FINANCIAL STATEMENTS
AND
INDEPENDENT ACCOUNTANTS' REPORT

ILLINOIS-AMERICAN WATER COMPANY
(A wholly-owned subsidiary of
American Water Works Company, Inc.)

KEB
Kerber, Eck & Braeckel LLP

CPAs and
Management Consultants
One South Memorial Drive, Ste. 900
St. Louis, MO 63102-2439
ph. 314.231.6232
fax 314.880.9307
www.kebcpa.com

Independent Accountants' Report

Board of Directors
Illinois-American Water Company
(A wholly-owned subsidiary of American Water Works Company, Inc.)

We have examined the accompanying projected statement of utility operating income for the year ended December 31, 2017, and the projected statements of rate base and capital structure at December 31, 2017 and 2016 of Illinois-American Water Company (A wholly-owned subsidiary of American Water Works Company, Inc.). Illinois-American Water Company's management is responsible for the projection, which was prepared in connection with an application to the Illinois Commerce Commission for a change in water and waste water rates. Our responsibility is to express an opinion on the projection based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and accordingly, included such procedures as we considered necessary to evaluate both the assumptions used by management and the preparation and presentation of the projection. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the accompanying projection is presented in conformity with guidelines for presentation of a projection established by the American Institute of Certified Public Accountants, and the underlying assumptions provide a reasonable basis for management's projection assuming water and waste water rates in effect at January 21, 2016 will not change prior to December 31, 2017, except for the computation of working capital as of December 31, 2017. However, even if water and waste water rates in effect at January 21, 2016 do not change prior to December 31, 2017, there will usually be differences between the projected and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

The accompanying projection and this report are intended solely for the information and use of Illinois-American Water Company in connection with an application to the Illinois Commerce Commission for a change in water and waste water rates and are not intended to be and should not be used by anyone other than these specified parties.

Kerber, Eck & Braeckel LLP

St. Louis, Missouri
January 21, 2016

Illinois-American Water Company

(A wholly-owned subsidiary of American Water Works Company, Inc.)

Projected Statement of Utility Operating Income
Under the Hypothetical Assumption in Note 3
For the year ending December 31, 2017
(Dollars in thousands)

Operating revenues	$	223,625
Operating expenses		
Operation and maintenance		98,603
Depreciation and amortization		55,023
Taxes on operating income		
General		15,153
Income tax expense		13,232
		182,011
Utility operating income	$	41,614

See summary of significant projection assumptions and accounting policies and accountants' report

Illinois-American Water Company

(A wholly-owned subsidiary of American Water Works Company, Inc.)

Projected Statements of Rate Base
Under the Hypothetical Assumption in Note 3
December 31,
(Dollars in thousands)

		December 31	
		2017	**2016**
Gross utility plant in service at original cost		$ 1,834,322	$ 1,770,261
Reserve for accumulated depreciation		639,239	589,173
Net utility plant in service		1,195,083	1,181,088
Plus:	Construction work in progress	10,328	8,829
	Utility plant acquisition adjustment -DuPage	53	67
	Working capital allowance	5,753	2,335
	Materials and supplies inventory - net of accounts payable	3,724	3,648
	Deferred charges -tank painting	13,392	15,050
	FAS 109 regulatory asset - net of liability	(1,081)	(1,047)
Less:	Customer advances for construction	54,452	55,650
	Pension liability		
	Contributions in aid of construction	216,832	213,349
	Accumulated depreciation on contributed property	(104,329)	(97,919)
	Budget plan	2	2
	Bolingbrook acquisition rate base adjustment		
	Deferred federal income tax	141,356	134,347
	Deferred state income tax	14,207	13,410
	Investment tax credit - pre 1971	1	1
Total Rate Base		$ 904,731	$ 891,130

See summary of significant projection assumptions and accounting policies and accountants' report

Illinois-American Water Company

(A wholly-owned subsidiary of American Water Works Company, Inc.)

Projected Statements of Capital Structure
Under the Hypothetical Assumption in Note 3
December 31,
(Dollars in thousands)

	December 31	
	2017	**2016**
Short-term debt	$ 16,853	$ 19,493
Long-term debt	430,587	433,668
Common equity	470,532	463,473
Total	$ 917,972	$ 916,634

See summary of significant projection assumptions and accounting policies and accountants' report

ILLINOIS-AMERICAN WATER COMPANY

(A wholly-owned subsidiary of American Water Works Company, Inc.)

SUMMARY OF SIGNIFICANT PROJECTION ASSUMPTIONS AND ACCOUNTING POLICIES

1. Introduction

The projected statement of utility operating income for the year ending December 31, 2017 and the projected statements of rate base and capital structure at December 31, 2016 and 2017 (Projected Financial Information), except as discussed below, to the best of management's knowledge and belief, reflect the projected rate base and projected capital structure at December 31, 2016 and 2017 and the projected utility operating income of Illinois-American Water Company (the Company or Illinois-American), a wholly–owned subsidiary of American Water Works Company, Inc. (American), assuming no change prior to December 31, 2017 in water rates from those rates in effect at January 21, 2016. The Projected Financial Information reflects management's judgment as of January 21, 2016, the date of the Projected Financial Information. The Projected Financial Information reflects management's belief of the expected conditions and the Company's expected course of action assuming no change in water rates prior to December 31, 2017.

The Projected Financial Information was prepared in connection with an application to the Illinois Commerce Commission (Commission or ICC) by the Company for an increase in water rates and should not be used for any other purpose. The assumptions disclosed herein are those that management believes are significant to the Projected Financial Information. However, even if water rates in effect during 2016 do not change prior to December 31, 2017, there will usually be differences between projected and actual results because events and circumstances frequently do not occur as expected, and those differences may be material.

2. Significant Accounting Policies

The Company's accounting policies used in the preparation of this Projected Financial Information are in conformity with accounting principles generally accepted in the United States of America for regulated public utilities and accounting procedures prescribed by the Commission for ratemaking purposes. The Company follows the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 980, *Regulated Operations*, which provides guidance for the preparation of financial statements of companies in regulated industries.

Utility Plant and Equipment

Additions to utility plant and replacements of retired units of property are capitalized. Costs include material, direct labor, and such indirect items as engineering and supervision, payroll taxes and benefits, transportation, and an allowance for funds used during construction (AFUDC). Repairs, maintenance, and minor replacements of property are charged to current operations.

The cost of property units retired in the ordinary course of business plus removal cost (net of salvage) are charged to accumulated depreciation.

Computer software is either purchased or developed in-house. The purchase price or development costs are capitalized as a unit of property.

Utility plant acquisition adjustments include the difference between the fair value of utility plant at the date of purchase and its original cost (less accumulated amortization) when first devoted to public service and are being amortized to income over periods ranging from nine to seventy-one years.

Depreciation is computed on the straight-line method over the estimated service lives of assets as approved by the Commission. In accordance with the Commission's regulations, depreciation on contributed facilities is charged to contributions in aid of construction.

Regulatory and Long-Term Assets
The Company has recorded a regulatory asset for the additional revenues expected to be realized as the tax effects of temporary differences previously flowed through to customers reverse. These temporary differences are primarily related to the difference between book and tax depreciation on property placed in service before the adoption by the Commission of full normalization for rate making purposes.

The regulatory asset for income taxes recoverable through rates is net of the reduction expected in future revenues as deferred taxes previously provided, attributable to the difference between the state and federal income tax rates under prior law and the current statutory rates, reverse over the average remaining service lives of the related assets.

Debt expense is amortized over the lives of respective issues. Call premiums on the redemption of long-term debt, as well as associated unamortized debt expense, are deferred and amortized to the extent they will be recovered through future service rates.

Programmed maintenance costs are deferred and amortized to current operations on a straight-line basis over periods ranging from seven to fifteen years as authorized by the Commission in its determination of rates charged for service.

Customer Advances and Contributions in Aid of Construction
The Company may receive advances and contributions to fund construction necessary to extend service to new areas. As determined by the Commission, advances for construction are refundable for limited periods of time as new customers begin to receive service. Amounts which are no longer refundable are reclassified to contributions in aid of construction.

Recognition of Revenues
Water service and waste water revenues include amounts billed to customers on a cycle basis and unbilled amounts determined using estimated usage from the date of the latest meter reading to the end of the accounting period. Other operating revenues include antenna leases,

sewer billing and collection services, and other revenues, and are recognized when services are performed.

Savings Plan for Employees
The Company participates in a 401(K) Savings Plan that allows employees to save for retirement on a tax-deferred basis. Employees can make contributions that are invested at their direction in one or more funds. The Company makes matching contributions based on a percentage of an employee's contribution subject to certain limitations. Due to the Company's discontinuing new entrants into the defined benefit pension plan, on January 1, 2006, the Company began providing an additional 5.25% of base pay defined contribution benefit for union employees hired on or after January 1, 2001, and non-union employees hired on or after January 1, 2006. All of the Company's contributions are invested in one or more funds at the direction of the employee.

Pension Benefits
The Company participates in a Company-funded defined benefit pension plan sponsored by American covering substantially all associates hired before January 1, 2006. Benefits under the plan are based on the associate's years of service and average annual compensation for those 60 consecutive months of employment which yield the highest average. Pension cost to the Company is based on an allocation from American of the total cost related to the plan.

The Company's funding policy for the plan is to contribute at least the minimum amount required under the Employee Retirement Income Security Act (ERISA) of 1974.

Postretirement Benefits Other Than Pensions
The Company participates in an American plan that provides certain life insurance benefits for retired associates and certain health care benefits for retired associates and their dependents. Substantially all associates, except non-bargaining unit employees hired on or after January 1, 2002, and union employees hired on or after January 1, 2006, may become eligible for those benefits if they reach retirement age while still working for the Company. Employees who elect to retire prior to attaining age 65 are generally required to make contributions towards their medical coverage until attaining age 65. Retirees and their dependents age 65 and over are covered by a Medicare supplement plan. Costs for the Company are based on an allocation from American of the total cost related to the plan.

The Company sponsors a plan that provides certain life insurance benefits and certain health care benefits for retired eligible associates that have retired from Northern Illinois Water Corporation (and their dependents). Life insurance benefits reduce at retirement, and continue to reduce every year thereafter until a specified level of benefit is reached. Postretirement health care benefits are only available to certain employees and their spouses whose age and service as of January 1, 1993, equals 60 or greater. The cost of insurance is then shared by the retiree and the Company based on a premium phase-out schedule.

The Company's policy is to fund postretirement costs at a level determined in accordance with FASB ASC 715, *Compensation – Retirement Benefits*.

3. Hypothetical Assumptions

The purpose of the Projected Financial Information is to reflect water rates in effect pursuant to the Company's most recent rate orders and the Company's projected cost of service for the year ending December 31, 2017. Such information will then be included in the Company's application for a change in water rates.

Water Rates
The preparation of the Projected Financial Information is based on the assumption that the water and waste water rates in effect at October 1, 2012 will not change prior to December 31, 2017, except for the computation of working capital as of December 31, 2017.

4. Operating Revenues

Customer Counts
Using historical information the monthly customer growth and loss trends were projected for each customer classification by district. A two year average of the net change month over month was used and applied to the September 2015 customer count. The projected customer growth and loss was then compared to actual information for reasonableness of the output.

Customer Usage
For the residential and commercial customer classifications, detailed historical water sales and corresponding customer counts were pulled from the Company's customer information for each month from 2006 through April 2015. This information was used to develop average usage per customer per day information by month for residential and commercial. The data for the residential and commercial customer class was analyzed for both weather impacts and a declining use trend since 2006 based on non-weather impacted months (January through April). After a review of the analyses, residential and commercial use per customer per day was projected for the test year. For the weather-impacted months (May through December), the average of the 2005 through 2014 monthly incremental summer usage over and above the non-weather usage was added back for the test year.

The usage for the Industrial, OPA and sale for resale customer classes is from October 2013 through September 2015. The usage for each customer class per district was reviewed and analyzed and a two year average usage was used to project water sales for each customer class. For large customers, each individual actual historical sale was reviewed and analyzed, some industrial and OPA customers revealed a trend that indicates either a higher or lower sales level, and thus, these customers' sales were adjusted accordingly.

Meter Counts

Historical billing information was used to derive the ratio of customers to meter size by customer class and district. This ratio was applied to the projected growth in customers by class and district by month. The resulting growth by meter size was then applied to the meter count baseline. The September 2015 actual meter counts by size by customer class and district were used as the meter count baseline.

Sewer Revenues

Only the Chicago Metro District has sewer operations. These operations have residential, commercial, OPA and industrial customers. Sewer revenues were budgeted based on two years average of actual results for period ending September 2015.

Fire Revenues

The Fire Service Revenues were projected based on actual results for the twelve months ended September 2015.

Other Revenues

Other revenues were projected based on historical amounts. Projected other revenues were assumed to have no growth.

Pricing

Actual current tariff pricing was used for meter charges and usage charges by block in each district. The usage in each block was determined by the ratio of usage in each block by customer class.

The actual current purchased water surcharge rates were used for the Chicago Metro District. In addition, the actual filed Qualifying Infrastructure Plant ("QIP") Surcharge was used in all districts. Surcharge revenues for QIP for 2017 were excluded as the rates will be reset to zero when new base rates go into effect January 1, 2017. Surcharge revenues for water and sewer were eliminated as were the expenses as noted below.

5. Operating and Maintenance Expenses

As discussed in the following assumptions, operating and maintenance expense items have been projected based on a number of factors. For those areas where firm bids have not been received or other pertinent information is not available, management expects the cost escalator rate to be 1 to 6.3% where appropriate, the cost escalator rates were used in the development of operating and maintenance expense amounts.

Operating and maintenance expenses include the following:

Operating Labor and Salaries

For 2015, utilizing the authorized employee count form, a detailed analysis by month was completed that established the necessary employee levels required to safely operate and maintain treatment, transmission, and distribution systems, provide necessary services, and complete planned programs for the Company throughout the year. A detailed labor analysis and projection was compiled by business unit and by employee type (union, non-union, and temporary). Some benefit assumptions were supplied by Human Resources, such as Payroll Taxes, Benefit Rate, and Insurance premium per employee, Annual Incentive Plan % by job status, Merit % increase, and effective date. Historical data, adjusted for a vacancy factor, was utilized to calculate the number of regular and overtime hours required to perform the various necessary programs and employee functions. The number of hours was projected by function, which was then distributed to the operations/maintenance and capital lines. Individual projected hourly rates were applied to the projected hours to calculate the total monthly operations/maintenance and capital labor expense. Based on the 16 union contracts in effect, known wage rates for 2015 were used. If the actual rates were not established, 3.0% annual increases were projected from the expiration date of the contract.

Wage levels for non-union exempt employees were projected to increase 3.0% annually over actual 2014 levels. For 2016 and 2017, 2.8% and 3.0% merit increases, respectfully, were applied to the previous year base salary. Union wages were increased per the terms of the contract or 3.0% if unknown.

Purchased Water

Utilizing customer usage adjusted for non-revenue water; a projection was made for each month of the total volume of water to be purchased (system delivery). There are sixteen suppliers that provide purchased water or wheeling services to the Chicago Metro District - American Lake Water Co, City of Chicago, Des Plaines, DuPage Water Commission, Elmhurst, Glen Ellyn, Glenview, Joliet, Lisle, Lombard, Mount Prospect, Orland Park, St. Charles, Tinley Park, Wheaton, and Winfield). South Beloit District has a single source (City of Beloit). Harden County District has a single source (Saline Valley). The projected total usage is then allocated out by source (based upon a four-year history), which is then multiplied by the specific source expected unit cost ($/1,000 gallons) resulting in the purchased water cost. The expected unit cost is the most current purchase price plus increases the suppliers anticipate during the period; additionally, some increases are built from history and regression analysis. For the years 2016 and 2017, an increase of 2.0% was forecasted over prior year costs with higher expense from the suppliers more than offsetting lower system delivery. As noted above under Revenues, the purchased water expense was eliminated at present rates because the Company reflects the use of a purchased water surcharge.

Maintenance

Maintenance expense projections were based upon a review of historical expenditures associated with such maintenance and specific plans to complete needed maintenance projects. Each item of maintenance was reviewed individually. All annual Company programs and long-range programs were reviewed for possible effects. A review of the Company's utility plant investment plan was made to determine whether changes in expenses would result from the installation of new equipment, mains and services, etc. Amortized program projects were reviewed for expiration or inclusion in the current and future projections.

Files were created that showed three years of history and the 2015 run rate by business unit and were sent out to all the districts for their review. The districts had the option to make adjustments to specific line items as the needs of their business dictated and these changes were reviewed with Company management.

Chemical Expense

Utilizing each district's customer usage, system delivery for each month is determined. Projected total delivered water and internal plant usage by month are then combined to determine the total treated water requirement. A review was then made for possible changes in the water treatment process resulting from new regulations or possible efficiency or technology improvements. The historical pounds per thousand gallons per month, adjusted (if necessary) to reflect changes in treatment requirements discussed above, were used to establish the usage for each chemical required in the treatment process by facility. Monthly chemical costs were developed from the pounds per thousand gallons per month required to treat the total projected treated water at the established costs per pound. Individual chemical costs are established through a national procurement competitive bid and each chemical is adjusted in the model based on this guidance for the years 2015 and 2016. The 2017 cost was derived by applying an overall 3.5% increase to the 2016 costs. Furthermore forecasted costs were adjusted for estimated changes in system delivery.

Fuel and Purchased Power

Utilizing each district's sales volume and the projected non-revenue water, system delivery for each month was determined. Using monthly historical 2014 Kwh per thousand gallons, an average Kwh per thousand gallons of system delivery was developed for each district. This Kwh per thousand gallons was adjusted based on current trends. Guidance from Corporate Supply Chain was used to increase the 2015 through 2017 costs over 2014.

Business Support Services – Service Company

Illinois-American receives and pays for services from American Water Works Service Company (AWWSC or Service Company) pertaining to the provision of utility service to the customers of the Company. The Service Company maintains organizations whose officers and employees are familiar with all facets of the water/wastewater utility business and are knowledgeable and experienced in the efficient management, financing, accounting and operation of water/wastewater utility assets and the business. The areas of services available through the

Service Company are Internal Audit, Business Development, Customer Service, External Affairs, Communications and Public Policy, Finance, Human Resources, Information Technology Services, Innovation and Environmental Stewardship, Central Laboratory, Investor Relations, Legal, Asset Management, Operational Education, Cyber and Physical Security, Health and Safety, Process Excellence, Property, Regulated Operations, and Supply Chain. Cost increases are driven by general inflation, new functions being performed that resulted in new services being provided to Illinois-American by Service Company, increased scope and breadth of service by Service Company to Illinois-American, labor cost increases affected by merit increases, and any changes in organizational structure. The Service Company provides services to Illinois-American and all other regulated and non-regulated entities at cost.

Customer Accounting

Utilizing recent historical information and projected number of customers, projections were made for the monthly costs associated with expenses related to the reading of customer meters, customer bill forms/envelopes, customer postage, processing and collecting customer bill payments, providing other customer service functions and commercial operations.

Uncollectible expense was calculated by month by applying a 0.85% charge-off rate to the projected total revenues. This rate is based on historic trends and operational changes and procedures. Bank Charges were projected based on 2nd quarter actual 2014 rates for Mellon Bank (Service lockbox), First Tech (Over the counter payment processing), and Check Free (Over the counter payment processing).

Waste Disposal

Water treatment waste removal is done via two methods; discharge direct to a municipal sewer system or lagoon waste to be removed at a later date. Where treatment waste is discharged into a municipal sewer system, costs were based on volumetric municipal rates. Where lagoons are used, the volume of material to be removed is estimated and multiplied by the latest information of unit cost, or in some cases accruals based on the last cost of removal are set up to annualize the waste removal charge. In Alton, the waste removal is the amortized cost of negotiated work to allow for direct discharge on the NPDES.

For 2016 and 2017, future expected lagoon cleanings have been projected. Costs were adjusted to reflect for locally negotiated increases. Costs also include contracted waste disposal expense for wastewater treated in the Chicago Wastewater District. These costs were developed based on recent historical information on volumetric flow amounts and subsequent costs.

Group Insurance Expense

For Group Health Insurance, utilizing the projected associate workforce level for active associates, each associate was analyzed for projected wage levels, life insurance, optional life insurance, personal dependent coverage, and medical plan. Projected group insurance expense was analyzed to determine reductions in operating costs resulting from calculating capital labor credits. The group insurance premium expense (medical, dental and prescription cost) was based on the weighted average cost for American Water, net of employee contribution. Individual premium rates were analyzed, and the cost of each individual type of insurance coverage was projected on the basis of an analysis of existing insurance contracts and anticipated changes, number of enrollees, analyses of the insurance plans, and enrollment types (individual or family) to derive a weighted average benefit cost of $11,304 per employee in 2016 and $11,266 per employee in 2017.

The Postretirement Welfare - OPEB (FAS 106) projection was prepared by Towers Watson. Towers Watson performed the actuarial projection for the current sponsored pension plans and postretirement plans.

Insurance Other Than Group (IOTG)

Projections were made of premium costs for the various insurance policies protecting the Company and its assets. These projections were based on information provided by the American Water System Director of Risk Management in the Service Company Corporate Office. The System Director is responsible for working with insurance brokers in obtaining competitive bids for the Company's insurance needs.

The Insurance Other Than Group (IOTG) projection (general liability, workman's compensation, property, excess casualty, directors and officers, errors and omission, executive risk, etc.) was based on the actual 2015 estimated premium/loss and the percentage change per insurance type. IOTG for 2017 is forecasted to increase 6.3% over 2016.

Pension Expense

The Company participates in a noncontributory defined benefit pension plan sponsored by American Water Works Company (American Water) covering substantially all associates hired before January 1st, 2006. Benefits under the plan are based on each associate's years of service and average annual compensation for those 60 consecutive months of employment that yield the highest average. Pension cost to the Company is based on an allocation from American Water of the total cost related to the plan.

The Pension (FAS 87) expense projection was prepared by Towers Watson. Towers Watson performed the actuarial projection for the current sponsored pension plan and postretirement plans. Pension costs for 2016 and 2017 were based on Towers Watson projections which were adjusted for current Discount rate assumptions.

Illinois-American is allocated 7.14% (based on 2015 actual allocation %) of the total pension cost for American in both 2016 and 2017.

Additionally, the capital rate used for 2016 was 25.5% and for 2017 was 25.3%

General Office Expense
A review was made of the recent historical costs associated with operating the general office functions of the Company. Based on that review, an itemized projection by month was made for such expenditures as stationery and office supplies, office cleaning services, other utility bills and employee-related expenses.

For the preparation of the financial plan, all line items in this category were projected flat in relation to the 2015 run rate. Files were created that showed these costs as well as three years of history by business unit and were sent out to all the districts for their review. The districts had the option to make adjustments to specific line items as the needs of their business dictated and these changes were reviewed with Company management.

Rent Expense
A review of all rental and lease agreements (via the Operating Lease Disclosure Information) was made to ascertain monthly and yearly costs. All agreements for equipment and property subject to increase were reviewed with the property owners to determine possible increases, where applicable.

Most leases were projected virtually flat, due to the longevity of the leases in place or an inflation factor of 1% was applied. For years 2015-2020, rents were adjusted for any known future contracts. In 2015, Champaign and Sterling purchased or own their facilities, no longer leasing reducing expense.

Regulatory Expense
The Regulatory Expense is based on the cost of preparing and presenting the rate case before the Illinois Commerce Commission (ICC), and includes prior rate case-related expenses, amortizing over a directed number of periods upon a Commission Rate Order for completed rate cases. The Company is proposing a two year amortization for current rate case costs, demand study, depreciation, and cost of service studies.

Beginning in January of 2017, the amortization of the new case begins and any remaining expense from the 2011 rate case will be rolled into the new amount.

Miscellaneous Expense
A review was made of the costs associated with materials used and expenses incurred in the operation of source of supply plant, pumping plant, production plant, water treatment plant, transmission and distribution system, and administrative facilities. This review was exclusive of related labor expenses. A review was made of other expenses associated with outside services utilized, injury and damages expenses, employee expenses, legal costs, transportation expenses and other general expenses. The Company's overall goals and programs that might affect these items were also reviewed.

All line items were derived from historic and recent run rates. Files were created that showed three years of history and the 2015 run rate by business unit and were sent out to all the districts for their review. The districts had the option to make adjustments to specific line items as the needs of their business dictated and these changes were reviewed with Company management.

Depreciation Expense
Established utility plant accounts and contributions in aid of construction balances were reviewed. Each account was then adjusted for additions and contributions each month based on planned construction and acquisitions, as per the Strategic Capital Expenditure Plan (SCEP) files provided by the Capital group. Retirements, and advance transfers to CIAC were based off a three-year average of 2012, 2013, and 2014.

Depreciation expense was calculated for each month and asset account through the test year. Each month expense is calculated off prior month's plant balance for each asset account. Net Negative Salvage (NNS) is a component of the depreciation rate and depreciation expense.

Amortization Expense
A review of all projected construction improvements was made to determine if any work was to be performed on leased property or if any utility plant acquisition adjustments were projected. A review was then made of all current amortized costs, which included regulatory asset AFUDC, utility plant acquisition adjustment for the acquisition of Shiloh/Lincoln and Bollingbrook, and identified intangibles for the acquisition of Citizens assets in Chicago. All individual amortizations have separate accounts.

6. Taxes on Operating Income

General Taxes
Data was analyzed utilizing recent historical information, workforce projections, anticipated investment, debt, capital levels and projected levels for property tax, Illinois Invested Capital Tax, franchise taxes and utility regulatory assessment fees. Current and projected property tax bases were reviewed for possible future increases. A review of long-term debt and common stock was made in determining the projected Illinois Invested Capital Tax, along with increases in retained earnings due to net income less any planned dividend payouts. The most current tax rates were utilized. Property taxes for 2017 were estimated by applying the same ratio of 2016 property taxes to 2016 average net utility plant, to 2017 average net utility plant.

Federal and State Income Taxes
Projected federal and state income tax expense is based on the application of existing federal and state income tax laws and regulations.

Income Taxes
The Company, its parent, and affiliates participate in a consolidated federal income tax return. Federal income tax expense for financial reporting purposes is provided on a separate return basis, except that the federal income tax rate applicable to the consolidated group is applied to

separate company taxable income and the benefit of net operating losses, if any, is recognized currently.

Certain income and expense items are accounted for in different time periods for financial reporting than for income tax reporting purposes. Deferred income taxes have been provided on the difference between the tax bases of assets and liabilities and the amounts at which they are carried in the financial statements. These deferred income taxes are based on the enacted tax rates anticipated to be in effect when such temporary differences are expected to reverse. Regulatory assets and liabilities are recognized for the effect on revenues expected to be realized as the tax effects of temporary differences previously flowed through to customers reverse.

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

Effective December 1, 1990, the Company was directed to prospectively defer state investment tax credits and amortize the tax credit over the average life of the related property. State investment tax credits generated prior to that date were recorded as a reduction to the state tax liability on a flow-through basis.

The difference between the expected federal income tax expense at the statutory rate of 35% and the projected federal income tax expense included in the projected statement of utility operating income results primarily from the scheduled amortization of deferred investment tax credits.

For the purposes of determining taxable operating income, the Company is allowed to deduct interest expense, which is not included in the Projected Statement of Utility Operating Income. Projected interest expense for 2017 is approximately $23.2 million.

The state income tax provision is determined by use of the unitary tax method as required by the State of Illinois. This method determines the percent of U.S. taxable income for American and all of its subsidiaries that are applicable to the Company by calculating a percentage determined by taking the relative proportion of the Company revenues, and dividing it by the consolidated American revenue. The state income tax rate is expected to approximate 5.25%.

7. Customer Advances for Construction and Contributions in Aid of Construction

Projected contributions in aid of construction assumes projects financed by customer advances and contributions are completed in the year the funds are received and that advances and contributions will approximate the projected construction costs required to complete the projects. For 2016 and 2017, the Company has projected that substantially all funds received will be subject to refund; therefore, all such funds have been reflected as customer advances. Projected customer advances are partially or wholly refunded to the customers over a 10-year

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SUMMARY OF SIGNIFICANT PROJECTION ASSUMPTIONS AND ACCOUNTING POLICIES

period. Any advance amounts remaining are credited to contributions in aid of construction and the related depreciation on the contributed property is charged to contributions in aid of construction.

8. Rate Base

Capital Investment Projections
Projected additions to utility plant (net of retirements), inclusive of acquisitions, are $135,354,472 million and $64 million for the years ending December 31, 2016 and 2017, respectively.

Construction Work in Progress
Construction Work in Progress (CWIP) represents amounts forecasted to be in service within twelve months of the date of the rate determination, approximately January 1, 2017.

Working Capital Assumptions
The working capital allowance consists primarily of cash working capital. To calculate the cash working capital at December 31, 2017, the Company used a Lead/Lag Study approach pursuant to the order in the Illinois Commerce Commission Docket No. 09-0319. This approach measures the various revenue and expense leads and lags and applies those to the proposed level of the operating income statement results. Working capital for December 31, 2017 is based on the application of the leads and lags to the December 31, 2017 data and the December 31, 2016 amount is based on the working capital approved by the Commission in the order in ICC Docket No. 11-0767.

9. Capital Structure Assumptions

Major capital structure change assumptions, excluding retained earnings and dividends, are as follows:

	(Dollars in thousands) December 31,	
	2016	2017
Series 4.700% Note	$ 31,000	$ -
Series 5.520% Note	(2,500)	
Series 2.650% Note		(3,597)
Paid-In Capital	29,110	3,000
Total	$ 57,610	$ (597)

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SUMMARY OF SIGNIFICANT PROJECTION ASSUMPTIONS AND ACCOUNTING POLICIES

10. Dividends

The Company has projected dividend payments of $24,994,937 and $14,329,682 to its common stockholders for twelve months ended December 2016 and December 2017, respectively. Projected common stock dividends are based on 75% of projected net income.