July 2036	19,930	19,930
3.53%	Connecticut Water	NY Life Senior Note, Due September 2037	35,000	35,000
Total The Connecticut Water Company			198,857	199,060
4.75%	HVWC	2011 Farmington Bank Loan, Due 2034	4,300	4,464
3.05%	Avon Water	Mortgage Note Payable, Due 2033	3,134	3,302
8.95%	Maine Water	1994 Series G, Due 2024	5,400	6,300
2.68%	Maine Water	1999 Series J, Due 2019	85	170
0.00%	Maine Water	2001 Series K, Due 2031	533	574
2.58%	Maine Water	2002 Series L, Due 2022	53	60
1.53%	Maine Water	2003 Series M, Due 2023	271	321
1.73%	Maine Water	2004 Series N, Due 2024	311	341
0.00%	Maine Water	2004 Series O, Due 2034	107	113
1.76%	Maine Water	2006 Series P, Due 2026	331	361
1.57%	Maine Water	2009 Series R, Due 2029	197	207
0.00%	Maine Water	2009 Series S, Due 2029	493	538
0.00%	Maine Water	2009 Series T, Due 2029	1,383	1,509
0.00%	Maine Water	2012 Series U, Due 2042	142	148
1.00%	Maine Water	2013 Series V, Due 2033	1,285	1,310
4.24%	Maine Water	CoBank Note Payable, Due 2024	4,500	4,500
4.18%	Maine Water	CoBank Note Payable, Due 2026	5,000	5,000
5.51%	Maine Water	CoBank Note Payable, Due 2043	8,000	—
7.72%	Maine Water	Series L, Due 2018	—	2,250
2.40%	Maine Water	Series N, Due 2022	826	1,026
1.86%	Maine Water	Series O, Due 2025	710	750
2.23%	Maine Water	Series P, Due 2028	1,233	1,264
0.01%	Maine Water	Series Q, Due 2035	1,584	1,678
1.00%	Maine Water	Series R, Due 2025	1,767	2,009
Various	Maine Water	Various Capital Leases	—	2
Total The Maine Water Company			34,211	30,431
Add: Acquisition Fair Value Adjustment			(189)	(51)
Less: Current Portion			(4,059)	(6,173)

Less: Unamortized Debt Issuance Expense	(4,364)	(4,905)
Total Long-Term Debt	$257,511	$253,367

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The Company’s required principal payments for the years 2019 through 2023 are as follows:

(in thousands)	
2019	$4,059
2020	$12,086
2021	$26,227
2022	$19,125
2023	$4,318

There are no mandatory sinking fund payments required on Connecticut Water’s outstanding bonds. However, certain fixed rate Unsecured Water Facilities Revenue Refinancing Bonds provide for an estate redemption right whereby the estate of deceased bondholders or surviving joint owners may submit bonds to the trustee for redemption at par, subject to a $25,000 per individual holder and a 3% annual aggregate limitation.

On January 10, 2017, Maine Water executed and delivered to CoBank, ACB (“CoBank”) a new Promissory Note and Single Advance Term Loan Supplement, dated January 10, 2017 (the “Third Promissory Note”). On the terms and subject to the conditions set forth in the Third Promissory Note issued pursuant to the Agreement, CoBank agreed to make an unsecured loan (the “Loan”) to Maine Water in the principal amount of $5,000,000 at 4.18%, due December 30, 2026. The proceeds of the Loan are being used to finance new capital expenditures and refinance existing debt owed to the Company, incurred in connection with general water system improvements.

On August 28, 2017, the Company executed and delivered to CoBank a new Promissory Note and Supplement (2017 Single Advance Term Loan) (the “2017 Promissory Note”). On the terms and subject to the conditions set forth in the 2017 Promissory Note issued pursuant to the Company’s Master Loan Agreement, CoBank agreed to make a term loan (the “Loan”) to the Company in the principal amount of $15,000,000. Under the 2017 Promissory Note, the Company will pay interest on the Loan at a fixed rate of 4.15% per year through August 20, 2037, the maturity date of the Loan.

On September 28, 2017, Connecticut Water completed the issuance of $35,000,000 aggregate principal amount of its 3.53% unsecured Senior Notes due September 25, 2037 (the “Senior Notes”). The Senior Notes were issued pursuant to the Note Purchase Agreement dated as of September 28, 2017 (the “Purchase Agreement”) between and among Connecticut Water, NYL Investors, LLC (“NY Life”), as agent, and the Purchasers listed in the Purchaser Schedule attached to the Purchase Agreement, in a private placement financing exempt from registration pursuant to Section 4(a)(2) of the Securities Act of 1933, as amended. The proceeds of the sale of the Senior Notes were used by Connecticut Water to repay loans from the Company the proceeds of which were used for capital expenditure projects by Connecticut Water. The Senior Notes bear interest at the rate of 3.53% per annum, payable semi-annually on March 27 and September 27 of each year commencing on March 27, 2018. The principal amount of the Senior Notes, if not previously paid, shall be due on September 25, 2037. The Senior Notes are callable in whole or in part, subject to a make-whole amount.

On December 13, 2018, Maine Water executed and delivered to CoBank a new Promissory Note and Single Advance Term Loan Supplement, dated October 30, 2018 (the “Fourth Promissory Note”). On the terms and subject to the conditions set forth in the Fourth Promissory Note issued pursuant to the Agreement, CoBank agreed to make an unsecured loan (the “Loan”) to Maine Water in the principal amount of $8,000,000 at 5.51%, due December 30, 2043. The proceeds of the above described Loan from CoBank were used to refinance existing debt and to finance certain capital expenditures.

During the year ending December 31, 2018, the Company paid the following amounts related to Long-Term Debt: approximately $495,000 related to CTWS's 2017 CoBank issuance; $1,123,000 related to CTWS's Term Loan Note issued as part of the 2012 acquisition of Maine Water; approximately $1,970,000 in sinking funds related to Maine Water's outstanding bonds; an additional $2,250,000 related to a CoBank loan to Maine Water that matured in 2018; approximately $164,000 related to HVWC's mortgage loan; and $168,000 related to Avon Water's mortgage loan.

Financial Covenants – The Company is required to comply with certain covenants in connection with various long term loan agreements. The most restrictive of these covenants is to maintain a consolidated debt to capitalization ratio of not more than 60%. Additionally, Maine Water has restrictions on cash dividends paid based on restricted net assets. The Company was in compliance with all covenants at December 31, 2018.

NOTE 8: PREFERRED STOCK

The Company's Preferred Stock at December 31, consisted of the following:

(in thousands, except share data)	2018	2017
Connecticut Water Service, Inc.		
Cumulative Series A Voting, $20 Par Value; Authorized, Issued and Outstanding 15,000 Shares	$ —	$300
Cumulative Series $0.90 Non-Voting, $16 Par Value; Authorized 50,000 Shares, Issued and Outstanding 29,499	—	472
Total Preferred Stock	$ —	$772

All or any part of any series of either class of the Company's issued Preferred Stock may be called for redemption by the Company at any time. The per share redemption prices of the Series A and Series $0.90 Preferred Stock, if called by the Company, are $21.00 and $16.00, respectively.

The Company is authorized to issue 400,000 shares of an additional class of Preferred Stock, $25 par value, the general preferences, voting powers, restrictions and qualifications of which are similar to the Company's existing Preferred Stock. No shares of the $25 par value Preferred Stock have been issued.

The Company is also authorized to issue 1,000,000 shares of $1 par value Preference Stock, junior to the Company's existing Preferred Stock in rights to dividends and upon liquidation of the Company. 150,000 of such shares have been designated as "Series A Junior Participating Preference Stock".

On May 4, 2018 (the "Redemption Date"), the Company redeemed all of the issued and outstanding shares of its cumulative Series A, $20 par value, voting preferred stock and cumulative Series $0.90, $16 par value, non-voting preferred stock. As of the Redemption Date, the Preferred Stock ceased to be outstanding, dividends thereon ceased to accrue and all rights with respect to the Preferred Stock have ceased and terminated, except for the right of the holders thereof to receive the applicable redemption price for the shares of Preferred Stock so redeemed, but without interest, upon surrender of such shares.

NOTE 9: BANK LINES OF CREDIT AND OTHER SHORT-TERM DEBT

The Company maintains a $15.0 million line of credit agreement with CoBank, ACB, which is currently scheduled to expire on July 1, 2020. The Company maintains an additional line of credit of $45.0 million with RBS Citizens, N.A. ("Citizens"), with an expiration date of April 25, 2021. On December 14, 2018, the Company and Citizens agreed to increase the amount of the line of credit from $45.0 million to $75.0 million and to extend the maturity date of the Line of Credit until December 14, 2023. The Company has delivered to Citizens an Amended and Restated Promissory Note, dated December 14, 2018, evidencing the debt payable pursuant to the Line of Credit. Additionally, Avon Water maintained a $3.0 million line of credit with Northwest Community Bank, which expired on September 30, 2018, at which point it converted to other short-term debt. As of December 31, 2018 the total lines of credit available to the Company were $90.0 million. As of December 31, 2018 and 2017, the Company had $52.6 million and $19.3 million outstanding under its lines of credit, respectively. As of December 31, 2018, the Company had $37.4 million in unused lines of credit. Interest expense charged on interim bank loans will fluctuate based on market interest rates. As of December 31, 2018, the Company had $1.7 million in other short-term debt outstanding.

At December 31, 2018 and 2017, the weighted average interest rates on these short-term borrowings outstanding was 4.6% and 3.4%, respectively.

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NOTE 10: UTILITY PLANT

The components of utility plant and equipment at December 31, were as follows:

(in thousands)	2018	2017
Land	$14,935	$15,120
Source of supply	51,077	38,448
Pumping	53,080	51,639
Water treatment	121,561	129,428
Transmission and distribution	646,081	605,587
General	97,798	88,492
Held for future use	304	219
Acquisition Adjustment	(1,616)	(1,644)
Total	$983,220	$927,289

The amounts of depreciable utility plant at December 31, 2018 and 2017 included in total utility plant were $865,374,000 and $830,907,000, respectively. Non-depreciable plant is primarily funded through CIAC.

NOTE 11: TAXES OTHER THAN INCOME TAXES

Taxes Other than Income Taxes consist of the following:

(in thousands)	2018	2017	2016
Municipal Property Taxes	$10,469	$9,580	$8,501
Payroll Taxes	1,405	1,361	1,295
Total Taxes Other than Income Taxes	$11,874	$10,941	$9,796

NOTE 12: LONG-TERM COMPENSATION ARRANGEMENTS

The Company has accrued for long-term compensation arrangements as of December 31 as follows:

(in thousands)	2018	2017
Defined Benefit Pension Plan	$12,599	$15,486
Post-Retirement Benefit Other than Pension	5,204	5,060
Supplemental Executive Retirement Plan	9,144	8,796
Deferred Compensation	4,096	3,289
Other Long-Term Compensation	—	18
Total Long-Term Compensation Arrangements	$31,043	$32,649

Investment Strategy – The Corporate Finance and Investments Committee (the “Committee”) reviews and approves the investment strategy of the investments made on behalf of various pension and post-retirement benefit plans provided by the Company and certain of its subsidiaries. The Company uses a variety of mutual funds, managed by different fund managers, to achieve its investment goals. The Committee wants to ensure that the plans establish a target mix that is expected to achieve investment objectives, by assuring a broad diversification of investment assets among investment types, while avoiding short-term changes to the target asset mix, unless unusual market conditions make such a move appropriate to reduce risk.

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The targeted asset allocation ratios for those plans as set by the Committee at December 31:

	2018	2017
Equity	65 %	65 %
Fixed Income	35 %	35 %
Total	100%	100%

The Committee recognizes that a variation of up to 5% in either direction from its targeted asset allocation mix is acceptable due to market fluctuations.

Our expected long-term rate of return on the various benefit plan assets is based upon the plan's expected asset allocation, expected returns on various classes of plan assets as well as historical returns. The expected long-term rate of return on the Company's pension plan assets is 7.25%.

PENSION

Defined Benefit Plan – The Company and certain of its subsidiaries have a noncontributory defined benefit pension plan covering eligible employees (the "Retirement Plan"). In general, the Company's funding policy is to contribute amounts as permitted by the applicable provisions of the Internal Revenue Code of 1986, as amended and the Employee Retirement Income Security Act of 1974, as amended, and as necessary on an actuarial basis to provide the Retirement Plan with assets sufficient to meet the pension benefits to be paid to the Retirement Plan's participants; however, the contribution for any plan year is not less than the minimum required contribution nor greater than the maximum tax deductible contribution. The Company amortizes actuarial gains and losses over the average remaining service period of active participants. A contribution of $3,807,000 was made in 2018 for the 2017 plan year. The Company expects to make a contribution of approximately $4,050,000 in 2019 for the 2018 plan year.

The Retirement Plan was amended and restated effective January 1, 2015 to consolidate prior amendments and to comply with applicable legislative and regulatory developments. The amended and restated Retirement Plan was submitted to the IRS on January 29, 2016 with the Company's application for a favorable determination letter. The Retirement Plan received a favorable determination letter from the IRS dated June 29, 2017. The January 1, 2015 amended and restated Retirement Plan was twice further amended, effective August 1, 2017 and effective December 1, 2018.

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The following tables set forth the benefit obligation and fair value of the assets of the Company's defined benefit plans at December 31, the latest valuation date:

Pension Benefits (in thousands)	2018	2017
Change in benefit obligation:		
Benefit obligation, beginning of year	$88,598	$79,307
Service cost	1,950	1,927
Interest cost	3,110	3,201
Actuarial loss (gain)	(7,853)	7,533
Benefits paid	(2,750)	(3,295)
Administrative expenses	(108)	(75)
Benefit obligation, end of year	$82,947	$88,598
Change in plan assets:		
Fair value, beginning of year	$73,112	$62,679
Actual return on plan assets	(3,713)	10,832
Employer contributions	3,807	2,971
Benefits paid	(2,750)	(3,295)
Administrative expenses	(108)	(75)
Fair value, end of year	$70,348	$73,112
Funded Status	$(12,599)	$(15,486)
Amount Recognized in Consolidated Balance Sheets Consisted of:		
Non-current asset	$—	$—
Current liability	—	—
Non-current liability	(12,599)	(15,486)
Net amount recognized	$(12,599)	$(15,486)

The accumulated benefit obligation for all defined benefit pension plans was approximately $75,688,000 and $79,352,000 at December 31, 2018 and 2017, respectively.

Weighted-average assumptions used to determine benefit obligations at December 31:	2018	2017
Discount rate	4.25%	3.60%
Rate of compensation increase	4.00%	4.00%

Weighted-average assumptions used to determine net periodic cost for years ended December 31:	2018	2017	2016
Discount rate	3.60%	4.10%	4.30%
Expected long-term return on plan assets	7.25%	7.25%	7.25%
Rate of compensation increase	4.00%	4.00%	4.00%

The Company based its discount rate assumptions the FTSE Above Median AA Curve (formerly the Citigroup Above Median AA Curve).

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The following table shows the components of periodic benefit costs:

Pension Benefits (in thousands)	2018	2017	2016
Components of net periodic benefit costs			
Service cost	$1,950	$1,927	$1,895
Interest cost	3,110	3,201	3,212
Expected return on plan assets	(4,662)	(4,291)	(4,080)
Amortization of:			
Prior service cost	15	16	16
Net loss	2,598	2,064	2,049
Net Periodic Pension Benefit Costs	$3,011	$2,917	$3,092

The following table shows the other changes in plan assets and benefit obligations recognized as a regulatory asset:

Pension Benefits (in thousands)	2018	2017
Change in net loss	$560	$1,104
Change in prior service cost	—	—
Other - regulatory action	—	—
Amortization of prior service cost	(15)	(16)
Amortization of net loss	(2,547)	(2,015)
Total recognized to Regulatory Asset	$(2,002)	$(927)

The following table shows the other changes in plan assets and benefit obligations recognized in Other Comprehensive Income ("OCI"):

Pension Benefits (in thousands)	2018	2017
Change in net (gain) loss	$(38)	$(112)
Change in prior service cost	—	—
Amortization of prior service cost	—	—
Amortization of net loss	(51)	(49)
Total recognized to OCI	$(89)	$(161)

Amounts Recognized as a Regulatory Asset at December 31: (in thousands)	2018	2017
Prior service cost	$39	$55
Net loss	9,298	11,284
Total Recognized as a Regulatory Asset	$9,337	$11,339

Amounts Recognized in OCI at December 31: (in thousands)	2018	2017	2016
Transition obligation	$ —	$—	$—
Prior service cost	—	—	—
Net loss	65	154	315
Total Recognized in Other Comprehensive Income	$ 65	$154	$315

Estimated Net Periodic Benefit Cost Amortizations for the periods January 1 - December 31,: (in thousands)	2019
Amortization of transition obligation	$—
Amortization of prior service cost	15
Amortization of net loss	1,572
Total Estimated Net Periodic Benefit Cost Amortizations	$1,587

CONNECTICUT WATER SERVICE, INC.

Plan Assets

The Company's pension plan weighted-average asset allocations at December 31, 2018 and 2017 by asset category were as follows:

	2018	2017
Equity	61 %	65 %
Fixed Income	39 %	35 %
Total	100%	100%

See Note 6, "Fair Value of Financial Instruments", for discussion on how fair value is determined. The fair values of the Company's pension plan assets at December 31, 2018 and 2017 were as follows:

2018

(in thousands)	Level 1	Level 2	Level 3
Asset Type:			
Money Market Fund	$1,452	$ —	$ —
Mutual Funds:			
Fixed Income Funds (1)	25,645	—	—
Equity Funds (2)	43,251	—	—
Total	$70,348	$ —	$ —

2017

(in thousands)	Level 1	Level 2	Level 3
Asset Type:			
Money Market Fund	$1,579	$ —	$ —
Mutual Funds:			
Fixed Income Funds (1)	23,752	—	—
Equity Funds (2)	47,781	—	—
Total	$73,112	$ —	$ —

(1) Mutual funds consisting primarily of fixed income securities.
(2) Mutual funds consisting primarily of equity securities.

The plan's expected future benefit payments are:

(in thousands)	
2019	$4,881
2020	5,132
2021	5,194
2022	5,129
2023	5,166
Years 2024 – 2028	27,908

POST-RETIREMENT BENEFITS OTHER THAN PENSION ("PBOP") – In addition to providing pension benefits, Connecticut Water and Maine Water, provide certain medical, dental and life insurance benefits to retired employees partially funded by a 501(c)(9) Voluntary Employee Beneficiary Association Trust. Covered employees may become eligible for these benefits if they retire on or after age 55 with 10 years of service. The contribution for calendar years 2018 and 2017 was $11,000 and $12,000, respectively.

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The Company has amended its PBOP to exclude employees hired after January 1, 2009. In addition, effective April 1, 2009, the Company will no longer provide prescription drug coverage for its retirees age 65 and over. Those retirees, who are entitled to Medicare coverage, will continue to receive the current non-prescription medical coverage.

The Company amortizes actuarial gains and losses over the average remaining service period of active participants. Connecticut Water has elected to recognize the transition obligation on a delayed basis over a period equal to the plan participants' 21.6 years of average future service.

A former subsidiary company, Barnstable Holding, which was dissolved effective December 29, 2016, also provided certain health care benefits to eligible retired employees. These health care benefits to former employees are now the responsibility of the Company. Former employees of Barnstable Holding became eligible for these benefits if they retired on or after age 65 with at least 15 years of service. Post-65 medical coverage was provided for retired employees up to a maximum coverage of $500 per quarter. Barnstable Holding's PBOP currently is not funded. Barnstable Holding no longer has any employees; therefore, no new participants will be entering Barnstable Holding's PBOP. The tables below do not include Barnstable Holding's PBOP. Barnstable Holding's PBOP had a Benefit Obligation of $28,000 and $47,000 at December 31, 2018 and 2017, respectively. Additionally, this plan did not hold any assets as of December 31, 2018 and 2017. Barnstable Holding's PBOP's net periodic benefit costs were less than $1,000 in 2018 and 2017.

The following tables set forth the benefit obligation and fair value of the assets of Connecticut Water and Maine Water's PBOP at December 31, the latest valuation date:

PBOP Benefits (in thousands)	2018	2017
Change in benefit obligation:		
Benefit obligation, beginning of year	$14,473	$13,542
Service cost	322	335
Interest cost	504	511
Plan participant contributions	148	163
Actuarial (gain) loss	(1,196)	384
Benefits paid	(425)	(462)
Benefit obligation, end of year	$13,826	$14,473
Change in plan assets:		
Fair value, beginning of year	$9,460	$8,345
Actual return on plan assets	(544)	1,402
Employer contributions	11	12
Plan participant contributions	148	163
Benefits paid	(425)	(462)
Fair value, end of year	$8,650	$9,460
Funded Status	$(5,176)	$(5,013)
Amount Recognized in Consolidated Balance Sheets Consisted of:		
Non-current asset	$—	$—
Current liability	—	—
Non-current liability	(5,176)	(5,013)
Net amount recognized	$(5,176)	$(5,013)

Weighted-average assumptions used to determine benefit obligations at December 31:	2018	2017
Discount rate	4.15%	3.50%

Weighted-average assumptions used to determine net periodic cost for years ended December 31:	2018	2017	2016
Discount rate	3.50%	3.95%	4.15%
Expected long-term return on plan assets	4.50%	4.50%	4.50%

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The Company based its discount rate assumptions the FTSE Above Median AA Curve (formerly the Citigroup Above Median AA Curve).

The following table shows the components of periodic benefit costs:

PBOP Benefits (in thousands)	2018	2017	2016
Components of net periodic benefit costs			
Service cost	$322	$335	$376
Interest cost	504	511	541
Expected return on plan assets	(372)	(354)	(341)
Other	—	225	225
Amortization of:			
Prior service credit	(1)	(181)	(400)
Recognized net loss	(1)	(78)	39
Net Periodic Post Retirement Benefit Costs	$452	$458	$440

The following table shows the other changes in plan assets and benefit obligations recognized as a regulatory liability:

PBOP Benefits (in thousands)	2018	2017
Change in net gain	$(279)	$(664)
Amortization of prior service cost	1	181
Amortization of net loss	1	78
Other regulatory amortization	3	(67)
Total recognized to Regulatory Liability	$(274)	$(472)

Amounts Recognized as a Regulatory Liability at December 31: (in thousands)	2018	2017
Transition obligation	$—	$—
Prior service cost	—	(1)
Net loss	(1,395)	(1,116)
Other regulatory asset	190	186
Total Recognized as a Regulatory Liability	$(1,205)	$(931)

The “Other regulatory amortization” and “Other regulatory asset” shown above refers to costs whose recovery was authorized by PURA and MPUC with the adoption of Statement of Financial Accounting Standard 106, “Employers’ Accounting for Post-Retirement Benefits Other than Pension”, now Topic No. 715. There were no other changes in plan assets and benefit obligations recognized as a regulatory asset.

Estimated Benefit Cost Amortizations for the periods January 1 - December 31:(in thousands)	2019
Amortization of transition obligation	$—
Amortization of prior service credit	—
Amortization of net loss	(147)
Total Estimated Net Periodic Benefit Cost Amortizations	$(147)

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Assumed health care cost trend rates at December 31:	2018		2017	
	Medical	Dental	Medical	Dental
Health care cost trend rate assumed for next year [(1)]	8.00 %	8.00 %	8.25 %	8.25 %
Rate to which the cost trend rate is assumed to decline	4.50 %	4.50 %	4.75 %	4.75 %
Year that the rate reaches the ultimate trend rate	2026	2026	2025	2025

[(1)] – Twenty-five basis point trend rate from 2017 to 2018.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects on Connecticut Water and Maine Water’s plan and would have no impact on the Barnstable Holding plan:

(in thousands)	1 Percentage-Point	
	Increase	Decrease
Effect on total of service and interest cost components	$ 40	$ (36)
Effect on post-retirement benefit obligation	$ 581	$ (550)

Plan Assets
Connecticut Water and Maine Water’s other post-retirement benefit plan weighted-average asset allocations at December 31, 2018 and 2017 by asset category were as follows:

	2018	2017
Equity	65 %	69 %
Fixed Income	35 %	31 %
Total	100%	100%

See Note 6, “Fair Value of Financial Instruments”, for discussion on how fair value is determined. The fair values of the Company’s PBOP assets at December 31, 2018 and 2017 were as follows:

2018

(in thousands)	Level 1	Level 2	Level 3
Asset Type:			
Money Market	$302	$ —	$ —
Mutual Funds:			
Fixed Income Funds (1)	2,758	—	—
Equity Funds (2)	5,590	—	—
Total	$8,650	$ —	$ —

CONNECTICUT WATER SERVICE, INC.

2017

(in thousands)	Level 1	Level 2	Level 3
Asset Type:			
Money Market	$139	$ —	$ —
Mutual Funds:			
Fixed Income Funds (1)	2,821	—	—
Equity Funds (2)	6,500	—	—
Total	$9,460	$ —	$ —

(1) Mutual funds consisting primarily of fixed income securities.
(2) Mutual funds consisting primarily of equity securities.

Cash Flows
The Company contributed $11,000 to its other post-retirement benefit plan in 2018 for plan year 2018. The Company does not expect to make a contribution in 2019 for plan year 2019.

Expected future benefit payments are:

(in thousands)	
2019	$556
2020	630
2021	703
2022	751
2023	839
Years 2024 – 2028	5,027

SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN (“SERP”) – The Company and certain of its subsidiaries provide additional pension benefits to senior management through supplemental executive retirement contracts. The additional pension supplement from the SERP results in participants receiving the same overall relative benefit as other eligible employees enrolled in the Company’s pension plan. At December 31, 2018 and 2017, the actuarial present values of the projected benefit obligation of these contracts were $9,087,000 and $8,718,000, respectively. Expense associated with these contracts was approximately $865,000 for 2018, $970,000 for 2017, and $1,012,000 for 2016 and is reflected in “Other Income (Deductions), Net of Taxes” in the Consolidated Statements of Income.

Included in “Other Property and Investments” at December 31, 2018 and 2017 is $6,073,000 and $6,688,000 of investments purchased by the Company to fund these obligations, primarily consisting of life insurance contracts. The remaining assets are carried at cash surrender value and are included in Note 6, “Fair Value of Financial Instruments”.

SAVINGS PLAN (“401(k)”) – The Company and certain of its subsidiaries maintain the Savings Plan of the Connecticut Water Company (the “Savings Plan”), a 401(k) employee savings plan which allows participants to contribute on a pre-tax basis between 1% and 50% of pre-tax compensation, plus for those aged 50 years and older before the end of the plan year, catch-up contributions as allowed by law. Effective January 1, 2009, the Company changed the Savings Plan to meet the requirements of a special IRC safe harbor. Under the provisions of the safe harbor Savings Plan, as amended and restated effective January 1, 2012, the Company makes an automatic contribution of 3% of eligible compensation for all eligible employees, even if the employees do not elect to make their own contributions. For employees hired on or after January 1, 2009 and ineligible to participate in the Company's defined benefit pension plan, the Company contributes an additional 1.5% of eligible compensation. The Savings Plan was amended and restated, effective as of January 1, 2016, in order to bring all previous amendments under one, updated plan document. The Savings Plan was amended effective February 27, 2017 and July 1, 2017, to allow eligible employees of HVWC and Avon Water, respectively, to participate. The Savings Plan was amended effective May 1, 2018 to add an automatic enrollment feature, automatic escalation of salary deferrals, and a Roth contribution feature, and to reduce the service required to make elective deferrals from six months to 30 days. The Company's Board of Directors has approved certain changes to the Savings Plan's hardship distribution provisions, effective January 1, 2019, pursuant to the applicable provisions of the Bipartisan Budget Act of 2018, and those changes will be memorialized in a written plan amendment to be prepared by the Savings Plan's volume submitter plan document provider. The Company contribution charged to expense in 2018, 2017, and 2016 was $786,000, $750,000, and $663,000, respectively.

NOTE 13: STOCK BASED COMPENSATION PLANS

The Company follows FASB ASC 718, "Compensation – Stock Compensation" ("FASB ASC 718") to account for all share-based payments to employees.

For purposes of calculating the fair value of each option at the date of grant, the Company used the Black Scholes Option Pricing model. For other share based awards, the Company uses the market price the day before the stock grant to value awards. The Company has not issued any stock options since 2003, and does not anticipate issuing any for the foreseeable future.

The Company's 2014 Performance Stock Program ("2014 PSP"), approved by shareholders in 2014, authorizes the issuance of up to 450,000 shares of Company Common Stock. As of December 31, 2018, there were 339,740 shares available for grant and payment of dividend equivalents on shares previously awarded under the 2014 PSP. There are five forms of awards available under the 2014 PSP: Restricted Stock, Performance Shares, Cash Units, Stock Appreciation Rights ("SAR") and Other Awards, including Restricted Stock Units.

The Company's 2004 Performance Stock Program ("2004 PSP"), approved by shareholders in 2004, authorized the issuance of up to 700,000 shares of Company Common Stock. As of December 31, 2018, there were 257,688 shares available for payment of dividend equivalents on shares previously awarded under the 2004 PSP.

Under the original Plan ("1994 PSP") there were 700,000 shares authorized for issuance and 217,873 shares available for payment of dividend equivalents on shares previously awarded under the 1994 PSP as performance shares at December 31, 2018.

Under the 2014 PSP, restricted shares of Common Stock, common stock equivalents, cash units, SAR or other awards may be awarded annually to officers and key employees. Based upon the occurrence of certain events, including the achievement of goals established by the Compensation Committee, the restrictions on the stock can be removed. Amounts charged to expense on account of restricted shares of Common Stock, common stock equivalents or cash units pursuant to the 2014 PSP, 2004 PSP and 1994 PSP were $1,925,000, $1,554,000, and $948,000, for 2018, 2017, and 2016, respectively.

RESTRICTED STOCK AND COMMON STOCK EQUIVALENTS – Prior to May 2014, the Company granted restricted shares of Common Stock and Performance Shares to key members of management under the 2004 PSP. All grants made after May 2014 are being made under the 2014 PSP. These Common Stock share awards provide the grantee with the dividend rights of a shareholder, but not the right to sell or otherwise transfer the shares during the restriction period. Restricted shares also have the voting rights of a shareholder, while the Performance Shares do not. The value of these restricted shares is based on the market price of the Company's Common Stock on the date of grant and compensation expense is recorded on a straight-line basis over the awards' vesting periods.

Restricted Stock and Common Stock Equivalents (Performance-Based) – The following tables summarize the performance-based restricted stock amounts and activity for the years ended December 31, 2018 and 2017:

	2018		2017	
	Number of	Grant Date	Number of	Grant Date

	Shares	Weighted Average Fair Value	Shares	Weighted Average Fair Value
Non-vested at beginning of year	20,535	$ 41.94	35,142	$ 37.66
Granted	15,781	52.78	9,719	53.73
Vested	(7,586)	48.47	(13,306)	38.50
Forfeited	(354)	53.73	(11,020)	42.84
Non-vested at end of year	28,376	$ 46.08	20,535	$ 41.94

Upon meeting specific performance targets, approximately 5,000 shares, reduced for actual performance targets achieved in 2018, will begin vesting in the first quarter of 2019 and the remaining earned shares will vest over two years. The cost is being recognized ratably over the vesting period. The aggregate intrinsic value of performance-based restricted stock as of December 31, 2018 was $803,000.

NOTE 14: REVENUES FROM CONTRACTS WITH CUSTOMERS

Nature of Goods and Services

Water Operations - We currently provide retail water and wastewater services to five primary customer classes. Our largest customer class consists of residential customers, which include single private dwellings and individual apartments. Our commercial class consists primarily of main street businesses, our industrial class consists primarily of manufacturing and processing businesses that turn raw materials into products, our public authority class represents services provided primarily to municipality or other government customers, and, finally, our fire protection class consists of services related to fire suppression systems and fire hydrants. Connecticut Water's management has determined that tariff-based receipts; except for the WRA and other deferred revenue mechanisms, which are considered alternative revenue programs; are considered revenues from contracts with customers.

- The Company has performance obligations for the service of standing ready to deliver water to customers. The Company recognizes revenue at a fixed rate as it provides these services, as approved by regulators. These arrangements generally do not have fixed terms and remain in effect as long as the customer consumes the utility service. The rates are set by PURA and the MPUC through the rate-making process and represent the stand-alone selling price of Company's service to stand ready to deliver.
- The Company has performance obligations for the service of delivering the commodity of water to customers. The Company recognizes revenue at a price per unit of water delivered (gallons, cubic feet, etc.), based on the tariffs established by our regulators. These arrangements generally do not have fixed terms and remain in effect as long as the customer consumes the utility service. The rates are set by PURA and the MPUC through the rate-making process and represent the stand-alone selling price of a bundled product comprising the commodity and the service of delivering such commodity.
- The Company has a performance obligation related to administrative services such as turn-on/turn-off services, assessment of late charges, etc. The Company views that these services are not distinct in the context of the contract because they are highly interdependent for the effective delivery of water service provided to consumers. Based on the above discussion, the Company believes that the Goods and Services provided under customer contracts constitute a single performance obligation. The Company believes that this performance obligation is satisfied over time.

Services and Rentals - We provide contracted services to water utilities and other clients and also lease certain of our properties to third parties. The types of services provided include contract operations of water; Linebacker, our service line protection plan for public drinking water customers; and providing bulk deliveries of emergency drinking water to businesses and residences via tanker truck. Our lease and rental income comes primarily from the renting of residential and commercial property. The goods and services provided by Linebacker have been determined to be based on the stand ready nature of the Company to provide the goods and services and, therefore, customers simultaneously receive and consume the benefits provided by the Company. The other revenue streams in the Services and Rentals segment, including contracted services to water utilities and other clients, have performance obligations that are satisfied at a point in time, and likewise will not have a shift in the timing or pattern of revenue recognition.

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Disaggregation of Revenue
The following table disaggregates our revenue by major source and customer class (in thousands):

	2018	2017	2016
Water Operations			
Residential	$64,294	$60,383	$59,320
Commercial	14,131	13,176	12,144
Industrial	3,189	3,090	3,150
Public Authority	3,634	3,690	3,476
Fire Protection	20,349	19,532	18,334
Other (including non-metered accounts)	3,110	3,136	1,350
Water Operations Revenues from Contracts with Customers	108,707	103,007	97,774
Alternative Revenue Program	7,958	4,047	893
Other	1,639	1,471	1,334
Total Revenue from Water Operations	118,304	108,525	100,001
Services and Rentals			
Contract Operations	2,478	2,505	2,709
Linebacker	2,532	2,481	2,516
Services and Rentals Revenues from Contracts with Customers	5,010	4,986	5,225
Other	172	126	82
Total Revenue from Services and Rentals	5,182	5,112	5,307
Total Revenue from Real Estate Transactions	1,350	212	8
Total Revenues from Contracts with Customers	113,717	107,993	102,999
Total Revenue	$124,836	$113,849	$105,316

The following table shows the components of Accounts Receivable and Accrued Unbilled Revenues related to revenues from
contracts with customers, as of December 31:

	2018	2017
Accounts Receivable		
Water Operations Segment	$11,890	$12,885
Services and Rentals Segment	238	107
Accounts Receivable from Contracts with Customers	12,128	12,992
Other accounts receivable	2,041	1,973
Total Accounts Receivable	$14,169	$14,965
Accrued Unbilled Revenues from Contracts with Customers	$10,011	$8,481

Accounts Receivable and Accrued Unbilled Revenues: Accounts receivable are comprised of trade receivables primarily from our regulated water customers. The Company records their accounts receivable at cost, which approximates fair value. Additionally, the Company establishes an allowance for uncollectible accounts based on historical losses, management’s assessment of existing economic conditions, customer payment trends, and other factors. The Company assesses late payment fees on trade receivables based on contractual past-due terms established with customers and approved by PURA or the MPUC. The provision for bad debts is charged to operating expense.

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The Company’s customers are primarily billed quarterly in cycles having billing dates that do not generally coincide with the end of a fiscal quarter. This results in customers having received water or wastewater services that they have not been billed for as of a given period’s end. The Company estimates its unbilled revenues by applying an average billed rate to total unbilled deliveries for each customer class.

NOTE 15: SEGMENT REPORTING

Our Company operates principally in three segments: water operations, real estate transactions, and services and rentals. The water segment is comprised of our core regulated water operations to supply water to our customers. Our real estate transactions segment involves selling or donating for income tax benefits our limited excess real estate holdings. Our services and rentals segment provides services on a contract basis and also leases certain of our properties to third parties. The accounting policies of each reportable segment are the same as those described in the summary of significant accounting policies.

Financial data for reportable segments is as follows:

(in thousands)	Revenues	Depreciation	Other Operating Expenses	Other Income (Deductions)	Interest Expense (net of AFUDC)	Income Taxes	Net Income (Loss)
For the year ended December 31, 2018							
Water Operations	$118,304	$ 18,692	$ 64,042	$ (13,608)	$ 10,659	$(2,956)	$14,259
Real Estate Transactions	1,350	—	416	—	—	305	629
Services and Rentals	5,182	5	2,901	—	—	469	1,807
Total	$124,836	$ 18,697	$ 67,359	$ (13,608)	$ 10,659	$(2,182)	$16,695
For the year ended December 31, 2017							
Water Operations	$108,525	$ 16,684	$ 59,068	$ (1,682)	$ 8,067	$(830)	$23,854
Real Estate Transactions	212	—	157	—	—	22	33
Services and Rentals	5,112	5	2,964	—	—	976	1,167
Total	$113,849	$ 16,689	$ 62,189	$ (1,682)	$ 8,067	$168	$25,054
For the year ended December 31, 2016							
Water Operations	$100,001	$ 13,905	$ 54,100	$ (1,822)	$ 5,718	$2,234	$22,222
Real Estate Transactions	8	—	4	—	—	58	(54)
Services and Rentals	5,307	25	3,189	—	—	874	1,219
Total	$105,316	$ 13,930	$ 57,293	$ (1,822)	$ 5,718	$3,166	$23,387

The Revenues shown in Water Operations above consist of revenues from water and wastewater customers of $116,665,000, $107,054,000 and $98,667,000 in the years 2018, 2017, and 2016, respectively. Additionally, there were revenues associated with utility plant leased to others of $1,639,000, $1,471,000 and $1,334,000 in the years 2018, 2017, and 2016, respectively which are reflected in “Other Utility Income, Net of Taxes” on the Consolidated Statements of Income. The revenues from water and wastewater customers for the years ended December 31, 2018, 2017, and 2016 include $8,197,000, $4,286,000 and $1,132,000 in additional revenues related to the implementation of the WRA, respectively.

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The table below shows assets by segment at December 31:

in thousands):	2018	2017
Total Plant and Other Investments:		
Water	$748,374	$707,362
Non-Water	1,114	1,023
Total Plant and Other Investments	749,488	708,385
Other Assets:		
Water	199,955	188,590
Non-Water	2,426	1,808
Total Other Assets	202,381	190,398
Total Assets	$951,869	$898,783

NOTE 16: ACQUISITIONS

The Heritage Village Water Company Acquisition

As previously announced on May 10, 2016, the Company announced that it had reached an agreement to acquire HVWC, pending a vote of HVWC shareholders, approval by PURA and MPUC and the satisfaction of other various closing conditions, pursuant to the terms of Agreement and Plan of Merger dated May 10, 2016 between and among HVWC, the Company, and HAC, Inc., the Company’s wholly-owned Connecticut subsidiary (the “Merger Agreement”). HVWC serves approximately 4,700 water customers in the Towns of Southbury, Middlebury, and Oxford, Connecticut and approximately 3,000 wastewater customers in the Town of Southbury, Connecticut.

The acquisition was executed through a stock-for-stock merger transaction valued at approximately $16.9 million. Holders of HVWC common stock received shares of the Company’s common stock in a tax-free exchange. In addition, the transaction reflected a total enterprise value of HVWC of approximately $21.5 million, with the $16.9 million paid to shareholders in a stock exchange and the assumption by the Company of approximately $4.6 million of debt held by HVWC at the time of the acquisition.

The Company received regulatory approval from MPUC on September 28, 2016 and from PURA on December 5, 2016, to proceed with the transaction. The shareholders of HVWC voted to approve the acquisition at a special meeting of HVWC’s shareholders held on February 27, 2017.

On February 27, 2017, the Company completed the acquisition of HVWC by completing the merger of the Company’s wholly-owned subsidiary HAC, Inc. with and into HVWC, with HVWC as the surviving corporation, pursuant to the terms of the Merger Agreement and Connecticut corporate law. Upon the effective time of the Merger, the holders of HVWC’s 1,620 issued and outstanding shares of common stock to receive an aggregate of 300,445 shares of the Company’s common stock in a tax-free exchange.

The Avon Water Company Acquisition

As previously announced on October 12, 2016, the Company announced that it had reached an agreement to acquire Avon Water, pending a vote of Avon Water shareholders, approval by PURA and the MPUC and the satisfaction of other various closing conditions, pursuant to the terms of that certain Agreement and Plan of Merger dated October 11, 2016 as amended on March 29, 2017 between and among Avon Water, the Company, and WC-A I, Inc., the Company’s wholly-owned Connecticut subsidiary (the “Merger Agreement”). Avon Water serves approximately 4,800 customers in the Farmington Valley communities of Avon, Farmington, and Simsbury, Connecticut.

On February 10, 2017, Connecticut Water received regulatory approval from MPUC and on April 12, 2017, Connecticut Water received regulatory approval from PURA to proceed with the transaction. The shareholders of Avon Water voted to approve the acquisition at a special meeting of Avon Water's shareholders held on June 16, 2017.

Effective July 1, 2017, the Company completed the acquisition of Avon Water by completing the merger of Connecticut Water's wholly-owned subsidiary WC-A I, Inc. with and into Avon Water, with Avon Water as the surviving corporation, pursuant to the terms of the Merger Agreement and Connecticut corporate law. Upon the effective time of the Merger, the holders of Avon Water's 122,289 issued and outstanding shares of common stock became entitled to receive the following merger consideration for each share of Avon Water common stock held: (i) a cash payment of $50.11; and (ii) a stock consideration component, consisting of 3.97 shares of the Company's common stock.

The transaction was completed through a stock-for-stock exchange where Avon Water shareholders received the Company's common stock valued at approximately $26.9 million, in a tax-free exchange, and a cash payment of $6.1 million for a total payment to shareholders of $33.0 million. The transaction reflects a total enterprise value of approximately $39.1 million, with the $33.0 million paid to shareholders and the assumption by the Company of approximately $6.1 million of debt of Avon Water.

The following table summarizes the fair value of the HVWC assets acquired on February 27, 2017 and the Avon Water assets on July 1, 2017, the dates of the acquisitions (in thousands):

	HVWC	Avon Water
Net Utility Plant	$28,861	$28,330
Cash and Cash Equivalents	1,336	455
Accounts Receivable, net	355	379
Prepayments and Other Current Assets	179	243
Accrued Unbilled Revenues	47	467
Materials and Supplies, at Average Cost	63	151
Goodwill	12,777	23,472
Unrecovered Income Taxes - Regulatory Asset	—	3,619
Deferred Charges and Other Costs	343	799
Total Assets Acquired	$43,961	$57,915
Long-Term Debt, including current portion	$4,642	$3,145
Accounts Payable and Accrued Expenses	149	584
Interim Bank Loans Payable	—	2,500
Other Current Liabilities	238	32
Advances for Construction	1,897	1,537
Deferred Federal and State Income Taxes	1,680	1,880
Unfunded Future Income Taxes	—	3,619
Other Long-Term Liabilities	—	314
Total Liabilities Assumed	$8,606	$13,611
Contributions in Aid of Construction	18,452	11,560
Net Assets Acquired	$16,903	$32,744

The estimated fair values of the assets acquired and the liabilities assumed were determined based on the accounting guidance for fair value measurement under GAAP, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value analysis assumes the highest and best use of the assets by market participants. The allocation of the purchase price includes an adjustment to fair value related to the fair value of HVWC's and Avon Water's long term debt and any associated deferred taxes. Additionally, adjustments were made to deferred taxes based on the Company's ability to utilize net operating loss carryforwards that had valuation allowances at the acquired companies. The excess of the purchase price paid over the estimated fair value of the assets acquired and the liabilities assumed was recognized as goodwill, none of which is deductible for tax purposes. Goodwill recognized as part of the acquisitions of HVWC and Avon Water are a part of the Company’s Water Operations segment.

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The following unaudited pro forma summary for the years ended December 31, 2018, 2017, and 2016 presents information as if HVWC and Avon Water had each been acquired on January 1, 2016 and assumes that there were no other changes in our operations. The following pro forma information does not necessarily reflect the actual results that would have occurred had the Company operated the businesses since January 1, 2016, nor is it necessarily indicative of the future results of operations of the combined companies (in thousands):

	2018	2017	2016
Operating Revenues	$116,665	$109,715	$107,309
Other Water Activities Revenues	1,639	1,554	1,498
Real Estate Revenues	1,350	212	8
Service and Rentals Revenues	5,182	5,121	5,417
Total Revenues	$124,836	$116,602	$114,232
Net Income	$16,695	$25,040	$24,300
Basic Earnings per Average Share Outstanding	$1.40	$2.12	$2.06
Diluted Earnings per Average Share Outstanding	$1.38	$2.08	$2.02

The following table summarizes the results of HVWC and Avon Water from the dates of acquisition to December 31, 2018 (from February 27, 2017 for HVWC and July 1, 2017 for Avon Water) and is included in the Consolidated Statement of Income for the period (in thousands):

	2018	2017
Operating Revenues	$8,616	$5,802
Other Water Activities Revenues	133	74
Real Estate Revenues	—	—
Service and Rentals Revenues	83	28
Total Revenues	$8,832	$5,904
Net Income	$355	$1,519
Basic Earnings per Average Share Outstanding	$0.03	$0.13
Diluted Earnings per Average Share Outstanding	$0.03	$0.13

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NOTE 17: COMMITMENTS AND CONTINGENCIES

Water Supply – Connecticut Water has an agreement with the South Central Connecticut Regional Water Authority ("RWA") to purchase water from RWA. The agreement was signed in April 2006 and became effective upon the receipt of all regulatory approvals in 2008 and remains in effect for a minimum of fifty years upon the effective date. Connecticut Water will pay RWA $75,000 per year, for a total of 14 years, starting on the effective date of the agreement. In addition, Connecticut Water is able, but under no obligation, to purchase up to one million gallons of water per day at the then current wholesale rates per the agreement. Connecticut Water has an agreement with The Metropolitan District ("MDC") to purchase water from MDC to serve the Unionville system. The agreement became effective on October 6, 2000 and has a term of fifty years beginning May 19, 2003, the date the water supply facilities related to the agreement were placed in service. Connecticut Water agrees to purchase 283 million gallons of water annually from MDC. Connecticut Water has a 99 year lease with 19 Perry Street to obtain well water for its public water supply system. The agreement became effective in 1975 and is based on current water rates in effect each year. There is no limitation on the amount of water that can be withdrawn from the leased property. Maine Water has an agreement with the Kennebec Water District for potable water service. The agreement was extended and became effective on November 7, 2015 for a new term of 5 years. Water sales to Maine Water are billed at a flat rate per gallon plus the monthly minimum tariff rate for a 4-inch metered service. During 2018, 2017, and 2016, the Company spent $1,823,000, $1,532,000 and $1,556,000, respectively, on water purchased under these agreements. The Company's expected payments related to these agreements for the years 2019 through 2023 will be as follows:

(in thousands)	
2019	$1,867
2020	$1,846
2021	$1,794
2022	$1,853
2023	$1,913

Reviews by Taxing Authorities – On its 2012 Federal tax return, filed in September 2013, Connecticut Water filed a change in accounting method to adopt the IRS temporary tangible property regulations. On its 2013 Federal tax return, filed in September 2014, Maine Water filed the same change in accounting method. This method change allowed the Company to take a current year deduction for expenses that were previously capitalized for tax purposes. Since the filing of the 2012 tax return, the IRS has issued final regulations. While the Company maintains the belief that the deduction taken on its tax return is appropriate, the methodology for determining the deduction has not been agreed to by the taxing authorities. Provisions for uncertain tax positions were recorded to reflect the possible challenge of the Company's methodology for determining its repair deduction as required by FASB ASC 740. During the quarter ended September 30, 2018, $1.3 million was reversed due to statute expiration. During the year ended December 31, 2018, in conjunction with its review of the impacts of the Tax Act, the Company reviewed its provision associated with the repair deduction. Should the IRS challenge the Company's tax treatment, and ultimately disallow a portion of the repair deduction, the Company expects the net operating loss carryforwards to offset any resulting liability. During the year ended December 31, 2018, a portion of the provision in the amount of $980,000 was reversed to reflect the offset by the remeasured net operating loss deferred tax asset. In addition, as required by FASB ASC 740, during the year ended December 31, 2018, the Company recorded a provision of $1.0 million for a portion of the benefit that is not being returned to customers resulting from any possible tax authority challenge. The Company had previously recorded a provision of $4.6 million in the prior year for a cumulative total of $3.3 million.

The Company remains subject to examination by federal and state tax authorities for the 2015 through 2017 tax years. On April 26, 2017, Avon Water was notified by the IRS that its stand-alone Federal tax filing for 2015 was selected to be reviewed beginning in the second quarter of 2017. On March 20, 2018, Avon Water received a notice of adjustment from the IRS related to the Federal tax audit for the tax years ended December 31, 2015 and 2016. As a result, a reduction in net operating loss carryover of $56,000 was recorded during the year ended December 31, 2018.

Purchases of Equity Securities by the Company – In May 2005, the Company adopted a common stock repurchase program (“Share Repurchase Program”). The Share Repurchase Program allows the Company to repurchase up to 10% of its outstanding common stock, at a price or prices that are deemed appropriate. As of December 31, 2018, no shares have been repurchased. Currently, the Company has no plans to repurchase shares under the Share Repurchase Program.

Environmental and Water Quality Regulation – The Company is subject to environmental and water quality regulations. Costs to comply with environmental and water quality regulations are substantial. We are presently in compliance

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with current regulations, but the regulations are subject to change at any time. The costs to comply with future changes in state or federal regulations, which could require us to modify current filtration facilities and/or construct new ones, or to replace any reduction of the safe yield from any of our current sources of supply, could be substantial.

Legal Proceedings – We are involved in various legal proceedings from time to time. Although the results of legal proceedings cannot be predicted with certainty, there are no pending legal proceedings to which we, or any of our subsidiaries are a party, or to which any of our properties is subject, that presents a reasonable likelihood of a material adverse impact on the Company's financial condition, results of operations or cash flows.

Rate Relief – The rates we charge our water and wastewater customers in Connecticut and Maine are established under the jurisdiction of and are approved by PURA and MPUC, respectively. It is our policy to seek rate relief as necessary to enable us to achieve an adequate rate of return. The Regulated Companies' allowed returns on equity and allowed returns on rate base are as follows:

As of December 31, 2018	Allowed Return on Equity	Allowed Return on Rate Base
Connecticut Water	9.75 %	7.32 %
HVWC (blended water and wastewater rates)	10.10 %	7.19 %
Avon Water	10.00 %	7.79 %
Maine Water	9.50 %	7.96 %

Land Dispositions – The Company and its subsidiaries own additional parcels of land in Connecticut and Maine, which may be suitable in the future for disposition or for further protection through conservation easements, through sale or by donation to municipalities, other local governments or private charitable entities such as local land trusts. In Connecticut, these additional parcels would include certain Class I and II parcels previously identified for long term conservation by the Connecticut Department of Energy and Environmental Protection ("DEEP"), which have restrictions on development and resale based on provisions of the Connecticut General Statutes. In Maine, these parcels include primarily company-owned land used for water supply protection, and a permanent conservation easement may be appropriate for some parcels to ensure the permanent protection of the watersheds, while balancing the appropriate community and recreational use of the land.

Capital Expenditures – The Company has received approval from its Board of Directors to spend $85.7 million on capital expenditures in 2019, in part to fund improvements to water treatment plants and increased spending related to infrastructure improvements.

NOTE 18: QUARTERLY FINANCIAL DATA (Unaudited)

Selected quarterly financial data for the years ended December 31, 2018 and 2017 appears below:

(in thousands, except for per share data)	First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
	2018	2017	2018	2017	2018	2017	2018	2017
Operating Revenues	$24,853	$22,463	$29,904	$27,902	$36,269	$31,797	$25,639	$24,892
Total Utility Operating Income	4,545	5,518	9,827	10,839	17,564	12,809	5,243	5,950
Net (Loss) Income	(1,227)	4,068	4,729	8,418	13,663	10,716	(470)	1,852
Basic (Loss) Earnings per Common Share	(0.10)	0.36	0.39	0.75	1.15	0.92	(0.04)	0.14

Diluted (Loss) Earnings per Common Share	(0.10)	0.36	0.39	0.73	1.13	0.90	(0.04)	0.14

Exhibit Number	Description
2.1	Second Amended and Restated Agreement and Plan of Merger, dated as of August 5, 2018, by and among the Company and Merger Sub (Exhibit 2.1 to Form 8-K filed August 6, 2018).
3.1	Amended and Restated Certificate of Incorporation of Connecticut Water Service, Inc. dated May 11, 1998 (Exhibit 3.1 to Form 10-K for year ended December 31, 1998).
3.2	Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Connecticut Water Service, Inc. dated August 27, 1998 (Exhibit 3 to Form 8-K filed September 25, 1998).
3.3	Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Connecticut Water Service, Inc. dated August 6, 2001.
3.4	Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Connecticut Water Service, Inc. dated April 23, 2004. (Exhibit 3.5 to Form 10-Q for the quarter ended March 31, 2003).
3.5	Certification of Incorporation of The Connecticut Water Company effective April, 1998. (Exhibit 3.3 to Form 10-K for the year ended 12/31/98).
3.6	By-Laws, as amended, of Connecticut Water Service, Inc. as amended and restated as of March 14, 2018.
4.1	Bond Purchase Agreement dated as of March 12, 2004, among The Connecticut Water Company and A.G. Edwards & Sons, Inc. (Exhibit 4.18 to Form 10-Q for the quarter ended 3/31/04).
4.2	Indenture of Trust, dated as of March 1, 2004, between The Connecticut Water Company and U.S. Bank National Association, as Trustee. (Exhibit 4.19 to Form 10-Q for the quarter ended 3/31/04).
4.3	Reimbursement and Credit Agreement, dated as of March 1, 2004, between The Connecticut Water Company and Citizen's Bank of Rhode Island. (Exhibit 4.20 to Form 10-Q for the quarter ended 3/31/04).
4.4	Letter of Credit issued by Citizen's Bank of Rhode Island, dated as of March 4, 2004. (Exhibit 4.21 to Form 10-Q for the quarter ended 3/31/04).
4.5	Agreement No. DWSRF 200103-C Project Loan Agreement between the State of Connecticut and Unionville Water Company under the Drinking Water State Revolving Fund (DWSRF) Program, dated as of April 19, 2004. (Exhibit 4.22 to Form 10-Q for the quarter ended 6/30/04).
4.6	Collateral Assignment of Water Service Charges and Right to Receive Water Service Expense Assessments and Security Agreement between Unionville Water Company and the State of Connecticut, dated as of June 3, 2004. (Exhibit 4.23 to Form 10-Q for the quarter ended 6/30/04).
4.7	Bond Purchase Agreement, dated September 1, 2004, among The Connecticut Water Company, Connecticut Development Authority, and A.G. Edwards & Sons, Inc. (Exhibit 4.24 to Form 10-Q for the quarter ended 9/30/04).
4.8	Indenture of Trust, dated August 1, 2004, between The Connecticut Water Company and U.S. Bank National Association, as Trustee, 2004A Series. (Exhibit 4.25 to Form 10-Q for the quarter ended 9/30/04).
4.9	Indenture of Trust, dated August 1, 2004, between The Connecticut Water Company and U.S. Bank National Association, as Trustee, 2004B Series. (Exhibit 4.26 to Form 10-Q for the quarter ended 9/30/04).
4.10	Loan Agreement, dated August 1, 2004, between The Connecticut Water Company and Connecticut Development Authority for 2004 Series. (Exhibit 4.27 to Form 10-Q for the quarter ended 9/30/04).
4.11	Loan Agreement, dated August 1, 2004, between The Connecticut Water Company and Connecticut Development Authority for 2004B Series. (Exhibit 4.28 to Form 10-Q for the quarter ended 9/30/04).
4.12	Reimbursement and Credit Agreement, dated as of August 1, 2004, between The Connecticut Water Company and Citizen's Bank of Rhode Island, 2004A Series. (Exhibit 4.29 to Form 10-Q for the quarter ended 9/30/04).
4.13	Reimbursement and Credit Agreement, dated as of August 1, 2004, between The Connecticut Water Company and Citizen's Bank of Rhode Island, 2004B Series. (Exhibit 4.30 to Form 10-Q for the quarter ended 9/30/04).
4.14	Letters of Credit, each dated September 2, 2004, between The Connecticut Water Company and Citizen's Bank of Rhode Island, with respect to each of the 2004A and 2004B Series Bonds. (Exhibit 4.31 to Form 10-Q for the quarter ended 9/30/04).

4.15	First Amendment to Reimbursement and Credit Agreement, dated as of April 28, 2006, between The Connecticut Water Company and Citizen's Bank of Rhode Island, 2004A Series. (Exhibit 10.1 to Form 10-Q for the period ending 3/31/06).
4.16	First Amendment to Reimbursement and Credit Agreement, dated as of April 28, 2006, between The Connecticut Water Company and Citizen's Bank of Rhode Island, 2004B Series. (Exhibit 10.2 to Form 10-Q for the period ending 3/31/06).

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4.17	First Amendment to Reimbursement and Credit Agreement, dated as of April 28, 2006, between The Connecticut Water Company and Citizen's Bank of Rhode Island, 2004 Series Variable Rate, due 2029. (Exhibit 10.3 to Form 10-Q for the period ending 3/31/06).
4.18	Second Amendment to Reimbursement and Credit Agreement, dated as of August 23, 2007 between The Connecticut Water Company and Citizen's Bank of Rhode Island 2004 A Series. (Exhibit 10.2 to the Form 10-Q for the period ending June 30, 2009).
4.19	Second Amendment to Reimbursement and Credit Agreement, dated as of August 23, 2007 between The Connecticut Water Company and Citizen's Bank of Rhode Island 2004 B Series. (Exhibit 10.3 to the Form 10-Q for the period ending June 30, 2009).
4.20	Second Amendment to Reimbursement and Credit Agreement, dated as of August 23, 2007 between The Connecticut Water Company and Citizen's Bank of Rhode Island 2004 Series Variable Rate, due 2009. (Exhibit 10.4 to the Form 10-Q for the period ending June 30, 2009).
4.21	Third Amendment to Reimbursement and Credit Agreement, dated as of August 23, 2007 between The Connecticut Water Company and Citizen's Bank of Rhode Island 2004 A Series. (Exhibit 10.5 to the Form 10-Q for the period ending June 30, 2009).
4.22	Third Amendment to Reimbursement and Credit Agreement, dated as of August 23, 2007 between The Connecticut Water Company and Citizen's Bank of Rhode Island 2004 B Series. (Exhibit 10.6 to the Form 10-Q for the period ending June 30, 2009).
4.23	Third Amendment to Reimbursement and Credit Agreement, dated as of August 23, 2007 between The Connecticut Water Company and Citizen's Bank of Rhode Island 2004 Series Variable Rate, due 2009. (Exhibit 10.7 to the Form 10-Q for the period ending June 30, 2009).
4.24	Bond Purchase Agreement among The Connecticut Water Company, the Connecticut Development Authority and Edward D. Jones &Co., L.P., as underwriter dated December 2, 2009. (Exhibit 4.42 to Form 10-K for the year ended December 31, 2009).
4.25	Loan Agreement between The Connecticut Water Company and the Connecticut Development Authority, dated as of December 1, 2009. (Exhibit 4.43 to Form 10-K for the year ended December 31, 2009).
4.26	Indenture of Trust for the Bonds between the Connecticut Development Authority and U.S. Bank National Associations, as Trustee, dated December 1, 2009. (Exhibit 4.44 to Form 10-K for the year ended December 31, 2009).
4.27	Bond Purchase Agreement among CWC, the Connecticut Development Authority and Janney Montgomery Scott LLC, as underwriter, dated as of December 6, 2011. (Exhibit 4.45 to Form 10-K for the year ended December 31, 2011).
4.28	Loan Agreement between CWC and the Authority, dated as of December 1, 2011. (Exhibit 4.46 to Form 10-K for the year ended December 31, 2011).
4.29	Indenture of Trust for the Bonds between the Authority and U.S. Bank National Association, as Trustee, dated as of December 1, 2011. (Exhibit 4.47 to Form 10-K for the year ended December 31, 2011).
10.1	Directors Deferred Compensation Plan, effective as of January 1, 1980, as amended as of January 1, 2008. (Exhibit 10.7 to Form 8-K filed on January 30, 2008).
10.2	Third Amended and Restated Dividend Reinvestment and Common Stock Purchase Plan, as amended and restated as of August 11, 2017. (Exhibit 4 to Form S-3, Registration Statement No. 333-220387, filed on September 8, 2017).
10.3	Trust Agreement for The Connecticut Water Company Welfare Benefits Plan (VEBA) dated January 1, 1989. (Exhibit 10.21 to Form 10-K for year ended 12/31/89).
10.4	2004 Performance Stock Program, as of April 23, 2004. (Appendix A to Proxy Statement dated 3/12/04).
10.5	First Amendment to The Connecticut Water Service, Inc. 2004 Performance Stock Program, dated January 7, 2004. (Exhibit 10.23f to Form 10-K for the year ended 12/31/05).
10.6	Second Amendment to The Connecticut Water Service, Inc. 2004 Performance Stock Program, dated January 1, 2008. (Exhibit 10.6 to Form 8-K filed on 1/30/08).
10.7	

	Connecticut Water Service, Inc. 2014 Performance Stock Program (filed as Appendix A to Company's definitive proxy statement (DEF 14A) filed on March 28, 2014).
10.8	Form of Restricted Share Award Agreement for non-employee Directors under the Company's 2014 Performance Stock Program. (Exhibit 10.8 to Form 10-K for the year ended December 31, 2017).
10.9	Form of Performance Unit Award Agreement (short-term vesting form) under the Company's 2014 Performance Stock Program. (Exhibit 10.9 to Form 10-K for the year ended December 31, 2017).
10.10	Form of Performance Unit Award Agreement (long-term vesting form) under the Company's 2014 Performance Stock Program. (Exhibit 10.10 to Form 10-K for the year ended December 31, 2017).

10.11	Form of Amended Restated Employment Agreement with the Company's executive officers (Exhibit 10.19 to Form 10-K for year ended December 31, 2008), including: a) Peter J. Bancroft b) David C. Benoit c) Maureen P. Westbrook
10.12	Form of Amended Restated Employment Agreement with the Company's executive officers (Exhibit 10.20 to Form 10-K for year ended December 31, 2008), including: a) Kristen A. Johnson
10.13	First Amendment to Amended and Restated Employment Agreement between the Company, The Connecticut Water Company and Kristen A. Johnson, dated March 8, 2013 (Exhibit 10.17 to Form 10-K for the year ended December 31, 2012).
10.14	First Amendment to Employment Agreement between the Company, the Maine Water Company and Judy E. Wallingford, dated March 8, 2013 (Exhibit 10.18 to Form 10-K for the year ended December 31, 2012).
10.15	Form of First Amendment to Amended and Restated Employment Agreement (Messrs. Benoit and Bancroft, and Ms. Westbrook) (Exhibit 10.1 to Form 8-K filed on 4/3/14).
10.16	Form of Second Amendment to Employment Agreement (Ms. Johnson) (Exhibit 10.2 to Form 8-K filed on 4/3/14).
10.17	Form of Amended and Restated Supplemental Executive Retirement Agreement with the Company's executive officers (Exhibit 10.21 to Form 10-K for year ended December 31, 2008), including: a) Peter J. Bancroft b) David C. Benoit c) Kristen A. Johnson d) Maureen P. Westbrook
10.18	Form of Amended and Restated Deferred Compensation Agreement with the Company's executive officers (effective January 1, 2011) (Exhibit 10.20 to Form 10-K for the year ended December 31, 2010), including: a) Peter J. Bancroft b) David C. Benoit c) Kristen A. Johnson d) Maureen P. Westbrook
10.19	Form of amendment to Deferred Compensation Agreement, dated as of December 30, 2011, with the following Company officers (Exhibit 10.20b to Form 10-K for the year ended December 31, 2011): a) David C. Benoit b) Maureen P. Westbrook c) Kristen A. Johnson
10.20	Deferred Compensation agreement between The Connecticut Water Company and Robert J. Doffek, dated December 10, 2015, effective December 31, 2015 (Exhibit 10.1 to Form 10-Q filed on May 9, 2016).
10.21	Connecticut Water Company Deferred Compensation Plan, effective January 1, 2017 (Exhibit 10.1 to Form 8-K filed on Dec. 16, 2016).
10.22	Form of amendment to Deferred Compensation Agreement, between the Connecticut Water Company and certain executive officers of the Company (Exhibit 10.2 to Form 8-K filed on Dec. 16, 2016).
10.23	Employment agreement among the Company, The Connecticut Water Company and Craig J. Patla, dated April 1, 2014 (Exhibit 10.2 to Form 10-Q filed on 5/8/14).
10.24	Deferred compensation agreement among the Company, The Connecticut Water Company and Craig J. Patla, dated April 1, 2014 (Exhibit 10.3 to Form 10-Q filed on 5/8/14).
10.25	Master Loan Agreement and Promissory Note between Connecticut Water Service, Inc. and CoBank, ACB, dated June 29, 2009. (Exhibit 10.1 to Form 8-K filed on July 2, 2009)
10.26	First Amendment to Promissory Note and Supplement, dated July 26, 2011, between Connecticut Water Service, Inc. and CoBank ACB (Exhibit 10.1 to Form 8-K filed on July, 29 2011).
10.27	

	Amendment to the Master Loan Agreement between Connecticut Water Service, Inc. and CoBank, ACB, dated January 1, 2012 (Exhibit 10.1 to Form 8-K filed on January, 3 2012).
10.28	Promissory Note and Single Advance Term Loan Supplement (Loan 1) between Connecticut Water Service, Inc. and CoBank, ACB, dated January 1, 2012 (Exhibit 10.2 to Form 8-K filed on January 3, 2012).
10.29	Promissory Note and Single Advance Term Loan Supplement (Loan 2) between Connecticut Water Service, Inc. and CoBank, ACB, dated January 1, 2012 (Exhibit 10.3 to Form 8-K filed on January 3, 2012).
10.30	Amended and Restated Promissory Note and Supplement, by and between the Company and CoBank, ACB, dated August 6, 2014 (filed as Exhibit 10.2 to Form 10-Q filed on 8/8/14).
10.31	Line of credit agreement dated August 12, 2009 between RBS Citizens, National Association and Connecticut Water Service, Inc. (Exhibit 10.2 to Form 10-Q for the quarter ending September 30, 2009).

10.32	Letter Amendment dated May 5, 2010 between RBS Citizens, National Association and Connecticut Water Service, Inc. (Exhibit 10.2 to Form 10-Q filed on 5/7/10).
10.33	Second Amendment to RBS Citizens Line of Credit Agreement, dated June 1, 2011. (Exhibit 10.22b of the Form 10-K for the year ended December 31, 2011).
10.34	Letter Agreement between Connecticut Water Service, Inc. and RBS Citizens, National Association, dated April 25, 2016 (Exhibit 10.1 to Form 8-K filed on April 28, 2016).
10.35	Fourth Allonge to Demand Promissory Note, dated April 25, 2016 (Exhibit 10.2 to Form 8-K filed on April 28, 2016).
10.36	Third Amendment to 2009 Promissory Note and Supplement, between Connecticut Water Service, Inc. and CoBank, dated September 4, 2012 (Exhibit 10.1 to current report on Form 8-K filed on Sept. 10, 2012).
10.37	First Amendment to 2012 Promissory Note and Supplement, between Connecticut Water Service, Inc. and CoBank, ACB, dated September 4, 2012 (Exhibit 10.2 to current report on Form 8-K filed on Sept. 10, 2012).
10.38	Letter Agreement between Connecticut Water Service, Inc. and RBS Citizens, National Association, dated October 12, 2012 (Exhibit 10.1 to current report on Form 8-K dated Oct. 18, 2012).
10.39	Third Allonge to Demand Promissory Note, dated October 12, 2012 (Exhibit 10.2 to current report on Form 8-K dated Oct. 18, 2012).
10.40	Master Loan Agreement between The Connecticut Water Company and CoBank, ACB, dated October 29, 2012 (Exhibit 10.1 to current report on Form 8-K filed on Nov. 2, 2012).
10.41	Promissory Note and Single Advance Term Loan Supplement (Loan 1) between The Connecticut Water Company and CoBank, ACB, dated October 29, 2012 (Exhibit 10.2 to Form 8-K filed on Nov. 2, 2012).
10.42	Promissory Note and Single Advance Term Loan Supplement (Loan 2) between The Connecticut Water Company and CoBank, ACB, dated October 29, 2012 (Exhibit 10.3 to Form 8-K filed on Nov. 2, 2012).
10.43	Promissory Note and Single Advance Term Loan Supplement (Loan 3) between The Connecticut Water Company and CoBank, ACB, dated October 29, 2012 (Exhibit 10.4 to Form 8-K filed on Nov. 2, 2012).
10.44	Promissory Note and Single Advance Term Loan Supplement (Loan 4) between The Connecticut Water Company and CoBank, ACB, dated October 29, 2012 (Exhibit 10.5 to Form 8-K filed on Nov. 2, 2012).
10.45	Promissory Note and Single Advance Term Loan Supplement between The Connecticut Water Company and CoBank, ACB, dated June 1, 2016 (Exhibit 10.1 to Form 8-K filed on June 2, 2016).
10.46	Second Amendment to Guarantee of Payment (Limited) by Connecticut Water Service, Inc., dated June 1, 2016 (Exhibit 10.2 to Form 8-K filed on June 2, 2016).
10.47	Promissory Note and Single Advance Term Loan Supplement between The Connecticut Water Company and CoBank, ACB, dated July 7, 2016 (Exhibit 10.1 to Form 8-K filed on July 13, 2016).
10.48	Third Amendment to Guarantee of Payment (Limited) by Connecticut Water Service, Inc., dated July 7, 2016 (Exhibit 10.2 to Form 8-K filed on July 13, 2016).
10.49	Guarantee of Payment (Limited) by Connecticut Water Service, Inc., dated October 29, 2012 (Exhibit 10.6 to Form 8-K filed on Nov. 2, 2012).
10.50	Amended and Restated Master Loan Agreement between the Maine Water Company and CoBank, ACB, dated December 1, 2012 and entered into on December 7, 2012 (Exhibit 10.1 to Form 8-K filed on Dec. 7, 2012).
10.51	Amendment to Amended and Restated Master Loan Agreement by and between the Maine Water Company and CoBank, ACB, dated as of December 22, 2014 (filed as Exhibit 10.2 to Form 8-K filed on 12/30/14).
10.52	Promissory Note and Single Advance Term Loan Supplement between the Maine Water Company and CoBank, ACB, dated as of December 22, 2014 (filed as Exhibit 10.3 to Form 8-K filed on 12/30/14).
10.53	Promissory Note and Single Advance Term Loan Supplement between the Maine Water Company and CoBank, ACB, dated December 1, 2012 and entered into on December 7, 2012 (Exhibit 10.2 to Form 8-K filed on Dec. 7, 2012).
10.54	Promissory Note and Single Advance Term Loan Supplement between the Maine Water Company and CoBank, ACB, dated as of January 10, 2017 (Exhibit 10.3 to Form 8-K filed on Jan. 11, 2017).
10.55	Promissory Note and Single Advance Term Loan Supplement between The Connecticut Water Company and CoBank, ACB, dated March 5, 2013 (Exhibit 10.1 to Form 8-K filed on March 6, 2013).

10.56	Amendment to Guarantee of Payment (Limited) by Connecticut Water Service, Inc., dated March 5, 2013(Exhibit 10.2 to Form 8-K filed on March 6, 2013).
10.57	Loan Agreement by and between The Maine Water Company and Maine Municipal Bond Bank dated June 3, 2013 (Exhibit 10.1 to the Company's Form 8-K filed on June 4, 2013).
10.58	Loan Agreement by and between The Maine Water Company and Maine Municipal Bond Bank dated March 17, 2015 (Exhibit 10.1 to the Company's Form 8-K filed on March 18, 2015).

10.59	Loan Agreement by and between The Maine Water Company and Maine Municipal Bond Bank dated November 25, 2015 (Exhibit 10.1 to the Company's Form 8-K filed on November 30, 2015).
10.60	Purchase and Sale Agreement The Maine Water Company and the Coastal Mountains Land Trust, dated March 10, 2016 (Exhibit 10.58 to the Company's 2015 Form 10-K filed on March 14, 2016).
10.61	Nonstandardized Adoption Agreement Prototype Cash or Deferred Profit Sharing Plan, effective as of January 1, 2016 (Exhibit 10.59 to the Company's 2015 Form 10-K filed on March 14, 2016).
10.62	Base Plan Document for Defined Contribution Plan, effective as of January 1, 2016 (Exhibit 10.60 to the Company's 2015 Form 10-K filed on March 14, 2016).
21*	Connecticut Water Service, Inc. Subsidiaries Listing.
23*	Consent of Baker Tilly Virchow Krause, LLP, the Company's current Independent Registered Public Accounting Firm.
24.1*	Power of Attorney of the directors of Connecticut Water Service, Inc.
31.1*	Rule 13a-14 Certification of David C. Benoit, President and Chief Executive Officer
31.2*	Rule 13a-14 Certification of Robert J. Doffek, Chief Financial Officer, Treasurer and Controller
32.1**	Certification of David C. Benoit, President and Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Robert J. Doffek, Chief Financial Officer, Treasurer and Controller, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase
101.DEF**	XBRL Taxonomy Extension Definition Linkbase
101.LAB**	XBRL Taxonomy Extension Label Linkbase
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase
Note:	Exhibits 10.1 through 10.24, 10.61 and 10.62 set forth each management contract or compensatory plan or arrangement required to be filed as an exhibit to this Form 10-K.

* = filed herewith
** = furnished herewith

ITEM 16. FORM 10-K SUMMARY

None

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	CONNECTICUT WATER SERVICE, INC. Registrant By /s/ David C. Benoit
February 28, 2019	David C. Benoit President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of Connecticut Water Service, Inc. in the capacities and on the dates indicated.

Signature	Title	Date
/s/ David C. Benoit David C. Benoit	President and Chief Executive Officer (Principal Executive Officer)	February 28, 2019
/s/ Robert J. Doffek Robert J. Doffek	Chief Financial Officer, Treasurer and Controller (Principal Financial Officer and Principal Accounting Officer)	February 28, 2019

Signature	Title	Date
/s/ Richard H. Forde* Richard H. Forde	Director	February 28, 2019
/s/ Mary Ann Hanley* Mary Ann Hanley	Director	February 28, 2019
/s/ Heather Hunt* Heather Hunt	Director	February 28, 2019
/s/ Bradford A. Hunter* Bradford A. Hunter	Director	February 28, 2019
/s/ Lisa J. Thibdaue* Lisa J. Thibdaue	Director	February 28, 2019
/s/ Carol P. Wallace* Carol P. Wallace	Director	February 28, 2019
/s/ Ellen C. Wolf* Ellen C. Wolf	Director	February 28, 2019

* - By /s/ David C. Benoit
David C. Benoit
Attorney-in-fact

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CONNECTICUT WATER SERVICE, INC. and SUBSIDIARIES
SCHEDULE II – VALUATION AND QUALIFYING ACCOUNTS

(in thousands)

Description	Balance Beginning of Year	Beginning Balance Adjustments [1]	Additions Charged to Income	Deductions from Reserves[2]	Balance End of Year
Allowance for Uncollectible Accounts					
Year Ended December 31, 2018	$ 1,265	$ —	$ 364	$ 393	$ 1,236
Year Ended December 31, 2017	$ 1,100	$ 16	$ 495	$ 346	$ 1,265
Year Ended December 31, 2016	$ 947	$ —	$ 558	$ 405	$ 1,100

(1) Represents beginning balance of HVWC acquired by the Company on February 27, 2017.
(2) Amounts charged off as uncollectible after deducting recoveries.