data conversion and business process reengineering costs, are deferred as a regulatory asset if the Company expects to recover these costs in future rates. If these costs are not deferred, then these costs are charged to operating expenses when incurred. As of December 31, 2013, $19,280 of these costs have been deferred, since the last rate proceeding, as a regulatory asset, and the deferral is reported as a component of net property, plant and equipment.

When units of utility property are replaced, retired or abandoned, the recorded value thereof is credited to the asset account and such value, together with the net cost of removal, is charged to accumulated depreciation. To the extent the Company recovers cost of removal or other retirement costs through rates after the retirement costs are incurred, a regulatory asset is recorded. In some cases, the Company recovers retirement costs through rates during the life of the associated asset and before the costs are incurred. These amounts result in a regulatory liability being reported based on the amounts previously recovered through customer rates.

The straight-line remaining life method is used to compute depreciation on utility plant. Generally, the straight-line method is used with respect to transportation and mechanical equipment, office equipment and laboratory equipment.

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

As of December 31, 2013, 2012, and 2011, property, plant and equipment additions purchased at the period end, but not yet paid for are $30,974, $29,588, and $32,578, respectively.

Allowance for Funds Used During Construction — The allowance for funds used during construction ("AFUDC") represents the capitalized cost of funds used to finance the construction of utility plant. In general, AFUDC is applied to construction projects requiring more than one month to complete. No AFUDC is applied to projects funded by customer advances for construction, contributions in aid of construction, or applicable state-revolving fund loans. AFUDC includes the net cost of borrowed funds and a rate of return on other funds when used, and is recovered through water rates as the utility plant is depreciated. The amount of AFUDC related to equity funds in 2013 was $533, 2012 was $188, and 2011 was $318. No interest was capitalized by our non-regulated businesses.

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

The Company had a book overdraft for specific disbursement cash accounts of $21,753 and $11,881 at December 31, 2013 and 2012, respectively. A book overdraft represents transactions that have not cleared the bank accounts at the end of the period. The Company transfers cash on an as-needed basis to fund these items as they clear the bank in subsequent periods. The balance of the book overdraft is reported as accounts payable and the change in the book overdraft balance is reported as cash flows from financing activities, due to our ability to fund the overdraft with the Company's credit facility.

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

Regulatory Assets, Deferred Charges and Other Assets — Deferred charges and other assets consist of financing expenses, other costs and marketable securities. Deferred bond issuance expenses are amortized over the life of the related issues. Call premiums related to the early redemption of long-term debt, along with the unamortized balance of the related issuance expense, are deferred and amortized over the life of the long-term debt used to fund the redemption as the Company has received or expects to receive rate recovery of these costs. Other costs, for which the Company has received or expects to receive prospective rate recovery, are deferred as a regulatory asset and amortized over the period of rate recovery in accordance with the FASB's accounting guidance for regulated operations. See Note – 6 Regulatory Assets and Liabilities for further information regarding the Company's regulatory assets.

(In thousands of dollars, except per share amounts)

Marketable securities are considered "available-for-sale" and accordingly, are carried on the balance sheet at fair market value. Unrecognized gains are included in other comprehensive income.

Investment in Joint Venture – The Company uses the equity method of accounting to account for our 49% investment in a joint venture with a firm that operates natural gas pipelines and processing plants for the construction and operation of a private pipeline system to supply raw water to natural gas well drilling operations in the Marcellus Shale in north-central Pennsylvania, which commenced operations in the second quarter of 2012. Our initial investment is carried at cost. Subsequently, the carrying amount of our investment is adjusted to reflect capital contributions or distributions, and our equity in earnings or losses since the commencement of the system's operations. Our share of equity earnings or losses in the joint venture is reported in the consolidated statements of net income as equity losses (earnings) in joint venture. During 2013 and 2012 we received distributions of $1,960 and $2,744, respectively.

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

Goodwill — Goodwill represents the excess cost over the fair value of net tangible and identifiable intangible assets acquired through acquisitions. Goodwill is not amortized but is tested for impairment annually, or more often, if circumstances indicate a possible impairment may exist. When testing goodwill for impairment, we may assess qualitative factors for some or all of our reporting units to determine whether it's more likely than not that the fair value of a reporting unit is less than its carrying amount. Alternatively, we may bypass this qualitative assessment for some of our reporting units and perform step 1 of the quantitative two-step goodwill impairment test. If we perform step 1 and determine that the fair value of a reporting unit is less than its carrying amount, we would perform step 2 to measure such impairment. The Company tested the goodwill attributable for each of our reporting units for impairment as of July 31, 2013, in conjunction with the timing of our annual strategic business plan, and concluded that the estimated fair value of each reporting unit, which has goodwill recorded, exceeded the reporting unit's carrying amount by at least 55%, for reporting units that were tested quantitatively, indicating that none of the Company's goodwill was impaired. The following table summarizes the changes in the Company's goodwill:

	Regulated Segment	Other	Consolidated
Balance at December 31, 2011	$ 22,823	$ 4,121	$ 26,944
Goodwill acquired during year	1,679	-	1,679
Reclassifications to utility plant acquisition adjustment	(496)	-	(496)
Other	25	-	25
Balance at December 31, 2012	24,031	4,121	28,152
Goodwill acquired during year	552	-	552
Reclassifications to utility plant acquisition adjustment	(481)	-	(481)
Other	-	-	-
Balance at December 31, 2013	$ 24,102	$ 4,121	$ 28,223

As of December 31, 2012 and 2013 there was no goodwill associated with the Company's assets of discontinued operations held for sale.

The reclassification of goodwill to utility plant acquisition adjustment results from a mechanism approved by the applicable regulatory commission. The mechanism provides for the transfer over time, and the recovery through customer rates, of goodwill associated with some acquisitions upon achieving specific objectives.

Income Taxes — The Company accounts for some income and expense items in different time periods for financial and tax reporting purposes. Deferred income taxes are provided on specific temporary differences between the tax basis of the assets and liabilities, and the amounts at which they are carried in the consolidated financial statements. The income tax effect of temporary differences not currently recovered in rates is recorded as deferred taxes with an offsetting regulatory asset or liability. These deferred income taxes are based on the enacted tax rates expected to be in effect when such temporary differences are projected to reverse. Valuation allowances are established when necessary to reduce deferred tax assets to the amount more likely than not to be realized. Investment tax credits are deferred and amortized over the estimated useful lives of the related properties. Judgment is required in evaluating the Company's Federal and state tax positions. Despite management's belief that the Company's tax return positions are fully supportable, the Company establishes reserves when it believes that its tax positions are likely to be challenged and it may not fully prevail in these challenges. The Company's provision for income taxes includes interest, penalties and reserves for uncertain tax positions.

In 2012, the Company changed its tax method of accounting for qualifying utility system repairs in Aqua Pennsylvania effective with the tax year ended December 31, 2012 and for prior tax years. The tax accounting method was changed to permit the expensing of qualifying utility asset improvement costs that were previously being capitalized and depreciated for book and tax purposes (the "Repair Change"). The Repair Change was implemented in response to a June 2012 rate order issued by the Pennsylvania Public Utility Commission to Aqua Pennsylvania ("settlement agreement") which provides for flow-through accounting treatment of qualifying income tax benefits resulting from the Repair Change. The Repair Change for 2013 and 2012 results in a significant reduction in the effective income tax rate, a reduction in income tax expense, and reduces the amount of taxes currently payable. For qualifying capital expenditures made prior to 2012, the resulting tax benefits have been deferred as of December 31, 2012 and, based on the settlement agreement, a ten year amortization of the income tax benefits, which reduces future income tax expense, commenced in 2013. During 2013, some of our other operating divisions outside of Pennsylvania adopted the Repair Change. These divisions do not employ a flow-through method of accounting and had no impact on the Company's effective income tax rate.

Customers' Advances for Construction and Contributions in Aid of Construction — Water mains, other utility property or, in some instances, cash advances to reimburse the Company for its costs to construct water mains or other utility property, are contributed to the Company by customers, real estate developers and builders in order to extend utility service to their properties. The value of these contributions is recorded as customers' advances for construction. Non-cash property, in the form of water mains and wastewater systems, has been received, generally from developers, as advances or contributions of $26,188, $27,212, and $20,823 in 2013, 2012, and 2011, respectively. Over time, the amount of non-cash contributed property will vary based on the timing of the contribution of the non-cash property and the volume of non-cash contributed property received in connection with development in our service territories. The Company makes refunds on these advances over a specific period of time based on operating revenues related to the property, or as new customers are connected to and take service from the main. After all refunds are made, any remaining balance is transferred to contributions in aid of construction. Contributions in aid of construction include direct non-refundable contributions and the portion of customers' advances for construction that become non-refundable.

Contributed property is generally not depreciated for rate-making purposes as some states' regulatory guidelines provide that contributions in aid of construction received must remain on the Company's consolidated balance sheet indefinitely. Based on regulatory conventions in other states where the Company operates, some of the subsidiaries do depreciate contributed property and amortize contributions in aid of construction at the composite rate of the related property. Contributions in aid of construction and customers' advances for construction are deducted from the Company's rate base for rate-making purposes, and therefore, no return is earned on contributed property.

Inventories, Materials and Supplies — Inventories are stated at cost. Cost is determined using the first-in, first-out method.

Stock-Based Compensation — The Company records compensation expense in the financial statements for stock-based awards based on the grant date fair value of those awards. Stock-based compensation expense includes an estimate for pre-vesting forfeitures and is recognized over the requisite service periods of the awards on a straight-line basis, which is generally commensurate with the vesting term.

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

- Level 1: unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access;
- Level 2: inputs other than Level 1 that are observable, either directly or indirectly, such as quoted market prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in non-active markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; or
- Level 3: inputs that are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. There have been no changes in the valuation techniques used to measure fair value for the years ended December 31, 2013 and 2012.

Recent Accounting Pronouncements — In July 2013, the FASB issued updated accounting guidance on the presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The update requires an entity to present in certain cases, an unrecognized tax benefit, or portion of an unrecognized tax benefit in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward when settlement is available in this manner under the tax law. The updated guidance is effective prospectively for reporting periods beginning after December 15, 2013, with early adoption permitted. The Company early adopted the provisions of the updated guidance beginning July 1, 2013, and the adoption of the revised guidance did not have an impact on the Company's consolidated results of operations or consolidated financial position.

In February 2013, the FASB issued updated accounting guidance to improve the reporting of reclassifications out of accumulated other comprehensive income ("AOCI"). The update requires an entity to present information about the amounts reclassified from AOCI in their financial statements in either a single note or parenthetically on the face of the financial statements. The updated guidance is effective prospectively for reporting periods beginning after December 15, 2012. The Company adopted the provisions of the updated guidance for its reporting period beginning January 1, 2013, and the adoption of the revised guidance did not have an impact on the Company's consolidated results of operations or consolidated financial position.

(In thousands of dollars, except per share amounts)

Note 2 – Acquisitions

In 2013, the Company completed 15 acquisitions of water and wastewater utility systems in various states. The total purchase price consisted of $14,997 in cash. The operating revenues included in the consolidated financial statements of the Company during the period owned by the Company were $2,103. The pro forma effect of the businesses acquired is not material to the Company's results of operations.

As part of the Company's growth-through-acquisition strategy, in July 2011, the Company entered into a definitive agreement with American Water to purchase all of the stock of the subsidiary that holds American Water's regulated water and wastewater operations in Ohio. American Water's Ohio operations served approximately 59,000 customers. On May 1, 2012, the Company completed its acquisition of American Water's water and wastewater operations in Ohio. The total purchase price at closing consisted of $102,154 in cash plus specific assumed liabilities, including debt of $14,281, as adjusted pursuant to the purchase agreement based on book value at closing. The transaction has been accounted for as a business combination. The Company has included the results of its acquisition in Ohio in our consolidated financial statements as part of our Regulated segment since the date of acquisition. The operating revenue and earnings included in the consolidated financial statements of the Company during the period owned by the Company was $41,167 and $3,987 in 2013, respectively, and $27,981 and $3,265 in 2012, respectively. The pro forma impact of the Company's Ohio acquisition was not material to our results of operations for the years ended December 31, 2012 and 2011. The purchase price allocation was as follows:

	May 1, 2012
Property, plant and equipment, net	$ 119,595
Current assets	6,852
Other long-term assets	7,525
Goodwill	1,679
Total assets acquired	135,651
Current liabilities	3,409
Long-term debt, excluding current portion	14,233
Other long-term liabilities	15,855
Total liabilities assumed	33,497
Net assets acquired	$ 102,154

In addition to the Company's acquisition in Ohio, during 2012, the Company completed 16 acquisitions of water and wastewater utility systems in various states. The total purchase price consisted of $19,094 in cash. The operating revenues included in the consolidated financial statements of the Company during the period owned by the Company were $4,033 in 2013 and $1,527 in 2012. The pro forma effect of the businesses acquired is not material to the Company's results of operations.

In June 2011, the Company completed its acquisition of approximately fifty-one water and five wastewater systems in Texas serving approximately 5,300 customers. The total purchase price consisted of $6,245 in cash. The operating revenues included in the consolidated financial statements of the Company during the period owned by the Company were $3,408 in 2013, $3,245 in 2012, and $1,826 in 2011. The pro forma effect of the businesses acquired is not material to the Company's results of operations.

In addition to the Company's acquisition in Texas, during 2011, the Company completed eight acquisitions of water and wastewater utility systems in various states. The total purchase price consisted of $2,270 in cash. The operating revenues included in the consolidated financial statements of the Company during the period owned by the Company were $708 in 2013, $644 in 2012, and $226 in 2011. The pro forma effect of the businesses acquired in 2011 is not material to the Company's results of operations.

Note 3 – Discontinued Operations and Other Dispositions

Discontinued Operations – In September 2012, the Company began to market for sale its water and wastewater operations in Florida, which served approximately 38,000 customers, and the Company's waste water treatment facility in Georgia. In March, April, and December 2013, through five separate sales transactions, we completed the sale of our water and wastewater utility systems in Florida, which concluded our regulated operations in Florida. The Company received total net proceeds from these sales of $88,934 and recognized a gain on sale of $21,178 ($13,766 after-tax). One of the Company's sales in Florida, which was completed in March 2013, and represented approximately 8% of our customers served in Florida, remains subject to customary regulatory review, for which we expect to receive the regulator's decision by midyear 2014. If the regulator does not approve this sale, the purchase price would be refunded and the assets sold would revert back to the Company. The Company has accounted for these operations as business held for sale. The sale of the Company's wastewater operation in Georgia will conclude the Company's operations in this state.

In July 2011, the Company entered into a definitive agreement with Connecticut Water Service, Inc. to sell its operations in Maine, which served approximately 16,000 customers, for cash at closing plus specific assumed liabilities, including debt of $17,364. On January 1, 2012, the Company completed the sale for net proceeds of $36,870, and recognized a gain on sale of $17,699 ($10,821 after-tax). In 2011, the Company recognized additional income tax expense of $4,008 for the additional deferred tax liabilities that arise from the difference between the stock and tax basis of the Company's investment in its Aqua Maine subsidiary.

In July 2011, the Company entered into a definitive agreement with American Water to sell its operations in New York for its book value at closing plus specific assumed liabilities, including debt of approximately $23,000. On May 1, 2012, the Company completed the sale for net proceeds of $36,688 in cash as adjusted pursuant to the sale agreement based on book value at closing. In 2012, the Company recognized a loss on sale of $2,736 ($1,874 after-tax), resulting from charges incurred from the sale. In 2011, the Company recognized additional income tax expense of $3,245 for the additional deferred tax liabilities that arise from the difference between the stock and tax basis of the Company's investment in its Aqua New York subsidiary. The Company's New York operations served approximately 51,000 customers.

The operating results, cash flows, and financial position of the Company's subsidiaries named above have been presented in the Company's consolidated statements of net income, consolidated statements of cash flow, and consolidated balance sheets as discontinued operations.

(In thousands of dollars, except per share amounts)

A summary of discontinued operations presented in the consolidated statements of net income includes the following:

	Years Ended December 31,		
	2013	2012	2011
Operating revenues	$ 12,264	$ 31,458	$ 67,391
Total operating expenses	8,710	24,286	49,617
Operating income	3,554	7,172	17,774
Other (income) expense:			
Gain on sale	(21,178)	(14,718)	-
Other expenses, net	-	1,397	3,495
Income from discontinued operations before income taxes	24,732	20,493	14,279
Provision for income taxes	8,425	8,017	12,893
Income from discontinued operations	$ 16,307	$ 12,476	$ 1,386

The assets and liabilities of discontinued operations presented in the consolidated balance sheets include the following:

	December 31,	
	2013	2012
Property, plant and equipment, at cost	$ 319	$ 128,463
Less: accumulated depreciation	119	48,856
Net property, plant and equipment	200	79,607
Current assets	594	4,656
Regulatory assets	-	2,034
Other assets	-	126
Assets of discontinued operations held for sale	794	86,423
Current liabilities	14,348	2,074
Deferred income taxes and investment tax credits	-	5,166
Contributions in aid of construction	-	15,560
Other liabilities	468	837
Liabilities of discontinued operations held for sale	14,816	23,637
Net (liabilities) assets	$ (14,022)	$ 62,786

Other Dispositions – The following dispositions have not been presented as discontinued operations in the Company's consolidated financial statements as the Company does not believe that disclosure of the following disposed water and wastewater utility systems as discontinued operations is meaningful to the reader of the financial statements for making investment decisions either individually or in the aggregate. The gains disclosed below are reported in the consolidated statements of net income as a reduction to operations and maintenance expense.

In June 2013, the Company sold a water and wastewater utility system for net proceeds of $3,400. The sale resulted in the recognition of a gain on sale of these assets, net of expenses, of $1,025 ($615 after-tax), and is reported in the consolidated statement of net income as a reduction to operations and maintenance expense. The utility system represented approximately 0.04% of the Company's total assets.

In June 2011, the Company sold a water and wastewater utility system for net proceeds of $4,106. The sale resulted in the recognition of a gain on the sale, net of expenses, of $2,692 ($1,615 after-tax), and is reported in the consolidated statement of net income as a reduction to operations and maintenance expense. The utility systems represented approximately 0.03% of the Company's total assets.

In May 2011, the Company sold its regulated water and wastewater operations in Missouri for net proceeds of $3,225. This sale of the Company's Missouri operations concluded its regulated utility operations in Missouri. The sale of the Company's utility operations in Missouri represented approximately 0.07% of the Company's total assets.

In January 2011, the Company sold a water and wastewater utility system for net proceeds of $3,118. The sale resulted in the recognition of a gain on the sale of these assets, net of expenses, of $2,452 ($1,471 after-tax), and is reported in the consolidated statement of net income as a reduction to operations and maintenance expense. The utility system represented approximately 0.01% of the Company's total assets.

The City of Fort Wayne, Indiana (the "City") has authorized the acquisition by eminent domain of the northern portion of the utility system of one of the Company's operating subsidiaries in Indiana, Utility Center Inc., (the "Northern Assets"). In January 2008, the Company reached a settlement with the City to transition the Northern Assets in February 2008 upon receipt of the City's initial valuation payment of $16,911. The settlement agreement specifically stated that the final valuation of the Northern Assets will be determined through a continuation of the legal proceedings that were filed challenging the City's valuation. On February 12, 2008, the Company turned over the Northern Assets to the City upon receipt of the initial valuation payment. The proceeds received by the Company are in excess of the book value of the assets relinquished. No gain has been recognized due to the contingency over the final valuation of the assets. The net book value of the Northern Assets has been removed from the consolidated balance sheet and the difference between the net book value and the initial payment received has been deferred and is recorded in other accrued liabilities on the Company's consolidated balance sheet. Once the contingency is resolved and the asset valuation is finalized, through the finalization of the litigation between the Company and the City, the amounts deferred will be recognized in the Company's consolidated statement of net income. On March 16, 2009, oral argument was held on procedural aspects with respect to the valuation evidence that may be presented and whether the Company is entitled to a jury trial. On October 12, 2010, the Wells County Indiana Circuit Court ruled that the Company is not entitled to a jury trial, and that the Wells County judge should review the City of Fort Wayne Board of Public Works' assessment based upon a "capricious, arbitrary or an abuse of discretion" standard. The Company disagreed with the Court's decision and appealed the Wells County Indiana Circuit Court's decision to the Indiana Court of Appeals. On January 13, 2012, the Indiana Court of Appeals reached a decision upholding the Wells County Indiana Circuit Court decision. On February 10, 2012, the Company filed a petition for transfer requesting that the Indiana Supreme Court review the matter. On April 11, 2013, the Supreme Court of Indiana ruled that the statute at issue gives the Company the right to a full evidentiary hearing before a jury regarding the value of the assets and remanded the case to the trial court for a proceeding consistent with that ruling. The Company continues to evaluate its legal options with respect to this decision. Depending upon the outcome of all of the legal proceedings, including the planned transaction below, which would resolve this litigation, the Company may be required to refund a portion of the initial valuation payment, or may receive additional proceeds. The Northern Assets relinquished represents approximately 0.4% of the Company's total assets.

In addition, in December 2012, the Fort Wayne City Council considered an ordinance that sought to declare it a "public convenience and necessity" to acquire some of the Company's water utility system assets located in the southwest section of the City and in Allen County (the "Southern Assets"), and if negotiations with Fort Wayne officials were to fail, to condemn the Southern Assets. The first public hearing on the ordinance was held on January 22, 2013 and a subsequent hearing scheduled for February 5, 2013 was not held due to ongoing settlement discussions between the parties. On July 2, 2013, the Company's operating subsidiary and the City signed a letter of intent, which among other items, addresses many of the terms by which the City would purchase the Company's Southern Assets, will resolve the litigation between the Company and the City with respect to the Northern Assets, and will establish the terms by which the Company's operating subsidiary will treat wastewater sent to it by the City. The letter of intent states that the City agrees to pay the Company $50,100 for the Northern Assets and Southern Assets in addition to the $16,911 paid to the Company by the City in 2008 as an initial valuation payment for the Northern Assets (for a total payment of $67,011). The letter of intent is conditioned on the Company's Board of Directors and City Council approving the final terms of the proposed transaction, and the Company and the City entering into several definitive agreements that detail the subject matter of the letter of intent. On February 27, 2014, the Company's Board of Directors authorized management to enter into agreements with the City on terms and conditions that are consistent with the July 2, 2013 letter of intent, for among other items, the sale of the Company's Northern Assets and Southern Assets to the City. Further, the completion of the transaction is subject to regulatory requirements and approval. If this transaction is consummated, the Company will expand its sewer customer base in the City. The completion of the transaction is not expected to close until the third quarter of 2014. The Company continues to evaluate its legal and operational options on an ongoing basis.

(In thousands of dollars, except per share amounts)

Note 4 – Property, Plant and Equipment

	December 31, 2013	December 31, 2012	Approximate Range of Useful Lives	Weighted Average Useful Life
Utility plant and equipment:				
Mains and accessories	$ 2,353,812	$ 2,190,078	26 to 92 years	76 years
Services, hydrants, treatment plants and reservoirs	1,361,534	1,275,221	5 to 85 years	48 years
Operations structures and water tanks	240,083	233,743	14 to 70 years	47 years
Miscellaneous pumping and purification equipment	639,314	594,687	5 to 90 years	37 years
Meters, data processing, transportation and operating equipment	610,257	573,899	4 to 78 years	26 years
Land and other non-depreciable assets	85,272	95,436	-	-
Utility plant and equipment	5,290,272	4,963,064		
Utility construction work in progress	116,259	107,944	-	-
Net utility plant acquisition adjustment	(27,466)	(31,347)	2 to 53 years (1)	19 years
Non-utility plant and equipment	8,787	10,739	4 to 25 years	6 years
Total property, plant and equipment	$ 5,387,852	$ 5,050,400		

(1) Net utility plant acquisition adjustment is generally being amortized from 2 to 53 years, except where not permitted.

Note 5 – Accounts Receivable

	December 31, 2013	December 31, 2012
Billed utility revenue	$ 56,569	$ 53,173
Unbilled utility revenue	33,624	33,590
Other	9,593	10,479
	99,786	97,242
Less allowance for doubtful accounts	4,430	4,321
Net accounts receivable	$ 95,356	$ 92,921

(In thousands of dollars, except per share amounts)

The Company's utility customers are located principally in the following states: 47% in Pennsylvania, 16% in Ohio, 10% in North Carolina, 8% in Texas, and 7% in Illinois. No single customer accounted for more than one percent of the Company's regulated operating revenues during the years ended December 31, 2013, 2012, and 2011. The following table summarizes the changes in the Company's allowance for doubtful accounts:

	2013	2012	2011
Balance at January 1,	$ 4,321	$ 4,485	$ 4,367
Amounts charged to expense	4,712	4,805	4,854
Accounts written off	(5,897)	(5,939)	(5,780)
Recoveries of accounts written off	1,294	970	1,044
Balance at December 31,	$ 4,430	$ 4,321	$ 4,485

Note 6 – Regulatory Assets and Liabilities

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

	December 31, 2013		December 31, 2012	
	Regulatory Assets	Regulatory Liabilities	Regulatory Assets	Regulatory Liabilities
Income taxes	$ 494,308	$ 223,592	$ 348,359	$ 192,551
Utility plant retirement costs	12,083	22,365	16,976	19,936
Post-retirement benefits	66,535	34,983	139,139	28,795
Water tank painting	1,715	-	2,836	-
Fair value adjustment of long-term debt assumed in acquisition	4,371	-	4,739	-
Rate case filing expenses & other	6,588	74	9,215	81
	$ 585,600	$ 281,014	$ 521,264	$ 241,363

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

The regulatory liability related to the catch up component of the Aqua Pennsylvania repair tax accounting change represents the tax benefits realized on the Company's 2012 tax return, which have not yet flowed-through as a reduction to income tax expense due to the ten year amortization period which began in 2013. This amortization was stipulated in a June 2012 rate order issued to Aqua Pennsylvania and is subject to specific parameters being met each year. During 2013, the Company amortized $15,766 of its deferred income tax benefits, which reduced income tax expense and increased the Company's net income.

The regulatory asset for utility plant retirement costs, including cost of removal, represents costs already incurred that are expected to be recovered in future rates over a five year recovery period. The regulatory liability for utility plant retirement costs represents amounts recovered through rates during the life of the associated asset and before the costs are incurred.

(In thousands of dollars, except per share amounts)

Post-retirement benefits include pension and other post-retirement benefits. A regulatory asset has been recorded at December 31, 2013 and 2012 for the costs that would otherwise be charged to stockholders' equity for the underfunded status of the Company's pension and other post-retirement benefit plans. The regulatory asset related to post-retirement benefits costs includes deferred expense in excess of amounts funded, which the Company believes will be recoverable in future years as funding of post-retirement benefits is required. The regulatory liability for post-retirement benefits represents costs recovered in rates in excess of post-retirement benefits expense.

Expenses associated with water tank painting are deferred and amortized over a period of time as approved in the regulatory process. Water tank painting costs are generally being amortized over a period ranging from 8 to 17 years.

The Company recorded a fair value adjustment for fixed rate, long-term debt assumed in acquisitions that matures in various years ranging from 2022 to 2029. The regulatory asset or liability results from the rate setting process continuing to recognize the historical interest cost of the assumed debt.

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

The regulatory asset related to the costs incurred for information technology software projects and water main cleaning and relining projects are described in Note 1 – Summary of Significant Accounting Policies – Property, Plant and Equipment and Depreciation.

Note 7 – Income Taxes

The provision for income taxes for the Company's continuing operations consists of:

	Years Ended December 31,		
	2013	2012	2011
Current:			
Federal	$ (9,891)	$ (13,854)	$ (936)
State	5,839	3,172	(2,063)
	(4,052)	(10,682)	(2,999)
Deferred:			
Federal	30,218	67,743	76,479
State	(3,476)	9,820	(4,369)
	26,742	77,563	72,110
Total tax expense	$ 22,690	$ 66,881	$ 69,111

The statutory Federal tax rate is 35% and for states with a corporate net income tax, the state corporate net income tax rates range from 5% to 9.99% for all years presented.

(In thousands of dollars, except per share amounts)

The reasons for the differences between amounts computed by applying the statutory Federal income tax rate to income before income tax expense for the Company's continuing operations are as follows:

	Years Ended December 31,		
	2013	2012	2011
Computed Federal tax expense at statutory rate	$ 79,689	$ 87,839	$ 73,778
Decrease in Federal tax expense related to repair tax accounting	(57,467)	(28,948)	-
State income taxes, net of federal tax benefit	1,536	8,445	(4,180)
Increase in tax expense for depreciation expense to be recovered in future rates	295	361	551
Stock-based compensation	(421)	(386)	(355)
Deduction for Aqua America common dividends paid under employee benefit plan	(414)	(387)	(345)
Amortization of deferred investment tax credits	(420)	(420)	(340)
Other, net	(108)	377	2
Actual income tax expense	$ 22,690	$ 66,881	$ 69,111

In December 2012, the Company changed its tax method of accounting for qualifying utility system repairs in Aqua Pennsylvania effective with the tax year ended December 31, 2012 and for prior tax years. The tax accounting method was changed to permit the expensing of qualifying utility asset improvement costs that were previously being capitalized and depreciated for book and tax purposes (the "Repair Change"). The Repair Change was implemented in response to a June 2012 rate order issued by the Pennsylvania Public Utility Commission to Aqua Pennsylvania ("settlement agreement") which provides for flow-through accounting treatment of some income tax benefits resulting from the Repair Change. As a result of this settlement agreement, the net 2012 income tax benefits of $33,565 reduced the Company's Federal and state income tax expense and flowed-through to net income in the fourth quarter of 2012. In 2013, the Company recorded additional income tax benefits of $14,908, as adjusted for the 2012 tax return. Similar to 2012, the Company recorded $45,647 of income tax benefits in 2013. The Company recognized a tax deduction on its 2012 Federal tax return of $380,000 for qualifying capital expenditures made prior to 2012 ("catch-up adjustment"), and based on the settlement agreement, in 2013, the Company began to amortize 1/10th of the catch-up adjustment. In accordance with the settlement agreement, the amortization is expected to reduce income tax expense during periods when qualifying parameters are met. During 2013, the Company amortized its catch-up adjustment and recognized $15,766 of deferred income tax benefits, which reduced income tax expense and increased the Company's net income. The Company's effective income tax rate for 2013, 2012, and 2011, for its continuing operations, was 10.0%, 26.6%, and 32.8%, respectively.

During 2013, additional income tax benefits were recognized of $17,736, related to a change in the Company's tax method of accounting for qualifying utility system repairs in some non-Pennsylvania operating divisions. These divisions currently do not employ a flow-through method of accounting and as such the change in the Company's tax method of accounting in these operating divisions had no impact on the Company's effective income tax rate.

In September 2013, the Department of Treasury and the Internal Revenue Service issued "Guidance Regarding Deduction and Capitalization of Expenditures Related to Tangible Property" which contains standards for determining whether and when a taxpayer must capitalize costs incurred in acquiring, maintaining or improving tangible property. These regulations will be effective for the Company's 2014 fiscal year and early adoption is available. The Company has reviewed the regulations and concluded that the regulations will not have a material impact on the Company's consolidated results of operations or consolidated financial position when they are fully adopted.

(In thousands of dollars, except per share amounts)

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

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

Balance at January 1, 2013	$	-
Additions based on tax position related to the current year		28,690
Balance at December 31, 2013	$	28,690

The unrecognized tax benefits relate to the Repair Change, and the tax position is attributable to a temporary difference. As a result of the regulatory treatment afforded by the Repair Change in Pennsylvania and despite this position being a temporary difference, as of December 31, 2013, $9,795 of these tax benefits would have an impact on the Company's effective income tax rate in the event the Company does sustain all, or a portion, of its tax position. The Company does not anticipate material changes to its unrecognized tax benefits within the next year.

The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 was enacted on December 17, 2010 and provided for a 100 percent expensing allowance for qualifying capital additions placed in service after September 8, 2010 through tax year 2011, and extended 50 percent bonus depreciation for qualifying capital additions for tax year 2012. In February 2011, one of the Company's state tax jurisdictions issued guidance that it would recognize the 100% expensing allowance in the 2011 tax year. As a result of this guidance and the flow-through treatment afforded by that state's regulatory commission, the net state income tax benefit reduced the Company's 2011 state income tax expense by $14,800 and reduced the Company's effective state income tax rate. The American Tax Relief Act of 2012 was enacted on January 1, 2013 and provided for an extension of the 50% bonus depreciation for qualifying capital additions for tax year 2013.

(In thousands of dollars, except per share amounts)

The following table provides the components of the net deferred tax liability from continuing operations:

	December 31, 2013	December 31, 2012
Deferred tax assets:		
Customers' advances for construction	$ 26,732	$ 26,820
Costs expensed for book not deducted for tax, principally accrued expenses	11,085	13,124
Utility plant acquisition adjustment basis differences	9,922	12,496
Post-retirement benefits	19,311	45,015
Tax loss carryfoward	128,688	111,452
Other	3,133	2,360
	198,871	211,267
Less valuation allowance	6,431	7,506
	192,440	203,761
Deferred tax liabilities:		
Utility plant, principally due to depreciation and differences in the basis of fixed assets due to variation in tax and book accounting	881,007	772,006
Deferred taxes associated with the gross-up of revenues necessary to recover, in rates, the effect of temporary differences	112,307	66,361
Tax effect of regulatory asset for post-retirement benefits	19,311	45,015
Deferred investment tax credit	7,657	5,928
	1,020,282	889,310
Net deferred tax liability	$ 827,842	$ 685,549

At December 31, 2013, the Company has a cumulative Federal net operating loss ("NOL") of $258,094. The Company believes the Federal NOLs are more likely than not to be recovered and require no valuation allowance. The Company's Federal NOLs do not begin to expire until 2031.

In 2012 and 2011, as a result of the Company's Federal cumulative NOLs the Company ceased recognizing the windfall tax benefit associated with stock-based compensation, because the deduction did not reduce income taxes payable. Upon realization of the Company's Federal NOLs, the Company will recognize a windfall tax benefit of $4,822.

At December 31, 2013 the Company has a cumulative state NOL of $531,160, a portion of which is offset by a valuation allowance because the Company does not believe these NOLs are more likely than not to be realized. The state NOLs do not begin to expire until 2023.

The Company has unrecognized tax positions that result in the associated tax benefit being unrecognized. The Company's Federal and state NOL carryforwards are reduced by an unrecognized tax position, on a gross basis, of $62,219 and $86,016, respectively, which results from the Company's adoption in 2013 of the FASB's accounting guidance on the presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The amounts of the Company's Federal and state NOL carryforwards prior to being reduced by the unrecognized tax positions are $320,313 and $617,176, respectively. The Company records its unrecognized tax benefit as a reduction to its deferred income tax liability.

(In thousands of dollars, except per share amounts)

As of December 31, 2013, the Company's Federal income tax returns for all years through 2011 have been closed. Tax years 2012 through 2013 remain open to Federal examination. The statute remains open for the Company's state income tax returns for tax years 2010 through 2013 in the various states the Company's conducts business in. In 2013, the Company's Illinois subsidiary's state income tax audit for tax years 2008 and 2009 was completed, which resulted in no significant audit adjustments.

Note 8 – Taxes Other than Income Taxes

The following table provides the components of taxes other than income taxes:

	Years Ended December 31,		
	2013	2012	2011
Property	$ 25,764	$ 21,550	$ 16,618
Capital Stock	2,127	3,196	3,559
Gross receipts, excise and franchise	11,857	10,060	9,408
Payroll	7,452	6,967	6,441
Other	6,068	5,631	5,423
Total taxes other than income	$ 53,268	$ 47,404	$ 41,449

Note 9 – Commitments and Contingencies

The following disclosures reflect commitments and contingencies for the Company's continuing operations.

Commitments – The Company leases motor vehicles, buildings and other equipment under operating leases that are noncancelable. The future annual minimum lease payments due are as follows:

2014	2015	2016	2017	2018	Thereafter
$ 2,072	$ 1,443	$ 862	$ 481	$ $202	$ 361

The Company leases parcels of land on which treatment plants and other facilities are situated and adjacent parcels that are used for watershed protection. The operating leases are noncancelable, expire between 2014 and 2051 and contain renewal provisions. Some leases are subject to an adjustment every five years based on changes in the Consumer Price Index. Subject to the aforesaid adjustment, during each of the next five years, an average of $571 of annual lease payments for land is due, and the aggregate of the years remaining approximates $13,531. The Company leases treatment plants to other parties under lease agreements that require payments to the Company of:

2014	2015	2016	2017	2018	Thereafter
$ 494	$ 531	$ 531	$ 531	$ 531	$ 3,100

The Company maintains agreements with other water purveyors for the purchase of water to supplement its water supply, particularly during periods of peak demand. The agreements stipulate purchases of minimum quantities of water to the year 2026. The estimated annual commitments related to such purchases through 2018 are expected to average $10,273 and the aggregate of the years remaining approximates $28,548.

(In thousands of dollars, except per share amounts)

The Company has entered into purchase obligations, in the ordinary course of business, that include agreements for water treatment processes at some of its wells in a small number of its divisions. The 20 year term agreement provides for the use of treatment equipment and media used in the treatment process and are subject to adjustment based on changes in the Consumer Price Index. The future contractual cash obligation related to these agreements are as follows:

2014	2015	2016	2017	2018	Thereafter
$ 945	$ 965	$ 986	$ 1,007	$ 1,029	$ 11,402

In addition, as of December 31, 2013, the estimated capital expenditures required under legal and binding long-term contracts are approximately $4,200 in 2017.

Rent expense under operating leases, purchased water expense, and water treatment expenses under these agreements were as follows:

	Years Ended December 31,		
	2013	2012	2011
Operating lease expense	$ 3,413	$ 3,850	$ 3,553
Purchased water under long-term agreements	12,923	11,796	14,507
Water treatment expense under contractual agreement	926	897	865

Contingencies – The Company is routinely involved in various disputes, claims, lawsuits and other regulatory and legal matters, including both asserted and unasserted legal claims, in the ordinary course of business. The status of each such matter, referred to herein as a loss contingency, is reviewed and assessed in accordance with applicable accounting rules regarding the nature of the matter, the likelihood that a loss will be incurred, and the amounts involved. As of December 31, 2013, the aggregate amount of $11,342 is accrued for loss contingencies and is reported in the Company's consolidated balance sheet as other accrued liabilities and other liabilities. These accruals represent management's best estimate of probable loss (as defined in the accounting guidance) for loss contingencies or the low end of a range of losses if no single probable loss can be estimated. For some loss contingencies, the Company is unable to estimate the amount of the probable loss or range of probable losses. While the final outcome of these loss contingencies cannot be predicted with certainty, and unfavorable outcomes could negatively impact the Company, at this time in the opinion of management, the final resolution of these matters are not expected to have a material adverse effect on the Company's financial position, results of operations or cash flows. Further, Aqua America has insurance coverage for a number of these loss contingencies, and as of December 31, 2013, estimates that approximately $1,184 of the amount accrued for these matters are probable of recovery through insurance, which amount is also reported in the Company's consolidated balance sheet as deferred charges and other assets, net. The Company is involved in the following condemnation proceedings and legal matters, as described below:

- Refer to Note 3 – Discontinued Operations and Other Dispositions for a discussion of the Company's challenge to the valuation of the northern portion of its Fort Wayne, Indiana utility system that was turned over to the City of Fort Wayne, Indiana in February 2008.
- In 2006, a lawsuit was filed by two occupants of a house abutting a wastewater treatment plant facility owned by the Company's subsidiary in Florida. The lawsuit, as amended, alleged the plaintiffs sustained bodily injury and property damage due to the design, operation and maintenance of the plant. In January 2011, a trial was held which resulted in the judicial dismissal of the count for strict liability and jury verdicts in favor of the Company on the remaining counts. In June 2011, the plaintiffs agreed to dismiss their appeals and to release all claims against the Company's subsidiary and the Company, which resulted in the conclusion of the original plaintiffs' litigation against the

Company's subsidiary. In the third quarter of 2008, approximately thirty-five additional plaintiffs, associated with approximately eight other nearby homes, and represented by the same counsel as the original plaintiffs, filed a separate lawsuit making similar allegations against our Florida subsidiary with respect to the operation of the facility. The court severed the litigation so that the plaintiffs are grouped by the houses in which they lived and a separate trial was to be held for each of the households. Some of these plaintiffs testified in the trial of the original lawsuit in which all allegations were resolved in the Company's favor. The claims from the first of these households were expected to go to trial in May 2013. However, all of the plaintiffs in the 2008 lawsuit have entered into a confidential comprehensive settlement agreement and in October 2013, the court dismissed all claims of all the plaintiffs in that matter with prejudice, which completely concludes the 2008 litigation matter. The settlement is covered by the Company's insurance coverage. Based on the settlement agreement, the Company believes that the amount of loss is not material to the Company's consolidated results of operations or consolidated financial condition.

- One of the Company's subsidiaries acquired in 2008 had entered into a Consent Decree with the United States Environmental Protection Agency ("EPA") and received from the United States Department of Justice a proposed civil penalty related to alleged violations, which was estimated to be approximately $254. The Company's subsidiary had contested the appropriateness of earlier calculations of the proposed penalty based on sanitary sewer violations occurring prior to the acquisition of the subsidiary and the amount of the proposed penalty. A reserve has been accrued for this loss contingency as it is judged to be probable and the amount is estimable. On April 15, 2013, Company's subsidiary and the EPA and the Department of Justice submitted a proposed modification of the Consent Decree for approval by the Northern District of Indiana US District Court. The Court entered the modification on April 25, 2013. The modification includes the provision of operational compliance and implementation of a Capacity, Management, Operations, and Maintenance program for one year and a civil penalty of $254. The Company had withheld payment of an amount of shares of the Company's common stock to the sellers as a contingent indemnification offset related to the proceedings. Pursuant to further agreement with the sellers, the Company has retained a portion of those shares in an amount anticipated to cover penalty amounts and attendant costs, and in January 2013, released a number of shares to the sellers. The Company intends to release a final designated amount of shares to the seller that were withheld, which are in excess of the amount needed, to cover contingent increases in the absence of such contingent increases.

- In January 2014, the Company's subsidiary in Texas was notified by the Hays Trinity Groundwater Conservation District of alleged violations of its rules with potential fines totaling $227 for four of our water systems in which the unaccounted for water is alleged to exceed a certain level of the groundwater withdrawn from the district in 2013. The Company plans to challenge these potential fines and is unable to estimate the amount of the final fines.

Although the results of legal proceedings cannot be predicted with certainty, there are no other pending legal proceedings to which the Company or any of its subsidiaries is a party or to which any of its properties is the subject that are material or are expected to have a material effect on the Company's financial position, results of operations or cash flows.

In addition to the aforementioned loss contingencies, the Company self-insures its employee medical benefit program, and maintains stop-loss coverage to limit the exposure arising from these claims. The Company's reserve for these claims totaled $1,965 at December 31, 2013 and represents a reserve for unpaid claim costs, including an estimate for the cost of incurred but not reported claims.

Note 10 – Long-term Debt and Loans Payable

Long-term Debt – The consolidated statements of capitalization provide a summary of long-term debt as of December 31, 2013 and 2012. The supplemental indentures with respect to specific issues of the First Mortgage Bonds restrict the ability of Aqua Pennsylvania and other operating subsidiaries of the Company to declare dividends, in cash or property, or repurchase or otherwise acquire the stock of these companies. Loan agreements for Aqua Pennsylvania and other operating subsidiaries of the Company contain restrictions on minimum net assets. As of December 31, 2013, restrictions on the net assets of the Company were $1,102,879 of the total $1,535,043 in net assets. Included in this amount were restrictions on Aqua Pennsylvania's net assets of $818,514 of their total net assets of $1,168,863. As of December 31, 2013, approximately $864,000 of Aqua Pennsylvania's retained earnings of approximately $884,000 and approximately $79,000 of the retained earnings of approximately $127,000 of other subsidiaries were free of these restrictions. Some supplemental indentures also prohibit Aqua Pennsylvania and some other subsidiaries of the Company from making loans to, or purchasing the stock of, the Company.

(In thousands of dollars, except per share amounts)

Sinking fund payments are required by the terms of specific issues of long-term debt. Excluding amounts due under the Company's revolving credit agreement, the future sinking fund payments and debt maturities of the Company's long-term debt are as follows:

Interest Rate Range	2014	2015	2016	2017	2018	Thereafter
0.00% to 0.99%	$ 194	$ 437	$ 437	$ 437	$ 437	$ 3,093
1.00% to 1.99%	2,322	2,249	2,128	1,994	2,026	17,896
2.00% to 2.99%	1,030	1,056	1,083	1,112	1,143	9,479
3.00% to 3.99%	2,469	2,553	2,649	2,736	2,827	204,131
4.00% to 4.99%	27,260	272	11,087	11,096	11,111	557,871
5.00% to 5.99%	51,673	38,614	16,887	25,069	10,720	373,531
6.00% to 6.99%	-	12,000	-	8,923	13,000	31,000
7.00% to 7.99%	345	409	442	479	518	32,863
8.00% to 8.99%	295	405	437	473	512	17,161
9.00% to 9.99%	700	700	700	700	5,700	20,000
10.00% to 10.99%	-	-	-	-	6,000	-
Total	$ 86,288	$ 58,695	$ 35,850	$ 53,019	$ 53,994	$ 1,267,025

In October 2013, the Company's operating subsidiary, Aqua Pennsylvania, Inc., issued $75,000 of first mortgage bonds, of which $25,000 is due in 2031, $25,000 in 2045, and $25,000 in 2046 with interest rates of 3.94%, 4.61%, and 4.62%, respectively. The proceeds from these bonds were used to repay existing indebtedness and for general corporate purposes.

In May 2013, the Company's operating subsidiary, Aqua Ohio, Inc., issued $85,000 of first mortgage bonds, of which $35,000 is due in 2033, $30,000 is 2044, and $20,000 in 2048 with interest rates of 3.75%, 4.18%, and 4.43%, respectively. The proceeds from these bonds were used to repay existing indebtedness and for general corporate purposes.

In November 2012, Aqua Pennsylvania issued $80,000 of first mortgage bonds, secured by a supplement to its first mortgage indenture, of which $40,000 is due in 2041, $20,000 is due in 2042, and $20,000 is due in 2047 with interest rates of 3.79%, 3.80%, and 3.85% respectively. The proceeds were used to refinance higher coupon first mortgage bonds and pay down our revolving credit facility.

In June 2012, the Company issued $50,000 of senior unsecured notes due in 2027 with an interest rate of 3.57%. The proceeds were used to fund the Company's capital expenditures.

As of December 31, 2013, the trustee for one issue held $47 pending construction of the projects to be financed with the issue of bonds in 2012 which is reported in the consolidated balance sheet as funds restricted for construction activity.

The weighted average cost of long-term debt at December 31, 2013 and 2012 was 5.00% and 4.81%, respectively. The weighted average cost of fixed rate long-term debt at December 31, 2013 and 2012 was 5.00% and 5.06%, respectively.

In March 2012, the Company entered into a five-year $150,000 unsecured revolving credit facility with three banks that expires in March 2017. Included within this facility is a $15,000 sublimit for daily demand loans. Funds borrowed under this facility are classified as long-term debt and are used to provide working capital. The Company's $150,000 unsecured revolving credit facility replaced the Company's prior $95,000 unsecured revolving credit facility, which expired in May 2012. As of December 31, 2013, the Company has the following sublimits and available capacity under the credit facility: $50,000 letter of credit sublimit, $25,572 of letters of credit available capacity, $0 borrowed under the swing-line commitment, and $0 of funds borrowed under the agreement. Interest under this facility is based at the Company's option, on the prime rate, an adjusted Euro-Rate, an adjusted federal funds rate or at rates offered by the banks. A facility fee is charged on the total commitment amount of the agreement. Under this facility the average cost of borrowings was 0.83% and 0.85%, and the average borrowing was $26,954 and $68,609, during 2013 and 2012, respectively.

The Company is obligated to comply with covenants under some of its loan and debt agreements. These covenants contain a number of restrictive financial covenants, which among other things limit, subject to specific exceptions, the Company's ratio of consolidated total indebtedness to consolidated total capitalization, and require a minimum level of earnings coverage over interest expense. During 2013, the Company was in compliance with its debt covenants under its credit facilities. Failure to comply with the Company's debt covenants could result in an event of default, which could result in the Company being required to repay or finance its borrowings before their due date, possibly limiting the Company's future borrowings, and increasing its borrowing costs.

Loans Payable – In November 2013, Aqua Pennsylvania renewed its $100,000 364-day unsecured revolving credit facility with four banks. The funds borrowed under this agreement are classified as loans payable and used to provide working capital. As of December 31, 2013 and 2012, funds borrowed under the agreement were $30,000 and $70,902, respectively. Interest under this facility is based, at the borrower's option, on the prime rate, an adjusted federal funds rate, an adjusted London Interbank Offered Rate corresponding to the interest period selected, an adjusted Euro-Rate corresponding to the interest period selected or at rates offered by the banks. This agreement restricts short-term borrowings of Aqua Pennsylvania. A commitment fee of 0.075% is charged on the total commitment amount of Aqua Pennsylvania's revolving credit agreement. The average cost of borrowing under the facility was 0.89% and 0.94%, and the average borrowing was $75,621 and $78,525, during 2013 and 2012, respectively. The maximum amount outstanding at the end of any one month was $96,103 and $89,973 in 2013 and 2012, respectively.

At December 31, 2013 and 2012, the Company had other combined short-term lines of credit of $60,500. Funds borrowed under these lines are classified as loans payable and are used to provide working capital. As of December 31, 2013 and 2012, funds borrowed under the short-term lines of credit were $6,740 and $9,481, respectively. The average borrowing under the lines was $11,531 and $15,583 during 2013 and 2012, respectively. The maximum amount outstanding at the end of any one month was $17,081 and $22,941 in 2013 and 2012, respectively. Interest under the lines is based at the Company's option, depending on the line, on the prime rate, an adjusted Euro-Rate, an adjusted federal funds rate or at rates offered by the banks. The average cost of borrowings under all lines during 2013 and 2012 was 1.67% and 1.83%, respectively.

Interest Income – Interest income of $438, $372, and $757 was netted against interest expense on the consolidated statement of net income for the years ended December 31, 2013, 2012, and 2011, respectively. The total interest cost was $77,754, $78,129, and $78,561 in 2013, 2012, and 2011, including amounts capitalized of $2,274, $4,142, and $7,150, respectively.

Note 11 – Fair Value of Financial Instruments

Financial instruments are recorded at carrying value in the financial statements and approximate fair value as of the dates presented. The fair value of these instruments is disclosed below in accordance with current accounting guidance related to financial instruments.

The fair value of funds restricted for construction activity and loans payable are determined based on their carrying amount and utilizing level 1 methods and assumptions. As of December 31, 2013 and 2012, the carrying amount of the Company's funds restricted for construction activity was $47 and $23,572, respectively, which equates to their estimated fair value. As of December 31, 2013 and 2012, the carrying amount of the Company's loans payable was $36,740 and $80,383, respectively, which equates to their estimated fair value. The fair value of cash and cash equivalents, which is comprised of a money market fund, is determined based on the net asset value per unit utilizing level 2 methods and assumptions. As of December 31, 2013 and 2012, the carrying amounts of the Company's cash and cash equivalents were $5,058 and $5,521, which equates to their fair value.

(In thousands of dollars, except per share amounts)

The carrying amount and estimated fair value of the Company's long-term debt are as follows:

	December 31,			
	2013		2012	
Carrying amount	$	1,554,871	$	1,588,992
Estimated fair value		1,540,296		1,702,997

The fair value of long-term debt has been determined by discounting the future cash flows using current market interest rates for similar financial instruments of the same duration utilizing level 2 methods and assumptions. The Company's customers' advances for construction have a carrying value of $74,257 and $71,595 at December 31, 2013 and 2012, respectively. Their relative fair values cannot be accurately estimated because future refund payments depend on several variables, including new customer connections, customer consumption levels and future rate increases. Portions of these non-interest bearing instruments are payable annually through 2028 and amounts not paid by the contract expiration dates become non-refundable. The fair value of these amounts would, however, be less than their carrying value due to the non-interest bearing feature.

Note 12 – Stockholders' Equity

At December 31, 2013, the Company had 300,000,000 shares of common stock authorized; par value $0.50. Shares outstanding and treasury shares held were as follows:

	December 31,		
	2013	2012	2011
Shares outstanding	176,750,599	175,209,082	173,518,872
Treasury shares	1,178,323	776,355	710,482

At December 31, 2013, the Company had 1,738,619 shares of authorized but unissued Series Preferred Stock, $1.00 par value.

In May 2013, the Board of Directors of the Company approved a five-for-four stock split to be effected in the form of a 25% stock distribution to shareholders of record on August 16, 2013. Common shares outstanding do not include shares held by the Company in treasury. The new shares were distributed on September 1, 2013. Aqua America's par value of $0.50 per share did not change as a result of the common stock distribution, and $17,655 was transferred from capital in excess of par value to common stock to record the stock split. All common share, per common share, stock unit, and per stock unit data, for all periods presented, has been adjusted to give effect to the stock split.

In February 2012, the Company renewed its universal shelf registration, which expired in December 2011, through a filing with the Securities and Exchange Commission ("SEC") to allow for the potential future sale by the Company, from time to time, in one or more public offerings, of an indeterminate amount of our common stock, preferred stock, debt securities and other securities specified therein at indeterminate prices.

The Company has a shelf registration statement filed with the SEC to permit the offering from time to time of shares of common stock and shares of preferred stock in connection with acquisitions. The balance remaining available for use under the acquisition shelf registration as of December 31, 2013 is 1,904,487 shares. The form and terms of any securities issued under these shelf registrations will be determined at the time of issuance.

The Company has a Dividend Reinvestment and Direct Stock Purchase Plan ("Plan") that allows reinvested dividends to be used to purchase shares of common stock at a five percent discount from the current market value. Under the direct stock purchase program, shares are purchased by investors at market price. The shares issued under the Plan are either original issue shares or shares purchased by the Company's transfer agent in the open-market. During 2013, 2012, and 2011, under the dividend reinvestment portion of the Plan, 432,894, 711,740, and 735,931 original issue shares of common stock were sold providing the Company with proceeds of $10,107, $12,921, and $12,304, respectively. In 2013, 154,900 shares of the Company were purchased under the dividend reinvestment portion of the Plan by the Company's transfer agent in the open-market for $3,693.

In October 2013, the Company's Board of Directors approved a resolution authorizing the Company to purchase, from time to time, up to 685,348 shares of its common stock in the open market or through privately negotiated transactions. This authorization renewed the number of shares that had remained, when affected for stock splits, from an existing share buy-back authorization from 1997. The specific timing, amount and other terms of repurchases will depend on market conditions, regulatory requirements and other factors. As of December 31, 2013, 685,348 shares remain available for repurchase.

The Company's accumulated other comprehensive income is reported in the stockholders' equity section of the consolidated balance sheets, the consolidated statements of equity, and the related components of other comprehensive income are reported in the consolidated statements of comprehensive income. The Company reports its unrealized gains or losses on investments as other comprehensive income and accumulated other comprehensive income. The Company recorded a regulatory asset for its underfunded status of its pension and post-retirement benefit plans that would otherwise be charged to other comprehensive income, as it anticipates recovery of its costs through customer rates.

Note 13 – Net Income per Common Share and Equity per Common Share

Basic net income per share is based on the weighted average number of common shares outstanding. Diluted net income per share is based on the weighted average number of common shares outstanding and potentially dilutive shares. The dilutive effect of employee stock-based compensation is included in the computation of diluted net income per share. The dilutive effect of stock-based compensation is calculated using the treasury stock method and expected proceeds upon exercise or issuance of the stock-based compensation. The following table summarizes the shares, in thousands, used in computing basic and diluted net income per share:

	Years ended December 31,		
	2013	2012	2011
Average common shares outstanding during the period for basic computation	176,140	174,201	172,727
Effect of dilutive securities:			
Employee stock-based compensation	674	717	634
Average common shares outstanding during the period for diluted computation	176,814	174,918	173,361

For the year ended December 31, 2013, all of the Company's employee stock options were included in the calculation of diluted net income per share as the calculated cost to exercise the stock options was less than the average market price of the Company's common stock during this period.

(In thousands of dollars, except per share amounts)

For the years ended December 31, 2012, and 2011, employee stock options to purchase 534,315 and 1,157,875 shares of common stock, respectively, were excluded from the calculations of diluted net income per share as the calculated proceeds from the options' exercise were greater than the average market price of the Company's common stock during these periods.

Equity per common share was $8.68 and $7.91 at December 31, 2013 and 2012, respectively. These amounts were computed by dividing Aqua America stockholders' equity by the number of shares of common stock outstanding at the end of each year.

Note 14 – Employee Stock and Incentive Plan

Under the Company's 2009 Omnibus Equity Compensation Plan (the "2009 Plan"), as approved by the Company's shareholders to replace the 2004 Equity Compensation Plan (the "2004 Plan"), stock options, stock units, stock awards, stock appreciation rights, dividend equivalents, and other stock-based awards may be granted to employees, non-employee directors, and consultants and advisors. The 2009 Plan authorizes 6,250,000 shares for issuance under the plan. A maximum of 50% of the shares available for issuance under the 2009 Plan may be issued as stock awards or share units and the maximum number of shares that may be subject to grants under the Plan to any one individual in any one year is 250,000. Shares issued under the 2009 Plan may be original issue shares, the issuance of treasury shares, or shares purchased by the Company in the open-market. Awards under the 2009 Plan are made by a committee of the Board of Directors. At December 31, 2013, 4,680,779 shares underlying stock-based compensation awards were still available for grant under the 2009 Plan. No further grants may be made under the 2004 plan.

Performance Share Units – During 2013, 2012, and 2011, the Company granted performance share units. A performance share unit ("PSU") represents the right to receive a share of the Company's common stock if specified performance goals are met over the three year performance period specified in the grant, subject to exceptions through the respective vesting periods, generally three years. Each grantee is granted a target award of PSUs, and may earn between 0% and 200% of the target amount depending on the Company's performance against the performance goals, which consist of the following metrics for the 2012 and 2011 grants: 25% of the PSUs will be earned based on the Company's total shareholder return ("TSR") compared to the TSR for the companies listed in the Standard and Poor's Midcap Utilities Index (a market-based condition), 25% of the PSUs will be earned based on the Company's TSR compared to the TSR for a specific peer group of six other investor-owned water companies (a market-based condition), and 50% of the PSUs will be earned based on the Company's three-year compound annual growth rate ("CAGR") in earnings per share ("EPS") compared to a target EPS CAGR of 5% (a performance-based condition), and for the 2013 grant: 30% of the PSUs will be earned based on the Company's TSR compared to the TSR for a specific peer group of six other investor-owned water companies (a market-based condition), 30% of the PSUs will be earned based on the Company's TSR compared to the TSR for the companies listed in the Standard and Poor's Midcap Utilities Index (a market-based condition), 20% of the PSUs will be earned based on maintaining an average ratio of operations and maintenance expenses as a percentage of revenues at Aqua Pennsylvania compared to a target average ratio for the three year performance period (a performance-based condition), and 20% of the PSUs will be earned based on earning a cumulative total earnings before taxes for the Company operations other than Aqua Pennsylvania for the three year performance period compared to a target (a performance-based condition).

The following table provides compensation costs for PSUs:

	Years ended December 31,		
	2013	2012	2011
Stock-based compensation within operations and maintenance expense	$ 3,451	$ 2,552	$ 943
Income tax benefit	1,406	1,040	384

(In thousands of dollars, except per share amounts)

The following table summarizes nonvested PSU transactions for the year ended December 31, 2013:

	Number of Share Units	Weighted Average Fair Value
Nonvested share units at beginning of period	414,168	$ 18.82
Granted	166,641	26.88
Performance criteria adjustment	(15,165)	18.21
Forfeited	(19,552)	21.74
Vested	(18,000)	19.51
Share unit awards issued	-	-
Nonvested share units at end of period	528,092	$ 21.25

A portion of the fair value of PSUs was estimated at the grant date based on the probability of satisfying the market-based conditions associated with the PSUs using the Monte Carlo valuation method. The other portion of the fair value of the PSUs associated with performance-based conditions was based on the fair market value of the Company's stock at the grant date, regardless of whether the market-based condition is satisfied. The fair value of each PSU grant is amortized into compensation expense on a straight-line basis over their respective vesting periods, generally 36 months. The accrual of compensation costs is based on an estimate of the final expected value of the award, and is adjusted as required for the portion based on the performance-based condition. The Company assumes that forfeitures will be minimal, and recognizes forfeitures as they occur, which results in a reduction in compensation expense. As the payout of the PSUs includes dividend equivalents, no dividend yield assumption is required in calculating the fair value of the PSUs. The recording of compensation expense for PSUs has no impact on net cash flows. The following table provides the assumptions used in the pricing model for the grant and the resulting grant date fair value of PSUs:

	Years ended December 31,		
	2013	2012	2011
Expected term (years)	3.0	3.0	3.0
Risk-free interest rate	0.36%	0.43%	1.22%
Expected volatility	20.0%	22.1%	29.7%
Weighted average fair value of PSUs granted	$ 26.88	$ 19.11	$ 19.50

As of December 31, 2013, $4,486 of unrecognized compensation costs related to PSUs is expected to be recognized over a weighted average period of approximately 1.6 years. The intrinsic value of vested PSUs for the year ended December 31, 2013 was $415. The aggregate intrinsic value of PSUs as of December 31, 2013 was $12,458. The aggregate intrinsic value of PSUs is based on the number of nonvested share units and the market value of the Company's common stock as of the period end date.

(In thousands of dollars, except per share amounts)

Restricted Stock Units – A restricted stock unit ("RSU") represents the right to receive a share of the Company's common stock and is valued based on the fair market value of the Company's stock on the date of grant. RSUs are eligible to be earned at the end of a specified restricted period, generally three years, beginning on the date of grant. In some cases, the right to receive the shares is subject to specific performance goals established at the time the grant is made. The Company assumes that forfeitures will be minimal, and recognizes forfeitures as they occur, which results in a reduction in compensation expense. The following table provides compensation costs for RSUs:

	Years ended December 31,		
	2013	2012	2011
Stock-based compensation within operations and maintenance expense	$ 813	$ 634	$ 342
Income tax benefit	336	262	142

The following table summarizes nonvested RSU transactions for the year ended December 31, 2013:

	Number of Stock Units	Weighted Average Fair Value
Nonvested stock units at beginning of period	85,597	$ 17.89
Granted	48,133	23.28
Vested	(19,500)	17.83
Forfeited	(1,564)	20.78
Nonvested stock units at end of period	112,666	$ 20.16

The following table summarizes the value of RSUs:

	Years ended December 31,		
	2013	2012	2011
Weighted average fair value of RSUs granted	$ 23.28	$ 17.99	$ 17.77

As of December 31, 2013, $1,070 of unrecognized compensation costs related to RSUs is expected to be recognized over a weighted average period of approximately 1.6 years. The intrinsic value of vested RSUs for the years ended December 31, 2013 and 2012 was $449 and $247. The fair value of vested RSUs for the years ended December 31, 2013 and 2012 was $348 and $195. The aggregate intrinsic value of RSUs as of December 31, 2013 was $2,658. The aggregate intrinsic value of RSUs is based on the number of nonvested stock units and the market value of the Company's common stock as of the period end date.

Stock Options – The following table provides compensation costs for stock options:

	Years ended December 31,		
	2013	2012	2011
Stock-based compensation within operations and maintenance expense	$ 30	$ 612	$ 1,361
Income tax benefit	461	580	673

(In thousands of dollars, except per share amounts)

There were no stock options granted during the years ended December 31, 2013, 2012, and 2011. During the second quarter of 2011, the Company changed its estimation assumptions related to its historical stock option forfeitures which resulted in a favorable adjustment to compensation expense of $644 and additional income tax expense of $52.

The Company estimates forfeitures in calculating compensation expense instead of recognizing these forfeitures and the resulting reduction in compensation expense as they occur. The estimate of forfeitures will be adjusted over the vesting period to the extent that actual forfeitures differ, or are expected to differ, from such estimates. The recording of compensation expense for share-based compensation has no impact on net cash flows and results in the reclassification on the consolidated cash flow statements of related tax benefits from cash flows from operating activities to cash flows from financing activities to the extent these tax benefits exceed the associated compensation cost.

Options under the plans were issued at the closing market price of the stock on the day of the grant. Options are exercisable in installments of 33% annually, starting one year from the date of the grant and expire 10 years from the date of the grant. The fair value of each option was amortized into compensation expense on a straight-line basis over their respective 36 month vesting period, net of estimated forfeitures. The fair value of options was estimated at the grant date using the Black-Scholes option-pricing model, which relies on assumptions that require management's judgment.

The following table summarizes stock option transactions for the year ended December 31, 2013:

	Shares		Weighted Average Exercise Price	Weighted Average Remaining Life (years)		Aggregate Intrinsic Value
Options:						
Outstanding, beginning of year	3,121,388	$	16.65			
Granted	-		-			
Forfeited	-		-			
Expired	(17,189)		22.84			
Exercised	(1,566,089)		16.41			
Outstanding and exercisable at end of year	1,538,110	$	16.82	3.7	$	10,410

The intrinsic value of stock options is the amount by which the market price of the stock on a given date, such as at the end of the period or on the day of exercise, exceeded the closing market price of stock on the date of grant. The following table summarizes the aggregate intrinsic value of stock options exercised and the fair value of stock options which became vested:

	Years ended December 31,					
		2013		2012		2011
Intrinsic value of options exercised	$	10,410	$	5,547	$	3,071
Fair value of options vested		500		1,318		2,077

(In thousands of dollars, except per share amounts)

The following table summarizes information about the options outstanding and options exercisable as of December 31, 2013:

	Options Outstanding and Exercisable		
	Shares	Weighted Average Remaining Life (years)	Weighted Average Exercise Price
Range of prices:			
$12.00 - 12.99	78,471	0.2	$ 12.92
$13.00 - 14.99	451,318	3.7	14.04
$15.00 - 16.99	518,231	4.5	15.71
$17.00 - 19.99	236,157	3.2	18.61
$20.00 - 23.99	253,933	2.2	23.57
	1,538,110	3.7	$ 16.82

As of December 31, 2013, there was $0 of total unrecognized compensation cost related to nonvested stock options granted under the plans.

Restricted Stock – Restricted stock awards provide the grantee with the rights of a shareholder, including the right to receive dividends and to vote such shares, but not the right to sell or otherwise transfer the shares during the restriction period. Restricted stock awards result in compensation expense which is equal to the fair market value of the stock on the date of the grant and is amortized ratably over the restriction period. The Company expects forfeitures of restricted stock to be de minimis.

The following table provides compensation costs for restricted stock:

	Years ended December 31,		
	2013	2012	2011
Stock-based compensation within operations and maintenance expense	$ 770	$ 1,739	$ 1,800
Income tax benefit	320	721	740

The following table summarizes nonvested restricted stock transactions for the year ended December 31, 2013:

	Number of Shares	Weighted Average Fair Value
Nonvested shares at beginning of period	147,160	$ 15.38
Granted	16,000	25.09
Vested	(100,660)	15.49
Forfeited	-	-
Nonvested shares at end of period	62,500	$ 17.70

(In thousands of dollars, except per share amounts)

The following table summarizes the value of restricted stock awards:

	Years ended December 31,		
	2013	2012	2011
Intrinsic value of restricted stock awards vested	$ 2,236	$ 2,384	$ 2,020
Fair value of restricted stock awards vested	1,560	1,971	1,650
Weighted average fair value of restricted stock awards granted	25.09	18.47	17.77

As of December 31, 2013, $338 of unrecognized compensation costs related to restricted stock is expected to be recognized over a weighted average period of approximately 6 months. The aggregate intrinsic value of restricted stock as of December 31, 2013 was $1,474. The aggregate intrinsic value of restricted stock is based on the number of nonvested shares of restricted stock and the market value of the Company's common stock as of the period end date.

Note 15 – Pension Plans and Other Post-retirement Benefits

The Company maintains qualified, defined benefit pension plans that cover its full-time employees who were hired prior to April 1, 2003. Retirement benefits under the plans are generally based on the employee's total years of service and compensation during the last five years of employment. The Company's policy is to fund the plans annually at a level which is deductible for income tax purposes and which provides assets sufficient to meet its pension obligations over time. To offset some limitations imposed by the Internal Revenue Code with respect to payments under qualified plans, the Company has a non-qualified Supplemental Pension Benefit Plan for Salaried Employees in order to prevent some employees from being penalized by these limitations. The Company also has non-qualified Supplemental Executive Retirement Plans for some current and retired employees. The net pension costs and obligations of the qualified and non-qualified plans are included in the tables which follow. Employees hired after April 1, 2003 may participate in a defined contribution plan that provides a Company matching contribution on amounts contributed by participants and an annual profit-sharing contribution based upon a percentage of the eligible participants' compensation.

In addition to providing pension benefits, the Company offers Post-retirement Benefits other than Pensions ("PBOPs") to employees hired before April 1, 2003 and retiring with a minimum level of service. These PBOPs include continuation of medical and prescription drug benefits, or a cash contribution toward such benefits, for eligible retirees and life insurance benefits for eligible retirees. The Company funds its gross PBOP cost through various trust accounts. The benefits of retired officers and other eligible retirees are paid by the Company and not from plan assets due to limitations imposed by the Internal Revenue Code.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid in the years indicated:

	Pension Benefits	Other Post-retirement Benefits
Years:		
2014	$ 11,601	$ 1,680
2015	12,400	1,897
2016	13,212	2,177
2017	14,048	2,464
2018	14,948	2,760
2019-2023	87,278	17,027

(In thousands of dollars, except per share amounts)

The changes in the benefit obligation and fair value of plan assets, the funded status of the plans and the assumptions used in the measurement of the company's benefit obligation are as follows:

	Pension Benefits		Other Post-retirement Benefits	
	2013	2012	2013	2012
Change in benefit obligation:				
Benefit obligation at January 1,	$ 303,077	$ 237,087	$ 63,033	$ 50,189
Service cost	5,313	4,920	1,525	1,309
Interest cost	12,660	12,728	2,579	2,482
Actuarial (gain) loss	(30,223)	34,750	(9,024)	5,218
Plan participants' contributions	-	-	190	199
Benefits paid	(10,332)	(9,329)	(1,129)	(1,160)
Plan amendments	666	-	-	(392)
Acquisition	-	23,652	-	5,188
Settlements	-	(731)	-	-
Benefit obligation at December 31,	281,161	303,077	57,174	63,033
Change in plan assets:				
Fair value of plan assets at January 1,	190,084	148,912	34,054	28,131
Actual return on plan assets	36,517	17,153	5,800	2,019
Employer contributions	16,078	15,256	1,913	1,905
Benefits paid	(10,332)	(9,329)	(927)	(941)
Acquisition	-	18,823	-	2,940
Settlements	-	(731)	-	-
Fair value of plan assets at December 31,	232,347	190,084	40,840	34,054
Funded status of plan:				
Net amount recognized at December 31,	$ 48,814	$ 112,993	$ 16,334	$ 28,979

The Company's pension plans had an accumulated benefit obligation of $246,843 and $267,400 at December 31, 2013 and 2012, respectively. The following table provides the net liability recognized on the consolidated balance sheets at December 31,:

	Pension Benefits		Other Post-retirement Benefits	
	2013	2012	2013	2012
Current liability	$ 366	$ 222	$ -	$ -
Noncurrent liability	48,448	112,771	16,334	28,979
Net liability recognized	$ 48,814	$ 112,993	$ 16,334	$ 28,979

(In thousands of dollars, except per share amounts)

At December 31, 2013 and 2012, the Company's pension plans had benefit obligations in excess of its plan assets. The following tables provide the projected benefit obligation, the accumulated benefit obligation and fair market value of the plan assets as of December 31,:

	Projected Benefit Obligation Exceeds the Fair Value of Plan Assets	
	2013	2012
Projected benefit obligation	$ 281,161	$ 303,077
Fair value of plan assets	232,347	190,084

	Accumulated Benefit Obligation Exceeds the Fair Value of Plan Assets	
	2013	2012
Accumulated benefit obligation	$ 246,843	$ 267,400
Fair value of plan assets	232,347	190,084

(In thousands of dollars, except per share amounts)

The following table provides the components of net periodic benefit costs for the years ended December 31,:

	Pension Benefits			Other Post-retirement Benefits		
	2013	2012	2011	2013	2012	2011
Service cost	$ 5,313	$ 4,920	$ 4,127	$ 1,525	$ 1,309	$ 1,092
Interest cost	12,660	12,728	12,052	2,579	2,482	2,414
Expected return on plan assets	(14,770)	(13,588)	(11,731)	(2,268)	(1,950)	(1,689)
Amortization of transition obligation	-	-	-	-	-	104
Amortization of prior service cost	228	277	253	(295)	(299)	(268)
Amortization of actuarial loss	8,169	6,568	3,578	1,479	1,024	783
Amortization of regulatory asset	-	-	-	-	69	137
Settlement loss	-	304	-	-	90	-
Capitalized costs	(4,231)	(3,696)	(3,499)	(745)	(671)	(668)
Net periodic benefit cost	$ 7,369	$ 7,513	$ 4,780	$ 2,275	$ 2,054	$ 1,905

The Company records the underfunded status of its pension and other post-retirement benefit plans on its consolidated balance sheets and records a regulatory asset for these costs that would otherwise be charged to stockholders' equity, as the Company anticipates recoverability of the costs through customer rates. The Company's pension and other post-retirement benefit plans were underfunded at December 31, 2013 and 2012. Changes in the plans' funded status will affect the assets and liabilities recorded on the balance sheet. Due to the Company's regulatory treatment, the recognition of the funded status is recorded as a regulatory asset pursuant to the FASB's accounting guidance for regulated operations.

The following table provides the amounts recognized in regulatory assets that have not been recognized as components of net periodic benefit cost as of December 31,:

	Pension Benefits		Other Post-retirement Benefits	
	2013	2012	2013	2012
Net actuarial loss	$ 46,843	$ 106,980	$ 7,280	$ 21,315
Prior service cost (credit)	1,734	1,297	(682)	(977)
Total recognized in regulatory assets	$ 48,577	$ 108,277	$ 6,598	$ 20,338

The estimated net actuarial loss, prior service cost, and transition asset for the Company's pension plans that will be amortized in 2014 from the regulatory assets into net periodic benefit cost are $2,001, $277, and $0, respectively. The estimated net actuarial loss, prior service credit, and transition obligation for the Company's other post-retirement benefit plans that will be amortized in 2014 from regulatory assets into net periodic benefit cost are $329, $295, and $0, respectively.

Accounting for pensions and other post-retirement benefits requires an extensive use of assumptions about the discount rate, expected return on plan assets, the rate of future compensation increases received by the Company's employees, mortality, turnover and medical costs. Each assumption is reviewed annually with assistance from the Company's actuarial consultant who provides guidance in establishing the assumptions. The assumptions are selected to represent the average expected experience over time and may differ in any one year from actual experience due to changes in capital markets and the overall economy. These differences will impact the amount of pension and other post-retirement benefit expense that the Company recognizes.

(In thousands of dollars, except per share amounts)

The significant assumptions related to the Company's benefit obligations are as follows:

	Pension Benefits		Other Post-retirement Benefits	
	2013	2012	2013	2012
Weighted Average Assumptions Used to Determine Benefit Obligations as of December 31,				
Discount rate	5.12%	4.17%	5.12%	4.17%
Rate of compensation increase	4.0-4.5%	4.0-4.5%	4.0%	4.0%
Assumed Health Care Cost Trend Rates Used to Determine Benefit Obligations as of December 31,				
Health care cost trend rate	n/a	n/a	7.5%	8.0%
Rate to which the cost trend is assumed to decline (the ultimate trend rate)	n/a	n/a	5.0%	5.0%
Year that the rate reaches the ultimate trend rate	n/a	n/a	2019	2019

n/a – Assumption is not applicable to pension benefits.

The significant assumptions related to the Company's net periodic benefit costs are as follows:

	Pension Benefits			Other Post-retirement Benefits		
	2013	2012	2011	2013	2012	2011
Weighted Average Assumptions Used to Determine Net Periodic Benefit Costs for Years Ended December 31,						
Discount rate	4.17%	5.00%	5.75%	4.17%	5.00%	5.75%
Expected return on plan assets	7.50%	7.75%	7.8%	5.00-7.50%	5.17-7.75%	5.17-7.75%
Rate of compensation increase	4.0-4.5%	4.0-4.5%	4.0-4.5%	4.0%	4.0%	4.0%
Assumed Health Care Cost Trend Rates Used to Determine Net Periodic Benefit Costs for Years Ended December 31,						
Health care cost trend rate	n/a	n/a	n/a	8.0%	8.5%	9.0%
Rate to which the cost trend is assumed to decline (the ultimate trend rate)	n/a	n/a	n/a	5.0%	5.0%	5.0%
Year that the rate reaches the ultimate trend	n/a	n/a	n/a	2019	2019	2019

n/a – Assumption is not applicable to pension benefits.

(In thousands of dollars, except per share amounts)

Assumed health-care trend rates have a significant effect on the expense and liabilities for other post-retirement benefit plans. The health care trend rate is based on historical rates and expected market conditions. A one-percentage point change in the assumed health-care cost trend rates would have the following effects:

	1-Percentage-Point Increase	1-Percentage-Point Decrease
Effect on the health-care component of the accrued other post-retirement benefit obligation	$ 3,690	$ (3,490)
Effect on aggregate service and interest cost components of net periodic post-retirement health-care benefit cost	$ 308	$ (285)

The Company's discount rate assumption was determined by selecting a hypothetical portfolio of high quality corporate bonds appropriate to provide for the projected benefit payments of the plan. The selected bond portfolio was derived from a universe of Aa-graded corporate bonds, all of which were noncallable (or callable with make-whole provisions), and have at least $50,000 in outstanding value. The discount rate was then developed as the single rate that equates the market value of the bonds purchased to the discounted value of the plan's benefit payments. The Company's pension expense and liability (benefit obligations) increases as the discount rate is reduced. A 25 basis-point reduction in this assumption would have increased 2013 pension expense by $898 and the pension liabilities by $10,270.

The Company's expected return on assets is determined by evaluating the asset class return expectations with its advisors as well as actual, long-term, historical results of our asset returns. The Company's market related value of plan assets is equal to the fair value of the plan assets as of the last day of its fiscal year, and is a determinant for the expected return on assets which is a component of net pension expense. The Company's pension expense increases as the expected return on assets decreases. A 25 basis-point reduction in this assumption would have increased 2013 pension expense by $492. For 2013, the Company used a 7.50% expected return on assets assumption which will remain unchanged for 2014. The Company believes its actual long-term asset allocation on average will approximate the targeted allocation. The Company's investment strategy is to earn a reasonable rate of return while maintaining risk at acceptable levels through the diversification of investments across and within various asset categories. Investment returns are compared to benchmarks that include the S&P 500 Index, the Barclays Capital Intermediate Government/Credit Index, and a combination of the two indices. The Pension Committee meets semi-annually to review plan investments and management monitors investment performance quarterly through a performance report prepared by an external consulting firm.

The Company's pension plan asset allocation and the target allocation by asset class are as follows:

		Percentage of Plan Assets at December 31,	
	Target Allocation	2013	2012
Asset Class:			
Domestic equities	25 to 75%	65%	55%
International equities	0 to 10%	7%	8%
Fixed income	25 to 50%	24%	22%
Alternative investments	0 to 5%	1%	2%
Cash and cash equivalents	0 to 20%	3%	13%
Total	100%	100%	100%

(In thousands of dollars, except per share amounts)

The fair value of the Company's pension plans' assets at December 31, 2013 by asset class are as follows:

Asset Class:	Total	Level 1	Level 2	Level 3
Domestic equities (1)				
Common stocks	$ 149,456	$ 149,456	$ -	$ -
Mutual funds	2,215	2,215	-	-
International equities (2)	16,256	16,256	-	-
Fixed income (3)				
U.S. Treasury and government agency bonds	24,750	-	24,750	-
Corporate and foreign bonds	6,459	-	6,459	-
Mutual funds	24,640	24,640	-	-
Alternative investments (4)				
Real estate	1,950	1,950	-	-
Commodity funds	1,291	1,291	-	-
Cash and cash equivalents (5)	5,330	-	5,330	-
Total pension assets	$ 232,347	$ 195,808	$ 36,539	$ -

The fair value of the Company's pension plans' assets at December 31, 2012 by asset class are as follows:

Asset Class:	Total	Level 1	Level 2	Level 3
Domestic equities (1)				
Common stocks	$ 105,381	$ 105,381	$ -	$ -
International equities (2)	14,531	14,531	-	-
Fixed income (3)				
U.S. Treasury and government agency bonds	12,156	-	12,156	-
Corporate and foreign bonds	5,975	-	5,975	-
Mutual funds	23,226	23,226	-	-
Alternative investments (4)				
Real estate	2,890	2,890	-	-
Commodity funds	1,700	1,700	-	-
Cash and cash equivalents (5)	24,225	-	24,225	-
Total pension assets	$ 190,084	$ 147,728	$ 42,356	$ -

(1) Investments in common stocks are valued using unadjusted quoted prices obtained from active markets. Investments in mutual funds, which invest in common stocks, are valued using the net asset value per unit as obtained from quoted market prices for the mutual funds.

(2) Investments in international equities are valued using unadjusted quoted prices obtained from active markets.

(3) Investments in U.S. Treasury and government agency bonds and corporate and foreign bonds are valued by a pricing service which utilizes pricing models that incorporate available trade, bid, and other market information to value the fixed income securities. Investments in mutual funds, which invest in bonds, are valued using the net asset value per unit as obtained from quoted market prices in active markets for the mutual fund.

(4) Investments in real estate are comprised of investments in real estate funds and real estate investment trusts and are valued using unadjusted quoted prices obtained from active markets. Investments in commodity funds are valued using unadjusted quoted prices obtained from active markets.

(In thousands of dollars, except per share amounts)

(5) Cash is comprised of money market funds, which are valued utilizing the net asset value per unit based on the fair value of the underlying assets as determined by the fund's investment managers.

Equity securities include Aqua America, Inc. common stock in the amounts of $14,983 or 6.5% and $12,596 or 6.6% of total pension plans' assets as of December 31, 2013 and 2012, respectively.

The asset allocation for the Company's other post-retirement benefit plans and the target allocation by asset class are as follows:

		Percentage of Plan Assets at December 31,	
	Target Allocation	2013	2012
Asset Class:			
Domestic equities	25 to 75%	58%	40%
International equities	0 to 10%	5%	6%
Fixed income	25 to 50%	24%	26%
Alternative investments	0 to 5%	1%	1%
Cash and cash equivalents	0 to 20%	12%	27%
Total	100%	100%	100%

The fair value of the Company's other post-retirement benefit plans' assets at December 31, 2013 by asset class are as follows:

Asset Class:	Total	Level 1	Level 2	Level 3
Domestic equities (1)				
Common stocks	$ 12,811	$ 12,811	$ -	$ -
Mutual funds	10,977	10,977	-	-
International equities (2)	2,061	2,061	-	-
Fixed income (3)				
U.S. Treasury and government agency bonds	4,679	-	4,679	-
Corporate and foreign bonds	3,933	-	3,933	-
Mutual funds	1,393	1,393	-	-
Alternative investments (4)	162	162	-	-
Cash and cash equivalents (5)	4,824	-	4,824	-
Total other post-retirement assets	$ 40,840	$ 27,404	$ 13,436	$ -

(In thousands of dollars, except per share amounts)

The fair value of the Company's other post-retirement benefit plans' assets at December 31, 2012 by asset class are as follows:

Asset Class:	Total	Level 1	Level 2	Level 3
Domestic equities (1)				
Common stocks	$ 8,219	$ 8,219	$ -	$ -
Mutual funds	5,378	5,378	-	-
International equities (2)	1,895	1,895	-	-
Fixed income (3)				
U.S. Treasury and government agency bonds	4,751	-	4,751	-
Corporate and foreign bonds	2,735	-	2,735	-
Mutual funds	1,398	1,398	-	-
Alternative investments (4)	143	143	-	-
Cash and cash equivalents (5)	9,535	-	9,535	-
Total other post-retirement assets	$ 34,054	$ 17,033	$ 17,021	$ -

(1) Investments in common stocks are valued using unadjusted quoted prices obtained from active markets. Investments in mutual funds, which invest in common stocks, are valued using the net asset value per unit as obtained from quoted market prices for the mutual funds.
(2) Investments in international equities are valued using unadjusted quoted prices obtained from active markets.
(3) Investments in U.S. Treasury and government agency bonds and corporate and foreign bonds are valued by a pricing service which utilizes pricing models that incorporate available trade, bid, and other market information to value the fixed income securities. Investments in mutual funds, which invest in bonds, are valued using the net asset value per unit as obtained from quoted market prices in active markets for the mutual fund.
(4) Investments in alternative investments are comprised of investments in real estate funds and real estate investment trusts and are valued using unadjusted quoted prices obtained from active markets.
(5) Cash is comprised of money market funds, which are valued utilizing the net asset value per unit based on the fair value of the underlying assets as determined by the fund's investment managers.

Funding requirements for qualified defined benefit pension plans are determined by government regulations and not by accounting pronouncements. In accordance with funding rules and the Company's funding policy, during 2014 our pension contribution is expected to be approximately $17,875. The Company's funding of its PBOP cost during 2014 is expected to approximate $2,763.

The Company has 401(k) savings plans that cover substantially all employees. The Company makes matching contributions that are initially invested in Aqua America, Inc. common stock based on a percentage of an employee's contribution, subject to specific limitations. Participants may diversify their Company matching account balances into other investments offered under the 401(k) savings plans. The Company's matching contribution and annual profit-sharing contribution, recorded as compensation expense, was $2,790, $2,741, and $2,496, for the years ended December 31, 2013, 2012, and 2011, respectively.

Note 16 – Water and Wastewater Rates

In August 2013, the Company's operating subsidiary in North Carolina filed an application with the North Carolina Utilities Commission designed to increase water and wastewater rates by $8,611, or 19.2%, on an annual basis. The amount of the final rate aware that might be granted by the North Carolina Utilities Commission can vary significantly from the amount requested. The Company anticipates a final order to be issued by May 2014.

On June 7, 2012, the Pennsylvania Public Utility Commission granted Aqua Pennsylvania a water rate increase designed to increase total operating revenues by $16,700, on an annualized basis. The rates in effect at the time of the filing included $27,449 in Distribution System Improvement Charges ("DSIC") or 7.5% above prior base rates. Consequently, the total base rates increased by $44,149 since the last base rate increase and the DSIC was reset to zero. In addition, the rate case settlement provides for flow-through accounting treatment of qualifying income tax benefits if the Company changes its tax accounting method to permit the expensing of qualifying utility asset improvement costs that were previously being capitalized and depreciated for tax purposes. In December 2012, Aqua Pennsylvania implemented the Repair Change which resulted in the net recognition of 2012 income tax benefits of $33,565 which reduced the Company's Federal and state income tax expense as it was flowed-through to net income in the fourth quarter of 2012. In addition, the Company recognized a tax deduction on its 2012 Federal tax return of $380,000 for qualifying capital expenditures made prior to 2012, and, based on the settlement agreement, in 2013, the Company began to amortize 1/10th of the catch-up adjustment. In accordance with the settlement agreement, the amortization is expected to reduce income tax expense during periods when qualifying parameters are met. During 2013, the Company amortized its catch-up adjustment and recognized $15,766 of deferred income tax benefits, which reduced income tax expense and increased the Company's net income. As a result of the Repair Change, the fourth quarter 2012 DSIC of 2.82% for Aqua Pennsylvania's water customers was reset to zero beginning January 1, 2013, and Aqua Pennsylvania did not file a water base rate case or a DSIC in 2013.

In February 2012, two of the Company's operating subsidiaries in Texas began to bill interim rates in accordance with authorization from the Texas Commission on Environmental Quality ("TCEQ"). The additional revenue billed and collected prior to the TCEQ's final ruling was subject to refund based on the outcome of the rate case. The rate case concluded with the issuance of an order on June 3, 2013, and no refunds of revenue previously billed and collected were required.

The Company's operating subsidiaries, excluding the 2012 Pennsylvania water award discussed above, were allowed annual rate increases of $9,431 in 2013, $17,923 in 2012, and $6,311 in 2011, represented by six, nine, and twelve rate decisions, respectively. Revenues from these increases realized in the year of grant were approximately $8,169, $13,754, and $3,312 in 2013, 2012, and 2011, respectively.

Five states in which the Company operates permit water utilities, and in three states wastewater utilities, to add a surcharge to their water or wastewater bills to offset the additional depreciation and capital costs related to infrastructure system replacement and rehabilitation projects completed and placed into service between base rate filings. Currently, Pennsylvania, Illinois, Ohio, New Jersey, and Indiana allow for the use of infrastructure rehabilitation surcharges, and in 2013, North Carolina legislators passed a law allowing for an infrastructure rehabilitation surcharge for regulated water and wastewater utilities; as a result, the Company's operating subsidiary in North Carolina has filed a request to implement an infrastructure rehabilitation surcharge for 2014, which is subject to approval by the North Carolina Utilities Commission. These surcharge mechanisms typically adjust periodically based on additional qualified capital expenditures completed or anticipated in a future period. The infrastructure rehabilitation surcharge is capped as a percentage of base rates, generally at 5% to 12.75% of base rates, and is reset to zero when new base rates that reflect the costs of those additions become effective or when a utility's earnings exceed a regulatory benchmark. In 2013, the infrastructure rehabilitation surcharge was suspended for Aqua Pennsylvania's water customers as a result of the implementation of the repair tax accounting change. Infrastructure rehabilitation surcharges provided revenues in 2013, 2012, and 2011 of $3,205, $15,911, and $15,937, respectively.

(In thousands of dollars, except per share amounts)

Note 17 – Segment Information

The Company has ten operating segments and one reportable segment. The Regulated segment, the Company's single reportable segment, is comprised of eight operating segments representing our water and wastewater regulated utility companies which are organized by the states where we provide water and wastewater services. These operating segments are aggregated into one reportable segment since each of these operating segments has the following similarities: economic characteristics, nature of services, production processes, customers, water distribution or wastewater collection methods, and the nature of the regulatory environment.

Two operating segments are included within the other category below. These segments are not quantitatively significant and are comprised of the Company's businesses that provide water and wastewater services through operating and maintenance contracts with municipal authorities and other parties in close proximity to our utility companies' service territories as well as offers, through a third party, water and sewer line repair service and protection solutions to households, liquid waste hauling and disposal, backflow prevention, construction, and other non-regulated water and wastewater services, and non-utility raw water supply services for firms, with which we enter into a water supply contract, in the natural gas drilling industry. In addition to these segments, other is comprised of other business activities not included in the reportable segment, including corporate costs that have not been allocated to the Regulated segment and intersegment eliminations. Corporate costs include general and administrative expenses, and interest expense.

The following table presents information about the Company's reportable segment:

	2013			2012		
	Regulated	Other and Eliminations	Consolidated	Regulated	Other and Eliminations	Consolidated
Operating revenues	$ 751,277	$ 17,366	$ 768,643	$ 740,030	$ 17,730	$ 757,760
Operations and maintenance expense	272,758	12,582	285,340	259,847	11,996	271,843
Depreciation	119,436	(178)	119,258	113,139	(1,372)	111,767
Operating income	302,961	2,281	305,242	316,602	4,915	321,517
Interest expense, net of AFUDC	69,103	5,939	75,042	67,433	6,182	73,615
Income tax (benefit)	25,578	(2,888)	22,690	66,821	60	66,881
Income (loss) from continuing operations	208,481	(3,488)	204,993	182,769	1,318	184,087
Capital expenditures	307,295	876	308,171	346,676	1,309	347,985
Total assets	4,897,752	154,065	5,051,817	4,566,327	292,190	4,858,517
Goodwill	24,102	4,121	28,223	24,031	4,121	28,152

	2011		
	Regulated	Other and Eliminations	Consolidated
Operating revenues	$ 674,927	$ 12,364	$ 687,291
Operations and maintenance expense	243,137	13,606	256,743
Depreciation	104,681	(1,269)	103,412
Operating income (loss)	282,587	(1,788)	280,799
Interest expense, net of AFUDC	64,990	5,664	70,654
Income tax (benefit)	72,336	(3,225)	69,111
Income (loss) from continuing operations	145,493	(3,810)	141,683
Capital expenditures	324,433	1,375	325,808
Total assets	4,183,758	164,662	4,348,420
Goodwill	22,823	4,121	26,944

Selected Quarterly Financial Data (Unaudited)
Aqua America, Inc. and Subsidiaries
(In thousands of dollars, except per share amounts)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
2013					
Operating revenues	$ 180,035	$ 195,655	$ 204,345	$ 188,608	$ 768,643
Operations and maintenance expense	68,311	70,858	72,065	74,106	285,340
Operating income	67,561	80,665	87,380	69,636	305,242
Income from continuing operations	41,231	53,548	63,484	46,730	204,993
Income from discontinuing operations	5,334	38	133	10,802	16,307
Net income attributable to common shareholders	46,565	53,586	63,617	57,532	221,300
Basic income from continuing operations per common share	0.24	0.30	0.36	0.26	1.16
Diluted income from continuing operations per common share	0.23	0.30	0.36	0.26	1.16
Basic income from discontinued operations per common share	0.03	0.00	0 00	0 06	0.09
Diluted income from discontinued operations per common share	0.03	0.00	0.00	0.06	0.09
Basic net income per common share	0.27	0.30	0.36	0.33	1.26
Diluted net income per common share	0.26	0.30	0.36	0.32	1.25
Dividend paid per common share	0.140	0.140	0.152	0.152	0.584
Dividend declared per common share	0.140	0.292	-	0.152	0.584
Price range of common stock					
- high	25.17	26.62	28.12	25.78	28.12
- low	20.61	23.52	24.01	22.69	20.61
2012					
Operating revenues	$ 164,024	$ 191,690	$ 214,565	$ 187,481	$ 757,760
Operations and maintenance expense	64,825	63,571	71,268	72,179	271,843
Operating income	61,839	87,032	100,535	72,111	321,517
Income from continuing operations	26,889	41,780	50,284	65,134	184,087
Income/(loss) from discontinuing operations	11,015	(335)	375	1,421	12,476
Net income attributable to common shareholders	37,904	41,445	50,659	66,555	196,563
Basic income from continuing operations per common share	0.16	0.24	0.29	0.37	1.06
Diluted income from continuing operations per common share	0.15	0.24	0.29	0.37	1.05
Basic income from discontinued operations per common share	0.06	0.00	0.00	0.01	0.07
Diluted income from discontinued operations per common share	0.06	0.00	0.00	0.01	0.07
Basic net income per common share	0.22	0.24	0.29	0.38	1.13
Diluted net income per common share	0.22	0.24	0.29	0 38	1.12
Dividend paid per common share	0.132	0.132	0.132	0.140	0.536
Dividend declared per common share	0.132	0.132	0.272	-	0.536
Price range of common stock					
- high	18.20	20.14	21.54	20.75	21.54
- low	16.85	17.22	19 25	19.32	16 85

All per share data presented above has been adjusted for the 2013 5-for-4 common stock split effected in the form of a 25% stock distribution.

High and low prices of the Company's common stock are as reported on the New York Stock Exchange Composite Tape. The cash dividend paid in September 2013 of $0.152 was declared in May 2013, and the cash dividend paid in December 2012 of $0.140 was declared in August 2012.

Summary of Selected Financial Data (Unaudited)
Aqua America, Inc. and Subsidiaries
(In thousands of dollars, except per share amounts)

Years ended December 31,	2013	2012	2011	2010	2009
PER COMMON SHARE:					
Income from continuing operations					
Basic	$ 1.16	$ 1.06	$ 0.82	$ 0.68	$ 0.58
Diluted	1.16	1.05	0.82	0.68	0.58
Income from discontinuing operations					
Basic	0.09	0.07	0.01	0.04	0.03
Diluted	0.09	0.07	0.01	0.04	0.03
Net income					
Basic	1.26	1.13	0.83	0.72	0.61
Diluted	1.25	1.12	0.83	0.72	0.61
Cash dividends declared and paid	0.58	0.54	0.50	0.47	0.44
Return on Aqua America stockholders' equity	14.4%	14.2%	11.4%	10.6%	9.4%
Book value at year end	$ 8.68	$ 7.91	$ 7.21	$ 6.82	$ 6.50
Market value at year end	23.59	20.34	17.64	17.98	14.01
INCOME STATEMENT HIGHLIGHTS:					
Operating revenues	$ 768,643	$ 757,760	$ 687,291	$ 660,186	$ 609,897
Depreciation and amortization	124,793	116,996	108,300	111,716	107,118
Interest expense, net (1)	77,316	77,757	77,804	73,393	66,345
Income from continuing operations before income taxes	227,683	250,968	210,794	191,319	162,066
Provision for income taxes	22,690	66,881	69,111	74,940	63,626
Income from continuing operations	204,993	184,087	141,683	116,379	98,440
Income from discontinued operations	16,307	12,476	1,386	7,596	5,913
Net income attributable to common shareholders	221,300	196,563	143,069	123,975	104,353
BALANCE SHEET HIGHLIGHTS:					
Total assets	$ 5,051,817	$ 4,858,517	$ 4,348,420	$ 4,072,466	$ 3,749,862
Property, plant and equipment, net	4,167,293	3,936,163	3,530,942	3,276,517	3,032,916
Aqua America stockholders' equity	1,534,835	1,385,704	1,251,313	1,174,254	1,108,904
Long-term debt, including current portion	1,554,871	1,588,992	1,475,886	1,519,457	1,404,930
Total debt	1,591,611	1,669,375	1,583,657	1,609,125	1,432,361
ADDITIONAL INFORMATION:					
Operating cash flows from continuing operations	$ 366,720	$ 377,485	$ 352,041	$ 244,717	$ 244,318
Capital additions	308,171	347,985	325,808	308,134	266,190
Net cash expended for acquisitions of utility systems and other	14,997	121,248	8,515	8,625	3,373
Dividends on common stock	102,889	93,423	87,133	80,907	74,729
Number of utility customers served (2)	941,008	968,357	966,136	962,970	953,437
Number of shareholders of common stock	25,833	26,216	26,744	27,274	27,984
Common shares outstanding (000)	176,751	175,209	173,519	172,219	170,607
Employees (full-time) (2)	1,553	1,619	1,615	1,632	1,632

All per share data presented above has been adjusted for the 2013 5-for-4 common stock split effected in the form of a 25% stock distribution.

(1) Net of allowance for funds used during construction and interest income.

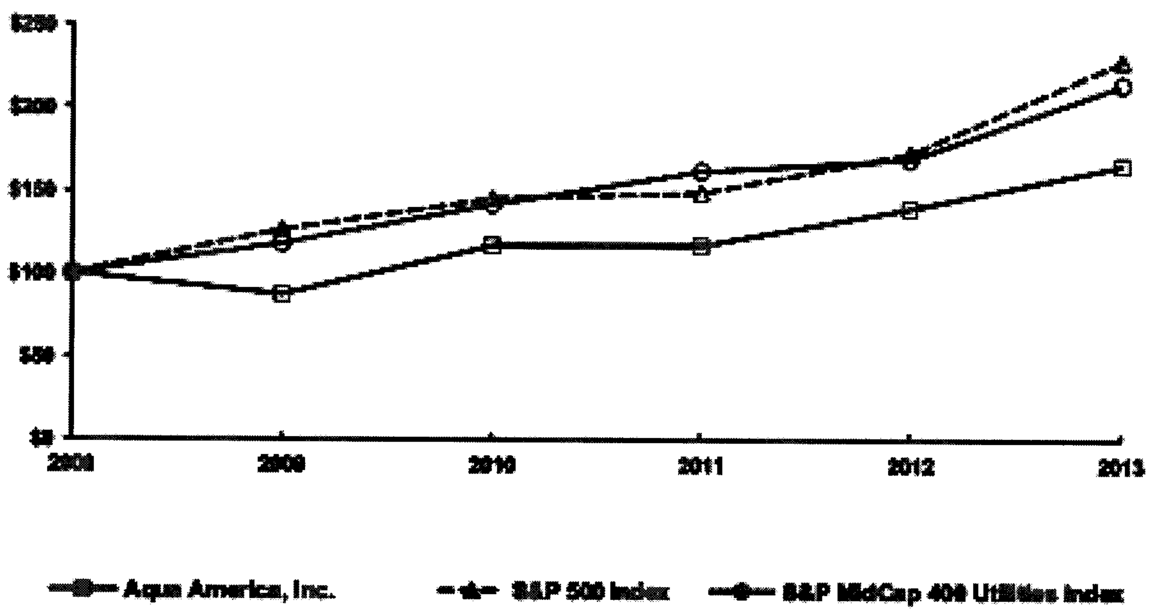
(2) Includes continuing and discontinued operations.

Stock Price Performance

The graph below matches the cumulative 5-Year total return to shareholders of Aqua America, Inc.'s common stock with the cumulative total returns of the S&P 500 Index and the S&P MidCap 400 Utilities Index, a customized peer group of seventeen companies that includes: Alliant Energy Corp., Aqua America Inc., Atmos Energy Corp., Black Hills Corp., Cleco Corp., Great Plains Energy Inc., Hawaiian Electric Industries Inc., Idacorp Inc., MDU Resources Group Inc., National Fuel Gas Company, OGE Energy Corp., PNM Resources Inc., Questar Corp., UGI Corp., Vectren Corp., Westar Energy Inc. and WGL Holdings Inc. The graph assumes that the value of the investment in our common stock, in each index, and in the peer group (including reinvestment of dividends) was $100 on 12/31/2008 and tracks it through 12/31/2013.

COMPARISON OF 5-YEAR CUMULATIVE TOTAL SHAREHOLDER RETURN*

Among Aqua America, Inc., the S&P 500 Index, and S&P MidCap 400 Utilities Index



*$100 invested on 12/31/08 in stock or index, including reinvestment of dividends.
Fiscal year ending December 31.

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	Years as of December 31,					
	2008	2009	2010	2011	2012	2013
Aqua America, Inc.	100.00	87.77	116.28	117.29	139.10	165.20
S&P 500 Index	100.00	126.46	145.51	148.59	172.37	228.19
S&P MidCap 400 Utilities Index	100.00	118.01	141.79	162.03	168.86	213.17

The stock price performance included in this graph is not necessarily indicative of future stock price performance.

Financial Reports and Investor Relations
Copies of the company's public financial reports, including annual reports and Forms 10-K and 10-Q, are available online and can be downloaded from the Investor Relations section of our Website at www.aquaamerica.com. You may also obtain these reports by writing to us at:

Investor Relations Department
Aqua America, Inc.
762 W. Lancaster Avenue
Bryn Mawr, PA 19010-3489

Corporate Governance
We are committed to maintaining high standards of corporate governance and are in compliance with the corporate governance rules of the Securities and Exchange Commission (SEC) and the New York Stock Exchange. Copies of our key corporate governance documents, including our Corporate Governance Guidelines, Code of Ethical Business Conduct, and the charters of each committee of our Board of Directors can be obtained from the corporate governance portion of the Investor Relations section of our Website, www.aquaamerica.com. Amendments to the Code, and in the event of any grant of waiver from a provision of the Code requiring disclosure under applicable SEC rules will be disclosed on our Website.

Annual Meeting
8:30 a.m. Eastern Daylight Time
Wednesday, May 7, 2014
Drexelbrook Banquet Facility and Corporate Center
4700 Drexelbrook Drive
Drexel Hill, PA 19026

Transfer Agent and Registrar
Computershare Trust Company, N.A.
P.O. Box 43078
Providence, RI 02940-3078
800.205.8314 or 781.575.3100
www.computershare.com

Independent Registered Public Accounting Firm
PricewaterhouseCoopers LLP
Two Commerce Square
Suite 1700
2001 Market Street
Philadelphia, PA 19103-7042

Stock Exchange
The Common Stock of the company is listed on the New York Stock Exchange and under the ticker symbol **WTR**.

Dividend Reinvestment and Direct Stock Purchase Plan
The company's Dividend Reinvestment and Direct Stock Purchase Plan ("Plan") enables shareholders to reinvest all, or a designated portion of, dividends paid on up to 100,000 shares of Common Stock in additional shares of Common Stock at a 5 percent discount from a price based on the market value of the stock. In addition, shareholders may purchase additional shares of Aqua America Common Stock at any time with a minimum investment of $50, up to a maximum of $250,000 annually. Individuals may become shareholders by making an initial investment of at least $500. A Plan prospectus may be obtained by calling Computershare Trust Company at 800.205.8314 or by visiting www.computershare.com/investor. Please read the prospectus carefully before you invest.

IRA, Roth IRA, Education IRA
An IRA, Roth IRA or Coverdell Education Savings Account may be opened through the Plan to hold shares of Common Stock of the company and to make contributions to the IRA to purchase shares of Common Stock. Participants in the Plan may roll over an existing IRA or other qualified plan distribution in cash into an IRA under the Plan to purchase the company's Common Stock. Participants may also transfer the company's Common Stock from an existing IRA into an IRA under the Plan. A prospectus, IRA forms and a disclosure statement may be obtained by calling Computershare Trust Company at 800.597.7736. Please read the prospectus carefully before you invest.

Direct Deposit
With direct deposit, Aqua America cash dividends are deposited automatically on the dividend payment date of each quarter. Shareholders will receive confirmation of their deposit in the mail. Shareholders interested in direct deposit should call the company's transfer agent at 800.205.8314.

Delivery of Voting Materials to Shareholders Sharing an Address
The SEC's rules permit the Company to deliver a Notice of Internet Availability of Proxy Materials or a single set of proxy materials to one address shared by two or more of the Company's shareholders. This is intended to reduce the printing and postage expense of delivering duplicate voting materials to our shareholders who have more than one Aqua America stock account. A separate Notice of Internet Availability or proxy card is included for each of these shareholders. If you received a Notice of Internet Availability you will not receive a printed copy of the proxy materials unless you request it by following the instructions in the notice for requesting printed proxy materials.

How to Obtain a Separate Set of Voting Materials

If you are a registered shareholder who shares an address with another registered shareholder and have received only one Notice of Internet Availability of Proxy Materials or set of proxy materials and wish to receive a separate copy for each shareholder in your household for the 2014 annual meeting, you may write or call us to request a separate copy of this material at no cost to you at Attn: Investor Relations, Aqua America, Inc., 762 W. Lancaster Avenue, Bryn Mawr, PA, 19010 or 610.645.1196. For future annual meetings, you may request separate voting material by calling Broadridge at 800.542.1061, or by writing to Broadridge Financial Solutions, Inc., Householding Department, 51 Mercedes Way, Edgewood, New York 11717.

Account Access

Aqua America shareholders may access their account by visiting www.computershare.com/investor. Shareholders may view their account, purchase additional shares, and make changes to their account. To learn more, visit www.computershare.com/investor or call 800.205.8314.

Dividends

Aqua America has paid dividends for 69 consecutive years. The normal Common Stock dividend dates for 2014 and the first six months of 2015 are:

Declaration Date	Ex-Dividend Date	Record Date	Payment Date
February 3, 2014	February 13, 2014	February 18, 2014	March 1, 2014
May 1, 2014	May 14, 2014	May 16, 2014	June 1, 2014
August 1, 2014	August 13, 2014	August 15, 2014	September 1, 2014
November 3, 2014	November 12, 2014	November 14, 2014	December 1, 2014
February 2, 2015	February 11, 2015	February 13, 2015	March 1, 2015
May 1, 2015	May 13, 2015	May 15, 2015	June 1, 2015

To be an owner of record, and therefore eligible to receive the quarterly dividend, shares must have been purchased before the ex-dividend date. Owners of any share(s) on or after the ex-dividend date will not receive the dividend for that quarter. The previous owner—the owner of record—will receive the dividend.

Only the Board of Directors may declare dividends and set record dates. Therefore, the payment of dividends and these dates may change at the discretion of the Board.

Dividends paid on the company's Common Stock are subject to Federal and State income tax.

Lost Dividend Checks and Stock Certificates

Dividend checks lost by shareholders, or those that might be lost in the mail, will be replaced upon notification of the lost or missing check. All inquiries concerning lost or missing dividend checks should be made to the company's transfer agent, Computershare, at 800.205.8314. Shareholders should call or write Computershare to report a lost certificate. Appropriate documentation will be prepared and sent to the shareholder with instructions.

Safekeeping of Stock Certificates

Under the Direct Stock Purchase Plan, shareholders may have their stock certificates deposited with the transfer agent for safekeeping free of charge. Stock certificates and written instructions should be forwarded to: Computershare Trust Company, N.A., P.O. Box 43078, Providence, RI 02940-3078.

Notes

Notes

Notes

Corporate Information

Board of Directors

Nicholas DeBenedictis
Chairman, President and Chief Executive Officer
Aqua America, Inc.
Director since 1992

Michael L. Browne
President and Chief Operating Officer
Harleysville Insurance
Director since 2013

Mary C. Carroll
Non-profit Advisor and Civic Volunteer
Director since 1981

Richard H. Glanton
Chairman
Philadelphia Television Network
Director since 1995

Lon R. Greenberg
Chairman
UGI Corporation
Director since 2005

William P. Hankowsky
Chairman, President and Chief Executive Officer
Liberty Property Trust
Director since 2004

Wendell F. Holland, Esq.
Partner
CFSD Group, LLC
Director since 2011

Mario Mele
President
Fidelio Insurance Company and Dental Delivery Systems, Inc.
Director since 2009

Ellen T. Ruff
Partner
McGuireWoods LLP
Director since 2006

Andrew J. Sordoni, III
Chairman
Sordoni Construction Services, Inc.
Director since 2006

Officers

Nicholas DeBenedictis
Chairman, President and Chief Executive Officer

Christopher H. Franklin
Executive Vice President
President and Chief Operating Officer, Regulated Operations

Karl M. Kyriss
Executive Vice President
President, Aqua Capital Ventures

Christopher P. Luning
Senior Vice President, General Counsel and Secretary

William C. Ross
Senior Vice President, Engineering and Environmental Affairs

Robert A. Rubin
Senior Vice President
Controller and Chief Accounting Officer

David P. Smeltzer
Executive Vice President
Chief Financial Officer

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AQUA℠

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AquaAmerica.com
NYSE: WTR

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ATTACHMENT

7

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OPERATOR LICENSES

Person ID	Name	Position	Certification #	Certification Description	Certification Level	Achieved Date	Expiration Date	Notes
100423	Brewer, Charles W.	Facility Operator I	WG0007937	Ground Water Treatment Operator	Class C	09/12/2012	09/12/2015	
100423	Brewer, Charles W.	Facility Operator I	WW0019960	Wastewater Treatment Operator	Class D	09/08/2014	10/09/2017	
81008	Doring, Jeff	Facility Operator I	WG0015053	Ground Water Treatment Operator	Class C	07/18/2014	07/18/2017	
100425	Douglas, Gary D.	Field Supervisor	WG0008515	Ground Water Treatment Operator	Class B	08/08/2012	10/23/2015	
100425	Douglas, Gary D.	Field Supervisor	WW0012733	Wastewater Treatment Operator	Class C	09/18/2014	10/09/2017	
100426	Douglas, Terry S.	Facility Operator I	WG0007856	Ground Water Treatment Operator	Class C	07/23/2012	09/15/2015	
102103	McDaniel, Jeremy J	Facility Operator II	WG0014140	Ground Water Treatment Operator	Class B	04/10/2013	04/10/2016	
102103	McDaniel, Jeremy J	Facility Operator II	WW0027874	Wastewater Treatment Operator	Class C	12/12/2013	09/27/2016	
102103	McDaniel, Jeremy J	Facility Operator II	CI0008330	Customer Service Inspector	CSI	04/11/2013	04/23/2016	
100052	Sanders, Lonnie D.	Facility Operator III	WG0013898	Ground Water Treatment Operator	Class B	06/27/2012	06/27/2015	
100052	Sanders, Lonnie D.	Facility Operator III	WW0040027	Wastewater Treatment Operator	Class B	08/09/2012	09/08/2015	
100052	Sanders, Lonnie D.	Facility Operator III	CI0001524	Customer Service Inspector	CSI	03/08/2014	03/11/2017	
100052	Sanders, Lonnie D.	Facility Operator III	BP0003673	Backflow Testing - BPAT	BPAT	02/21/2012	03/13/2015	

updated 10/28/14

ATTACHMENT

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