ANNUAL REPORT 2018

NEW ENGLAND
Service Company

NEW ENGLAND SERVICE COMPANY, INC. AND SUBSIDIARIES

FINANCIAL HIGHLIGHTS

	2018	2017	2016
Total Operating Revenues	$ 7,084,735	$ 7,042,027	$ 6,855,633
Net Income	$ 1,279,562	$ 1,162,231	$ 891,658
Capital Expenditures	$ 2,249,062	$ 1,927,733	$ 1,684,654
Net Utility Plant	$ 34,109,954	$ 32,785,047	$ 30,414,001
Earnings Per Share	$ 1.43	$ 1.31	$ 1.01
Dividends Per Share	$ 0.63	$ 0.55	$ 0.49
Book Value Per Share	$ 18.07	$ 17.44	$ 16.36
Weighted Shares Outstanding	895,332	886,249	885,541
End of Year Customers	9,392	9,310	8,780

April 2019

To Our Fellow Owners...

To begin with, I cannot possibly overstate the significant contributions made by our entire talented employee team as well as the strategic vision and guidance of our Board of Directors that delivered our Company's 2018 results. All this in the context of a menu of regulatory and business challenges and rewards that made our collective roles all the more satisfying.

In a year of unpredictable regulatory treatment, and impacts of the 2018 Tax Reduction Act, we achieved a year over year earnings increase of 10.1% and an ROE of just over 8%. This performance occurred in what could be considered a re-set year given the number of regulatory filings and start-up contract initiatives which took place in 2018. Throughout the year, the Board continued its commitment to increasing dividends each quarter, effectively returning $564,119 in capital to our stockholders.

On the regulated front, you will be interested to know that in September we concluded our Mountain Water Systems docket which resulted in a projected annual increase of $120,608 in revenues and a 10.5% ROE. Throughout the past year we have made substantial operating plant improvements which have resulted, among other metrics, a 20% reduction in water loss.

In mid-year we acquired the operating assets of Springdale Farms Water Supply Trust, a 41 customer system located in Dover, Massachusetts and "tucked" it into Colonial Water Company. Concurrently, we merged Plymouth Water Company into Colonial to form an operating entity of approximately 1,510 customers. These combined efforts have been in the name of synergies, mitigating regulatory expenses, and other cost cutting measures. Ultimately, consolidating our operating entities such as in Dover and Plymouth will yield economies of scale effectively moderating rates and increases. Rate case costs, a large component of any filing such as we are encountering in the pending Plymouth docket initiated in the 4th quarter of 2018, are examples of those that can be allocated over a larger customer base.

In New Hampshire, our Abenaki Water Company has been an active participant with two other companies, and in the forefront of an initiative to gain the Public Utility Commission's recognition of the greater risk associated with small water systems. Awards of higher ROE's for small systems such as Abenaki have been few and far between in most jurisdictions although significant strides have been made in Connecticut. However, while this effort continues, it has influenced the ROE granted to Abenaki and its Rosebrook System, serving Bretton Woods, of just under 11%. New rates at Rosebrook will increase revenues by $79,779 effective as of January of this year.

Throughout the Rosebrook rate proceeding, we have been insistent with a proposal to reduce its long-standing excessive pressure issue which approaches 200 psi and is exacerbated by the effects of water hammer. While this is pending before the PUC, if approved, the engineering and construction tied to the endeavor is estimated to cost in the vicinity of $3.5 MM over a period of time punctuated by intervals of rate proceedings to lessen the cost impacts to customers.

Finally in a recent development, the N.H PUC has approved Abenaki's acquisition of the assets of the Tioga River Water Co. The addition of this system of about 60 customers, located minutes from our Gilford office, is expected to close in the 2nd quarter of 2019.

As mentioned in last year's report, we believe that the unregulated sector of our business has a significant upside in which we can, and have, managed effectively both in the short and long term. Note that in the past few years, contracting and jobbing revenues have steadily increased and currently represent a substantial portion of revenues. This growth has come about by adding skilled personnel to our team who manage, operate, troubleshoot, and solve system issues associated with on-going tasks and their challenges.

After some time spent in relationship building, we executed a contract with A.D. Makepeace, one of the largest stake holders in Ocean Spray and owners of privately held land in southeastern Massachusetts. The contract provides for full service management of their Redbrook residential community, currently of about 250 customers, and with an anticipated buildout of approximately 1,200 homes.

New business also includes municipal contracts involving testing of backflow devices in Norwich and Simsbury, Connecticut, as well as further development of our Service Sentinel warranty program for residential and commercial water and wastewater service lines.

Some words regarding our Board of Directors. First of all, it is with great reluctance that the Board accepted the resignation of Richard McGrath who served over 21 years with active participation, integrity and prudence. Richard never lacked the will to take the unpopular, but right position in spirited debates at meetings. We will miss his presence.

So that great governance remains in the forefront, the Board nominated both Bonalyn Hartley and Judy Wotton for election at the forthcoming meeting. Each has an extensive background in operations, regulatory finance, and are highly regarded. Our Board has a wide range of expertise, experience, and capabilities including rate making, legal, regulatory, finance, cost of capital, operations, and engineering. It is an honor and privilege to serve them.

If you have not seen it, please do not hesitate to visit our newly revised website where you can view the range of services we provide in New England. Importantly, therein you will find our quarterly unaudited results for your review.

Barring unforeseen circumstances, our story for 2019 has a promising outlook by virtue of 12 months of new Mountain and Rosebrook revenues supplemented by the result from the now pending Plymouth rate filing. They will be augmented by, once again, a full year of Redbrook income. These increases are meaningful for a company of our size and demonstrate with clarity the growth trajectory we are forging. With all this said, we look forward to the remainder of 2019 and beyond, and I thank our entire team for delivering the results of the past year.

With sincerest regards,

Donald J.E. Vaughan
President

Consolidated Financial Statements

**NEW ENGLAND SERVICE COMPANY, INC.
AND SUBSIDIARIES**

Years Ended December 31, 2018 and 2017

DHL&S
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NEW ENGLAND SERVICE COMPANY, INC.
AND SUBSIDIARIES

Years Ended December 31, 2018 and 2017

CONTENTS

Page

Independent auditors' report.. 2-3

Consolidated financial statements:

Balance sheets.. 4-5

Statements of income.. 6

Statement of changes in stockholders' equity.. 7

Statements of cash flows.. 8

Notes to consolidated financial statements.. 9-28

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Independent Auditors' Report

Board of Directors and Stockholders
New England Service Company, Inc. and Subsidiaries
Plainville, Connecticut

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of New England Service Company, Inc. and Subsidiaries (the Company), which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Dworken, Hillman, LaMorte & Sterczala, P.C.
Four Corporate Drive, Suite 488 | Shelton, CT 06484
HLB THE GLOBAL ADVISORY AND ACCOUNTING NETWORK

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Changes in Accounting Principles

As discussed in Note 4 to the consolidated financial statements, during the year ended December 31, 2018, the Company adopted Accounting Standards Update No. 2016-01, *Financial Instruments – Overall: Recognition and Measurements of Financial Assets and Financial Liabilities.* Our opinion is not modified with respect to this matter.

As discussed in Note 9 to the consolidated financial statements, during the year ended December 31, 2018, the Company adopted Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers*, using the modified retrospective transition approach. Our opinion is not modified with respect to this matter.

DHC&S P.C.

March 25, 2019
Shelton, Connecticut

NEW ENGLAND SERVICE COMPANY, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31, 2018	December 31, 2017
Assets		
Utility plant, at cost	**$ 49,443,402**	$ 46,897,544
Less: accumulated depreciation and amortization	**(15,333,448)**	(14,112,497)
	34,109,954	32,785,047
Non-utility property, plant and equipment	**1,873,635**	1,842,026
Less: accumulated depreciation	**(677,237)**	(605,302)
	1,196,398	1,236,724
Current assets:		
Cash and cash equivalents	**1,666,643**	1,487,183
Marketable securities	**417,010**	492,068
Accounts receivable	**595,360**	523,350
Accrued unbilled revenues	**354,771**	361,758
Regulatory asset - revenue adjustment mechanism, current portion	**194,992**	121,099
Income taxes receivable	**4,275**	7,961
Materials and supplies inventory	**81,292**	82,368
Prepaid expenses	**60,801**	41,325
Total current assets	**3,375,144**	3,117,112
Investment in cooperative capital plan	**14,129**	8,448
Deferred charges and other regulatory assets	**1,501,605**	1,207,979
Regulatory asset - revenue adjustment mechanism, net of current portion	**69,584**	55,391
Preliminary survey and investigation	**100,357**	403
Regulatory asset - income taxes recoverable	**4,235,700**	4,332,300
	5,921,375	5,604,521
Total Assets	**$ 44,602,871**	$ 42,743,404

NEW ENGLAND SERVICE COMPANY, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31, 2018	2017
Stockholder's Equity and Liabilities		
Stockholder's equity:		
Common stock, no par; 3,000,000 shares authorized; 904,916 shares issued, 895,396 shares outstanding at December 31, 2018; and 902,742 shares issued, 895,022 shares outstanding at December 31, 2017	**$ 3,751,796**	$ 3,702,949
Additional paid in capital	**297,426**	297,426
Treasury stock, at cost, 9,520 and 7,720 shares at December 31, 2018 and 2017	**(221,111)**	(179,214)
Accumulated other comprehensive income	**-**	128,816
Retained earnings	**12,353,520**	11,509,261
Total stockholder's equity	**16,181,631**	15,459,238
Long-term debt, net of current portion	**9,706,437**	8,783,515
Current liabilities:		
Note payable, bank	**90,000**	
Current portion of long-term debt	**521,940**	467,953
Accounts payable and accrued expenses	**850,890**	773,150
Accrued property and other taxes	**247,918**	244,047
Deferred revenues	**56,843**	48,421
Total current liabilities	**1,767,591**	1,533,571
Deferred income taxes	**5,185,670**	6,248,840
Regulatory - excess deferred income taxes	**764,187**	
Regulatory - excess income taxes	**97,881**	
Security deposits and other deferred credits	**107,249**	105,650
Customer advances for construction	**27,469**	27,469
Contributions in aid of construction	**9,204,576**	9,078,941
Amortized contributions in aid of construction	**1,560,180**	1,506,180
	16,947,212	16,967,080
Commitments (Notes 7 and 15)		
Total Stockholder's Equity and Liabilities	**$ 44,602,871**	$ 42,743,404

See notes to consolidated financial statements.

NEW ENGLAND SERVICE COMPANY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31, 2018	Year Ended December 31, 2017
Operating revenues		
Utility revenues	**$ 6,045,409**	$ 5,928,550
Contracting and jobbing revenues	**1,039,326**	1,113,477
	7,084,735	7,042,027
Operating expenses:		
Operation	**3,032,773**	3,158,060
Maintenance	**334,682**	349,139
Cost of contracting and jobbing	**472,711**	388,112
Depreciation and amortization	**1,046,699**	1,002,847
Taxes other than income taxes	**711,959**	688,624
Interest charges	**354,797**	322,871
Total operating expenses	**5,953,621**	5,909,653
Income from operations	**1,131,114**	1,132,374
Other income and (deductions):		
Rental income and other	**8,578**	16,342
Investment income (loss)	**10,213**	48,020
Allowance for funds used during construction	**22,091**	17,095
Non-operating expense	**(36,234)**	0
Total other income	**4,648**	81,457
Income before income taxes	**1,135,762**	1,213,831
Income tax expense (benefit)	**(143,800)**	51,600
Net income	**$ 1,279,562**	$ 1,162,231
Per share amounts:		
Weighted average shares outstanding	**895,332**	886,249
Net income	**$ 1.43**	$ 1.31
Dividends	**$ 0.63**	$ 0.55
Book value	**$ 18.07**	$ 17.44

See notes to consolidated financial statements.

NEW ENGLAND SERVICE COMPANY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Stock	Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income	Retained Earnings	Total
Balance, December 31, 2016	$ 3,424,228	$ 297,426	$ (160,790)	$ 88,828	$ 10,834,819	$ 14,484,511
Common stock issued (13,200 shares)	278,721					278,721
Net income					1,162,231	1,162,231
Dividends issued					(487,789)	(487,789)
Treasury stock acquired (820 shares)			(18,424)			(18,424)
Change in unrealized gain on marketable securities				39,988		39,988
Balance, December 31, 2017	3,702,949	297,426	(179,214)	128,816	11,509,261	15,459,238
Common stock issued (2,174 shares)	48,847					48,847
Net income					1,279,562	1,279,562
Reclassification (A)				(128,816)	128,816	
Dividends issued					(564,119)	(564,119)
Treasury stock acquired (1,800 shares)			(41,897)			(41,897)
Balance, December 31, 2018	**$ 3,751,796**	**$ 297,426**	**$ (221,111)**		**$ 12,353,520**	**$ 16,181,631**

(A) Reclassification of accumulated other comprehensive income in accordance with the adoption of Accounting Standards Update No. 2016-01, Financial Instruments - Overall: Recognition and Measurements of Financial Assets and Financial Liabilities.

See notes to consolidated financial statements.

NEW ENGLAND SERVICE COMPANY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2018	2017
Cash flows from operating activities:		
Net income	**$ 1,279,562**	$ 1,162,231
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**1,170,945**	1,117,337
Impairment of regulatory asset	**36,234**	
Deferred income taxes (benefit)	**(170,010)**	3,040
Allowance for funds used during construction	**(22,091)**	(17,095)
Bad debt (recoveries) and project write-offs	**2,024**	(5,938)
Investment (gains) losses	**20,842**	(17,967)
Directors' stock compensation	**23,040**	13,684
Change in operating assets and liabilities:		
Accounts receivable and accrued unbilled revenues	**(65,500)**	73,415
Regulatory asset - revenue adjustment mechanism	**(88,086)**	(131,011)
Materials and supplies inventory	**1,520**	14,519
Prepaid expenses	**(15,424)**	27,408
Deferred charges and other regulatory assets	**(415,977)**	(362,752)
Accounts payable and accrued expenses	**85,753**	35,075
Accrued property and other taxes	**4,527**	22,655
Deferred revenues	**8,422**	(15,146)
Regulatory liability - excess income taxes	**97,881**	
Net cash provided by operating activities	**1,953,662**	1,919,455
Cash flows from investing activities:		
Purchase of marketable securities	**(64,831)**	
Proceeds from sale of marketable securites	**113,366**	51,684
Additions to utility plant and non-utility property	**(2,071,688)**	(1,807,764)
Additions to preliminary survey and investigation charges	**(65,454)**	
Acquisition of rate base assets, net of cash received	**(166,790)**	(1,357,460)
Proceeds from contributions in aid of construction	**12,446**	
Proceeds from sale of non-utility property	-	1,515
Security deposit collections	-	3,001
Net cash used in investing activities	**(2,242,951)**	(3,109,024)
Cash flow from financing activities:		
Borrowings on note payable, bank	**90,000**	
Proceeds from issuance of long-term debt	**1,480,000**	1,250,000
Repayment of long-term debt	**(504,110)**	(443,002)
Deferred financing costs	**(8,096)**	(83,363)
Proceeds from issuance of common stock	**16,971**	222,088
Treasury stock purchase	**(41,897)**	(18,424)
Dividends	**(564,119)**	(487,789)
Net cash provided by financing activities	**468,749**	439,510
Net change in cash and cash equivalents	**179,460**	(750,059)
Cash and cash equivalents, beginning	**1,487,183**	2,237,242
Cash and cash equivalents, ending	**$ 1,666,643**	$ 1,487,183

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2018 and 2017

1. **Summary of significant accounting policies:**

General:

New England Service Company, Inc. (the "Parent") pursues business opportunities in unregulated water related markets that include plumbing services and water utility operations and management.

The Company has four public utility subsidiaries, Valley Water Systems, Inc. ("VWS"), distributing water to approximately 6,730 customers in Plainville, Farmington and Southington, Connecticut; Colonial Water Company ("CWC"), distributing water to approximately 670 customers in Dover and 840 customers in Plymouth, Massachusetts; Mountain Water Systems ("MWS"), distributing water to approximately 490 customers in Sheffield, Massachusetts; and Abenaki Water Company ("AWC"), distributing water and providing sewer services to approximately 250 customers in Belmont and Bow and 412 customers in Carroll and Crawford's Purchase, New Hampshire. See Note 2.

The consolidated financial statements include the accounts of the Parent and its wholly owned subsidiaries (collectively, the "Company"). All significant intercompany transactions have been eliminated in consolidation.

Regulation of the subsidiaries:

VWS is regulated by the State of Connecticut Public Utilities Regulatory Authority ("CT PURA"), CWC and MWS are regulated by the State of Massachusetts Department of Public Utilities ("MA DPU"), and AWC is regulated by the State of New Hampshire Public Utilities Commission ("NH PUC") (collectively, the "Regulators") and as such each subsidiary maintains its accounts in accordance with the accounting methods prescribed by the respective state Regulators. The subsidiaries prepare their financial statements in accordance with accounting principles generally accepted in the United States of America which include the provisions of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") No. 980, *Regulated Operations* ("ASC 980"). Under ASC 980, regulated companies defer costs and credits on the balance sheet as regulatory assets and liabilities when it is probable that those costs and credits will be recognized in the rate setting process in a period different from the period in which they would have been reflected in income by an unregulated company. These deferred regulatory assets and liabilities are then reflected in the income statement in the period in which the same amounts are reflected in rates charged for service.

NEW ENGLAND SERVICE COMPANY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2018 and 2017

1. **Summary of significant accounting policies** (continued):

Use of estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates.

Utility plant:

The cost of additions to utility plant and improvements are capitalized. Costs include labor, materials, services and charges for such indirect costs as engineering, supervision, payroll taxes, employee benefits, transportation and certain preliminary survey and investigation charges. The cost of repairs and maintenance is expensed. When depreciable utility plant is retired or disposed of, its recorded cost along with the cost of removal, less salvage value, is charged to accumulated depreciation.

Utility plant as of December 31, 2018 and 2017 consists of the following:

	2018	2017
Organization and intangible	**$ 303,592**	$ 303,592
Source of supply plant	**5,937,083**	5,505,291
Pumping plant	**4,565,982**	4,102,741
Water treatment plant	**2,606,915**	1,526,201
Transmission and distribution plant	**33,535,286**	32,642,184
General plant	**2,364,155**	2,176,018
Miscellaneous plant	**36,492**	36,492
Total utility plant in service	**49,349,505**	46,292,519
Construction work in progress	**107,381**	582,275
Utility plant acquisition adjustment	**(13,484)**	22,750
Total utility plant	**$ 49,443,402**	$ 46,897,544

Non-utility property, plant and equipment:

Non-utility property represents the Parent's property, plant and equipment which is stated at cost. This property is not subject to rate regulation and is depreciated for financial reporting purposes primarily by use of the straight-line method over their estimated useful lives ranging from 5 to 39 years.

NEW ENGLAND SERVICE COMPANY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2018 and 2017

1. **Summary of significant accounting policies** (continued):

Depreciation:

The Company uses the straight-line method of depreciation over the estimated service lives of depreciable utility plant ranging from 3 to 80 years as approved by the Regulators. No depreciation for financial statement purposes is charged to income relating to utility plant constructed with developers' contributions after 1988 as the Regulators do not allow the Company to recover this expense through rates. The cost of this plant, offset by an equal corresponding amount reported within Customers' Advances for Construction, Contributions in Aid of Construction and Amortized Contributions in Aid of Construction is $10,792,225 and $10,612,590 as of December 31, 2018 and 2017, respectively.

Cash and cash equivalents:

The Company considers all highly liquid investments that have an original maturity of less than three months to be cash equivalents. The Company maintains its cash in bank deposit accounts, which, at times, exceed federally insured limits. The Company has not experienced any losses in such accounts and does not believe it is exposed to any significant risk on cash and cash equivalents.

Fair value:

Estimated fair value is based on the criteria outlined in ASC No. 820, "*Fair Value Measurements and Disclosures"* ("ASC 820"). ASC 820 established a "three-tier" valuation hierarchy to prioritize the assumptions used in valuation techniques to measure fair value. The three levels of fair value hierarchy under ASC 820 are detailed below:

- **Level 1** – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

- **Level 2** – Quoted prices in active markets for similar assets and liabilities or quoted prices in less active, dealer or broker markets;

- **Level 3** – Prices or valuations that require inputs that are both significant to the fair value measurements and are unobservable.

Materials and supplies inventory:

Materials and supplies inventory, which is stated at the lower of cost or net realizable value using the weighted average cost method, is primarily for the construction and maintenance of utility plant.

NEW ENGLAND SERVICE COMPANY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2018 and 2017

1. **Summary of significant accounting policies** (continued):

Deferred charges and other regulatory assets:

Costs of certain administrative projects relating to the subsidiaries' regulatory processes and costs of items which benefit more than one accounting period are deferred and amortized to income over their respective lives and/or periods allowed by the Regulators using the straight-line method.

Costs which are "not yet amortizable" may be entirely charged to income if and when the Company believes it is probable that the Regulators will not allow the Company to recover these costs through future rates.

Costs which are "not amortizable" relate to potential future acquisition projects which are transferred when the acquisition is completed.

The following costs have been deferred as of December 31, 2018 and 2017:

	Original Cost	2018	2017	Amortization Period Ends/Other
VWS:				
2012 leak detections	$ 20,082		$ 1,420	March 2018
UCMR testing	5,493		1,693	November 2018
Tank cleaning	4,242	**$ 141**	566	April 2019
Level A mapping	158,806	**14,558**	30,438	November 2019
2017 leak detections	10,283	**8,227**	10,283	December 2022
WA diversion permit	24,375	**18,321**	19,330	January 2037
Survey and appraisal costs	62,685	**62,685**	62,330	Not yet amortizable
Tangible property regulation study	33,695	**33,695**	33,695	Not yet amortizable
MPA water testing	24,924	**24,924**	24,924	Not yet amortizable
Deferred sales and use tax	83,917	**83,917**	69,557	Not yet amortizable
Other deferrals	26,187	**26,187**	25,427	Not yet amortizable
Water Supply Plan update	48,870	**48,870**	48,843	Not yet amortizable
Storm related expenses	11,303	**11,303**	11,303	Not yet amortizable
ROE docket	6,901	**6,901**	6,901	Not yet amortizable
Docket 18-01-15	13,247	**13,247**		Not yet amortizable
Hardwater and treatment study	34,500		34,500	Reclassified to preliminary survey and investigation
		$ 352,976	$ 381,210	

NEW ENGLAND SERVICE COMPANY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2018 and 2017

1. **Summary of significant accounting policies** (continued):

Deferred charges and other regulatory assets (continued):

	Original Cost	2018	2017	Amortization Period Ends/Other
CWC:				
2014 rate case costs	$137,114	**$ 45,796**	$ 73,219	August 2020
Acquisition regulatory asset	139,760	**93,174**	107,150	August 2025
Acquisition premium	157,208	**134,423**	141,258	August 2038
Acquisition related costs	119,761	**119,761**	44,454	Not yet amortizable
2018 rate case costs	59,418	**59,418**		Not yet amortizable
Other unadjusted debit - Springdale	49,100	**49,100**		Not yet amortizable
Development and digitize town maps	21,637	**21,637**	16,758	Not yet amortizable
Other deferred debits	17,295	**17,295**	17,065	Not yet amortizable
Main installation projects	7,886	**7,886**	7,886	Not yet amortizable
Feasibility study	17,140		17,140	Reclassified to utility plant
		$ 548,490	$ 424,930	
AWC:				
2015 rate case costs	$ 75,389	**$ 7,539**	$ 37,695	March 2019
Due diligence	92,566	**92,566**	65,782	Not yet amortizable
Water pressure study	57,539	**57,539**	46,310	Not yet amortizable
Preliminary survey and investigation	25,342	**25,342**	25,342	Not yet amortizable
2017 rate case costs	78,770	**78,770**	20,984	Not yet amortizable
Digitize and mapping	5,924	**5,924**	5,924	Not yet amortizable
ROE petition	17,568	**17,568**	1,080	Not yet amortizable
2018 leak detection	18,749	**18,749**		Not yet amortizable
Other deferred costs	36,315	**36,315**	13,748	Not yet amortizable
		$ 340,312	$ 216,865	
MWS:				
Acquisition related costs	$ 83,551	**$ 82,158**	$ 83,551	September 2033
2017 rate case costs	90,362	**85,844**	63,011	September 2023
Other deferred costs	1,541	**1,541**	1,541	Not yet amortizable
		$ 169,543	$ 148,103	
Parent:				
Other deferred costs		**$ 90,284**	$ 36,871	Not amortizable
Total deferred charges and other regulatory assets		**$1,501,605**	$1,207,979	

1. **Summary of significant accounting policies** (continued):

Preliminary survey and investigation charges:

Costs of studies for specific construction projects are deferred until the start of the project at which time the costs are capitalized. If a project is abandoned or if it is determined that any of these costs may not be allowed to be recovered in future rates by the Regulators, the accumulated costs relating to that project are written off during the year of abandonment or determination. There were no project abandonments during 2018 or 2017.

Income taxes:

On December 22, 2017, the Tax Cuts and Jobs Act (the "Act") was signed into law. The Act changed existing United States tax law and included a number of provisions that affected the Company, including reducing the federal corporate tax rate from 34% to 21% effective January 1, 2018, and, specifically for public utility companies, requiring customer advances for construction and contributions in aid of constructions be included in taxable income and eliminating bonus depreciation. See Note 3.

Deferred income taxes are provided for the expected future tax consequences of events that have been included in the financial statement or tax returns. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which differences are expected to reverse. These differences result primarily from the use of accelerated depreciation for income tax purposes, timing differences in the deductibility of certain expenses, future benefits to be recognized upon utilization of operating loss carry-forwards, and from deferring investment tax credits for financial reporting purposes. Deferred tax assets not expected to be realized are reduced by a valuation allowance.

Additionally, the Company provides a regulatory asset for income tax benefits (primarily federal and state income tax reductions due to the adoption of tangible property regulations issued by the Internal Revenue Service ("IRS") and state income tax reductions due to accelerated depreciation) which have been flowed-through to the ratepayers under ratemaking policies of the Regulators and which the Company believes it will recover in rates when these income tax benefits reverse. The tangible property regulations, among other things, allow for the immediate deduction for tax purposes, as an ordinary and necessary repair expense, qualifying expenditures that previously would have been capitalized and depreciated over the estimated useful life of the asset. See Note 13.

Investment tax credits have been deferred and are being amortized to income over the average estimated lives of the related assets.

1. **Summary of significant accounting policies** (continued):

Customer advances for construction/contributions in aid of construction:

In certain cases real estate developers and others advance funds to the Company for the construction of water main extension projects. A portion of these funds are potentially refundable, without interest, usually within a ten year period. Advances which have not been refunded within this period are reclassified to Contributions in Aid of Construction.

As a result of the Act, the Company may collect additional funds from developers for any additional income taxes incurred by the Company. The potential amount refundable on completed projects as of December 31, 2018 and 2017 is estimated to be $102,000.

Amortized contributions in aid of construction:

Contributions in Aid of Construction that were received prior to 1989 are amortized over the remaining useful life of the related "contributed" utility plant item to Amortized Contributions in Aid of Construction.

Allowance for funds used during construction ("AFUDC"):

The Company recognizes AFUDC, which is a non-cash increase to income and a corresponding increase to utility plant, by applying the last allowed rate of return on rate base approved by the Regulators to costs on large construction projects lasting longer than three months.

2. **Merger and acquisitions of net utility plant:**

On June 28, 2018, CWC acquired the rate base assets of Springdale Farms Water Supply Trust ("SFWST"). In connection with the acquisition, CWC obtained regulatory approval for and issued long-term debt in exchange for proceeds of $250,000. See Note 8.

Concurrently, CWC obtained regulatory approval to merge the assets and liabilities of Plymouth Water Company ("PWC") into the Company and issue long-term debt of $230,000 for various capital improvements. The transaction between PWC and CWC has been accounted for in accordance with the provisions of FASB ASC No. 805-50-45, *Business Combinations – Transactions Between Entities Under Common Control*. Accordingly, the financial statements of the Company reflect the assets and liabilities and the results of operations as if the merger occurred at the beginning of the earliest year presented. Any intra-entity transactions have been eliminated.

2. **Merger and acquisitions of net utility plant** (continued):

The following table summarizes the consideration paid by CWC and the amounts of assets acquired and recognized at the acquisition date:

Consideration:

Issuance of long-term debt	**$250,000**

Recognized amounts of identified assets acquired:

Utility plant, at cost	**$585,790**
Less: accumulated depreciation	**(468,100)**
Other unadjusted debits	**49,100**
Cash	**83,210**
	$250,000

On February 14, 2017, MWS acquired the rate base assets of Sheffield Water Company, Inc. In connection with the acquisition, MWS obtained regulatory approval for and issued long-term debt in exchange for proceeds of $1,250,000. See Note 8.

The following table summarizes the consideration paid by MWS and the amount of assets acquired and liabilities assumed which were recognized at the acquisition date:

Consideration:

Issuance of long-term debt	$1,250,000
Parent contribution	107,460
	$1,357,460

Recognized amounts of identified assets and liabilities acquired:

Utility plant, at cost	$1,969,784
Less: accumulated depreciation	(589,748)
Other deferred debits and credits	(22,576)
	$1,357,460

The acquisitions of the rate base assets of SFWST and MWS have been accounted for in accordance with the provisions of FASB ASC No. 805, *Business Combinations*. Accordingly, the cost of acquisition was allocated to the assets acquired and liabilities assumed based on estimates of their respective fair values at the date of acquisition.

3. **Regulatory matters:**

Federal Tax Cuts and Jobs Act:

On January 23, 2019, CT PURA issued a final decision concerning Docket No. 18-01-15, *CT PURA Review of Rate Adjustments Related to the Federal Tax Cuts and Jobs Act* ("Docket 18-01-15"), which was undertaken by CT PURA to address the impact on rates charged to customers due to the reduction in the federal corporate tax rate from 34% to 21%.

On January 3, 2018, NH PUC issued order No. 26,096, *Investigation to Determine Rate Effects of Federal and State Corporate Tax Reductions* ("Order 26,096"), which was undertaken by NH PUC to address the impact on rates charged to customers due to the reduction in the federal corporate tax rate from 34% to 21% and in the state business enterprise tax rates from 0.720% to 0.675% and state business profits tax from 8.2% to 7.9%.

On December 21, 2018, MA DPU issued a final decision concerning Docket No. 18-15, *Investigation by the Department of Public Utilities, on its Own Motion, into the Effect of the Reduction in Federal Income Tax Rates on the Rates Charged by Electric, Gas, and Water Companies* ("Docket 18-15"), which was undertaken by MA DPU to address the impact on rates charged to customers due to the reduction in the federal corporate tax rate from 34% to 21% by eleven specifically identified public utilities operating in Massachusetts ("the Entities").

Through above Dockets and Orders, the Regulators addressed two areas of corporate income taxes: (1) the income tax expense included in rates charged to customers; and (2) the excess accumulated deferred income tax ("EDIT") liability.

In accordance with Docket 18-01-15, VWS was ordered to create a regulatory liability of $88,474 annually to account for the decrease in its federal income tax expense and to establish a regulatory liability of $636,100 to account for its EDIT. VWS was further ordered to propose a method of returning such amounts to customers in its next rate case or multi-year rate plan authorized by a settlement agreement.

In accordance with the Order 26,096, the AWC was ordered to create a regulatory liability of $9,407 annually to account for the decrease in its federal and state income tax expenses and to establish a regulatory liability of $39,500 to account for its EDIT. AWC was further ordered to propose a method of returning such amounts to customers in its next rate case or multi-year rate plan authorized by a settlement agreement.

On March 29, 2018, AWC filed a response to Order 26,096 proposing the amortization of EDIT over the estimated remaining useful lives of the related utility plant of 27.92 years. Accordingly, for the year ended December 31, 2018, the EDIT was amortized by $1,410.

3. **Regulatory matters** (continued):

Federal Tax Cuts and Jobs Act (continued):

In accordance with the Docket 18-15, the Entities were ordered to create a regulatory liability to account for the decrease in their federal income tax expense and to establish a regulatory liability to account for their EDIT. The Entities were further ordered to propose a method of returning such amounts to customers.

Although CWC nor MWS were not specifically identified in the Docket 18-15, CWC's and MWS' financial statements as of and for the year ended December 31, 2018 have been adjusted to incorporate a method approved by the IRS to amortize the EDIT over the remaining average estimated useful lives of the related utility plant. For the year ended December 31, 2018, the EDIT was amortized by approximately $2,700.

The Company's financial statements as of and for the year ended December 31, 2018 have been adjusted to comply with these orders.

Rate cases:

As necessary, VWS, CWC, AWC and MWS apply to the Regulators for changes in the rates charged for service. The rate increase requests are based on the level of operating expense and capital costs that are expected when the rates become effective. The revenues requested are based on actual sales during the historic test year selected by each Company as the base period, but are adjusted for known and measurable changes such as an increase or decrease in the number of customers or a documented change in customer usage. AWC and MWS have no expressed limit on the number of days from the end of the selected historic test year to file the completed rate application with the NH PUC and MA DPU, respectively, however once filed, the Regulators have twelve months to render a final decision.

On November 5, 2018, AWC entered into rate settlement agreements with the Office of the Consumer Advocate and the Staff of the NH PUC. The settlement agreements approved an increase in annual water service revenues for Carroll and Crawford's Purchase water customers of $64,736 or 23.43% based on the test year and an additional $15,043 or 5.44% step adjustment based on certain plant additions, which were placed in service subsequent to test year. New rates are effective January 2019.

On October 17, 2018, CWC filed a rate application with MA DPU for a $135,956 or 29.63% increase in annual water service revenues for Plymouth division water customers using December 31, 2017 as a test year. No final decision has been issued by MA DPU as of the financial statement date.

3. **Regulatory matters** (continued):

Rate cases (continued):

On August 17, 2018 and August 22, 2018, MWS entered into partial rate settlement agreements with the Attorney General of the Commonwealth of Massachusetts and the MA DPU. The settlement agreements approved an increase of $120,608 or 39.43% in annual water service revenues effective October 1, 2018.

4. **Marketable equity securities:**

In January 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-01, *Financial Instruments – Overall: Recognition and Measurements of Financial Assets and Financial Liabilities* ("ASU 2016-01"), which (i) requires all investments in equity securities, including other ownership interests such as partnerships, unincorporated joint ventures and limited liability companies, to be carried at fair value with the changes in fair values recorded through net income, (ii) requires an incremental recognition and disclosure requirement related to the presentation of fair value changes of financial liabilities for which the fair value option has been elected, (iii) amends several disclosure requirements, including the methods and significant assumptions used to estimate fair value or a description of the changes in the methods and assumptions used to estimate fair value. ASU 2016-01, as amended, became effective for public companies for fiscal years beginning after December 15, 2017. Accordingly, the Company adopted ASU 2016-01 by means of a cumulative-effect adjustment of $128,816 to the balance sheet as of January 1, 2018.

The Company's marketable equity securities are valued using Level 1 inputs. Gains or losses on securities sold are based on the specific identification method.

Information related to these marketable securities is as follows:

	December 31, 2018		December 31, 2017	
	Cost	Market Value	Cost	Market Value
Marketable equity securities	$328,399	$417,010	$366,716	$492,068

5. **Investment in cooperative capital plan:**

The Company has investments in CoBank's cooperative capital plan, which earns an annual patronage distribution on the average loan volume outstanding, of which portion (60% in 2018) is paid in cash and the remaining distribution in the form of Class A Common Stock of CoBank, ACB.

5. **Investment in cooperative capital plan** (continued):

The patronage distribution is paid to participants subsequent to the year in which it is earned.

The Company earned a patronage refund of 80 and 100 basis points on its average loan amount outstanding of $1,775,195 and $1,695,172 during 2018 and 2017, respectively.

Out of the total patronage refund due of $14,202 and $16,952, $5,681 and $4,238 was allocated to the investment and the remaining amount is included in accounts receivable at 2018 and 2017, respectively.

The investment in cooperative capital plan is valued using Level 2 inputs and is accounted for using the cost method of accounting. Under this method, only dividends received, and not the Company's share of the earnings or losses of the investments, are included in the statements of operations.

6. **Shareholders' equity:**

Treasury stock:

During 2018 and 2017, the Company repurchased a total of 1,800 and 820 shares totaling $41,897 and $18,424, respectively.

7. **Notes payable, bank:**

The Parent has a $500,000 secured line of credit with interest at Wall Street Journal's Prime rate (5.50% at December 31, 2018) due on demand.

VWS has a $500,000 secured line of credit with interest at 1.50% below Wall Street Journal's Prime rate, subject to a floor rate of 2.25%, which expires in August 2019.

CWC has a $250,000 secured line of credit with interest at the Wall Street Journal's Prime rate (5.50% at December 31, 2018). The line of credit expires in July 2019.

AWC has a $150,000 secured line of credit with interest at LIBOR plus 1.75%, as defined (4.21% at December 31, 2018). The line expires in June 2019. There was $90,000 outstanding at December 31, 2018.

MWS has a $100,000 secured line of credit with interest at LIBOR plus 2.00%, as defined (4.51% at December 31, 2018). The line expires in October 2019.

8. **Long-term debt:**

Long-term debt consists of the following:

	December 31, 2018	December 31, 2017
Mortgage payable, bank, 3.0%, $36,192 of interest and principal due monthly through June 2023, with adjusted monthly payments thereafter based on the applicable interest rates, as defined, through June 2033 and a balloon payment due July 2033.	**$5,064,107**	$5,361,980
Note payable, bank, 3.95%, $6,061 of interest and principal due monthly through July 2023 with adjusted monthly payments thereafter based on then applicable interest rates, as defined, through June 2038 and a balloon payment due July 2038.	**983,139**	
Mortgage payable, bank, 3.18%, $7,300 of interest and principal due monthly through December 2020, with adjusted monthly payments thereafter based on then applicable interest rates, as defined, through December 2035.	**1,194,825**	1,243,034
Mortgage payable, bank, 3.0%, $2,431 of interest and principal due monthly through June 2019, with adjusted monthly payments thereafter based on then applicable interest rates, as defined, through June 2029.	**237,013**	258,717
Construction note payable, bank, 3.0%, $647 due monthly through June 2019, with adjusted monthly payments thereafter based on then applicable interest rates, as defined, through June 2029.	**60,058**	65,902
Mortgage payable, bank, 3.38%, $2,974 of interest and principal due monthly through December 2023, with adjusted monthly payments thereafter based on then applicable interest rates, as defined, through December 2033.	**420,572**	441,470
Note payable, bank, 3.22%, monthly interest only through July 2019 followed by $1,420 of interest and principal due monthly through July 2023 with adjusted monthly payments thereafter based on then applicable interest rates, as defined, through July 2039.	**250,000**	

NEW ENGLAND SERVICE COMPANY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2018 and 2017

8. **Long-term debt** (continued):

	December 31, 2018	December 31, 2017
Note payable, bank, 3.22%, monthly interest only through July 2019 followed by $1,307 of interest and principal due monthly through July 2023 with adjusted monthly payments thereafter based on then applicable interest rates, as defined, through July 2039.	**230,000**	
Mortgage payable, bank, 3.68%, $3,003 of interest and principal due monthly through February 2024.	**168,870**	197,969
Term loan, bank, 3.55%, $2,350 of interest and principal due monthly through September 2036.	**369,021**	383,622
Term loan, bank, 4.0%, $1,364 of interest and principal due monthly through December 2036.	**208,855**	216,580
Note payable, bank, 4.33%, $7,485 of interest and principal due monthly through April 2027, with adjusted monthly payments thereafter based on then applicable rates, as defined, through March 2037.	**1,179,089**	1,220,382
	10,365,549	9,389,656
Less current portion	**(521,940)**	(467,953)
Net long-term portion due	**9,843,609**	8,921,703
Less unamortized finance costs	**(137,172)**	(138,188)
	$9,706,437	$8,783,515

Principal repayments are as follows:

Year ending December 31:	Amount
2019	$ 521,940
2020	546,705
2021	569,561
2022	589,063
2023	609,233
Thereafter	7,529,047
Total	$10,365,549

All long-term debt is secured by substantially all assets of the Company.

8. **Long-term debt** (continued):

The Company's long-term debt contains certain financial covenants that require, among other things, maintenance of minimum debt service coverage ratio, and maximum ratio of indebtedness to tangible net worth, as defined. As of December 31, 2018, the Company was in compliance with these covenants.

9. **Revenue recognition from contracts with customers**:

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* ("ASU 2014-09"), which replaced most of the previous guidance related to revenue recognition. ASU 2014-09 requires an entity to recognize revenue as its performance obligations are met, in order to reflect the transfer of promised goods or services to customers in an amount that reflects the consideration the entity is entitled to receive in exchange for those goods and services. ASU 2014-09, as amended, became effective for public companies for fiscal years beginning after December 15, 2017. Accordingly, the Company adopted ASU 2014-09 on January 1, 2018 using the modified retrospective transition approach.

The Company has determined that there was no change in either the measurement or the timing of revenues recognized under ASU 2014-09 as compared to the previous guidance. As a result, the adoption of ASU 2014-09 had no impact on the Company's results of operations or cash flows.

Nature of goods or services:

Water operations

The Company provides retail water and wastewater services to six customer classes and generates revenues from regulated tariff-based sales of water and collections of wastewater. The Company's performance obligations are comprised of a stand-ready obligation to deliver water or collect wastewater as well as the actual delivery of water and collection of wastewater to/from residential, commercial, industrial, public authority, fire protection, and agricultural customers. The Company recognizes revenue through the passage of time at a fixed rate with respect to its stand-ready obligation, and at a price per unit of water delivered or wastewater collected based on tariffs established by CT PURA, MA DPU, and NH PUC through the rate-making process. The tariffs established by CT PURA also include a Revenue Adjustment Mechanism, which allows the Company to record the amount by which actual revenues from water customers were less than revenues allowed in the Company's most recent rate decisions.

9. **Revenue recognition from contracts with customers** (continued):

All customers are billed monthly on a cycle basis. The Company accrues revenue and a related contract asset for actual or estimated water delivery and wastewater collection services provided but not yet billed to customers based on estimated water usage from the latest meter reading to the end of the year.

Services and billing system management
The Company provides contracted and billing management services to water utilities and other clients. The transaction price is a fixed amount per bill prepared as established in the contract. There is no variable consideration. The performance obligations are satisfied at a point in time when the invoices are sent. The billing management services has no returns or warranties associated with it. No revenue is recognized from performance obligations satisfied in prior periods and no performance obligations remain unsatisfied as of the end of the reporting period.

Service line protection
The Company provides service line protection as a distinct and single performance obligation to current water customers that choose to participate. The transaction price is detailed in the plan's terms and conditions and made publicly available. There is no variable consideration. The contract includes a single performance obligation and as such, no judgment is required to allocate the transaction price. The performance obligation is satisfied over time through the continuous provision of service line protection through a stand-ready obligation to perform. The Company uses an output method to recognize the service line protection revenue over time. The stand-ready obligation is recognized through the passage of time. A customer is required to pay the annual fee in advance. The service line protection plan has no returns or extended warranties associated with it.

No revenue is recognized from performance obligations satisfied in prior periods. Any material performance obligations that remain unsatisfied as of the end of the reporting period are recorded within deferred revenues.

9. **Revenue recognition from contracts with customers** (continued):

The following table presents the Company's operating revenues by major source and customer class:

	Year Ended December 31, 2018	Year Ended December 31, 2017
Utility revenues:		
Water operations:		
Residential	**$3,922,936**	$3,893,495
Commercial	**604,242**	582,239
Industrial	**136,586**	125,910
Public authority	**85,978**	90,780
Fire protection	**883,279**	876,983
Agricultural	**7,206**	6,692
Revenue adjustment mechanism	**210,859**	166,176
Surcharge	**24,616**	24,514
Other	**48,753**	38,372
	5,924,455	5,805,161
Wastewater operations:		
Residential	**93,364**	95,619
Commercial	**12,097**	12,272
Surcharge	**15,493**	15,498
	120,954	123,389
Total utility revenues	**6,045,409**	5,928,550
Contracting and jobbing revenues:		
Services and billing management:		
Service contracts	**846,419**	821,724
Billing management contracts	**115,864**	225,744
	962,283	1,047,468
Service line protection	**77,043**	66,009
Total contracting and jobbing revenues	**1,039,326**	1,113,477
Total revenues from contracts with customers	**$7,084,735**	$7,042,027

The Company continuously monitors the creditworthiness of customers and establishes, when necessary, an allowance for amounts that may become uncollectible in the future based on current economic trends, historical payment and bad debt write-off experience, and any specific customer related collection issues.

9. **Revenue recognition from contracts with customers** (continued):

Accounts receivable at December 31, 2018 and 2017 is comprised of the following:

	2018	2017
Water operations	**$449,831**	$442,854
Wastewater operations	**2,775**	
Services and billing management	**142,754**	80,496
	$595,360	$523,350

10. **Retirement plan:**

The Company maintains a multi-employer contributory employee pension plan (401k) that covers substantially all full-time employees. Contributions to the plan amounted to approximately $137,300 and $145,500 for the years ended December 31, 2018 and 2017, respectively.

11. **Employee stock purchase program:**

The Company has an Employee Stock Purchase Plan (the "Plan") whereby eligible employees and directors, as defined, have the right to purchase common stock of the Parent at a 7.5% discount of the higher of the current bid price or the most recent trade price. The number of shares which an employee or director may purchase is subject to certain annual limits, as defined in the agreement. The Company issued 870 and 765 shares of common stock under the Plan at a weighted-average price of $21.19 and $21.31 per share in 2018 and 2017, respectively.

12. **Taxes other than income taxes:**

Taxes other than income taxes for the years ended December 31, 2018 and 2017 are as follows:

	2018	2017
Property taxes	**$ 637,334**	$ 599,352
Payroll taxes	**78,823**	95,023
	716,157	694,375
Less amounts capitalized	**(4,198)**	(5,751)
	$ 711,959	$ 688,624

13. **Income taxes:**

Income tax expense (benefit) for the years ended December 31, 2018 and 2017 are as follows:

	2018		**2017**	
	Current	**Deferred**	**Current**	**Deferred**
Income tax expense (benefit)before application of operating loss carryforwards	**$459,400**	**($389,300)**	$82,300	$106,100
Income tax expense (benefit) of operating loss carryforwards	**(308,600)**	**308,600**	(57,400)	57,400
Change in valuation allowance		**(213,900)**		(136,800)
Income tax expense	**$150,800**	**($294,600)**	$24,900	$ 26,700

The Company's effective income tax rate is lower than what would be expected if the federal and state statutory rates were applied to income before taxes, primarily because of the adoption of the tangible property regulations and usage of previously reserved net operating losses by the Company.

The Company files a consolidated federal income tax return, Connecticut combined unitary corporation business income tax return, Massachusetts unitary state income tax return and New Hampshire combined business enterprise / profit tax return.

The Company has net operating loss carryforwards of approximately $1,800,000 to offset federal and state taxable income through 2036. For financial reporting purposes, a deferred tax asset of $366,100 has been recognized at December 31, 2018.

The conclusions of the Company's management regarding tax positions may be subject to review and adjustment at a later date based on an ongoing analysis of tax laws, regulations, and interpretations. Generally, federal and state authorities may examine the Company's tax returns three years from date of filing. Consequently, income tax returns for years prior to 2015 are no longer subject to examination by taxing authorities.

14. **Earnings per share:**

Earnings per share on common stock are computed by dividing net income by the weighted average number of shares outstanding.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2018 and 2017

15. **Commitments:**

Capital budget:

The Company is engaged in continuous construction programs, costs of which are expected to be financed with internally generated funds.

The following represents the estimated program commitments over the next five years for new utility plant and/or improvements to existing infrastructure:

VWS	**$5,675,000**
CWC	**$1,700,000**
AWC	**$ 605,000**
MWS	**$ 360,000**

16. **Supplemental disclosure of cash flow information:**

	2018	**2017**
Interest paid	**$344,099**	$310,422
Income taxes paid	**$46,000**	$23,670

Supplemental disclosure of non-cash investing and financing activities:

Certain members of the board of directors are remunerated with shares of common stock of the Parent for every board of directors' meeting of the Parent the member attends.

Certain members of the board of directors are remunerated with shares of common stock of the Parent for every board of directors' meeting of VWS the member attends.

A total of 990 shares of stock valued at $23,040 and 630 shares of stock valued at $13,684 were issued to the directors during 2018 and 2017, respectively.

17. **Subsequent events:**

Management has evaluated subsequent events through March 25, 2019, the date which the financial statements were available for issue.

NEW ENGLAND
Service Company

Valley Water Systems
INCORPORATED

MOUNTAIN
Water Systems, Inc.

Colonial
WATER CO.

Abenaki
WATER CO.

New England Service Company

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