Valencia Water Company

Financial Statements as of and for the
Years Ended December 31, 2015 and 2014, and
Independent Auditors' Report

VALENCIA WATER COMPANY

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Valencia Water Company
Valencia, California

We have audited the accompanying financial statements of Valencia Water Company (the "Company"), which comprise the balance sheets as of December 31, 2015 and 2014, and the related statements of income, changes in stockholder's equity, and cash flows for the years then ended, and the related notes to the 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 financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2015 and 2014, 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.

Deloitte & Touche LLP

April 7, 2016

VALENCIA WATER COMPANY

BALANCE SHEETS
AS OF DECEMBER 31, 2015 AND 2014
(In thousands)

	2015	2014
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 8,431	$ 10,489
Investments	2,800	
Metered, unbilled and other receivables—net of allowances for doubtful accounts of $32 in 2015 and $41 in 2014	2,612	2,475
Materials and supplies	417	391
Income taxes receivable (Note 5)		55
Total current assets	14,260	13,410
UTILITY AND GENERAL PLANT ASSETS:		
Land and buildings	3,677	3,669
Wells	11,205	11,044
Pumping equipment	9,836	9,739
Transmission and distribution system	139,805	137,431
General plant	6,272	6,077
Construction in progress	2,696	3,081
Total utility and general plant assets	173,491	171,041
Accumulated depreciation and amortization	(68,205)	(64,001)
Utility and general plant assets—net	105,286	107,040
OTHER ASSETS	1,217	1,252
TOTAL	$ 120,763	$ 121,702

(Continued)

VALENCIA WATER COMPANY

BALANCE SHEETS
AS OF DECEMBER 31, 2015 AND 2014
(In thousands)

LIABILITIES AND STOCKHOLDER'S EQUITY	**2015**	**2014**
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	$ 2,050	$ 2,623
Income taxes payable (Note 5)	496	
Advances for construction—current portion	696	698
Total current liabilities	3,242	3,321
LONG-TERM LIABILITIES:		
Secured notes payable (Note 4)	24,000	24,000
Advances for construction—less current portion	8,902	9,598
Deferred revenue	566	318
Net deferred tax liabilities (Note 5)	4,354	5,038
Deposits held for construction	2,874	1,951
Total long-term liabilities	40,696	40,905
Total liabilities	43,938	44,226
CONTRIBUTIONS IN AID OF CONSTRUCTION	52,387	52,605
COMMITMENTS AND CONTINGENCIES (Note 8)		
STOCKHOLDER'S EQUITY:		
Common stock, $100 par value—authorized, 50,000 shares; issued, 15,365 shares	1,537	1,537
Paid-in capital	6,207	6,207
Retained earnings	16,694	17,127
Total stockholder's equity	24,438	24,871
TOTAL	$ 120,763	$ 121,702

See notes to financial statements. (Concluded)

VALENCIA WATER COMPANY

STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(In thousands)

	2015	2014
WATER UTILITY REVENUES	$ 23,006	$ 26,131
OPERATING EXPENSES:		
Purchased water (Note 7)	6,815	6,705
Purchased power	2,115	2,480
Operations and maintenance	4,980	5,190
General and administrative	4,638	4,915
Property taxes	203	147
Depreciation and amortization	2,731	2,750
Total operating expenses	21,482	22,187
OPERATING INCOME	1,524	3,944
OTHER (EXPENSE) INCOME:		
Interest expense	(1,161)	(1,161)
Interest income	22	10
Other	164	94
Total other expense—net	(975)	(1,057)
INCOME BEFORE INCOME TAXES	549	2,887
INCOME TAXES (Note 5)	183	2,190
NET INCOME	$ 366	$ 697

See notes to financial statements. (Concluded)

VALENCIA WATER COMPANY

STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(In thousands)

	Common Stock	Paid-In Capital	Retained Earnings	Total Stockholder's Equity
BALANCE—January 1, 2014	$ 1,537	$ 6,207	$ 17,229	$ 24,973
Net income			697	697
Dividends (Note 6)—common stock			(799)	(799)
BALANCE—December 31, 2014	1,537	6,207	17,127	24,871
Net income			366	366
Dividends (Note 6)—common stock			(799)	(799)
BALANCE—December 31, 2015	$ 1,537	$ 6,207	$ 16,694	$ 24,438

See notes to financial statements. (Concluded)

VALENCIA WATER COMPANY

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(In thousands)

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 366	$ 697
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,731	2,750
Deferred income taxes	(671)	852
Changes in assets and liabilities:		
Increase in metered, unbilled and other receivables	(137)	(239)
(Increase) decrease in materials and supplies	(26)	1
Decrease (increase) in income taxes receivable	55	(55)
Decrease in other assets	35	239
(Decrease) increase in accounts payable and accrued liabilities	(477)	99
Increase (decrease) in income taxes payable	496	(239)
Increase in deferred revenue	248	89
Net cash provided by operating activities	2,620	4,194
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(15,292)	
Sale of investments	12,492	
Acquisition of utility and general plant assets	(2,982)	(2,255)
Net cash used in investing activities	(5,782)	(2,255)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Refunds of advances for construction	(698)	(699)
Deposits held for construction received, net	2,601	477
Dividends paid	(799)	(799)
Net cash provided by (used in) financing activities	1,104	(1,021)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(2,058)	918
CASH AND CASH EQUIVALENTS—Beginning of year	10,489	9,571
CASH AND CASH EQUIVALENTS—End of year	$ 8,431	$ 10,489

(Continued)

VALENCIA WATER COMPANY

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(In thousands)

	2015	2014
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Interest paid	$ 1,109	$ 1,109
Income taxes paid	$ 321	$ 1,623
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Amortization of contributions in aid of construction and related reduction to net utility and general plant assets	$ 1,896	$ 1,904
Transfers of deposits for construction to contributions in aid of construction	$ 1,678	$ 1,928
Liabilities accrued for the purchase of utility and general plant assets	$ 12	$ 108

See notes to financial statements. (Concluded)

1. ORGANIZATION AND DESCRIPTION OF THE REPORTING ENTITY

Valencia Water Company (the "Company") was incorporated on April 7, 1954, in the state of California and was granted a certificate of public convenience and necessity by the California Public Utilities Commission (the "Commission") in Decision No. 69744 dated October 5, 1965. The Company provides potable water service to an area encompassing a portion of the incorporated City of Santa Clarita and within the surrounding unincorporated communities of Castaic, Newhall, Saugus, Stevenson Ranch, and Valencia in northern Los Angeles County.

On December 21, 2012, Castaic Lake Water Agency ("Castaic") acquired all of the Company's common stock from The Newhall Land and Farming Company, a California limited partnership ("Newhall Land"), by an action of eminent domain. Certain officers of Castaic are on the Company's board of directors (the "Board of Directors"). Castaic is a public water wholesaler that provides water from the California State Water Project to the Company and other water retailers in the Santa Clarita Valley.

In addition to the water purchased by the Company from Castaic, the Company's water supply consists of local ground water and recycled water to serve nonpotable landscape irrigation services. Generally, the potable water represents 99% of total revenues. The mix of groundwater, purchased water, and recycled water was 71%, 27%, and 2% respectively, in 2015 and 73%, 25%, and 2%, respectively, in 2014.

2. REGULATORY MATTERS

Prior to February 27, 2014, the Company was regulated by the Commission, which set rates sufficient to allow the Company to recover its reasonable cost of operations and maintenance and to provide the Company the opportunity to realize its authorized rate of return on its investment. However, on February 27, 2014, the Commission concluded that due to Castaic's acquisition of all of the Company's common stock, the Company could no longer be regulated by the Commission. As a result, the Company discontinued its application of the provisions of accounting principles generally accepted in the United States of America for accounting for regulated utilities. Under those provisions, a regulated utility defers certain 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-making process in a period different from the period in which they would have been reflected in income by an unregulated company.

The financial statement impact of the Company's discontinuation of provisions of accounting for regulated utilities was a write-off of all regulatory assets and liabilities recorded as of February 27, 2014, which resulted in other income of $45,000 and income tax expense of $818,000. The regulatory assets and liabilities previously recorded primarily related to deferred rate case costs, the rate impact resulting from bonus tax depreciation, and regulatory assets created to reflect the impact of future recoverable revenue associated with income taxes payable when flow-through items were recognized as taxable income for rate-making purposes.

As part of the Company's discontinuation of provisions of accounting for regulated utilities as of February 27, 2014, the Company identified an immaterial error in its 2013 financial statements as the Company had unrecognized regulatory assets of $927,000 as of December 31, 2013. As of February 27, 2014, the unrecognized regulatory assets were $709,000, which would have further reduced income before income taxes described above for the Company’s discontinuation of provisions of accounting for regulated utilities had those regulatory assets been appropriately recognized. Based upon an evaluation of all relevant quantitative and qualitative factors, the Company believes this uncorrected error is not material to its results of operations for the periods presented.

As the Company is no longer subject to regulation by the Commission, any future rate changes by the Company will not be subject to the Commission’s jurisdiction. Any future rate changes by the Company will be subject to the Board of Directors’ approval. The Company’s Board of Directors approved a 7.62% rate increase, which took effect on May 1, 2015, followed by subsequent increases of 4.37% and 2.32% effective as of January 1, 2016, and January 1, 2017, respectively.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation—The financial statements of the Company are presented in conformity with accounting principles generally accepted in the United States of America.

Management Estimates—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses; disclosure of contingent assets or liabilities as of the date of the financial statements; and reported amounts of changes in stockholder’s equity during the reporting period. Actual results could differ from those estimates. Significant accounting estimates reflected in the Company’s financial statements include depreciation, valuation allowances to deferred tax assets, accounts receivable, and unbilled revenues.

Revenue Recognition—Water utility revenues include amounts billed monthly to customers and unbilled revenue of $1,764,000 and $1,801,000 for the years ended December 31, 2015 and 2014, respectively, based on estimated usage from the last meter-reading date to December 31 at current rates. Water utility revenues are recognized as water is delivered to the customer.

Cash and Cash Equivalents—Included in cash and cash equivalents are short-term investments that have original maturity dates of three months or less. The carrying amounts of these short-term investments approximate fair value due to their short-term nature. The Company has its cash and cash equivalents on deposit with banks, which are insured by the Federal Deposit Insurance Corporation up to $250,000 per financial institution. At various times during the years ended December 31, 2015 and 2014, the Company maintained balances in excess of insured amounts.

Investments—Included in investments are certificates of deposit with banks, which are insured by the Federal Deposit Insurance Corporation up to $250,000 per financial institution, and investments in commercial paper with original maturity dates ranging from 45 days to 1 year.

Utility and General Plant Assets—The cost of additions, renewals, and betterments to utility and general plant assets is capitalized in the appropriate plant accounts. Costs include labor, material, and other direct and certain indirect charges. The cost of utility and general plant assets retired or otherwise disposed of, including removal costs, is charged to accumulated depreciation. Depreciation is recorded primarily on the straight-line basis over the assets’ useful lives (40 years for buildings, 30 years for wells, 20 years for pumping equipment, 20–40 years for transmission and distribution system, and 7–20 years for general plant) and was equivalent to approximately 3% of depreciable utility and general plant assets for the years ended December 31, 2015 and 2014.

Expenditures that materially increase the lives of utility and general plant assets are capitalized, while costs of maintenance and repairs are charged to expense as incurred.

The Company reviews its investments in long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If, after review, an asset is determined to be impaired, an impairment loss in the amount by which the carrying amount of the asset exceeds its fair value is recorded. There were no impairment losses recorded during the years ended December 31, 2015 and 2014. Additionally, the Company considered the impairment of its long-lived assets as a result of the discontinuation of the provisions of accounting for regulated utilities as of February 27, 2014, and concluded that there was no indication that the carrying amount of any of its assets may not be recoverable.

Other Assets—Included in other assets are loan costs of $555,000 that have been capitalized and are amortized over the life of the related loan. As of December 31, 2015 and 2014, accumulated amortization on loan costs was $253,000 and $208,000, respectively. Other assets also include prepaid expenses related primarily to property and liability insurance policies.

Advances for Construction—Advances for construction represent cash received from developers by the Company for extensions of the Company's distribution system. Advance contracts are generally refundable to the depositor at a rate of 2.5% each year over a 40-year period and do not bear interest. The Company expects to repay approximately $696,000 in advances in each year from 2016 through 2020, with the remaining $6,118,000 in advances due in years thereafter.

Contributions in Aid of Construction—Contributions in aid of construction are nonrefundable contributions received by the Company in cash, services, or property, primarily from developers for the purpose of constructing utility plant assets. Depreciation applicable to such utility plant assets is charged directly to the contributions in aid of construction account rather than to depreciation expense in the statements of income. The charges continue until the cost applicable to such utility plant assets has been fully depreciated or the asset is retired. Although the contribution remains on the Company's financial statements until the asset is fully depreciated, the Company has no future obligations to these developers for the contribution other than general maintenance of the utility plant assets. Accordingly, contributions in aid of construction have not been classified as a liability or as equity in the accompanying financial statements.

As certain contributions in aid of construction received by the Company in cash are taxable, the Company collects an additional amount above the cost of the related utility plant (an income tax gross-up component). This additional amount received by the Company is recorded as deferred revenue on the balance sheets and recognized as revenue over the estimated useful life of the related utility plant.

Deposits Held for Construction—Deposits held for construction represent cash received by the Company for extensions of the Company's distribution system. Deposits are based on the estimated cost to construct the extension of the Company's distribution system. When construction of these assets is complete, they become part of the Company's distribution system and are accounted for as advances for construction or contributions in aid of construction.

Income Taxes—The Company uses the asset and liability method of accounting for income taxes. This method requires the recognition of tax consequences of temporary differences between tax bases and financial reporting bases of assets and liabilities.

Recent Accounting Pronouncements

In March 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-03, *Simplifying the Presentation of Debt Issuance Costs*. This update changes the presentation of debt issuance costs in the financial statements. Under this ASU, an entity presents such costs in the balance sheet as a direct deduction from the recognized debt liability rather than as an asset. Amortization of the costs is reported as interest expense. For entities other than public business entities, the ASU is effective for fiscal years beginning after December 15, 2015. Early adoption is permitted. The Company will adopt this standard in 2016, which will not affect the Company's earnings or cash flows and is not anticipated to have a material impact on the financial statements and related disclosures.

In November 2015, the FASB issued ASU 2015-17, *Balance Sheet Classification of Deferred Taxes*, which requires companies to classify all deferred tax assets and liabilities as noncurrent on the balance sheet instead of separating deferred taxes into current and noncurrent amounts. For private business entities, the guidance is effective for financial statements issued for annual periods beginning after December 15, 2017. Early adoption is permitted for all companies in any interim or annual period. The guidance may be adopted on either a prospective or retrospective basis. The Company retrospectively early adopted ASU 2015-17 as of December 31, 2015, and there was an immaterial impact to the financial statements and related disclosures.

In January 2016, the FASB issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*. The amendments in this update address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments for all entities that hold financial assets or owe financial liabilities. One of the amendments in this update eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities. Early adoption of this ASU is not permitted, except for entities that are not public business entities with respect to recognition of changes in the fair values of financial liabilities and the elimination of certain previously required disclosures for fiscal years or interim periods that have not yet been made available for issuance. In January 2016, the Company early adopted the portion of this amendment related to the elimination of the fair value disclosure for financial instruments measured at amortized cost in the Company's 2015 financial statements.

4. SECURED NOTES PAYABLE

On June 1, 2010, the Company entered into a $12,000,000 senior secured note with Modern Woodmen of America ("Modern Woodmen"). On September 15, 2010, the Company entered into an additional $12,000,000 senior secured note with Modern Woodmen (collectively, the "Senior Secured Notes"). The Senior Secured Notes are secured by all of the Company's assets. Interest is payable semiannually on April 15 and October 15 at a fixed rate of 4.62% per annum. The Senior Secured Notes contain various financial covenants with which the Company was in compliance as of December 31, 2015 and 2014. There are no principal payments due until the Senior Secured Notes mature on September 15, 2022.

5. INCOME TAXES

The provision for income taxes for the years ended December 31, 2015 and 2014, is as follows (in thousands):

	2015	2014
Current:		
Federal	$ 636	$ 1,087
State	218	251
Total current	854	1,338
Deferred:		
Federal	(498)	979
State	(173)	(127)
Total deferred	(671)	852
Total provision for income taxes	$ 183	$ 2,190

The income tax provision was recorded at the effective tax rate, which approximates the amount based on the statutory tax rate. The 2014 income tax provision includes $818,000 related to the Company's discontinuation of provisions of accounting for regulated utilities as of February 27, 2014.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities as of December 31, 2015 and 2014, are as follows (in thousands):

	2015	2014
Deferred tax assets:		
Advances for construction	$ 1,169	$ 1,290
Contributions in aid of construction liability	22,443	20,648
Settlement proceeds	536	536
Other	297	115
Total deferred tax assets	24,445	22,589
Deferred tax liabilities:		
Excess tax depreciation	(11,418)	(9,931)
Contributions in aid of construction fixed assets	(17,264)	(17,562)
Investment tax credit	(117)	(134)
Total deferred tax liabilities	(28,799)	(27,627)
Net deferred tax liabilities	$ (4,354)	$ (5,038)

No valuation allowance was provided against the deferred tax assets as of December 31, 2015 and 2014. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. Based on this assessment, management has concluded that it is more likely than not that the results of future operations will generate sufficient taxable income to realize the deferred tax assets.

As of December 31, 2015 and 2014, the Company did not have unrecognized tax benefits that, if recognized, would affect the annual effective tax rate. The Company recognizes interest accrued related to unrecognized tax benefits as income tax expense. During the years ended December 31, 2015 and 2014, the Company recognized $0 in interest expense related to income taxes.

The Company is subject to taxation in the United States and California jurisdictions. As of December 31, 2015, the Company is no longer subject to US federal examinations by tax authorities for years before 2012. As of December 31, 2015, the Company is no longer subject to California examinations by tax authorities for years before 2011.

6. STOCKHOLDER'S EQUITY

The Board of Directors authorized, and the Company declared and paid dividends on its common stock of $799,000 during each of the years ended December 31, 2015 and December 31, 2014.

7. RELATED-PARTY TRANSACTIONS

As mentioned above, the Company purchases water from Castaic, which also provides the Company with water quality testing services, and the associated expense is included within operations and maintenance expenses. In addition, Castaic provides human resources services to the Company, and the associated expense for these services is included within general and administrative expenses. The amounts for these related-party transactions are listed below (in thousands):

	2015
Revenues from water sales	$ 53
Purchased water	6,815
Water quality testing	43
Human resources services expense	36

	2014
Purchased water	$ 6,705
Water quality testing	42
Human resources services expense	36

The Company has the following related-party amounts recorded on the balance sheets (in thousands):

	2015
Accounts receivable	$ 8
Accounts payable	625
Deposits held for construction	

	2014
Accounts receivable	$ 47
Accounts payable	592
Deposits held for construction	81

8. COMMITMENTS AND CONTINGENCIES

Commitments—The Company leases vehicles under operating leases expiring in 2016 through 2019. Rent expenses under these leases were $167,000 and $152,000 for the years ended December 31, 2015 and 2014, respectively, and are included within operations and maintenance expenses. Future minimum payments due under these leases as of December 31, 2015, are as follows (in thousands):

Years Ending December 31	
2016	$ 174
2017	144
2018	65
2019	30

Litigation—The Company is involved in litigation and various claims, including those arising from its ordinary conduct of business. Management is of the opinion that the ultimate liability from this litigation and/or various claims will not materially affect the Company's financial statements. The Company believes it has adequate insurance to protect itself against any future material property and casualty losses.

On January 4, 2013, Santa Clarita Organization for Planning and the Environment (SCOPE) and Friends of the River (together, "Complainants") filed a complaint (C.13-01-005, the "SCOPE CPUC Complaint") before the Commission alleging that the Company and Castaic violated provisions of the Public Utilities Code in connection with Castaic's December 21, 2012, acquisition of all of the Company's common stock by an action in eminent domain, which was effectuated under the authority of the Los Angeles County Superior Court (the "Transaction"). The Administrative Law Judge consolidated the SCOPE CPUC Complaint with the Company's pending rate-setting proceedings (A.13-01-003 and A.13-01-004) and a related Commission investigation (I.13-04-003), and made the Commission's Office of Ratepayer Advocates, Newhall Land, and the Newhall County Water District parties to the proceeding. The Company and Castaic each filed substantive pleadings in response to the SCOPE CPUC Complaint, including, but not limited to, (a) answers to the complaint, which generally denied the complaint's factual basis; (b) motions to dismiss the complaint, which detailed legal arguments against an assertion of Commission jurisdiction to grant the relief requested by Complainants; and (c) separate briefings on jurisdictional issues. The other parties also have filed briefs on jurisdictional issues. On February 27, 2014, the Commission adopted a final decision on the subject of the Commission's jurisdiction to regulate the Transaction and the Company. The decision found that as a result of the Transaction, the Company was no longer a "private corporation" subject to the Commission's jurisdiction. Accordingly, the decision (1) dismissed the Company's applications for changes in its rates and its cost of capital, (2) dismissed the SCOPE CPUC Complaint, (3) closed the Commission's investigation, and (4) canceled the Company's certificate of public convenience and necessity. Going forward, the Commission will neither set nor enforce the Company's rates and rules of operation. On March 7, 2014, Newhall Land filed an application for rehearing of the decision by the Commission, asserting that the Commission's determination that it lacks jurisdiction over the Company was legally erroneous and that the Commission had failed to follow required procedures in resolving the case. If rehearing is denied or produces an unsatisfactory result, Newhall Land may seek judicial review by petition for writ of review in the California Courts of Appeal or the California Supreme Court. On December 5, 2014, with the Commission not having acted on its application for rehearing, Newhall Land filed a request to hold its application in abeyance pending a final judgment in the related civil case, described more fully below. The Company is not presently in a position to predict whether the effects of the Commission's decision will be sustained or whether it will have a material financial impact.

In addition to the SCOPE CPUC Complaint, on February 8, 2013, SCOPE filed an action in Los Angeles County Superior Court alleging various violations of the Code of Civil Procedure (including a claim of illegal expenditure by Castaic), the California Environmental Quality Act (CEQA, Public Resources Code § 21000 et seq.), and the Government Code (including a claim for conflict of interest) and in connection with the aforementioned Transaction (Case No. BS141673, the "SCOPE Superior Court Case"). In addition to the Company and its Board of Directors, Newhall Land, Castaic and its Board of Directors, Stevenson Ranch Venture LLC, and the Company's former General Manager were named as defendants in the SCOPE Superior Court Case. The Company and its co-defendants successfully argued that the CEQA cause of action in the SCOPE Superior Court Case should be dismissed. Additionally, the Company's co-defendants filed a motion for judgment on the pleadings regarding SCOPE's conflict of interest claims against Castaic and the Company's former General Manager (as an individual). On March 20, 2014, the Superior Court granted that motion, resulting in (1) a final judgment in favor of the Company's former General Manager and (2) an interlocutory judgment in favor of Castaic since Castaic remains a party to the remaining causes of action. SCOPE appealed the judgment in favor of the former General Manager (but not Castaic). After briefing and argument, the Court of Appeal affirmed the Superior Court's judgment in favor of the former General Manager.

On March 10, 2015, the Superior Court issued a written ruling denying all of SCOPE's remaining claims in the SCOPE Superior Court Case. The Court entered a final judgment on April 8, 2015 and Newhall Land served and filed a Notice of Entry of Judgment on April 13, 2015. On or about May 21, 2015, SCOPE filed a Notice of Appeal indicating that SCOPE will appeal the Superior Court's denial of its claims in the SCOPE Superior Court Case. SCOPE filed its opening brief on appeal on November 10, 2015. The Company, Castaic, and Newhall Land filed their opposition briefs on March 14, 2016. SCOPE has an opportunity to file reply briefs. After the appeal has been fully briefed, the Court of Appeal will schedule a date for oral argument. The Company believes that the appeal of the SCOPE Superior Court Case is without merit and that an unfavorable outcome is unlikely. If the final decision on appeal in the SCOPE Superior Court Case is unfavorable to the Company, the Company believes the financial impact to it will be immaterial.

9. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through April 7, 2016, the date the financial statements were available to be issued.

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