Aqua Texas, Inc (Consolidated)

For the Year Ended __12/31/2015_____

(Company Name)

502. TCEQ LATEST INSPECTION REPORTS

List all the public water systems owned by the reporting entity below.

Attach copies of the most current public water system (PWS) inspection report completed by the TCEQ for each system owned.

CCN	PWS Name	PWS Number
13203	CARRIAGE HILLS	1700279
13203	TURTLE CREEK	1700287
13203	WILSHIRE SUBDIVISION	1700321
13203	HUNTINGTON ESTATES	1700324
13203	DECKER WOODS SUBDIVISION	1700330
13203	SHADOW BAY SUBDIVISION	1700393
13203	CLEAR CREEK FOREST SECTION 12	1700437
13203	LAKE CREEK FOREST	1700529
13203	LAKE CONROE VILLAGE	1700543
13203	CIMARRON COUNTRY	1700555
13203	BRUSHY CREEK UTILITY	1700601
13203	TIMBERLOCH ESTATES	1700641
13203	INDIGO RANCH	1700651
13203	WOODLAND RANCH	1700657
13203	GREENFIELD FOREST	1700665
13203	OLD EGYPT SUBDIVISION	1700666
13203	WHITE OAK RANCH SECTION ONE	1700670
13203	ESTATES OF LEGENDS RANCH	1700702
13203	CEDAR POINT	1870155
13203	LAKE LIVINGSTON VILLAGE WATER UTILITY	1870156
13203	CAMILLA TWIN HARBOR	2040038
13203	PORT ADVENTURE	2280031
13203	PYSSENS LIVE OAK ESTATES SUBDIVISION	2410010
13203	TIMBERWILD	WW Only
13203	WILLOW OAKS	WW Only

615. Affiliated Transactions

Charges by an affiliate to the Reporting Utility

Name of Affiliated company:___Aqua Services, Inc.______________

NARUC Account and/or type of service*		Total Affiliated Company	Total Texas	Total for reporting entity
Account #	Account name or type of service	(Dollars transacted)	(Dollars transacted)	(Dollars transacted)
636.0	Aqua Customer Operations - Allocated Costs	569,946		
736.0	Aqua Customer Operations - Allocated Costs	166,322		
636.0	Aqua Customer Operations - Collection Services	48,717		
636.0	Aqua Customer Operations - Postage	176,034		
736.0	Aqua Customer Operations - Postage	45,620		
636.0	Aqua Customer Operations - Processing	95,932		
736.0	Aqua Customer Operations - Processing	24,861		
636.0	Aqua Customer Operations Direct Billing	71,842		
634.0	Aqua Services - Corporate Services	1,167,042		
734.0	Aqua Services - Corporate Services	294,756		
634.0	Aqua Services - Sundry	782,632		
734.0	Aqua Services - Sundry	197,667		
736.0	Bank Service Fee Charges	56,808		
636.0	Level One LLC - Bill Processing	5,750		
		3,703,929		

Charges by an Reporting Utility to Affiliates

Name of Affiliated company:________________________________

NARUC Account and/or type of service		Total Affiliated Company	Total Texas	Total for reporting entity
Account #	Account name or type of service	(Dollars transacted)	(Dollars transacted)	(Dollars transacted)

*Report affiliated transactions by NARUC account for each affiliate.

620. Historical Financial Statistics
(Texas-Jurisdictional Basis)

Note If Texas-jurisdictional data from audited financial statements cannot be provided and/or unaudited financial statement are used, the company should provide a identification and description of the alternative data used as the basis for the ratio calculations All calculations should be provided.

Line	Fiscal Year:	(20XX-4)	(20XX-3)	(20XX-2)	(20XX-1)	Monitoring Period (20XX)
1	Total Debt as a Percent of Total Capital	51.68%	50 50%	52 90%	50 22%	49 55%
2						
3	Construction Work in Progress as a Percent of Net Plant	2.96%	0 82%	3 00%	1.19%	1 28%
4						
5	Construction Expenditures as a	9 33%	9 85%	12.09%	8.64%	10 07%
6	Percent of AverageTotal Capital					
7						
8	Pre-Tax Interest Coverage	4 48	4.44	5 35	6 00	5 19
9						
10	Fixed Charge Coverage	3.92	3 91	4.86	5 46	4 85
11						
12	Return on Average Common Equity	12 06%	11 91%	15 31%	16 45%	13.79%

Calculations:

Total Debt as a Percent of Total Capital	Debt / Total Capitalization
Construction Work in Progress as a Percent of Net Plant	CWIP / Net Plant (PPE - UPAA - AD + CWIP)
Construction Expenditures as a Percent of AverageTotal Capital	PPE (Additions) / Average Capitalization
Pre-Tax Interest Coverage	EBIT / Interst Expense
Fixed Charge Coverage	(EBIT + Fixed Expense) / (Interest Expense + Fixed Expense)
Return on Average Common Equity	(Net Utility Operating Income - Interest Expense) / Average Common Equity

VERIFICATION

OATH

(To be made by the officer having control of the accounting of the respondent)

State of Texas.
as:
County of Travis

Crandal McDougall makes oath and says that he/she is Controller
(Name of affiant) (Official title of affiant)

of Aqua Texas, Inc.
(Exact legal title or name of the respondent)

The signed officer has reviewed the report.

Based on the officer's knowledge, the report does not contain any untrue statements of a material fact or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which such statements were made, not misleading.

Based on such officer's knowledge, the financial statements, and other financial information included in the report, fairly present in all material respects the financial condition and results of operations of the issuer as of, and for, the periods presented in the report.

He/she swears that all other statements contained in the said report are true, and that the said report is a correct and complete statement of the business and affairs of the above-named respondent during the period of time from and including January 1, 2015 to and including December 31, 2015

Subscribed and sworn to and before me, a Notary Public
in and for the State and County above-named, this 1st day of July, 2016

(Signature of affiant)

My commission expires
(Signature of officer authorized to administer oaths)

CHIRAG PATEL
Notary Public, State of Texas
Comm. Expires 01-19-2018
Notary ID 130081203

SUPPLEMENTAL OATH

(By the president or other chief officer of the respondent)

State of Texas.
as:
County of Travis

Robert L. Laughman makes oath and says that he/she is President
(Name of affiant) (Official title of affiant)

of Aqua Texas, Inc.
(Exact legal title or name of the respondent)

that he/she has carefully examined the foregoing report; that he/she swears that all statements of fact contained in the said report are true, and that the said report is a corect and complete statement of the business and affairs of the above named respondent during the period of time from and including January 1, 2015 to and including December 31, 2015

Subscribed and sworn to before me, a Robert L. Laughman
in and for the State and County above-named, this 30th day of June, 2016

(Signature of affiant)

My commission expires Freda S Morrison
(Signature of officer authorized to administer oaths)

FREDA SUSAN MORRISON
Notary Public, State of Texas
My Commission Expires
October 28, 2018

Aqua Texas (Amortization and Depreciation Schedules) - Support for Tabs 201-W and 201-S

Account	Naruc Account	CCN	Beginning Balance	Provision (403.0)	Retirements	Cost of Removal	Salvage	Transfers	Gain - Loss	Ending Balance
108000	108 1	11157	35,305,741	2,403,785	(1,660,694)	-	28,201	2	-	36,077,035
108000	108.1	11421	523,541	35,645	(24,626)	-	418	0	-	534,979
108000	108 1	11484	1,273,131	86,681	(59,885)	-	1,017	0	-	1,300,944
108000	108 1	12902	1,621,254	110,383	(76,260)	-	1,295	0	-	1,656,672
108000	108 1	13201	32,214,857	2,193,343	(1,515,307)	-	25,732	2	-	32,918,626
108000	108 1	13203	26,981,522	1,837,032	(1,269,144)	-	21,552	1	-	27,570,963
108000	108 1	20453	7,945,348	540,958	(373,729)	-	6,346	0	-	8,118,923
108000	108 1	20867	1,011,414	68,862	(47,574)	-	808	0	-	1,033,509
108000	108.1	21059	2,700,822	183,885	(127,040)	-	2,157	0	-	2,759,824
108000	108.1	21065	17,051,316	1,160,936	(802,052)	-	13,620	1	-	17,423,821
			126,628,947	8,621,509	(5,956,311)	-	101,145	6	-	129,395,296

Account	Naruc Account	CCN	Beginning Balance	Provision (407.3)	Retirements	Cost of Removal	Salvage	Transfers	Gain - Loss	Ending Balance
272000	272.00	11157	(828,032)	(87,366)	331	-	-	(1)	-	(915,067)
272000	272.00	11421	(1,328)	(140)	1	-	-	(0)	-	(1,467)
272000	272.00	11484	(3,260)	(344)	1	-	-	(0)	-	(3,603)
272000	272 00	12902	(365,202)	(38,533)	146	-	-	(0)	-	(403,588)
272000	272 00	13201	(1,362,310)	(143,738)	545	-	-	(1)	-	(1,505,504)
272000	272 00	13203	(2,000,593)	(211,083)	801	-	-	(2)	-	(2,210,877)
272000	272.00	20453	(245,832)	(25,938)	98	-	-	(0)	-	(271,671)
272000	272.00	20867	(222,524)	(23,479)	89	-	-	(0)	-	(245,914)
272000	272.00	21059	(496,325)	(52,367)	199	-	-	(0)	-	(548,495)
272000	272.00	21065	(1,750,649)	(184,712)	701	-	-	(1)	-	(1,934,661)
			(7,276,055)	(767,699)	2,912	-	-	(6)	-	(8,040,848)

Depreciation expense calculation determined by the depreciation study performed by Gannett Fleming study in 2010

Aqua Texas, Inc - Adjustments to Plant (Schedule 201)

gl_account	bus_segment	utility_account	NARUC Acct	division	CCN	Activity	gl_posting_year	asset_description	quantity	amount	Year
101-Utility Plant in Service	2-Wastewater	36120	36120	SW Sewer	20453	Beginning Balance	2015	Estimated Contributed Property - Transferred to Zero - 300001 Acct		141,728.30	PY
101-Utility Plant in Service	1-Water	33140	33140	SW Water	11157	Beginning Balance	2015	Estimated Contributed Property - Transferred to Zero - 300001 Acct		258,732.28	PY
101-Utility Plant in Service	2-Wastewater	36120	36120	SE Sewer	21065	Beginning Balance	2015	Estimated Contributed Property - Transferred to Zero - 300001 Acct		679,047.00	PY
101-Utility Plant in Service	1-Water	33140	33140	SE Water	13203	Beginning Balance	2015	Estimated Contributed Property - Transferred to Zero - 300001 Acct		893,070.00	PY
101-Utility Plant in Service	1-Water	33140	33140	North Water	13201	Beginning Balance	2015	Estimated Contributed Property - Transferred to Zero - 300001 Acct		3,494.00	PY
101-Utility Plant in Service	2-Wastewater	36120	36120	SW Sewer	20453	Adjustments	2015	Estimated Contributed Property - Transferred to Zero - 300001 Acct		(141,728.30)	PY
101-Utility Plant in Service	1-Water	33140	33140	SW Water	11157	Adjustments	2015	Estimated Contributed Property - Transferred to Zero - 300001 Acct		(258,732.28)	PY
101-Utility Plant in Service	2-Wastewater	36120	36120	SE Sewer	21065	Adjustments	2015	Estimated Contributed Property - Transferred to Zero - 300001 Acct		(679,047.00)	PY
101-Utility Plant in Service	1-Water	33140	33140	SE Water	13203	Adjustments	2015	Estimated Contributed Property - Transferred to Zero - 300001 Acct		(893,070.00)	PY
101-Utility Plant in Service	1-Water	33140	33140	North Water	13201	Adjustments	2015	Estimated Contributed Property - Transferred to Zero - 300001 Acct		(3,494.00)	PY

Adjustments are reversals of contributed property estimates made in prior year

Aqua Texas (Amortization and Depreciation Schedules) - Support for Tabs 202-203 Accum Depr & Acq Adj

Account	Naruc Account	CCN	Beginning Balance	Provision (403.0)	Retirements	Cost of Removal	Salvage	Transfers	Gain - Loss	Ending Balance
108000	108.1	11157	35,305,741	2,403,785	(1,660,694)	-	28,201	2	-	36,077,035
108000	108.1	11421	523,541	35,645	(24,626)	-	418	0	-	534,979
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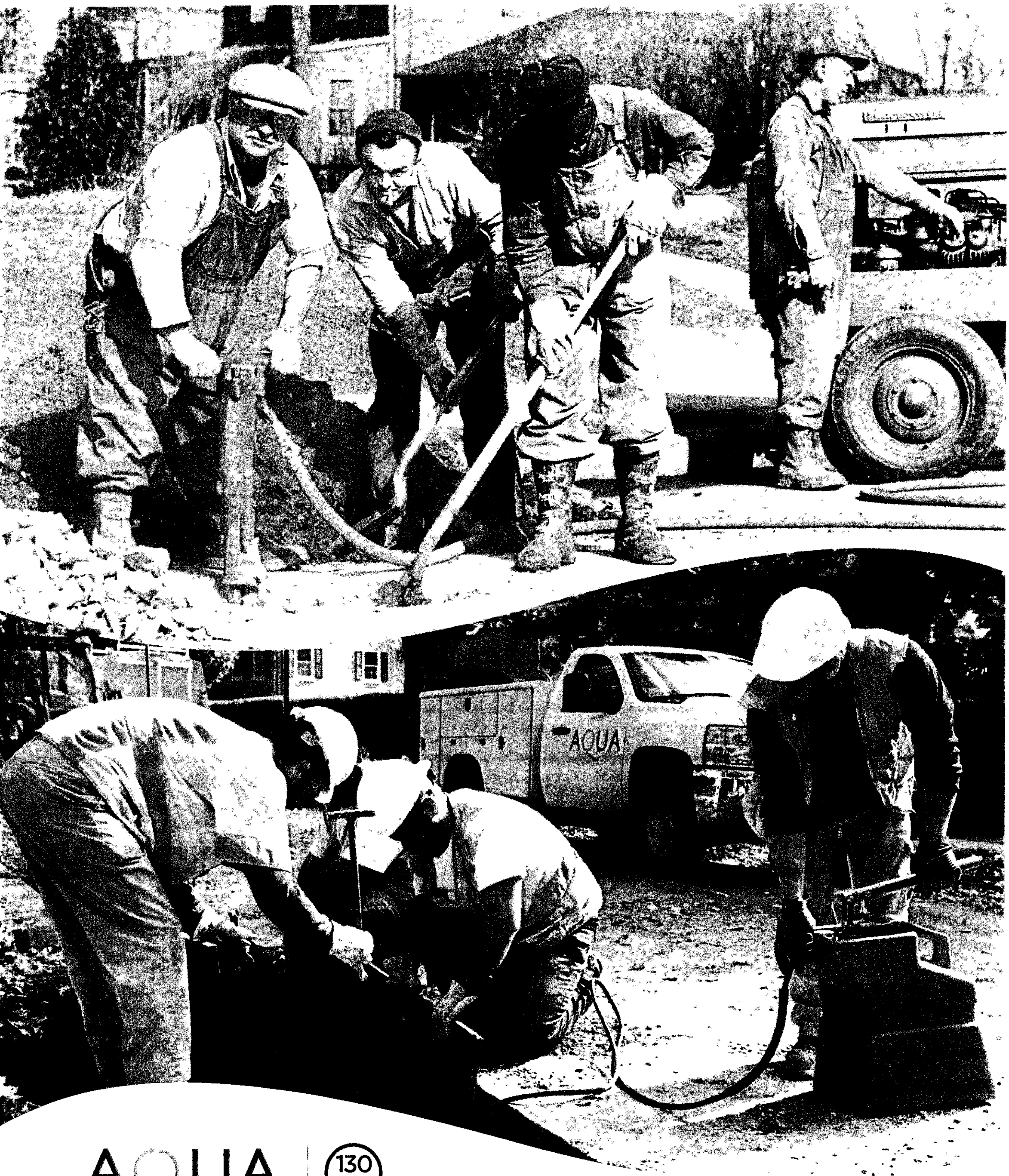
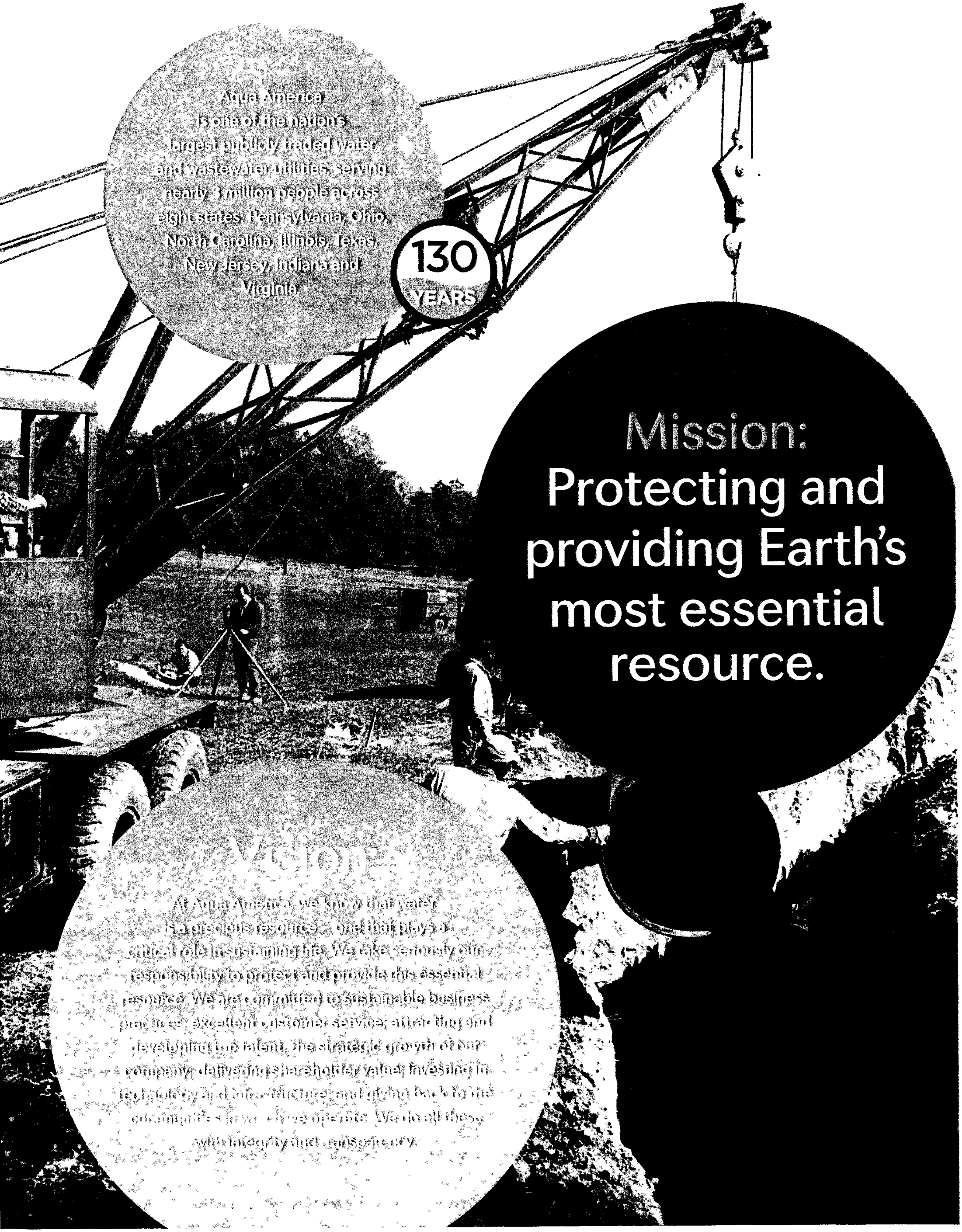
272000	272.00	11421	(1,328)	(140)	1	-	-	(0)	-	(1,467)
272000	272.00	11484	(3,260)	(344)	1	-	-	(0)	-	(3,603)
272000	272.00	12902	(365,202)	(38,533)	146	-	-	(0)	-	(403,588)
272000	272.00	13201	(1,362,310)	(143,738)	545	-	-	(1)	-	(1,505,504)
272000	272.00	13203	(2,000,593)	(211,083)	801	-	-	(2)	-	(2,210,877)
272000	272.00	20453	(245,832)	(25,938)	98	-	-	(0)	-	(271,671)
272000	272.00	20867	(222,524)	(23,479)	89	-	-	(0)	-	(245,914)
272000	272.00	21059	(496,325)	(52,367)	199	-	-	(0)	-	(548,495)
272000	272.00	21065	(1,750,649)	(184,712)	701	-	-	(1)	-	(1,934,661)
			(7,276,055)	(767,699)	2,912	-	-	(6)	-	(8,040,848)

Depreciation expense calculation determined by the depreciation study performed by Gannett Fleming study in 2010.



Aqua America, Inc. 2015 Annual Report



Aqua America is one of the nation's largest publicly traded water and wastewater utilities, serving nearly 3 million people across eight states: Pennsylvania, Ohio, North Carolina, Illinois, Texas, New Jersey, Indiana and Virginia.

130 YEARS

Mission:
Protecting and providing Earth's most essential resource.

Vision:

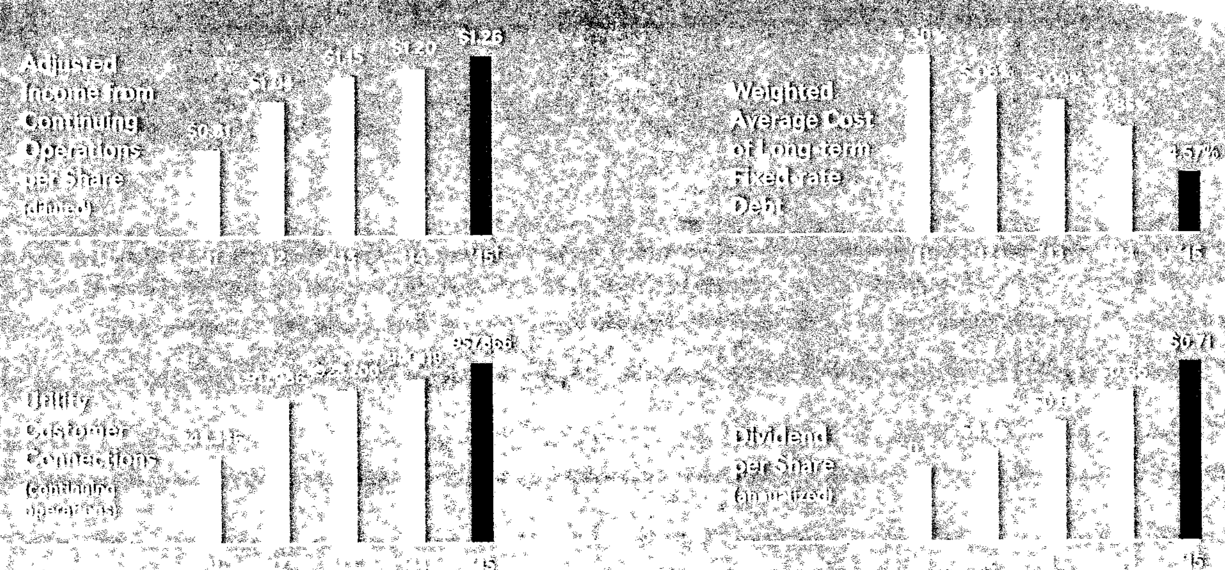
At Aqua America, we know that water is a precious resource — one that plays a critical role in sustaining life. We take seriously our responsibility to protect and provide this essential resource. We are committed to sustainable business practices, excellent customer service, attracting and developing top talent, the strategic growth of our company, delivering shareholder value, investing in technology and infrastructure, and giving back to the communities in which we operate. We do all these with integrity and transparency.

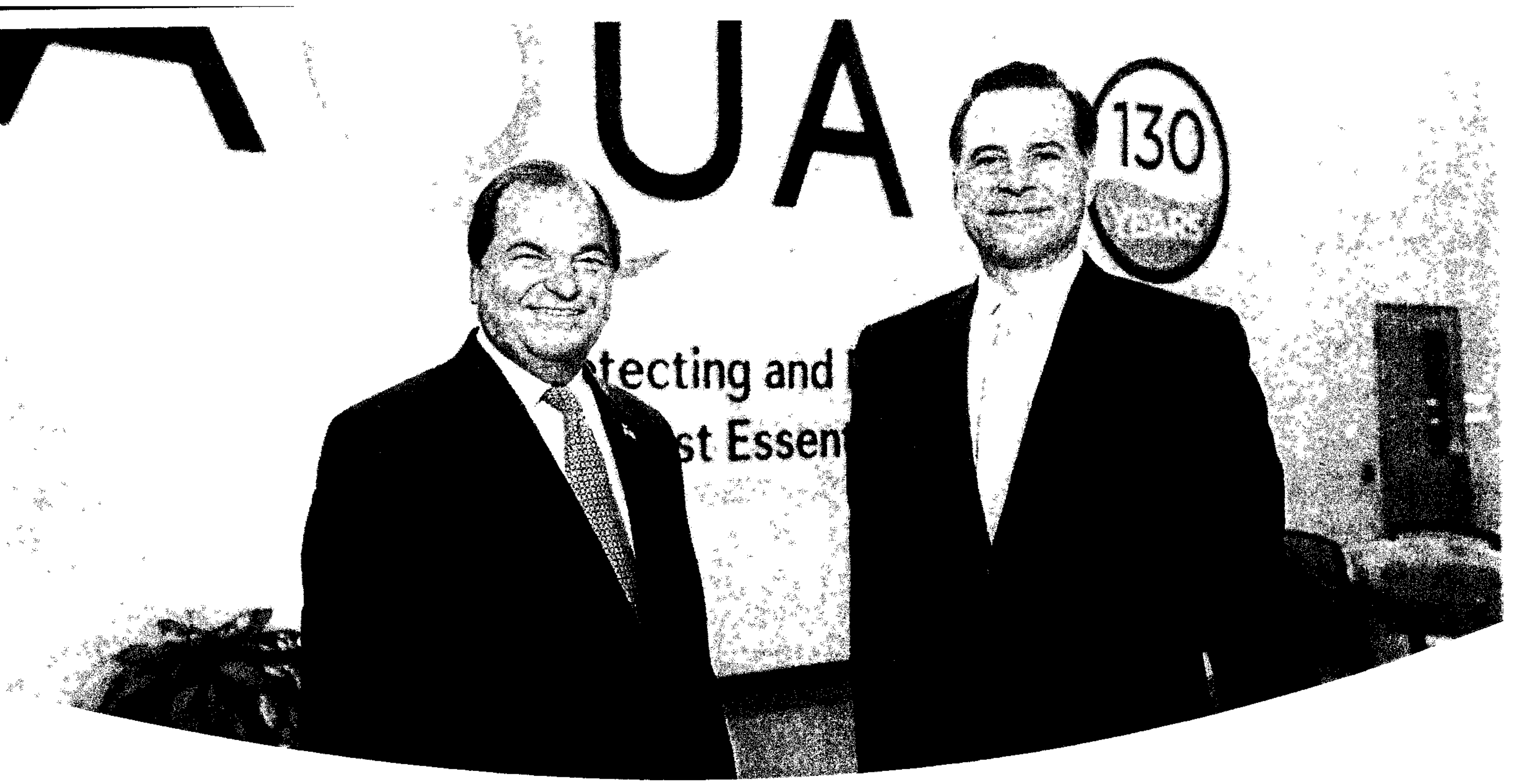
Financial Highlights

in thousands of dollars, except per-share amounts

	2015	2014	% Change
Operating revenues	$814,204	$779,903	4%
Net income	$201,790	$233,239	(13%)
Income from continuing operations	$201,790	$213,884	(6%)
Income from continuing operations per share	$1.14	$1.20	(5%)
Exclude:			
Joint venture impairment charge, net of taxes	$21,433	$0	
Adjusted income from continuing operations* (Non-GAAP financial measure)	$223,223	$213,884	4%
Adjusted income from continuing operations per share*† (Non-GAAP financial measure)	$1.26	$1.20	5%
Annualized dividend rate per common share (12/31)	$0.71	$0.66	8%
Total assets	$5,741,038	$5,406,752	6%
Number of utility customers served	957,866	940,119	2%

*The GAAP financial measures are income from continuing operations and income from continuing operations per share. Please see our investor relations page of AquaAmerica.com for a reconciliation of the GAAP to non-GAAP financial measures.





A Letter From the Chairman and the President & CEO.

Aqua America's Board of Directors appointed Christopher Franklin chief executive officer on June [illegible]. Chris, a [illegible]-year veteran and Aqua's former [illegible] [illegible] his new role on July 1. Nicholas DeBenedictis served as a valued resource through the transition and will continue to serve as chairman of the board.

The year 2015 was an important one at Aqua America. We demonstrated that a smooth transition from a long-term CEO to a new CEO and management team could be done effectively and efficiently. Both of us worked together for more than two decades building this successful company and providing long-term value for shareholders. It is only fitting that the legacy continues through the next generation of management at Aqua America.

Following the CEO transition in July, we proceeded to build on an already strong management team by adding several new executives to the organization. With our primary focus on operating the company at standards of excellence, and growing the company in a sustainable and accretive way, we diligently hired executives to lead our operations and corporate growth.

It is in this strong position that we entered 2016, a year that marks the company's 130th anniversary, a milestone reached by very few American companies. We take great pride in this history!

Our mission is clear at Aqua America: protecting and providing Earth's most essential resource. Our employees believe in our mission, and come to work each day to provide clean, safe drinking water to our customers. Through our wastewater operations, our employees are responsible for ensuring we treat the water before we place it back into our rivers, streams and fields, renewed and meeting all environmental standards.

Although our mission is simple, it is an extremely important one. After all, we are the only utility whose product is ingested by humans.

Because our charge is such a crucial one to the health and well-being of entire communities, we place the very highest value on honesty, integrity and transparency in our work at Aqua America. We want our employees, customers, shareholders and other stakeholders to know that we hold ourselves accountable to a high standard on which they have come to depend. Across the company, our management team understands that we earn our customers' trust every day through our actions.

Each year we are amazed by what our employees accomplish and how they react to the various situations they encounter. This year, Aqua Pennsylvania Inspector Bryan Gormley reacted quickly when he witnessed an accident in which a young man was severely injured. With little regard for his own safety, Bryan jumped into the trench to save the man's life, injuring himself in the process. Bryan saved this young man's life that day and demonstrated to all of us the selflessness of our team at Aqua America.

We serve nearly 1 million customer connections across our eight-state footprint with dedicated service and great pride. We will continue our commitment to the communities we serve by spending $1.1 billion over the next three years on infrastructure projects that improve our service and quality. With all the capabilities Aqua America brings to our existing customers, we have a great opportunity to extend the same excellent service to even more customers in the United States. For this reason, it is our objective to continue growing the company. In fact, this year, we grew the company by 1.9 percent, which represents the highest customer growth rate we've seen since 2008.

Since the transition last July, we have intensified our strategic planning process by developing a framework to evaluate larger potential acquisitions. With the closing of four municipal acquisitions in 2015, we believe our strategy in the municipal market will continue to accelerate customer growth for the company and its shareholders.

Through our work with legislators and regulators, we have developed mechanisms to more rapidly invest in the improvement of our pipes and plants. These mechanisms have also allowed us to file fewer rate cases, which is positive for customers, regulators, local officials and Aqua America alike.

We understand the importance of our quarterly cash dividends to our shareholders. In August, 2015 Aqua's Board of Directors increased the quarterly cash dividend for the 25th time in the past 24 years. The dividend was raised 7.9 percent to $0.178 per share, effective September 1, 2015. To date, Aqua has paid consecutive quarterly dividends to its shareholders for 71 years.

On behalf of the board and the entire senior leadership team, we would like to thank all of our employees for their passion and dedication to our mission and vision, and for keeping customers at the center of all we do. We also extend our thanks to you, the shareholders of our great company, for enabling Aqua America to protect and provide Earth's most essential resource, every day.

Sincerely,

Christopher Franklin
President and CEO

Nicholas DeBenedictis
Chairman of the Board

"Although our mission is simple, it is an extremely important one."

Aqua America Celebrated 130 Years of Service on January 4, 2016.

Our founders began operations by building key infrastructure: a small pump station on a stream and the installation of pipes that connected the pump station to their nearby homes and those of their neighbors.

Back then, the four college professors who created the company were driven by their concern for public health. At the time, typhoid fever and cholera were of great concern. Their success helping to resolve this public health problem for their community created a demand from neighboring towns and counties. They met that demand, providing quality water throughout the region by expanding the infrastructure to serve additional communities, eventually providing service to residents of three counties bordering the City of Philadelphia in southeastern Pennsylvania.

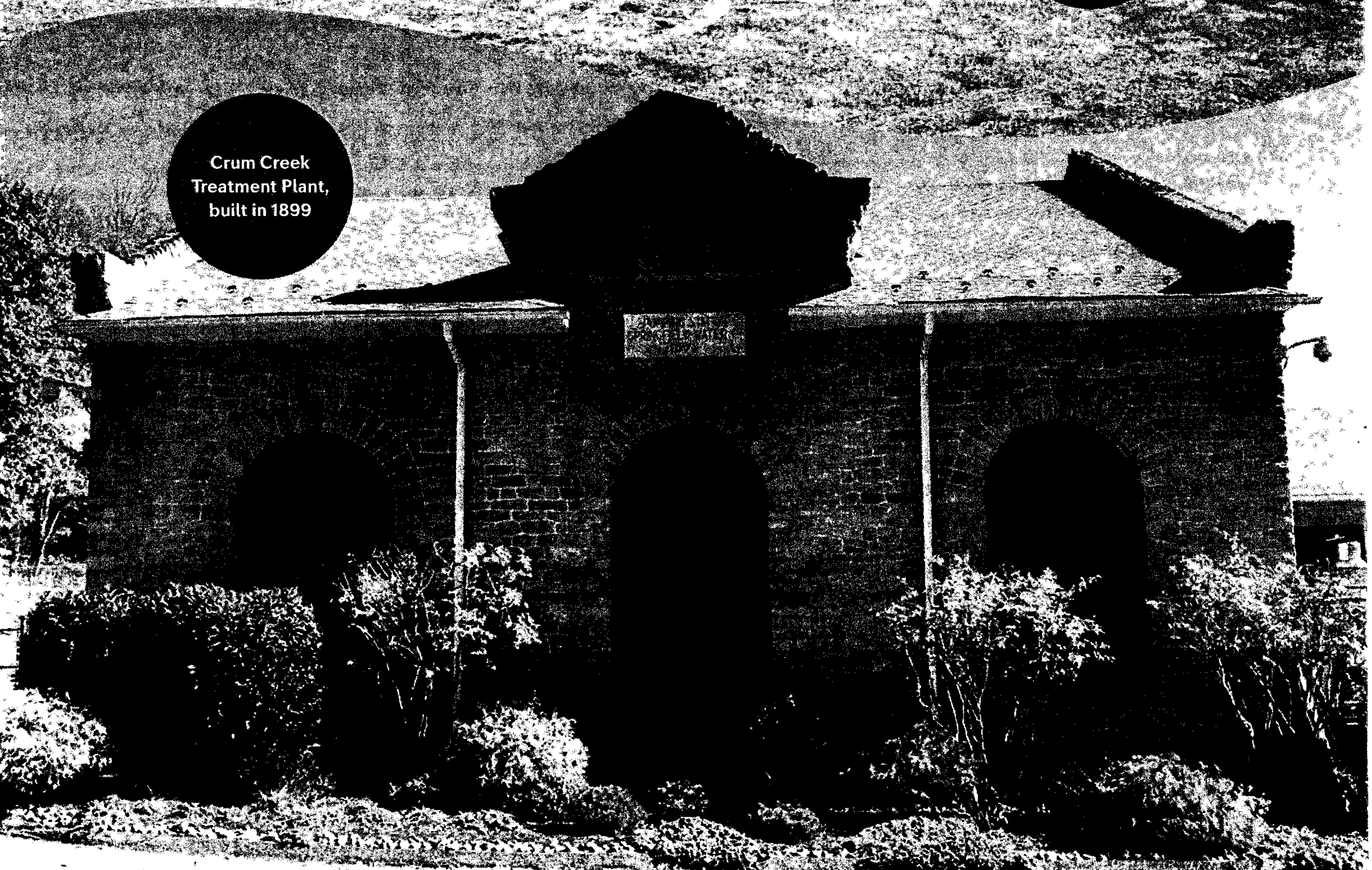
Our expertise in building, operating and rehabilitating infrastructure enables us to consistently provide quality drinking water and reliable water and wastewater service to our customers.

Today, Aqua owns and maintains 12,500 miles of water mains that make up our distribution systems that also include valves, water storage tanks and pump stations. Each year, about 85 billion gallons of water travel from thousands of water treatment facilities through our distribution systems to serve millions of people throughout our service areas.

Aqua also provides wastewater service to hundreds of communities through collection pipelines, pumping facilities, and treatment plants that we own and operate. Our 183 wastewater treatment plants employ a wide range of treatment technologies to meet permit requirements and protect the water quality of the rivers, streams and groundwater to which they discharge.

Providing our customers with quality drinking water and reliable water and wastewater service depends on our ability to build and sustain sound infrastructure. Ensuring reliable treatment facilities and distribution and collection systems is as much a priority to us today as it was to our founders 130 years ago. In the past five years, Aqua has invested nearly $1.7 billion in capital improvements. Aqua's services and infrastructure improvements mean different things to different groups—our customers, employees, the communities we serve, and our shareholders—and it is a critical topic for them all.

Crum Creek Pumping Station No. 1, built in 1892



Crum Creek Treatment Plant, built in 1899

Committed to Integrity and Delivering Excellent Customer Service.

Customers are our primary stakeholders and the primary beneficiaries of our water and wastewater services and infrastructure improvement program. The investments we make to ensure that our treatment facilities are up-to-date and compliant with environmental regulations enable us to produce safe, quality drinking water and to ensure proper treatment and disposal of wastewater. Our distribution system improvements ensure reliable delivery of quality drinking water. Expert wastewater system operation, maintenance and replacement ensures the proper treatment and disposal of wastewater, which benefits our customers and the environment we all share.

In most cases, these improvements are invisible to those who are accustomed to a quality product and reliable service. But on occasion, the improvements are highly visible.

Public water-fountain, circa 1950s

An example is the impact of a program underway to install new filters at well stations in North Carolina. The filters remove naturally occurring minerals—iron and manganese—from the groundwater, which cause water to be discolored and, unfortunately, are common to North Carolina's geology as well as that of other states. The improvement of the newly filtered water is very visible.

Aqua's expertise is often sought by others from within and outside of the industry. The U.S. Environmental Protection Agency worked with Aqua to connect 50 homes with private wells in a Wake Forest, North Carolina neighborhood to Aqua's water supply when it was discovered that the homeowners' private wells were contaminated by solvents. Fortunately, because Aqua was in the position to literally extend its infrastructure to resolve the problem, the community was able to avoid another, possibly more expensive, solution.

Aqua's Bryn Mawr laboratory, circa 1950s

Attracting and Developing Top Talent to Protect Earth's Most Essential Resource.

Exceptional infrastructure repair, maintenance and operation takes a highly knowledgeable, skilled and dedicated team of experts. Long before a treatment facility is constructed or rehabilitated and placed in service, there is research, planning, design and permitting that must take place. Once a facility is online and operational, even with automation, its operation is continually overseen by employees. If infrastructure is the body of our business, employees are the brain.

Aqua employs a highly qualified team of more than 1,600 employees who are ultimately responsible for the quality of our drinking water as well as the quality of the water and wastewater service we provide 24 hours a day, 7 days a week, 365 days a year. The execution of our capital program requires the talents of employees throughout the company from engineering and finance to purchasing and construction, and nearly every department in between. As upgrades are made to treatment and laboratory facilities, and other assets, employees have the opportunity to continue their advancement by learning about and operating new, modern equipment and advanced technologies.

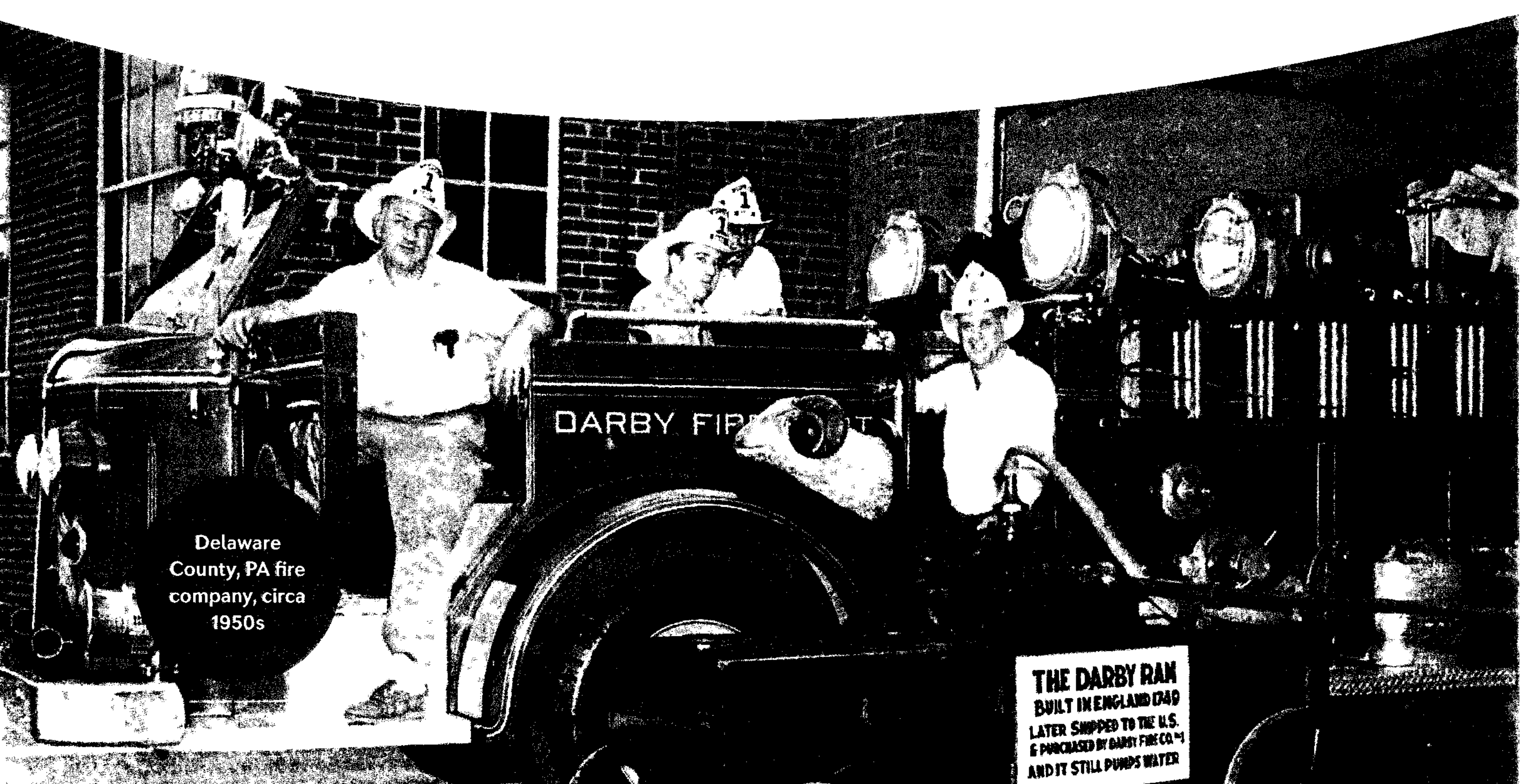
Proud to Give Back to the Communities We Serve.

Our employees live and work in the communities we serve. We are literally tied to our communities with most of our primary assets buried in the ground. As members of the communities we serve, we work closely with groups ranging from homeowner associations, municipal and other elected officials and regulators to ensure quality water and service. We partner with community organizations to support events and charitable efforts that benefit Aqua customers and their communities.

The organizations we support are as varied as the communities we serve. Some of the projects we support fall into the categories of environmental stewardship and education and emergency services.

Aqua's efforts to upkeep our communities' infrastructure means they can continue growing, secure in the knowledge that Aqua will meet their water and wastewater needs now and for future generations. Growing communities expand schools, businesses and neighborhoods, and Aqua is a partner in all those efforts.

One of the more popular organizations we support throughout our communities is fire companies. Cove, Texas Fire and Rescue Fire Chief Jason Soto described the impact of a recent Aqua donation: "The money Aqua donated makes a real difference in how we can save lives and property. With Aqua's support last year, we were able to purchase some much needed rescue extrication gloves that can assist and protect our volunteer firefighters when

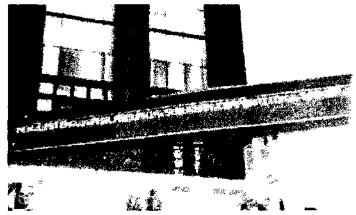


Delaware County, PA fire company, circa 1950s performing a variety of rescue operations. When you're fighting fires or performing rescues, time is of the essence so having that extra time, and the proper equipment can mean the difference between life and death."

The firefighting community is a crucial stakeholder for water companies, as they depend on access to a distribution system in areas where water systems provide fire protection. A significant portion of Aqua's infrastructure dollars are spent replacing aging water mains. In the Midwest and Northeastern areas of the country, there is a significant amount of cast iron main which, after decades in service, can experience a buildup of iron oxide inside the main that restricts the flow of water. New ductile iron mains have a cement lining that prevents this restriction from occurring. Emlenton, Pennsylvania Borough Council President Barry Louise cited an example of an Aqua main replacement program that made a significant difference in a recent firefighting effort. "Also, since the new lines were installed in the borough, boosting our water volume and pressure, we had a major fire on Feb. 5, 2015. A 140-year-old feed mill caught fire and had a good start before the fire department was called. The temperature that night was 10 degrees and the river—from which we get additional water when we have a major fire—had frozen over. If it wasn't for the new water system put in by Aqua and the good supply of water in the plugs, several homes would have been lost. However, as a result of the water system upgrades, only one other business was lost and only three homes had heat damage. Thanks to Aqua, and our great fire department and the other assisting fire departments, we were able to save many homes."

We Take Seriously Our Responsibility to Deliver Shareholder Value.

Our investors play a key role in our ongoing operations and infrastructure improvement program, as their investments provide capital that enables these initiatives. Their support of such key functions of our business is rewarded by a fair return on their investment.



Providing a fair return to shareholders is largely based on Aqua's ability to operate efficiently, make necessary capital investments that will be deemed prudent by state utility regulators, and use appropriate regulatory mechanisms to obtain and set reasonable customer rates.

Aqua is one of the most efficient companies in the utility sector. That fact, coupled with our prudent capital deployment and the approval of state regulators, enables us to provide a fair return to our shareholders for helping us fulfill our mission of protecting and providing Earth's most essential resource.

NYSE,
The Closing Bell,
January 14, 2016

FORWARD-LOOKING STATEMENTS

This report by Aqua America, Inc. ("Aqua America," "we" or "us") contains, in addition to historical information, forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements involve risks, uncertainties and other factors, that may be outside our control and that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. In some cases, you can identify forward-looking statements where statements are preceded by, followed by or include the words "believes," "expects," "anticipates," "plans," "future," "potential," "probably," "predictions," "intends," "will," "continue", "in the event", or the negative of such terms or similar expressions. Forward-looking statements in this report, include, but are not limited to, statements regarding:

- recovery of capital expenditures and expenses in rates;
- projected capital expenditures and related funding requirements;
- the availability and cost of capital financing;
- developments, trends and consolidations within the water and wastewater utility and infrastructure industries;
- dividend payment projections;
- future financing plans;
- future pension contributions;
- the impact of changes in income tax laws regarding tax-basis depreciation on capital additions, and income tax deductions for qualifying utility asset improvements;
- our determination of what qualifies as a capital cost versus an income tax deduction for qualifying utility asset improvements;
- opportunities for future acquisitions, the success of pending acquisitions and the impact of future acquisitions;
- acquisition-related costs and synergies;
- the sale of water and wastewater divisions;
- the capacity of our water supplies, water facilities and wastewater facilities;
- the impact of geographic diversity on our exposure to unusual weather;
- the impact of conservation awareness of customers and more efficient plumbing fixtures and appliances on water usage per customer;
- the availability and cost of key production necessities, including power, chemicals and purchased water or wastewater services;
- the availability of qualified personnel;
- the return performance of our defined benefit pension and other post-retirement plans' assets;
- general economic conditions;
- the impact of Federal and/or state tax policies and the regulatory treatment of the effects of those policies; and
- the impact of accounting pronouncements and income taxation policies.

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

- changes in general economic, business, credit and financial market conditions;
- changes in governmental laws, regulations and policies, including those dealing with taxation, the environment, health and water quality, and public utility regulation;
- changes to the rules or our assumptions underlying our determination of what qualifies for an income tax deduction for qualifying utility asset improvements;
- the decisions of governmental and regulatory bodies, including decisions on rate increase requests;
- our ability to file rate cases on a timely basis to minimize regulatory lag;
- abnormal weather conditions, including those that result in water use restrictions;

- changes in, or unanticipated, capital requirements;
- changes in our credit rating or the market price of our common stock;
- our ability to integrate businesses, technologies or services which we may acquire;
- change in valuation of strategic ventures;
- our ability to manage the expansion of our business;
- our ability to treat and supply water or collect and treat wastewater;
- the extent to which we are able to develop and market new and improved services;
- the effect of the loss of major customers;
- our ability to retain the services of key personnel and to hire qualified personnel as we expand;
- labor disputes;
- increasing difficulties in obtaining insurance and increased cost of insurance;
- cost overruns relating to improvements to, or the expansion of, our operations;
- increases in the costs of goods and services;
- civil disturbance or terroristic threats or acts;
- the continuous and reliable operation of our information technology systems, including the impact of cyber security attacks or other cyber-related events;
- changes in accounting pronouncements;
- litigation and claims; and
- changes in environmental conditions, including the effects of climate change.

Given these uncertainties, you should not place undue reliance on these forward-looking statements. You should read this report with the understanding that our actual future results, performance and achievements may be materially different from what we expect. These forward-looking statements represent our estimates and assumptions only as of the date of this report. Except for our ongoing obligations to disclose material information under the Federal securities laws, we are not obligated to update these forward-looking statements, even though our situation may change in the future. We qualify all of our forward-looking statements by these cautionary statements. As you read this report, you should pay particular attention to the *Risk Factors* included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

OVERVIEW

The following discussion and analysis of our financial condition and results of operations should be read together with our consolidated financial statements and related notes.

The Company

Aqua America, Inc., a Pennsylvania corporation, is the holding company for regulated utilities providing water or wastewater services to what we estimate to be almost three million people in Pennsylvania, Ohio, Texas, Illinois, North Carolina, New Jersey, Indiana, and Virginia. Our largest operating subsidiary is Aqua Pennsylvania, Inc., which accounted for approximately 52% of our operating revenues and approximately 76% of our Regulated segment's income from continuing operations for 2015. As of December 31, 2015, Aqua Pennsylvania provided water or wastewater services to approximately one-half of the total number of people we serve. Aqua Pennsylvania's service territory is located in the suburban areas in counties north and west of the City of Philadelphia and in 27 other counties in Pennsylvania. Our other regulated utility subsidiaries provide similar services in seven other states. In addition, the Company's market-based activities are conducted through Aqua Resources, Inc. and Aqua Infrastructure, LLC. Aqua Resources provides water and wastewater service through operating and maintenance contracts with municipal authorities and other parties close to our utility companies' service territories; offers, through a third party, water and sewer line repair service and protection solutions to households; inspects, cleans and repairs storm and sanitary wastewater lines; installs and tests devices that prevent the contamination of potable water; designs and builds water and wastewater systems; and provides other market-based water and wastewater services. In addition, Aqua Resources provides liquid waste hauling and disposal services in a business unit that the Company has decided to sell, which as of December 31, 2015 is reported as assets held for sale in the Company's Consolidated Balance Sheets. Aqua Infrastructure provides non-utility raw water supply services for firms in the natural gas drilling industry.

Aqua America, which prior to its name change in 2004 was known as Philadelphia Suburban Corporation, was formed in 1968 as a holding company for its primary subsidiary, Aqua Pennsylvania, formerly known as Philadelphia Suburban Water Company. Since the early 1990s, we have embarked on a growth through acquisition strategy focused on water and wastewater operations. Our most significant transactions to date have been the merger with Consumers Water Company in 1999, the acquisition of the regulated water and wastewater operations of AquaSource, Inc. in 2003, the acquisition of Heater Utilities, Inc. in 2004, and the acquisition of American Water Works Company, Inc.'s regulated water and wastewater operations in Ohio in 2012. Since the early 1990s, our business strategy has been primarily directed toward the regulated water and wastewater utility industry, where we have more than quadrupled the number of regulated customers we serve, and have extended our regulated utility operations from southeastern Pennsylvania to include our current operations in seven other states.

During 2010 through 2013, we sold our utility operations in six states, pursuant to a portfolio rationalization strategy to focus our operations in areas where we have critical mass and economic growth potential.

In December 2014, we completed the sale of our water utility system in southwest Allen County, Indiana to the City of Fort Wayne, Indiana. The completion of this sale settled the dispute concerning the February 2008 acquisition, by eminent domain, by the City of Fort Wayne, of the northern portion of our water and wastewater utility systems. In addition, as a result of this transaction, Aqua Indiana will expand its sewer customer base by accepting new wastewater flows from the City of Fort Wayne. Refer to Note 3 – *Discontinued Operations and Other Disposition* for further information on this sale.

Industry Mission

The mission of the investor-owned water utility industry is to provide quality and reliable water service at reasonable rates to customers, while earning a fair return for shareholders. A number of challenges face the industry, including:

- strict environmental, health and safety standards;
- aging utility infrastructure and the need for substantial capital investment;
- economic regulation by state, and/or, in some cases, local government;
- declining consumption per customer as a result of conservation;
- lawsuits and the need for insurance; and
- the impact of weather and sporadic drought conditions on water sales demand.

Economic Regulation

Most of our water and wastewater utility operations are subject to regulation by their respective state utility commissions, which have broad administrative power and authority to regulate billing rates, determine franchise areas and conditions of service, approve acquisitions, and authorize the issuance of securities. The utility commissions also generally establish uniform systems of accounts and approve the terms of contracts with affiliates and customers, business combinations with other utility systems, and loans and other financings. The policies of the utility commissions often differ from state to state, and may change over time. A small number of our operations are subject to rate regulation by county or city government. Over time, the regulatory party in a particular state may change, as was the case for our Texas operations where, in 2014, economic regulation changed from the Texas Commission on Environmental Quality to the Texas Public Utility Commission. The profitability of our utility operations is influenced to a great extent by the timeliness and adequacy of rate allowances in the various states in which we operate. A consideration in evaluating which states to focus our growth and investment strategy is whether a state provides for consolidated rates, a surcharge for replacing and rehabilitating infrastructure systems, and other regulatory policies that promote infrastructure investment and efficiency in processing rate cases.

Rate Case Management Capability – We strive to achieve the industry's mission by effective planning, efficient investments, and productive use of our resources. We maintain a rate case management capability to pursue timely and adequate returns on the capital investments that we make in improving our distribution system, treatment plants, information technology systems, and other infrastructure. This capital investment represents our assets used and useful in providing utility service, and is commonly referred to as rate base. Timely, adequate rate relief is important to our continued profitability and in providing a fair return to our shareholders, and thus providing access to capital markets to help fund these investments. Accordingly, the objective of our rate case management strategy is to provide that the rates of our utility operations reflect, to the extent practicable, the timely recovery of increases in costs of operations (primarily labor and employee benefits, electricity, chemicals, transportation, maintenance expenses, insurance and claims costs, and costs to comply with environmental regulations), capital, and taxes. In pursuing our rate case strategy, we consider the amount of net utility plant additions and replacements made since the previous rate decision, the changes in the cost of capital, changes in our capital structure, and changes in operating and other costs. Based on these assessments, our utility operations periodically file rate increase requests with their respective state utility commissions or local regulatory authorities. In general, as a regulated enterprise, our water and wastewater rates are established to provide full recovery of utility operating costs, taxes, interest on debt used to finance capital investments, and a return on equity used to finance capital investments. Our ability to recover our expenses in a timely manner and earn a return on equity employed in the business helps determine the profitability of the Company. As of December 31, 2015, the Company's rate base that has been filed with the respective state utility commissions or local regulatory authorities is $2,852,712, and $617,157 is subject to review by the respective state utility commissions or local regulatory authorities.

Our water and wastewater operations are composed of 52 rate divisions, each of which requires a separate rate filing for the evaluation of the cost of service and recovery of investments in connection with the establishment of tariff rates for that rate division. When feasible and beneficial to our utility customers, we have sought approval from the applicable state utility commission to consolidate rate divisions to achieve a more even distribution of costs over a larger customer base. All of the eight states in which we operate currently permit us to file a revenue requirement using some form of consolidated rates for some or all of the rate divisions in that state.

Revenue Surcharges – Six states in which we operate water utilities, and five states in which we operate wastewater utilities, permit us to add a surcharge to water or wastewater bills to offset the additional depreciation and capital costs associated with capital expenditures related to replacing and rehabilitating infrastructure systems. In all other states, water and wastewater utilities absorb all of the depreciation and capital costs of these projects between base rate increases without the benefit of additional revenues. The gap between the time that a capital project is completed and the recovery of its costs in rates is known as regulatory lag. This surcharge is intended to substantially reduce regulatory lag, which often acts as a disincentive to water and wastewater utilities to rehabilitate their infrastructure. In addition, some states permit our subsidiaries to use a surcharge or credit on their bills to reflect allowable changes in costs, such as changes in state tax rates, other taxes and purchased water costs, until such time as the new costs are fully incorporated in base rates.

Effects of Inflation – Recovery of the effects of inflation through higher water and wastewater rates is dependent upon receiving adequate and timely rate increases. However, rate increases are not retroactive and often lag increases in costs caused by inflation. On occasion, our regulated utility companies may enter into rate settlement agreements, which require us to wait for a period of time to file the next base rate increase request. These agreements may result in regulatory lag whereby inflationary increases in expenses may not yet be reflected in rates, or a gap may exist between when a capital project is completed and the start of its recovery in rates. Even during periods of moderate inflation, the effects of inflation can have a negative impact on our operating results.

Growth-Through-Acquisition Strategy

Part of our strategy to meet the industry challenges is to actively explore opportunities to expand our utility operations through acquisitions of water and wastewater utilities either in areas adjacent to our existing service areas or in new service areas, and to explore acquiring market-based businesses that are complementary to our regulated water and wastewater operations. To complement our growth strategy, we routinely evaluate the operating performance of our individual utility systems, and in instances where limited economic growth opportunities exist or where we are unable to achieve favorable operating results or a return on equity that we consider acceptable, we will seek to sell the utility system and reinvest the proceeds in other utility systems. Consistent with this strategy, we are focusing our acquisitions and resources in states where we have critical mass of operations in an effort to achieve economies of scale and increased efficiency. Our growth-through-acquisition strategy allows us to operate more efficiently by sharing operating expenses over more utility customers and provides new locations for possible future growth. Another element of our growth strategy is the consideration of opportunities to expand by acquiring other utilities, including those that may be in a new state if they provide promising economic growth opportunities and a return on equity that we consider acceptable. The ability to successfully execute this strategy and meet the industry challenges is largely due to our core competencies, financial position, and our qualified and trained workforce, which we strive to retain by treating employees fairly and providing our employees with development and growth opportunities.

During 2015, we completed 16 acquisitions and other growth ventures, which along with the organic growth in our existing systems, represents 17,747 new customers. During 2014, we completed 16 acquisitions and other growth ventures, which along with the organic growth in our existing systems, represents 12,120 new customers. During 2013, we completed 15 acquisitions and other growth ventures, which along with the organic growth in our existing systems, represents 12,341 new customers.

In addition to acquisitions, from time to time, we sell utility systems or relinquish ownership in systems through condemnation. In 2014 and 2013, consistent with our strategy to evaluate future growth opportunities or the financial performance of our individual utility systems, we divested our operations in the following states:

- our wastewater treatment facility in Georgia in March 2014; and
- our water and wastewater utility systems in Florida in separate transactions in March, April, and December of 2013.

In addition, in December 2014, we sold our water utility systems in Fort Wayne, Indiana.

In addition to the dispositions mentioned above, in 2013 we sold three utility systems representing 1,763 customers.

The operating results, cash flows, and financial position of the Company's water utility systems in Fort Wayne, Indiana and Georgia, and Florida subsidiaries were presented in the Company's consolidated financial statements as discontinued operations.

We believe that utility acquisitions, organic growth, and expansion of our market-based business will continue to be the primary sources of customer growth for us. With approximately 53,000 community water systems in the U.S., 82% of which serve less than 3,300 customers, the water industry is the most fragmented of the major utility industries (telephone, natural gas, electric, water and wastewater). In the states where we operate regulated utilities, we believe there are approximately 14,500 community water systems of widely-varying size, with the majority of the population being served by government-owned water systems.

Although not as fragmented as the water industry, the wastewater industry in the U.S. also presents opportunities for consolidation. According to the U.S. Environmental Protection Agency's ("EPA") most recent survey of wastewater treatment facilities (which includes both government-owned and privately-owned facilities) in 2012, there are approximately 15,000 such facilities in the nation serving approximately 76% of the U.S. population. The remaining population represents individual homeowners with their own treatment facilities; for example, community on-lot disposal systems and septic tank systems. The vast majority of wastewater facilities are government-owned rather than privately-owned. The EPA survey also indicated that there are approximately 4,000 wastewater facilities in operation in the states where we operate regulated utilities.

Because of the fragmented nature of the water and wastewater utility industries, we believe that there are many potential water and wastewater system acquisition candidates throughout the United States. We believe the factors driving the consolidation of these systems are:

- the benefits of economies of scale;
- the increasing cost and complexity of environmental regulations;
- the need for substantial capital investment;
- the need for technological and managerial expertise;
- the desire to improve water quality and service;
- limited access to cost-effective financing;
- the monetizing of public assets to support, in some cases, the declining financial condition of municipalities; and
- the use of system sale proceeds by a municipality to accomplish other public purposes.

We are actively exploring opportunities to expand our water and wastewater utility operations through regulated utility acquisitions or otherwise, including the management of publicly-owned facilities in a public-private partnership. We intend to continue to pursue acquisitions of government-owned and privately-owned water and wastewater utility systems that provide services in areas near our existing service territories or in new service areas. It is our intention to focus on growth opportunities in states where we have critical mass, which allows us to improve economies of scale through spreading our fixed costs over more customers – this cost efficiency should enable us to reduce the size of future rate increases. Periodically, we consider opportunities for the acquisition of market-based water and wastewater service businesses, as well as other utilities, including those that may be in a new state. From time to time, we also seek other potential business opportunities, including partnering with public and private utilities to invest in water and wastewater infrastructure improvements, and growing our market-based subsidiary, Aqua Resources.

Sendout

Sendout represents the quantity of treated water delivered to our distribution systems. We use sendout as an indicator of customer demand. Weather conditions tend to impact water consumption, particularly during the late spring, summer, and early fall when discretionary and recreational use of water is at its highest. Consequently, a higher proportion of annual operating revenues are realized in the second and third quarters. In general, during this period, an extended period of hot and dry weather increases water consumption, while above-average rainfall and cool weather decreases water consumption. Conservation efforts, construction codes that require the use of low-flow plumbing fixtures, as well as mandated water use restrictions in response to drought conditions can reduce water consumption. We believe an increase in conservation awareness by our customers, including the increased use of more efficient plumbing fixtures and appliances, may continue to result in a long-term structural trend of declining water usage per customer. These gradual long-term changes are normally taken into account by the utility commissions in setting rates, whereas significant short-term changes in water usage, resulting from drought warnings, water use restrictions, or extreme weather conditions, may not be fully reflected in the rates we charge between rate proceedings.

On occasion, drought warnings and water use restrictions are issued by governmental authorities for portions of our service territories in response to extended periods of dry weather conditions, regardless of our ability to meet unrestricted customer water demands. The timing and duration of the warnings and restrictions can have an impact on our water revenues and net income. In general, water consumption in the summer months is affected by drought warnings and restrictions to a higher degree because discretionary and recreational use of water is highest during the summer months, particularly in our northern service territories. At other times of the year, warnings and restrictions generally have less of an effect on water consumption.

The geographic diversity of our utility customer base reduces the effect of our exposure to extreme or unusual weather conditions in any one area of the country. During the year ended December 31, 2015, our operating revenues were derived principally from the following states: approximately 52% in Pennsylvania, 12% in Ohio, 9% in Texas, 7% in Illinois, and 6% in North Carolina.

Performance Measures Considered by Management

We consider the following financial measures (and the period to period changes in these financial measures) to be the fundamental basis by which we evaluate our operating results:

- earnings per share,
- operating revenues,
- income from continuing operations,
- net income attributable to common shareholders, and
- the dividend rate on common stock.

In addition, we consider other key measures in evaluating our utility business performance within our Regulated segment:

- our number of utility customers;
- the ratio of operations and maintenance expense compared to operating revenues (this percentage is termed "operating expense ratio");
- return on revenues (income from continuing operations divided by operating revenues);
- return on equity (net income attributable to common shareholders divided by stockholders' equity); and
- the ratio of capital expenditures to depreciation expense.

We also review the measure of earnings before interest, taxes, and depreciation ("EBITD") and the measure of earnings before income taxes as compared to our operating budget. Furthermore, we review the measure of earnings before unusual items that are noncash and not directly related to our core business, such as the measure of adjusted earnings to remove the joint venture impairment charge recognized in the fourth quarter of 2015. Refer to *Note 1 – Summary of Significant Accounting Policies – Investment in Joint Venture* for information regarding the impairment charge. We review these measurements regularly and compare them to historical periods, to our operating budget as approved by our Board of Directors, and to other publicly-traded water utilities.

Our operating expense ratio is one measure that we use to evaluate our operating efficiency and management effectiveness of our regulated operations. Our operating expense ratio is affected by a number of factors, including the following:

- ***Regulatory lag*** – Our rate filings are designed to provide for the recovery of increases in costs of operations (primarily labor and employee benefits, electricity, chemicals, transportation, maintenance expenses, insurance and claim costs, and costs to comply with environmental regulations), capital, and taxes. The revenue portion of the operating expense ratio can be impacted by the timeliness of recovery of, and the return on capital investments. The operating expense ratio is further influenced by regulatory lag (increases in operations and maintenance expenses not yet recovered in rates or a gap between the time that a capital project is completed and the start of its cost recovery in rates). The operating expense ratio is also influenced by decreases in operating revenues without a commensurate decrease in operations and maintenance expense, such as changes in customer water consumption as impacted by adverse weather conditions, conservation trends, or as a result of utility rates incorporating the effects of income tax benefits derived from deducting qualifying utility asset improvements for tax purposes that are capitalized for book purposes in Aqua Pennsylvania and consequently forgoing operating revenue increases. During periods of inflation, our operations and maintenance expenses may increase, impacting the operating expense ratio, as a result of regulatory lag since our rate cases may not be filed timely and are not retroactive.
- ***Acquisitions*** – In general, acquisitions of smaller undercapitalized utility systems in some areas may initially increase our operating expense ratio if the operating revenues generated by these operations are accompanied by a higher ratio of operations and maintenance expenses as compared to other operational areas of the company that are more densely populated and have integrated operations. In these cases, the acquired operations are characterized as having relatively higher operating costs to fixed capital costs, in contrast to the majority of our operations, which generally consist of larger, interconnected systems, with higher fixed capital costs (utility plant investment) and lower operating costs per customer. In addition, we operate market-based subsidiary companies, Aqua Resources and Aqua Infrastructure. The cost-structure of these market-based companies differs from our utility companies in that, although they may generate free cash flow, these companies have a much higher ratio of operations and maintenance expenses to operating revenues and a lower capital investment and, consequently, a lower ratio of fixed capital costs versus operating revenues in contrast to our regulated operations. As a result, the operating expense ratio is not comparable between the businesses. These market-based subsidiary companies are not a component of our Regulated segment.

We continue to evaluate initiatives to help control operating costs and improve efficiencies.

(In thousands of dollars, except per share amounts)

Consolidated Selected Financial and Operating Statistics

Our selected five-year consolidated financial and operating statistics follow:

Years ended December 31,	2015	2014	2013 (1)	2012 (2)	2011 (3)
Utility customers:					
Residential water	791,404	779,665	771,660	766,121	711,664
Commercial water	40,151	39,614	39,237	38,805	34,806
Industrial water	1,353	1,357	1,368	1,373	1,212
Other water	17,420	17,412	17,230	16,643	15,676
Wastewater	107,538	102,071	98,705	95,044	84,978
Total utility customers	957,866	940,119	928,200	917,986	848,336
Operating revenues.					
Residential water	$ 477,773	$ 460,013	$ 457,404	$ 441,240	$ 403,311
Commercial water	126,677	122,795	121,178	117,559	105,461
Industrial water	28,021	27,369	25,263	24,822	21,407
Other water	56,997	59,474	57,446	70,693	64,769
Wastewater	79,399	76,472	73,062	68,225	62,780
Other utility	10,746	9,934	10,174	10,416	10,585
Regulated segment total	779,613	756,057	744,527	732,955	668,313
Other and eliminations	34,591	23,846	17,366	17,730	12,364
Consolidated	$ 814,204	$ 779,903	$ 761,893	$ 750,685	$ 680,677
Operations and maintenance expense	$ 309,310	$ 288,556	$ 283,561	$ 270,042	$ 255,017
Joint venture impairment charge (5)	$ 21,433	$ -	$ -	$ -	$ -
Income from continuing operations	$ 201,790	$ 213,884	$ 202,871	$ 181,837	$ 139,675
Net income attributable to common shareholders	$ 201,790	$ 233,239	$ 221,300	$ 196,563	$ 143,069
Capital expenditures	$ 364,689	$ 328,605	$ 307,908	$ 347,098	$ 324,360
Operating Statistics					
Selected operating results as a percentage of operating revenues					
Operations and maintenance	38 0%	37.0%	37.2%	36 0%	37 5%
Depreciation and amortization	15.8%	16 2%	16.3%	15.5%	15.8%
Taxes other than income taxes	6.8%	6 5%	6.9%	6.2%	6 0%
Interest expense, net	9 4%	9.8%	10 1%	10.4%	11 4%
Income from continuing operations	24.8%	27.4%	26.6%	24.2%	20.5%
Return on Aqua America stockholders' equity	11 7%	14.1%	14.4%	14 2%	11 4%
Ratio of capital expenditures to depreciation expense	2 9	2 7	2.6	3 1	3.2
Effective tax rate (4)	6.9%	10.5%	9 5%	26.4%	32.6%

(1) Net income attributable to common shareholders includes the gain of $615 ($1,025 pre-tax) realized on the sale of a utility system. The gain is reported in the 2013 consolidated statement of net income as a reduction to operations and maintenance expense.

(2) 2012 utility customers were impacted by the addition of 65,577 utility customers associated with utility systems acquired.

(3) Net income attributable to common shareholders includes the gain of $3,035 ($5,058 pre-tax) realized on the sale of utility systems. The gain is reported in the 2011 consolidated statement of net income as a reduction to operations and maintenance expense.

(4) See Results of Operations – *Income Taxes* for a discussion of the effective tax rate change that commenced in 2012.

(5) Represents a $21,433 ($32,975 pre-tax) joint venture impairment charge. This amount represents our share of the impairment charge recognized by our joint venture that operates a private pipeline to supply raw water to firms with natural gas well drilling operations.

RESULTS OF OPERATIONS

Our income from continuing operations has grown at an annual compound rate of approximately 12.0% and our net income has grown at an annual compound rate of approximately 10.2% during the five-year period ended December 31, 2015. During the past five years, operating revenues grew at a compound rate of 4.5% and operating expenses grew at a compound rate of 4.3%. In addition, as a result of the implementation, in 2012, of an income tax accounting change that provides for a reduction in current income taxes, the Company's provision for income taxes decreased by $52,628 or 77.9% during the five-year period ended December 31, 2015. Refer to *Note 7 – Income Taxes* for information regarding this change to allow expensing, for tax purposes, of qualifying utility asset improvement costs.

Operating Segments

We have identified ten operating segments and we have one reportable segment based on the following:

- Eight segments are composed of our water and wastewater regulated utility operations in the eight states where we provide these 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 and/or wastewater collection methods, and the nature of the regulatory environment. Our single reportable segment is named the Regulated segment.
- Two segments are not quantitatively significant to be reportable and are composed of Aqua Resources and Aqua Infrastructure. These segments are included as a component of "Other," in addition to corporate costs that have not been allocated to the Regulated segment and intersegment eliminations. Corporate costs include general and administrative expenses, and interest expense.

(In thousands of dollars, except per share amounts)

Unless specifically noted, the following discussion and analysis provides information on our consolidated results of continuing operations. The following table provides the Regulated segment and consolidated information for the years ended December 31, 2015, 2014, and 2013:

	2015			2014		
	Regulated	Other and Eliminations	Consolidated	Regulated	Other and Eliminations	Consolidated
Operating revenues	$ 779,613	$ 34,591	$ 814,204	$ 756,057	$ 23,846	$ 779,903
Operations and maintenance expense	282,866	26,444	309,310	274,754	13,802	288,556
Taxes other than income taxes	52,361	2,696	55,057	48,218	2,235	50,453
Earnings before interest, taxes, depreciation and amortization	$ 444,386	$ 5,451	449,837	$ 433,085	$ 7,809	440,894
Depreciation and amortization			128,737			126,535
Operating income			321,100			314,359
Other expense (income)						
Interest expense, net			76,536			76,397
Allowance for funds used during construction			(6,219)			(5,134)
(Gain) loss on sale of other assets			(468)			4
Gain on extinguishment of debt			(678)			-
Equity loss in joint venture			35,177			3,989
Provision for income taxes			14,962			25,219
Income from continuing operations			201,790			213,884
Income from discontinued operations, net of income taxes of $12,800 for 2014			-			19,355
Net income			$ 201,790			$ 233,239

	2013		
	Regulated	Other and Eliminations	Consolidated
Operating revenues	$ 744,527	$ 17,366	$ 761,893
Operations and maintenance expense	269,804	13,757	283,561
Taxes other than income taxes	50,523	2,162	52,685
Earnings before interest, taxes, depreciation and amortization	$ 424,200	$ 1,447	425,647
Depreciation and amortization			123,985
Operating income			301,662
Other expense (income):			
Interest expense, net			77,316
Allowance for funds used during construction			(2,275)
Gain on sale of other assets			(148)
Equity loss in joint venture			2,665
Provision for income taxes			21,233
Income from continuing operations			202,871
Income from discontinued operations, net of income taxes of $9,678			18,429
Net income			$ 221,300

Consolidated Results

Operating Revenues – Operating revenues totaled $814,204 in 2015, $779,903 in 2014, and $761,893 in 2013. The growth in revenues over the past three years is a result of increases in our customer base and water and wastewater rates. The number of customers increased at an annual compound rate of 1.3% over the past three years due to acquisitions and organic growth, adjusted to exclude customers associated with utility system dispositions. Acquisitions in our Regulated segment have provided additional water and wastewater revenues of $8,900, in 2015, $2,732 in 2014, and $16,200 in 2013. Rate increases implemented during the past three years have provided additional operating revenues of $8,503 in 2015, $5,250 in 2014, and $25,676 in 2013. The decreasing trend, when compared to 2013, in operating revenues from rate increases is primarily due to Aqua Pennsylvania not filing for a water base rate case or infrastructure rehabilitation surcharge since 2012 as a result of the 2012 rate case settlement discussed in the paragraph below.

On June 7, 2012, Aqua Pennsylvania reached a settlement agreement in its rate filing with the Pennsylvania Public Utility Commission, which in addition to a water rate increase, provided for a reduction in current income tax expense as a result of the recognition of qualifying income tax benefits upon Aqua Pennsylvania changing its tax accounting method to permit the expensing of qualifying utility asset improvement costs that historically had been capitalized and depreciated for book and tax purposes. In December 2012, Aqua Pennsylvania implemented this change which resulted in a substantial reduction in income tax expense and greater net income and cash flow. As a result, Aqua Pennsylvania was able to suspend its water Distribution System Improvement Charges in 2013 and lengthen the amount of time until the next Aqua Pennsylvania rate case is filed. As a result of the Pennsylvania rate order, income tax benefits reduced the Company's current income tax expense and increased net income $60,555 in 2013, $69,048 in 2014 and $72,944 in 2015. 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, beginning in 2013, the Company began to amortize 1/10th of these expenditures, or $38,000 annually, which reduced income tax expense and increased the Company's net income by $16,734, which is included in the income tax benefits noted in the previous sentence. In accordance with the settlement agreement, this amortization is expected to reduce income tax expense during periods when qualifying parameters are met.

Our operating subsidiaries received rate increases representing estimated annualized revenues of $3,347 in 2015 resulting from four rate decisions, $9,886 in 2014 resulting from twelve rate decisions, and $9,431 in 2013 resulting from six rate decisions. Revenues from these increases realized in the year of grant were $2,887 in 2015, $5,375 in 2014, and $8,169 in 2013. As of December 31, 2015, our operating subsidiaries have filed one rate request, which is being reviewed by the state utility commission, proposing an aggregate increase of $1,490 in annual revenues. In January 2016, we filed a rate request in New Jersey, which is being reviewed by the state utility commission, proposing an aggregate increase of $2,536 in annual revenues. During 2016, we intend to file three additional rate requests proposing an aggregate of approximately $7,628 of increased annual revenues; the timing and extent to which our rate increase requests may be granted will vary by state.

Currently, Pennsylvania, Illinois, Ohio, Indiana, New Jersey, and North Carolina allow for the use of a surcharge for replacing and rehabilitating infrastructure systems. The rate increases under this surcharge typically adjust periodically based on additional qualified capital expenditures completed or anticipated in a future period. This 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. These surcharges provided revenues of $3,261 in 2015, $4,598 in 2014, and $3,205 in 2013.

Our Regulated segment also includes operating revenues of $10,746 in 2015, $9,934 in 2014, and $10,174 in 2013 associated with contract operations that are integrated into the regulated utility business and operations. These amounts vary over time according to the level of activity associated with the utility contract operations.

In addition to the Regulated segment operating revenues, we recognized market-based revenues that are associated with Aqua Resources and Aqua Infrastructure of $34,909 in 2015, $24,189 in 2014, and $17,712 in 2013. The growth in our market-based revenues in 2015 is principally associated with revenue from acquisitions of $10,105, which reflects a full year of operations from prior year acquisitions, and the growth in 2014 is principally due to additional revenues of $3,511 associated with market-based water and wastewater services provided by Aqua Resources, and acquisitions, which provided additional revenues of $2,726.

Operations and Maintenance Expenses – Operations and maintenance expenses totaled $309,310 in 2015, $288,556 in 2014, and $283,561 in 2013. Most elements of operating costs are subject to the effects of inflation and changes in the number of customers served. Several elements are subject to the effects of changes in water consumption, weather, and the degree of water treatment required due to variations in the quality of the raw water. The principal elements of operating costs are labor and employee benefits, electricity, chemicals, transportation, maintenance expenses, insurance and claims costs, and costs to comply with environmental regulations. Electricity and chemical expenses vary in relationship to water consumption, raw water quality, and price changes. Maintenance expenses are sensitive to extremely cold weather, which can cause water mains to rupture, resulting in additional costs to repair the affected main.

Operations and maintenance expenses increased in 2015 as compared to 2014 by $20,754 or 7.2%, primarily due to: additional operating costs associated with acquisitions, consisting of market-based activities of $8,313 and utility systems of $6,823; an increase in water productions costs of $3,401; leadership transition expenses of $2,510; the recording of a reserve of $1,862 for water rights held for future use; the recording of a legal contingency reserve of $1,580; the effect of the favorable recognition of a regulatory asset in 2014 of $1,575; and an increase in legal fees of $1,420; offset by a decrease in postretirement benefits expense of $4,447. The increase in water production costs of $3,401 was impacted by an increase in energy costs resulting from the extreme cold temperatures experienced in many of our service territories in the first quarter of 2015.

Operations and maintenance expenses increased in 2014 as compared to 2013 by $4,995 or 1.8%, primarily due to: additional operating costs associated with acquired utility systems and other growth ventures of $3,871; additional operating expenses of $2,683 primarily associated with market-based water and sewer line repairs and construction services; additional operating costs of $1,861 associated with severe winter weather conditions experienced in many of our service territories; an increase in bad debt expense of $1,131; and the effect of the June 2013 gain on sale of a utility system of $1,025; partially offset by a reduction in post-retirement benefits expense of $3,010 and the recognition of a regulatory asset in 2014 of $1,575. The gain on sale of a utility system is reported in the consolidated statement of net income as a component of operations and maintenance expense.

Depreciation and Amortization Expenses – Depreciation expense was $125,290 in 2015, $123,054 in 2014, and $118,414 in 2013, and has increased principally as a result of the significant capital expenditures made to expand and improve our utility facilities, and our acquisitions of new utility systems. The increase for 2015 was impacted by the absence of a credit recognized in 2014 for the effect of decreased depreciation rates implemented in our Texas operating subsidiary, offset by a decrease in depreciation rates, implemented in 2015, for Aqua Pennsylvania. The increase for 2014 was partially offset by the implementation of lower depreciation rates for our Texas operating subsidiary.

Amortization expense was $3,447 in 2015, $3,481 in 2014, and $5,571 in 2013, and has decreased primarily due to the completion of the recovery of our costs associated with various rate filings. Additionally, in 2014 the amortization period for costs associated with providing raw water supply services for firms in the natural gas drilling industry was increased. Expenses associated with filing rate cases are deferred and amortized over periods that generally range from one to three years.

Taxes Other than Income Taxes – Taxes other than income taxes totaled $55,057 in 2015, $50,453 in 2014, and 52,685 in 2013. The increase in 2015 is primarily due to an increase in property taxes of $2,412 largely due to the effect of a non-recurring credit realized in 2014 that resulted in a reduction in property taxes for our Ohio operating subsidiary. The decrease in 2014 is primarily due to a decrease in property taxes of $1,208 associated primarily with a reduction in the property tax rate assessed for our Ohio operating subsidiary recognized in 2014, and a decrease in capital stock taxes of $812 primarily associated with a decrease in capital stock taxes assessed for Aqua Pennsylvania.

Interest Expense, net – Net interest expense was $76,536 in 2015, $76,397 in 2014, and $77,316 in 2013. Interest income of $272 in 2015, $316 in 2014, and $438 in 2013 was netted against interest expense. Net interest expense increased in 2015 due to an increase in average short-term borrowings of $13,977 and an increase in average outstanding fixed rate long-term debt of $91,785, partially offset by a decline in long-term interest rates. Net interest expense decreased in 2014 primarily due to a decline in average short-term borrowings of $16,186, partially offset by an increase in average outstanding fixed rate long-term debt of $13,276, as well as a decline in long and short term interest rates. Interest income decreased in 2015 and 2014 due to lower investment rates. The weighted average cost of fixed rate long-term debt was 4.57% at December 31, 2015, 4.85% at December 31, 2014, and 5.00% at December 31, 2013. The weighted average cost of fixed and variable rate long-term debt was 4.44% at December 31, 2015, 4.65% at December 31, 2014, and 5.00% at December 31, 2013.

Allowance for Funds Used During Construction – The allowance for funds used during construction ("AFUDC") was $6,219 in 2015, $5,134 in 2014, and $2,275 in 2013, and varies as a result of changes in the average balance of utility plant construction work in progress, to which AFUDC is applied, changes in the AFUDC rate which is based predominantly on short-term interest rates, changes in the balance of short-debt, changes in the amount of AFUDC related to equity, and changes in the average balance of the proceeds held from tax-exempt bond issuances that are restricted to funding specific capital projects. The increase in 2015 and 2014 is primarily due to an increase in the AFUDC rate as a result of an increase in the amount of AFUDC related to equity and in 2015 an increase in the average balance of utility plant construction work in progress, to which AFUDC is applied. The amount of AFUDC related to equity was $4,621 in 2015, $3,640 in 2014, and $533 in 2013.

(In thousands of dollars, except per share amounts)

(Gain) Loss on Sale of Other Assets – (Gain) loss on sale of other assets totaled $(468) in 2015, $4 in 2014, and $(148) in 2013, and consists of the sales of property, plant and equipment and marketable securities.

Gain on Extinguishment of Debt – The gain on extinguishment of debt of $678 results from the recognition of the unamortized issuance premium for the early redemption of $95,985 of tax-exempt bonds at 5.00% that were originally maturing between 2035 and 2038.

Equity Loss in Joint Venture – Equity loss in joint venture totaled $35,177 in 2015, $3,989 in 2014, and $2,665 in 2013. The increase in equity loss in joint venture in 2015 of $31,188 is primarily due to a noncash impairment charge recognized by the joint venture on its long-lived assets for which our share was $32,975, partially offset by a decrease in depreciation expense resulting from the 2015 increase in depreciable life for the joint venture's pipeline assets. The impairment charge was recognized in the fourth quarter of 2015 as a result of a determination that the long-lived assets, primarily consisting of a pipeline and pump station, had become impaired due to a marked decline in natural gas prices in 2015, and in particular a further decline in the fourth quarter of 2015, a distinguishable reduction in the volume of water sales by the joint venture which led to a lowered forecast in the fourth quarter of 2015 on future water sales volumes by the joint venture, as well as changes in the natural gas industry and market conditions. These market conditions are largely associated with natural gas prices, which sharply declined in the fourth quarter and this downturn no longer appeared to be temporary and instead may be a long-term condition. The increase in equity loss in joint venture in 2014 of $1,324 reflects a decline in water sales, believed to be temporary at the time, to the joint venture's customers in the natural gas drilling industry.

Income Taxes – Our effective income tax rate was 6.9% in 2015, 10.5% in 2014, and 9.5% in 2013. The effective income tax rate for 2015, 2014, and 2013 was affected by the 2012 income tax accounting change for qualifying utility asset improvements at Aqua Pennsylvania which resulted in a $72,944, $69,048 and $60,555 net reduction to the Company's 2015, 2014, and 2013 Federal and state income tax expense, respectively. As of December 31, 2015, the Company has an unrecognized tax benefit related to the Company's change in its tax accounting method for qualifying utility asset improvement costs, of which $17,777 of these tax benefits would further reduce the Company's effective income tax rate in the event the Company does sustain all, or a portion, of its tax position in the period this information is determined.

Summary –

	Years ended December 31,		
	2015	2014	2013
Operating income	$ 321,100	$ 314,359	$ 301,662
Income from continuing operations	$ 201,790	$ 213,884	$ 202,871
Income from discontinued operations	-	19,355	18,429
Net income attributable to common shareholders	$ 201,790	$ 233,239	$ 221,300
Diluted income from continuing operations per share	$ 1.14	$ 1.20	$ 1.15
Diluted income from discontinued operations per share	-	0.11	0.10
Diluted net income per share	1.14	1.31	1.25

The changes in the per share income from continuing operations in 2015 and 2014 over the previous years were due to the aforementioned changes.

Income from discontinued operations for 2014 increased by $926 or $0.01 per diluted share, in comparison to 2013 primarily as a result of the net gain on sale of $17,611 recognized on the sale of our water utility systems in Fort Wayne, Indiana in 2014, offset by the effect of the prior year recognition of the net gain on sale of $13,766 for our Florida operations.

Although we have experienced increased income in the recent past, continued adequate rate increases reflecting increased operating costs and new capital investments, as well as a continuation of income tax benefits related to eligible utility asset improvement costs are important to the future realization of improved profitability.

(In thousands of dollars, except per share amounts)

Fourth Quarter Results – The following table provides our fourth quarter results:

	Three Months Ended December 31,	
	2015	2014
Operating revenues	$ 197,067	$ 191,389
Operations and maintenance	77,856	74,121
Depreciation	31,760	31,365
Amortization	858	796
Taxes other than income taxes	11,978	12,510
	122,452	118,792
Operating income	74,615	72,597
Other expense (income):		
Interest expense, net	19,732	19,004
Allowance for funds used during construction	(2,289)	(1,835)
Gain on sale of other assets	(130)	(129)
Gain on extinguishment of debt	(678)	-
Equity loss in joint venture	33,681	1,316
Income before income taxes	24,299	54,241
Provision for income taxes	(4,135)	5,287
Income from continuing operations	28,434	48,954
Income from discontinued operations, net of income taxes of $11,797 for 2014	-	17,861
Net income	$ 28,434	$ 66,815

The increase in operating revenues of $5,678 was primarily due to additional revenues of $2,691 associated with a larger customer base due to utility acquisitions and an increase in market-based activities revenues of $1,330 principally associated with the inspection, cleaning and repair of storm and sanitary sewer lines. The increase in operations and maintenance expense of $3,735 is due primarily to additional operating costs associated with acquisitions of $2,379, an increase in the Company's self-insured employee medical benefit program expense of $1,253, an increase in bad debt expense of $889, and normal increases in other operating expenses, partially offset by a decrease in postretirement benefits expense of $1,557. Depreciation expense increased by $395 primarily due to the utility plant placed in service since December 31, 2014. The decrease in other taxes of $532 is primarily due to a decrease in capital stock taxes of $541 for Aqua Pennsylvania resulting from the effect of a favorable credit. Interest expense increased by $728 due to an increase in the average outstanding debt balance offset by a decrease in our effective interest rate on average borrowings. Allowance for funds used during construction increased by $454 primarily due to an increase in the average balance of utility plant construction work in progress, to which AFUDC is applied. The gain on extinguishment of debt is due to the recognition of the unamortized premium associated with the early redemption of long-term debt. The increase in equity loss in joint venture of $32,365 is primarily due to a noncash impairment charge recognized by the joint venture (discussed below under "Acquisitions") for which our share was $32,975. The provision for income taxes decreased by $9,422 primarily as a result of the change in income before income taxes, offset by the effect of lower income tax benefits recognized in the fourth quarter of 2015 for deductions of certain qualifying infrastructure improvements for Aqua Pennsylvania.

(In thousands of dollars, except per share amounts)

FINANCIAL CONDITION

Consolidated Cash Flow and Capital Expenditures

Net operating cash flows from continuing operations, dividends paid on common stock, capital expenditures used in continuing operations, including allowances for funds used during construction, and expenditures for acquiring water and wastewater systems for our continuing operations for the five years ended December 31, 2015 were as follows:

	Net Operating Cash Flows	Dividends	Capital Expenditures	Acquisitions
2011	$ 349,927	$ 87,133	$ 324,360	$ 8,515
2012	375,823	93,423	347,098	121,248
2013	365,409	102,889	307,908	14,997
2014	364,888	112,106	328,605	14,616
2015	370,794	121,248	364,689	28,989
	$ 1,826,841	$ 516,799	$ 1,672,660	$ 188,365

Included in capital expenditures for the five-year period are: expenditures for the rehabilitation of existing water distribution systems, the expansion of our water distribution systems, modernization and replacement of existing treatment plants, and water meters. During this five-year period, we received $27,197 of customer advances and contributions in aid of construction to finance new water mains and related facilities that are not included in the capital expenditures presented in the above table. In addition, during this period, we have made repayments of debt of $797,457, and have refunded $21,848 of customers' advances for construction. Dividends increased during the past five years as a result of annual increases in the dividends declared and paid and increases in the number of shares outstanding during the periods prior to 2015.

Our planned 2016 capital program, exclusive of the costs of new mains financed by advances and contributions in aid of construction, is estimated to continue at similar levels as 2015. The 2016 capital program is expected to include $191,000 for infrastructure rehabilitation surcharge qualified projects, of which $156,700 is for Aqua Pennsylvania. On January 1, 2013, Aqua Pennsylvania reset its water infrastructure rehabilitation surcharge to zero resulting from the change in its tax method of accounting for qualifying utility asset improvements as described below. Although we were not eligible to use an infrastructure rehabilitation surcharge with our Aqua Pennsylvania water customers in 2015, 2014, or 2013, and we don't anticipate being eligible in 2016, we were able to use the income tax savings derived from the qualifying utility asset improvements to continue to maintain a similar capital investment program as 2012. Our planned 2016 capital program in Pennsylvania is estimated to be approximately $248,000 a portion of which is expected to be eligible as a deduction for qualifying utility asset improvements for Federal income tax purposes. Our overall 2016 capital program, along with $35,593 of debt repayments, and $160,283 of other contractual cash obligations, as reported in the section captioned *Contractual Obligations*, has been, or is expected to be, financed through internally-generated funds, our revolving credit facilities, and the issuance of long-term debt.

Future utility construction in the period 2017 through 2018, including recurring programs, such as the ongoing replacement or rehabilitation of water meters, water mains, water treatment plant upgrades, storage facility renovations, and additional transmission mains to meet customer demands, exclusive of the costs of new mains financed by advances and contributions in aid of construction, is estimated to require aggregate expenditures of approximately $786,000. We anticipate that less than one-half of these expenditures will require external financing. We expect to refinance $266,885 of long-term debt during this period as they become due with new issues of long-term debt, internally-generated funds, and our revolving credit facilities. The estimates discussed above do not include any amounts for possible future acquisitions of water and wastewater systems or the financing necessary to support them.

Our primary sources of liquidity are cash flows from operations (including the allowed deferral of Federal income tax payments), borrowings under various short-term lines of credit and other credit facilities, and customer advances and contributions in aid of construction. Our cash flow from operations, or internally-generated funds, is impacted by the timing of rate relief, water consumption, and changes in Federal tax laws with respect to accelerated tax depreciation or deductions for utility construction projects. We fund our capital and acquisition programs through internally-generated funds, supplemented by short-term lines of credit. Over time, we partially repay or pay-down our short-term lines of credit with long-term debt. The ability to finance our future construction programs, as well as our acquisition activities, depends on our ability to attract the necessary external financing and maintain internally-generated funds. Rate orders permitting compensatory rates of return on invested capital and timely rate adjustments will be required by our operating subsidiaries to achieve an adequate level of earnings and cash flow to enable them to secure the capital they will need to operate and to maintain satisfactory debt coverage ratios.

On June 7, 2012, Aqua Pennsylvania reached a settlement agreement in its rate filing with the Pennsylvania Public Utility Commission, which in addition to a water rate increase, provided for a reduction in current income tax expense as a result of the recognition of qualifying income tax benefits upon Aqua Pennsylvania changing its tax accounting method to permit the expensing of qualifying utility asset improvement costs that have historically been capitalized and depreciated for book and tax purposes. In December 2012, Aqua Pennsylvania implemented this change, which resulted in a substantial reduction in income tax expense and greater net income and cash flow, and as a result allowed Aqua Pennsylvania to suspend its water Distribution System Improvement Charges in 2013 and lengthen the amount of time until the next Aqua Pennsylvania rate case is filed. As a result of the Pennsylvania rate order, income tax benefits reduced the Company's current income tax expense and increased net income by $60,555 in 2013, $69,048 in 2014 and $72,944 in 2015. 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, beginning in 2013, the Company began to amortize $1/10^{th}$ of these expenditures or $38,000 annually, which reduced income tax expense and increased the Company's net income by $16,734. In accordance with the settlement agreement, this amortization is expected to reduce income tax expense during periods when qualifying parameters are met. During 2013, our Ohio and North Carolina operating divisions implemented this change in tax accounting method. These divisions currently do not employ a method of accounting that provides for a reduction in current income taxes as a result of the recognition of income tax benefits, and as such the change in the Company's tax method of accounting in these operating divisions has no impact on our effective income tax rate.

The deduction for qualifying utility asset improvements is anticipated to continue in 2016 and beyond. Our 2016 earnings will be impacted by the following factors in Aqua Pennsylvania: the deduction for qualifying utility asset improvements in 2016 is expected to decrease current income tax expense by a similar amount as 2015, and the ten year amortization of the qualifying capital expenditures made prior to 2012 is also expected to reduce current income tax expense; offset by the effect of regulatory lag.

The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 was enacted on December 17, 2010 and provided for an extension of 50% bonus depreciation for qualifying capital additions through 2012 and a 100% expensing allowance for qualifying capital additions placed in service after September 8, 2010 through 2011. A substantial portion of our capital expenditures qualified for 50% bonus depreciation or the 100% expensing allowance. As a result of this act, the Company's Federal income tax payments were eliminated for tax year 2011 and our net operating cash flows were favorably impacted. In addition, we received a Federal income tax refund in the amount of $33,600 in October 2011 relating to our 2010 tax return. The Protecting Americans from Tax Hikes Act of 2015 was enacted on December 18, 2015 and provides for an extension of bonus depreciation for property acquired and placed in service during 2015 through 2019. The bonus depreciation percentage is 50% for property placed in service during 2015, 2016, and 2017, but then phases down to 40% in 2018 and 30% in 2019.

Acquisitions

During the past five years, we have expended cash of $188,365 related to the acquisition of utility systems, both water and wastewater utilities, as well as investments in supplying raw water to the natural gas drilling industry. In April 2015, we acquired the water and wastewater utility system assets of North Maine Utilities, located in the Village of Glenview, Illinois. The total purchase price consisted of $23,079 in cash. Additionally, during 2015, we completed 14 acquisitions of water and wastewater utility systems for $5,210 in cash in six of the states in which we operate. During 2014, we completed 16 acquisitions of water and wastewater utility systems for $10,530 in cash in seven of the states in which we operate. Further, in August 2014, we acquired a market-based business that specializes in the inspection, cleaning and repair of storm and sanitary sewer lines. The total purchase price consisted of $3,010, of which a total of $810 is contingent upon satisfying certain annual performance targets over a three-year period, for which $270 has been paid for completion of the performance targets for year one. Additionally, in December 2014, we acquired a market-based business that specializes in providing water distribution system services to prevent the contamination of potable water, including training to waterworks operators. The total purchase price consisted of $1,800, of which $700 was paid in the first quarter of 2015. During 2013, we completed 15 acquisitions of water and wastewater utility systems for $14,997 in cash in four of the states in which we operate.

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 held 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 Ohio acquisition was financed primarily from the proceeds from the January 1, 2012 sale of our Maine subsidiary, the May 1, 2012 sale of our New York subsidiary, and by the issuance of long-term and/or short-term debt. In addition to our Ohio acquisition, during 2012, we completed 16 acquisitions of water and wastewater utility systems for $19,094 in cash in six of the states in which we operate.

In June 2011, the Company completed its acquisition of approximately 51 water and five wastewater systems in Texas serving approximately 5,300 customers. The total purchase price consisted of $6,245 in cash. The Company's acquisitions in Ohio and Texas were accretive to the Company's results of operations, however, the pro forma effect of the businesses acquired are not material to the Company's results of operations. In addition to our Texas acquisition, during 2011, we completed eight acquisitions of water and wastewater utility systems for $2,270 in cash in three of the states in which we operate.

We included the operating results of these acquisitions in our consolidated financial statements beginning on the respective acquisition dates.

We continue to pursue the acquisition of water and wastewater utility systems, and explore other utility acquisitions that may be in a new state. Our typical acquisitions are expected to be financed with short-term debt with subsequent repayment from the proceeds of long-term debt, retained earnings, or equity issuances.

In September 2011, one of our subsidiaries entered into 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 (the "Joint Venture"). We own 49% of the Joint Venture. The initial 18-mile pipeline commenced operations in 2012. The initial pipeline system was expanded for an additional 38 miles with a permitted intake on the Susquehanna River, which extended the pipeline to additional drillers. The total cost of this pipeline was $109,000. The Joint Venture has entered into water supply contracts with natural gas drilling companies. As of December 31, 2015, our capital contributions since inception totaled $53,643 in cash. This investment has been financed through the issuance of long-term debt. Our 49% investment in the Joint Venture is as an unconsolidated affiliate and is accounted for under the equity method of accounting. Our investment is carried at cost, including capital contributions or distributions and our equity in earnings and losses since the commencement of the system's operations. In the fourth quarter of 2015 an impairment charge was recognized by the joint venture on its long-lived assets, of which the Company's share totaled $32,975 ($21,433 after-tax), representing our share of the noncash impairment charge as further described in Note 1 – *Summary of Significant Accounting Policies – Investment in Joint Venture.* As of December 31, 2015, the Joint Venture's assets are comprised of approximately one-half in long-lived assets and one-half in cash, and our share was $7,716.

Dispositions

We routinely review and evaluate areas of our business and operating divisions and, over time, may sell utility systems or portions of systems. In 2013, 2012, and 2011, in accordance with our strategy to focus our resources on states where we have critical mass to improve our economies of scale and expect future economic growth, we sold water and wastewater systems in the following states: Florida, New York, Maine, and Missouri. With respect to the sale of our systems in New York and the sale of our systems in Missouri to American Water, we acquired additional utility systems from American Water in Ohio and in Texas. Additionally, in March, 2014, we completed the sale of our wastewater treatment facility in Georgia.

In December 2014, we completed the sale of our water utility system in southwest Allen County Indiana to the City of Fort Wayne, Indiana for $67,011, which is comprised of $50,100 in addition to $16,911 the city initially paid the Company towards its water and wastewater system assets in the northern part of Fort Wayne in 2008. We recognized a gain on sale of $29,210 ($17,611 after-tax) in the fourth quarter of 2014. In addition, as a result of this transaction, Aqua Indiana will expand its sewer customer base by accepting new wastewater flows from the City. Refer to Note 3 – *Discontinued Operations and Other Disposition* for further information on this sale.

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).

In June 2013, the Company sold a water and wastewater utility system in Texas 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). The utility system represented approximately 0.04% of the Company's total assets.

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. The Company's New York operations served approximately 51,000 customers. The sale of our New York operations concluded our regulated operations in New York. The proceeds were used to finance a portion of our acquisition of American Water's Ohio subsidiary, pay-down a portion of our short-term debt, and other general corporate purposes.

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, we completed the sale for net proceeds of $36,870, and recognized a gain on sale of $17,699 ($10,821 after-tax). The sale of our Maine operations concluded our regulated operations in Maine. The proceeds were used to finance a portion of our acquisition of American Water's Ohio subsidiary, pay-down a portion of our short-term debt, and other general corporate purposes.

In June 2011, we sold a water and wastewater utility system in North Carolina 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 system represented approximately 0.03% of Aqua America's total assets. In May 2011, we sold our regulated water and wastewater operations in Missouri for net proceeds of $3,225, resulting in a small gain on sale. The sale of our utility operations in Missouri represented approximately 0.07% of Aqua America's total assets. In January 2011, we sold a water and wastewater utility system in Texas for net proceeds of $3,118. The sale resulted in the recognition of a gain on the sale, net of expenses, of $2,452 ($1,471 after-tax). The utility system represented approximately 0.01% of Aqua America's total assets. The gain is reported in the consolidated statement of net income as a reduction to operations and maintenance expense.

Despite these transactions, one of our primary strategies continues to be to acquire additional utility systems, to maintain our existing systems where there is a strategic business benefit, and to actively oppose unilateral efforts by municipal governments to acquire any of our operations.

Sources of Capital

Since net operating cash flow plus advances and contributions in aid of construction have not been sufficient to fully fund cash requirements, we issued $1,042,821 of long-term debt and obtained other short-term borrowings during the past five years. At December 31, 2015, we have a $200,000 long-term revolving credit facility that expires in March 2017, of which $23,360 was designated for letter of credit usage, $116,640 was available for borrowing and $60,000 of borrowings were outstanding at December 31, 2015. In addition, we have short-term lines of credit of $135,500, of which $118,779 was available as of December 31, 2015. These short-term lines of credit are subject to renewal on an annual basis. Although we believe we will be able to renew these facilities, there is no assurance that they will be renewed, or what the terms of any such renewal will be.

Our consolidated balance sheet historically has had a negative working capital position, whereby routinely our current liabilities exceed our current assets. Management believes that internally-generated funds along with existing credit facilities and the proceeds from the issuance of long-term debt will be adequate to provide sufficient working capital to maintain normal operations and to meet our financing requirements for at least the next twelve months.

Our loan and debt agreements require us to comply with certain financial covenants, which among other things, subject to specific exceptions, limit the Company's ratio of consolidated total indebtedness to consolidated total capitalization, and require a minimum level of earnings coverage over interest expense. During 2015, we were in compliance with our debt covenants under our credit facilities. Failure to comply with our debt covenants could result in an event of default, which could result in us being required to repay or finance our borrowings before their due date, possibly limiting our future borrowings, and increasing our borrowing costs.

The Company has a universal shelf registration statement, which was filed with the Securities and Exchange Commission, ("SEC") on February 27, 2015, which allows for the potential future offer and sale by us, 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's Board of Directors has authorized the Company to issue up to

$500,000 of our common stock, preferred stock, debt securities, and other securities specified therein under this universal shelf registration statement. The Company has not issued any securities to date under this universal shelf registration statement. .

In addition, we have a shelf registration statement, which was filed with the SEC on February 27, 2015, to permit the offering from time to time of an aggregate of $500,000 of our common stock and shares of preferred stock in connection with acquisitions. As of December 31, 2015, the Company has not issued any shares under the acquisition shelf registration. We will determine the form and terms of any securities issued under the universal shelf registration statement and the acquisition shelf registration statement at the time of issuance.

We offer a Dividend Reinvestment and Direct Stock Purchase Plan (the "Plan") that provides a convenient and economical way to purchase shares of the Company. Under the direct stock purchase portion of the Plan, shares are issued throughout the year. The dividend reinvestment portion of the Plan offers a five percent discount on the purchase of shares of common stock with reinvested dividends. As of the December 2015 dividend payment, holders of 11.2% of the common shares outstanding participated in the dividend reinvestment portion of the Plan. 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 the past five years, we have sold 1,906,860 original issue shares of common stock for net proceeds of $36,009 through the dividend reinvestment portion of the Plan, and we used the proceeds to invest in our operating subsidiaries, to repay short-term debt, and for general corporate purposes. In 2015 and 2014, 535,439 and 558,317 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 $14,380 and $14,148, respectively.

The Company's Board of Directors has authorized us to repurchase our common stock, from time to time, in the open market or through privately negotiated transactions. In 2014, we repurchased 560,000 shares of our common stock in the open market for $13,280. In December 2014, the Company's Board of Directors authorized a share buyback program of up to 1,000,000 shares to minimize share dilution through timely and orderly share repurchases. In December 2015, the Company's Board of Directors added 400,000 shares to this program. In 2015, we repurchased 805,000 shares of our common stock in the open market for $20,502. As of December 31, 2015, 720,348 shares remain available for repurchase. Funding for future stock purchases, if any, is not expected to have a material impact on our financial position.

Off-Balance Sheet Financing Arrangements

We do not engage in any off-balance sheet financing arrangements. We do not have any interest in entities referred to as variable interest entities, which includes special purpose entities and other structured finance entities.

(In thousands of dollars, except per share amounts)

Contractual Obligations

The following table summarizes our contractual cash obligations as of December 31, 2015:

		Payments Due By Period			
	Total	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
Long-term debt	$ 1,779,205	$ 35,593	$ 266,885	$ 139,055	$ 1,337,672
Interest on fixed-rate, long-term debt (1)	1,315,793	78,676	148,184	131,541	957,392
Operating leases (2)	19,964	1,718	2,390	1,892	13,964
Unconditional purchase obligations (3)	55,897	13,509	13,469	9,781	19,138
Other purchase obligations (4)	57,135	57,135	-	-	-
Pension plan obligation (5)	8,145	8,145	-	-	-
Other obligations (6)	13,911	1,100	2,201	2,200	8,410
Total	$ 3,250,050	$ 195,876	$ 433,129	$ 284,469	$ 2,336,576

(1) Represents interest payable on fixed rate, long-term debt. Amounts reported may differ from actual due to future refinancing of debt.

(2) Represents operating leases that are noncancelable, before expiration, for the lease of motor vehicles, buildings, land and other equipment.

(3) Represents our commitment to purchase minimum quantities of water as stipulated in agreements with other water purveyors. We use purchased water to supplement our water supply, particularly during periods of peak customer demand. Our actual purchases may exceed the minimum required levels.

(4) Represents an approximation of the open purchase orders for goods and services purchased in the ordinary course of business.

(5) Represents contributions to be made to pension plan.

(6) Represents expenditures estimated to be required under legal and binding contractual obligations.

In addition to these obligations, we pay refunds on customers' advances for construction over a specific period of time based on operating revenues related to developer-installed water mains or as new customers are connected to and take service from such mains. After all refunds are paid, any remaining balance is transferred to contributions in aid of construction. The refund amounts are not included in the above table because the refund amounts and timing are dependent upon several variables, including new customer connections, customer consumption levels and future rate increases, which cannot be accurately estimated. Portions of these refund amounts are payable annually through 2025 and amounts not paid by the contract expiration dates become non-refundable.

In addition to the obligations disclosed in the contractual obligations table above, we have uncertain tax positions of $28,016. Although we believe our tax positions comply with applicable law, we have made judgments as to the sustainability of each uncertain tax position based on its technical merits. Due to the uncertainty of future cash outflows, if any, associated with our uncertain tax positions, we are unable to make a reasonable estimate of the timing or amounts that may be paid. See Note 7 – *Income Taxes* for further information on our uncertain tax positions.

We will fund these contractual obligations with cash flows from operations and liquidity sources held by or available to us.

The Company is routinely involved in legal matters, including both asserted and unasserted legal claims, during the ordinary course of business. See Note 9 – *Commitments and Contingencies* of the consolidated financial statements for a discussion of the Company's legal matters. It is not always possible for management to make a meaningful estimate of the potential loss or range of loss associated with such litigation. Also, unanticipated changes in circumstances and/or revisions to the assessed probability of the outcomes of legal matters could result in expenses being incurred in future periods as well as an increase in actual cash required to resolve the legal matter.

(In thousands of dollars, except per share amounts)

Market Risk

We are subject to market risks in the normal course of business, including changes in interest rates and equity prices. The exposure to changes in interest rates is a result of financings through the issuance of fixed rate, long-term debt. Such exposure is typically related to financings between utility rate increases, because generally our rate increases provide a revenue level to allow recovery of our current cost of capital. Interest rate risk is managed through the use of a combination of long-term debt, which is at fixed interest rates and short-term debt, which is at floating interest rates. As of December 31, 2015, the debt maturities by period and the weighted average interest rate for long-term debt are as follows:

	2016	2017	2018	2019	2020	Thereafter	Total	Fair Value
Long-term debt:								
Fixed rate	$ 35,593	$ 103,007	$ 103,878	$ 89,636	$ 49,419	$ 1,337,672	$ 1,719,205	$ 1,845,393
Variable rate	-	60,000	-	-	-	-	60,000	60,000
Total	$ 35,593	$ 163,007	$ 103,878	$ 89,636	$ 49,419	$ 1,337,672	$ 1,779,205	$ 1,905,393
Weighted average interest	4.85%	2.63%	4.25%	4.93%	5.06%	4.62%		

*Weighted average interest rate of 2017 long-term debt maturity is as follows: fixed rate debt of 4.57% and variable rate debt of 0.99%.

From time to time, we make investments in marketable equity securities. As a result, we are exposed to the risk of changes in equity prices for marketable equity securities. As of December 31, 2015, the carrying value of these investments, which reflects market value, was $196.

Capitalization

The following table summarizes our capitalization during the past five years:

December 31,	2015	2014	2013	2012	2011
Long-term debt (1)	50.8%	49.4%	50.3%	53.4%	54.8%
Aqua America stockholders' equity	49.2%	50.6%	49.7%	46.6%	45.2%
	100.0%	100.0%	100.0%	100.0%	100.0%

(1) Includes current portion, as well as our borrowings under a variable rate revolving credit agreement of $60,000 at December 31, 2015, $72,000 at December 31, 2014, $0 at December 31, 2013, $100,000 at December 31, 2012, and $38,212 at December 31, 2011.

Over the past five years, the changes in the capitalization ratios primarily resulted from the issuance of common stock, the issuance of debt to finance our acquisitions and capital program, growth in net income, and the declaration of dividends. It is our goal to maintain an equity ratio adequate to support the current Standard and Poor's corporate credit rating of "A+" and the senior secured debt rating of "AA-" for Aqua Pennsylvania, our largest operating subsidiary.

Dividends on Common Stock

We have paid dividends on our common stock consecutively for 71 years. Effective August 4, 2015, our Board of Directors authorized an increase of 7.9% in the September 1, 2015 quarterly dividend over the dividend we paid in the previous quarter. As a result of this authorization, beginning with the dividend payment in September 2015, the annualized dividend rate increased to $0.712 per share from $0.66 per share. This is the 25th dividend increase in the past 24 years and the 17th consecutive year that we have increased our dividend in excess of five percent. We presently intend to pay quarterly cash dividends in the future, on March 1, June 1, September 1, and December 1, subject to our earnings and financial condition, restrictions set forth in our debt instruments, regulatory requirements and such other factors as our Board of Directors may deem relevant. During the past five years, our dividends paid have averaged 51.9% of net income attributable to common shareholders.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our financial condition and results of operations are impacted by the methods, assumptions, and estimates used in the application of critical accounting policies. The following accounting policies are particularly important to our financial condition or results of operations, and require estimates or other judgments of matters of uncertainty. Changes in the estimates or other judgments included within these accounting policies could result in a significant change to the financial statements. We believe our most critical accounting policies include revenue recognition, the use of regulatory assets and liabilities, the valuation of our long-lived assets, which consist primarily of utility plant in service, regulatory assets, and goodwill, our accounting for post-retirement benefits, and our accounting for income taxes. We have discussed the selection and development of our critical accounting policies and estimates with the Audit Committee of the Board of Directors.

Revenue Recognition — Our utility revenues recognized in an accounting period include amounts billed to customers on a cycle basis and unbilled amounts based on estimated usage from the last billing to the end of the accounting period. The estimated usage is based on our judgment and assumptions; our actual results could differ from these estimates, which would result in operating revenues being adjusted in the period that the revision to our estimates is determined.

In some operating divisions, we commence the billing of our utility customers, under new rates, upon authorization from the respective utility commission and before the final commission rate order is issued. The revenue recognized reflects an estimate based on our judgment of the final outcome of the commission's ruling. We monitor the applicable facts and circumstances regularly, and revise the estimate as required. The revenue billed and collected prior to the final ruling is subject to refund based on the commission's final ruling.

Regulatory Assets and Liabilities — We defer costs and credits on the balance sheet as regulatory assets and liabilities when it is probable that these costs and credits will be recognized in the rate-making process in a period different from when the costs and credits were incurred. These deferred amounts, both assets and liabilities, are then recognized in the income statement in the same period that they are reflected in our rates charged for water or wastewater service. In the event that our assessment as to the probability of the inclusion in the rate-making process is incorrect, the associated regulatory asset or liability would be adjusted to reflect the change in our assessment or change in regulatory approval.

Valuation of Long-Lived Assets, Goodwill and Intangible Assets — We review our long-lived assets for impairment, including utility plant in service and investment in joint venture. We also review regulatory assets for the continued application of the Financial Accounting Standards Board's ("FASB") accounting guidance for regulated operations. Our review determines whether there have been changes in circumstances or events that have occurred that require adjustments to the carrying value of these assets. Adjustments to the carrying value of these assets would be made in instances where their inclusion in the rate-making process is unlikely. For our investment in joint venture, the Company would recognize an impairment loss if it is determined that the carrying amount of the joint venture's assets exceeds the sum of the joint venture's undiscounted estimated cash flows.

Our long-lived assets, which consist primarily of utility plant in service, regulatory assets and investment in joint venture, are reviewed for impairment when changes in circumstances or events occur. These circumstances or events could include a decline in the market value or physical condition of a long-lived asset, an adverse change in the manner in which long-lived assets are used or planned to be used, a change in historical trends, operating cash flows associated with the long-lived assets, changes in macroeconomic conditions, industry and market conditions, or overall financial performance. When these circumstances or events occur, we determine whether it is more likely than not that the fair value of those assets is less than their carrying amount. If we determine that it is more likely than not (that is, the likelihood of more than 50 percent), we would recognize an impairment charge if it is determined that the carrying amount of an asset exceeds the sum of the undiscounted estimated cash flows. In this circumstance, we would recognize an impairment charge equal to the difference between the carrying amount and the fair value of the asset. Fair value is estimated to be the present value of future net cash flows associated with the asset, discounted using a discount rate commensurate with the risk and remaining life of the asset. This assessment requires significant management judgment and estimates that are based on budgets, general strategic business plans, historical trends and other data and relevant factors. These estimates include significant inherent uncertainties, since they involve forecasting future events. If changes in circumstances or events occur, or estimates and assumptions that were used in this review are changed, we may be required to record an impairment charge on our long-lived assets.

We have an investment in a joint venture, for which we own 49%, and use the equity method of accounting to account for this joint venture. The joint venture operates a private pipeline system to supply raw water to natural gas well drilling operations in the Marcellus Shale in north central Pennsylvania. In the fourth quarter of 2015, the joint venture recognized an impairment charge on its long-lived assets, of which the Company's share totaled $32,975 ($21,433 after-tax), representing our share of the noncash impairment charge. As of December 31, 2015, the joint venture's assets are comprised of approximately one-half in long-lived assets and one-half in cash, and our share was $7,716. Refer to *Note 1 – Summary of Significant Accounting Policies – Property, Plant and Equipment and Depreciation*, and *Investment in Joint Venture* for additional information regarding the review of long-lived assets for impairment.

We test the goodwill attributable for each of our reporting units for impairment at least annually on July 31, 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 a quantitative goodwill impairment test. If we perform a quantitative test and determine that the fair value of a reporting unit is less than its carrying amount, we would determine the reporting unit's implied fair value of its goodwill and compare it with the carrying amount of its goodwill to measure such impairment. The assessment requires significant management judgment and estimates that are based on budgets, general strategic business plans, historical trends and other data and relevant factors. If changes in circumstances or events occur, or estimates and assumptions that were used in our impairment test change, we may be required to record an impairment charge for goodwill. Refer to Note 1 – *Summary of Significant Accounting Policies – Goodwill* for information regarding the results of our annual impairment test.

Accounting for Post-Retirement Benefits — We maintain a qualified defined benefit pension plan and plans that provide for post-retirement benefits other than pensions. Accounting for pension 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 our employees, mortality, turnover and medical costs. Each assumption is reviewed annually with assistance from our 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 benefits expense that we recognize.

Our discount rate assumption, which is used to calculate the present value of the projected benefit payments of our post-retirement benefits, was determined by selecting a hypothetical portfolio of high quality corporate bonds appropriate to match the projected benefit payments of the plans. 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 rate that equates the market value of the bonds purchased to the discounted value of the projected benefit payments of the plans. A decrease in the discount rate would increase our post-retirement benefits expense and benefit obligation. After reviewing the hypothetical portfolio of bonds, we selected a discount rate of 4.48% for our pension plan and 4.60% for our other post-retirement benefit plans as of December 31, 2015, which represent a 28 and 43 basis-point increase as compared to the discount rates selected at December 31, 2014. Our post-retirement benefits expense under these plans is determined using the discount rate as of the beginning of the year, which was 4.20% for our pension plan and 4.17% for our other-postretirement benefit plans for 2015, and will be 4.48% for our pension plan and 4.60% for our other post-retirement benefit plans for 2016.

Our expected return on plan assets is determined by evaluating the asset class return expectations with our 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 plans' assets as of the last day of its fiscal year, and is a determinant for the expected return on plan assets, which is a component of post-retirement benefits expense. The allocation of our plans' assets impacts our expected return on plan assets. The expected return on plan assets is based on a targeted allocation of 25% to 75% domestic equities, 0% to 10% international equities, 25% to 50% fixed income, 0% to 5% alternative investments, and 0% to 20% cash and cash equivalents. Our post-retirement benefits expense increases as the expected return on plan assets decreases. We believe that our actual long-term asset allocations on average will approximate our targeted allocations. Our targeted allocations are driven by our investment strategy to earn a reasonable rate of return while maintaining risk at acceptable levels through the diversification of investments across and within various asset categories. For 2015, we used a 7.50% expected return on plan assets assumption which will decrease to 7.25% for 2016.

In October 2014, the Society of Actuaries issued an updated set of mortality tables and a mortality improvement scale. The updated mortality tables extend the assumed life expectancy of participants in defined benefit plans, and the updated mortality improvement scale projects how mortality rates will improve into the future based on anticipated medical innovations and a reduction in unhealthy behaviors. We considered the mortality data at the December 31, 2014 measurement of our post-retirement benefit obligations in relation to our plans' participant population experience and adopted the updated mortality table and mortality improvement scale. Because mortality is a key assumption in developing actuarial estimates, the impact of adopting the mortality data was, an increase in our post-retirement benefit obligation as of December 31, 2014 of $14,400 and an increase in our 2015 net periodic benefit costs of $2,500, of which approximately $900 had an impact on our 2015 post-retirement benefits expense, due to the regulatory treatment of our net periodic benefit costs.

Funding requirements for qualified defined benefit pension plans are determined by government regulations and not by accounting pronouncements. In accordance with funding rules and our funding policy, during 2016 our pension contribution is expected to be $8,145. Future years' contributions will be subject to economic conditions, plan participant data and the funding rules in effect at such time as the funding calculations are performed, though we expect future changes in the amount of contributions and expense recognized to be generally included in customer rates.

Accounting for Income Taxes — We estimate the amount of income tax payable or refundable for the current year and the deferred income tax liabilities and assets that results from estimating temporary differences resulting from the treatment of specific items, such as depreciation, for tax and financial statement reporting. Generally, these differences result in the recognition of a deferred tax asset or liability on our consolidated balance sheet and require us to make judgments regarding the probability of the ultimate tax impact of the various transactions we enter into. Based on these judgments, we may record tax reserves or adjustments to valuation allowances on deferred tax assets to reflect the expected realization of future tax benefits. Actual income taxes could vary from these estimates and changes in these estimates can increase income tax expense in the period that these changes in estimates occur.

Our determination of what qualifies as a capital cost versus a tax deduction for qualifying utility asset improvements as it relates to our income tax accounting method change beginning in 2012 is subject to subsequent adjustment as well as IRS audits, changes in tax laws, the expiration of a statute of limitations, or other unforeseen matters, and could impact the tax benefits that have already been recognized. We establish 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. We believe our tax positions comply with applicable law and that we have adequately recorded reserves as required. However, to the extent the final tax outcome of these matters is different than our estimates recorded, we would then need to adjust our tax reserves which could result in additional income tax expense or benefits in the period that this information is known.

IMPACT OF RECENT ACCOUNTING PRONOUNCEMENTS

We describe the impact of recent accounting pronouncements in Note 1 – *Summary of Significant Accounting Policies* of the consolidated financial statements.

AQUA AMERICA, INC. AND SUBSIDIARIES

Management's Report On Internal Control Over Financial Reporting

Management of Aqua America, Inc. (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. The Company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

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

In assessing the effectiveness of internal control over financial reporting, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in *Internal Control-Integrated Framework* (2013). As a result of management's assessment and based on the criteria in the framework, management has concluded that, as of December 31, 2015, the Company's internal control over financial reporting was effective.

The effectiveness of our internal control over financial reporting as of December 31, 2015 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included herein.

Christopher Franklin *President and Chief Executive Officer*	David P. Smeltzer *Executive Vice President and Chief Financial Officer*

February 26, 2016

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Aqua America, Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of net income, of comprehensive income, of capitalization, of equity and of cash flows present fairly, in all material respects, the financial position of Aqua America, Inc. and its subsidiaries at December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015 based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

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

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Philadelphia, Pennsylvania
February 26, 2016

AQUA AMERICA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF NET INCOME

(In thousands, except per share amounts)

Years ended December 31, 2015, 2014, and 2013

	2015	2014	2013
Operating revenues	$ 814,204	$ 779,903	$ 761,893
Operating costs and expenses:			
Operations and maintenance	309,310	288,556	283,561
Depreciation	125,290	123,054	118,414
Amortization	3,447	3,481	5,571
Taxes other than income taxes	55,057	50,453	52,685
Total operating expenses	493,104	465,544	460,231
Operating income	321,100	314,359	301,662
Other expense (income):			
Interest expense, net	76,536	76,397	77,316
Allowance for funds used during construction	(6,219)	(5,134)	(2,275)
(Gain) loss on sale of other assets	(468)	4	(148)
Gain on extinguishment of debt	(678)	-	-
Equity loss in joint venture	35,177	3,989	2,665
Income from continuing operations before income taxes	216,752	239,103	224,104
Provision for income taxes	14,962	25,219	21,233
Income from continuing operations	201,790	213,884	202,871
Discontinued operations:			
Income from discontinued operations before income taxes	-	32,155	28,311
Provision for income taxes	-	12,800	9,882
Income from discontinued operations	-	19,355	18,429
Net income attributable to common shareholders	$ 201,790	$ 233,239	$ 221,300
Income from continuing operations per share:			
Basic	$ 1.14	$ 1.21	$ 1.15
Diluted	$ 1.14	$ 1.20	$ 1.15
Income from discontinued operations per share:			
Basic	$ -	$ 0.11	$ 0.10
Diluted	$ -	$ 0.11	$ 0.10
Net income per common share:			
Basic	$ 1.14	$ 1.32	$ 1.26
Diluted	$ 1.14	$ 1.31	$ 1.25
Average common shares outstanding during the period:			
Basic	176,788	176,864	176,140
Diluted	177,517	177,763	176,814
Cash dividends declared per common share	$ 0.686	$ 0.634	$ 0.584

See accompanying notes to consolidated financial statements.

AQUA AMERICA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands of dollars)

Years ended December 31, 2015, 2014, and 2013

	2015	2014	2013
Net income attributable to common shareholders	$ 201,790	$ 233,239	$ 221,300
Other comprehensive income, net of tax:			
Unrealized holding (loss) gain on investments, net of tax (benefit) expense of $(53), $104, and $76 for the years ended December 31, 2015, 2014, and 2013, respectively	(101)	193	141
Reclassification adjustment for loss (gain) reported in net income, net of tax (benefit) expense of $(134) and $(49) for the twelve months ended December 31, 2014 and 2013, respectively (1)	-	249	90
Comprehensive income	$ 201,689	$ 233,681	$ 221,531

See accompanying notes to consolidated financial statements.

(1) Amount of pre-tax loss (gain) of $383 and $139 reclassified from accumulated other comprehensive income to loss (gain) on sale of other assets on the consolidated statements of net income for the years ended December 31, 2014 and 2013, respectively.

AQUA AMERICA, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands of dollars, except per share amounts)

December 31, 2015 and 2014

	2015	2014
Assets		
Property, plant and equipment, at cost	$ 6,088,011	$ 5,707,017
Less: accumulated depreciation	1,399,086	1,305,027
Net property, plant and equipment	4,688,925	4,401,990
Current assets:		
Cash and cash equivalents	3,229	4,138
Accounts receivable and unbilled revenues, net	99,146	96,999
Deferred income taxes	-	26,849
Inventory, materials and supplies	12,414	12,788
Prepayments and other current assets	11,802	11,748
Assets held for sale	1,779	-
Total current assets	128,370	152,522
Regulatory assets	830,118	725,591
Deferred charges and other assets, net	52,043	52,084
Investment in joint venture	7,716	43,334
Funds restricted for construction activity	-	47
Goodwill	33,866	31,184
Total assets	$ 5,741,038	$ 5,406,752
Liabilities and Equity		
Aqua America stockholders' equity:		
Common stock at $ .50 par value, authorized 300,000,000 shares, issued 179,363,660 and 178,591,254 in 2015 and 2014	$ 89,682	$ 89,296
Capital in excess of par value	773,585	758,145
Retained earnings	930,061	849,952
Treasury stock, at cost, 2,819,569 and 1,837,984 shares in 2015 and 2014	(68,085)	(42,838)
Accumulated other comprehensive income	687	788
Total Aqua America stockholders' equity	1,725,930	1,655,343
Noncontrolling interest	-	40
Total equity	1,725,930	1,655,383
Long-term debt, excluding current portion	1,743,612	1,560,655
Commitments and contingencies (See Note 9)	-	-
Current liabilities:		
Current portion of long-term debt	35,593	58,615
Loans payable	16,721	18,398
Accounts payable	56,452	63,035
Accrued interest	12,651	12,437
Accrued taxes	21,887	31,462
Other accrued liabilities	49,895	41,388
Total current liabilities	193,199	225,335
Deferred credits and other liabilities:		
Deferred income taxes and investment tax credits	1,118,923	1,000,791
Customers' advances for construction	86,934	78,301
Regulatory liabilities	259,507	278,317
Other	100,498	109,692
Total deferred credits and other liabilities	1,565,862	1,467,101
Contributions in aid of construction	512,435	498,278
Total liabilities and equity	$ 5,741,038	$ 5,406,752

See accompanying notes to consolidated financial statements