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January 17, 2018

**VIA ELECTRONIC FILING**

PUC Filing Center  
Public Utility Commission of Oregon  
P.O. Box 1088  
Salem, OR 97308-1088

**Re: Docket No. UP \_\_\_\_: NORTHWEST NATURAL GAS COMPANY dba NW NATURAL,  
Application for the Sale of Salmon Valley Water Company.**

Attention Filing Center:

Attached for filing is an electronic copy of Northwest Natural Gas Company's Application for the Sale of Salmon Valley Water Company. Confidential copies will be sent to the Commission via two-day mail delivery.

Please contact this office with any questions.

Very truly yours,

Wendy McIndoo  
Office Manager

Attachments

**BEFORE THE PUBLIC UTILITY COMMISSION  
OF OREGON**

UP \_\_\_\_\_

In the Matter of the Application for an Order Authorizing the Sale of Salmon Valley Water Company to NW Natural Water Company, LLC pursuant to ORS 757.480 and OAR 860-036-2120.

**APPLICATION FOR THE SALE OF  
SALMON VALLEY WATER COMPANY**

**I. INTRODUCTION**

1 Pursuant to ORS 757.480(5) and OAR 860-036-2120, Northwest Natural Gas  
2 Company (“NW Natural” or “Company”) submits to the Public Utility Commission of  
3 Oregon (“Commission”) this application requesting approval of the sale of Salmon Valley  
4 Water Company (“Salmon Valley”), an Oregon water utility, to NW Natural Water  
5 Company, LLC (“NWN Water LLC”), a wholly-owned subsidiary of NW Natural. NWN  
6 Water LLC is a non-operating entity formed solely to be a corporate platform to hold the  
7 stock of any water utility it may acquire. NW Natural has filed a separate application for  
8 approval of the Company’s acquisition of Salmon Valley in accordance with ORS 757.485  
9 simultaneously with the filing of this Application.

**II. DISCUSSION**

**A. Description of Proposed Transaction.**

10 Salmon Valley is a privately-owned, rate-regulated water utility located near Welches,  
11 Oregon, providing water service to approximately 975 customers in the Welches, Zig Zag,  
12 Wemme, and Arrah Wanna areas. Salmon Valley is currently owned by a single  
13 shareholder, JoAnn Bowman, and managed by the Chief Executive Officer of Salmon  
14 Valley, Michael Bowman.

1           NW Natural's acquisition of Salmon Valley is structured as a stock purchase for cash  
2 consideration, in which NW Natural's wholly-owned subsidiary, NWN Water LLC, will  
3 purchase all of Salmon Valley's stock ("Proposed Transaction"), and after the Proposed  
4 Transaction is completed, Salmon Valley will become a wholly-owned subsidiary of NWN  
5 Water LLC. The executed Stock Purchase Agreement between NWN Water LLC and the  
6 sole Shareholder of Salmon Valley ("Stock Purchase Agreement" or "SPA") is included as  
7 Confidential Exhibit A to this Application. The SPA was executed on December 18, 2017,  
8 and regulatory approval for the Proposed Transaction is a condition of closing. Accordingly,  
9 the Proposed Transaction will not close until after the Commission issues an order in this  
10 proceeding and the related proceeding requesting approval of NWN Water LLC's acquisition  
11 of Salmon Valley.

12           After the Proposed Transaction closes, Salmon Valley will continue to exist in its  
13 current form as a subsidiary of NWN Water LLC, which is a wholly-owned subsidiary of NW  
14 Natural, and will continue to own all utility property, easements, and water rights. Michael  
15 Bowman will continue in his current role to manage the utility and Salmon Valley's Water  
16 Master will continue on, as will any independent contractors with whom Salmon Valley  
17 currently contracts. Thus, from the perspective of Salmon Valley's customers, the transition  
18 to NW Natural's ownership will be seamless.

19           NW Natural's ownership of NWN Water LLC, and indirect ownership of Salmon Valley,  
20 is intended to be temporary, as all of the stock of NWN Water LLC will be simultaneously  
21 contributed to the holding company ("HoldCo") when it is formed at the time of the corporate  
22 reorganization. At that time, NWN Water LLC will no longer be a subsidiary of NW Natural,  
23 and it will become a wholly-owned subsidiary of HoldCo and a "sister" affiliate of NW Natural.  
24 Salmon Valley will continue to be a wholly-owned subsidiary of NWN Water LLC, but its  
25 ultimate parent will be HoldCo.

**B. Legal Standard - ORS 757.480(5) Requires a No Harm Standard**

1 In accordance with ORS 757.480(5), Commission authorization is required before a  
2 water utility doing business in Oregon may “sell, lease, assign, or otherwise dispose of”  
3 water utility property necessary for public service and valued in excess of \$10,000. Pursuant  
4 to the Stock Purchase Agreement (attached as Confidential Exhibit A), Salmon Valley in its  
5 entirety will be sold to NW Natural’s wholly-owned subsidiary, NWN Water LLC. The statute  
6 at issue in this proceeding, ORS 757.480, requires approval by the Commission for the  
7 Proposed Transaction. The Commission has interpreted this statute as requiring a no harm  
8 standard.<sup>1</sup>

**C. The Proposed Transaction Satisfies the No Harm Standard.**

9 NW Natural believes that Salmon Valley’s customers will not be harmed by the  
10 Proposed Transaction, and will in fact benefit from new ownership.

11 **First**, Salmon Valley’s customers will experience no disruption in service and will not  
12 be harmed by the Proposed Transaction. Because Salmon Valley will continue to operate  
13 as a subsidiary of NW Natural and remain intact after the Proposed Transaction—with the  
14 same management, same billing platform, and same service—Salmon Valley’s customers  
15 will experience no disruption in service as a result of the acquisition.

16 **Second**, Salmon Valley’s customers will benefit from NW Natural’s experience and  
17 expertise in planning for, building, and maintaining safe and reliable pipeline infrastructure.  
18 Salmon Valley is currently in need of capital investment, which NW Natural intends to  
19 provide over time, therefore benefiting Salmon Valley’s customers.

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<sup>1</sup> *In re Cline Butte Water, LLC*, Docket No. UP 345, Order No. 17-156 at 3-4 (May 1, 2017) (“[W]e apply a ‘no harm’ standard in approving water utility transfer applications”); *In the Matter of Alsea Properties, Inc., Request for Approval to Sell Westwood Vill. to Highland Water Corp*, Docket No. UP 300, Order No. 14 230 (June 24, 2014); *In the Matter of a Legal Standard for Approval of Mergers*, Docket No. UM 1011, 01-778 at 10 (Sept. 4, 2010).

1           **Third**, Salmon Valley customers will benefit from NW Natural’s depth of experience  
2 with regulatory compliance. Salmon Valley’s current tariff is out of date and does not reflect  
3 the January 2017 updates to the Chapter 860, Division 36 rules. After the acquisition is  
4 complete, Salmon Valley will update its tariff to conform to the updated rules—including all  
5 new customer protection rules.

6           **Finally**, Salmon Valley customers will experience no immediate change in their water  
7 utility rates. Although OAR 860-036-2130 authorizes an applicant to seek an acquisition  
8 adjustment, NW Natural is not requesting an acquisition adjustment in connection with the  
9 Proposed Transaction. NW Natural commits that it will not propose to include any research  
10 and due diligence, negotiation, or other acquisition costs in customer rates in any future rate  
11 case filing. Going forward with its growth strategy, NW Natural will evaluate whether to seek  
12 an acquisition adjustment with other utility acquisitions on a case-by-case basis.

**D. Requirements for Approval of Sale.**

**1. Requirements of ORS 757.480(5)**

13           Pursuant to ORS 757.480(5), Commission approval is required before a water utility  
14 may “sell, lease, assign or otherwise dispose of the whole of the property of such water  
15 utility necessary or useful in the performance of its duties to the public or any part thereof of  
16 a value in excess of \$10,000, or sell, lease, assign or otherwise dispose of any franchise,  
17 permit or right to maintain and operate such water utility or water utility property, or perform  
18 any service as a water utility.” The Commission applies a no harm standard in its review of  
19 such transactions, and as described above in Section II.C, the Proposed Transaction  
20 satisfies the no harm standard.

**2. Requirements of OAR 860-036-2120**

21           In accordance with OAR 860-036-2120(1), “[w]ater utilities must obtain Commission  
22 approval to sell, lease, assign, or otherwise dispose of the whole of the property of such

1 necessary or useful in performance of its duties, or any part thereof with a value in excess  
2 of \$10,000.” As described further below, NW Natural and Salmon Valley have satisfied the  
3 requirements of OAR 860-036-2120.

**a. Application Form**

4 OAR 860-036-2120(3) requires that “[a] water utility or the other party to these  
5 transactions must request authorization using the application form available” on the  
6 Commission’s website. Salmon Valley has requested that NW Natural request authorization  
7 for the sale on its behalf, and NW Natural has provided the information required in the  
8 Commission’s application form in Section II.D.3, below.

**b. Notice**

9 As required by OAR 860-036-2120(4), Salmon Valley will provide notice of the  
10 Proposed Transaction to its customers at least 60 calendar days prior to the closing of the  
11 transaction with a copy to the Commission’s Consumer Services Section. Salmon Valley  
12 will also post the notice at the utility’s office and on its website. Salmon Valley’s draft notice  
13 is included as Exhibit B to this Application.

**3. Water Utility Application for an Order Authorizing the Sale, Transfer, or  
Merger pursuant to ORS 757.480 and OAR 860-036-2120**

14 The information required by the Commission’s application form is set forth below.

- a. Attach a copy of the contract or agreement to this application. The contract/agreement must contain the exact terms and provisions of the transaction. The Commission will be advised in writing of the exact date the transaction is entered into and that the terms and provisions of the contract/agreement are the same as set forth herein, if this application is approved.**

15 The SPA is included as Confidential Exhibit A to this Application. Upon completion of  
16 NW Natural’s corporate reorganization to form HoldCo, as described in *NW Natural’s*  
17 *Application for Approval of NWN Water LLC’s Acquisition of Salmon Valley*, NWN Water

1 LLC will become a wholly-owned subsidiary of HoldCo and a “sister” affiliate of NW Natural.  
2 Salmon Valley will continue to be a wholly-owned subsidiary of NWN Water LLC, but its  
3 ultimate parent will become HoldCo.

**b. List the names, addresses, telephone numbers, and e-mail addresses of each purchaser or party in the transaction.**

Michael Bowman  
Salmon Valley Water Company  
PO Box 205  
Welches, OR 97067  
503-622-4083  
[thesvwco@frontier.com](mailto:thesvwco@frontier.com)

Zachary Kravitz  
Northwest Natural Gas Company  
220 NW Second Ave  
Portland, OR 97209  
503-220-2379  
[Zachary.Kravitz@nwnatural.com](mailto:Zachary.Kravitz@nwnatural.com)

**c. Describe the utility property that is affected by this transaction.**

4 NWN Water LLC is acquiring all of the stock of Salmon Valley, and Salmon Valley will  
5 continue to exist as a subsidiary of NWN Water LLC after the transaction and will continue  
6 to own all of its utility property. The property owned by Salmon Valley includes, but is not  
7 limited to, four groundwater supply wells, two storage tanks with 460 thousand gallons of  
8 combined capacity and approximately 11 miles of distribution system pipelines.

**d. Price and net book value.**

9 The price of the property being acted upon is [REDACTED]  
10 [REDACTED], payable as set forth in the SPA attached as Confidential Exhibit A to this  
11 Application. The net book value of the water system is \$406,162.

**e. List the reasons the applicant desires to sell, transfer, or merge its property and any facts supporting the reasons why the transaction is proposed.**

12 The current owner of Salmon Valley runs the utility as a family business, and desires  
13 to sell the water system because the owner believes it is in the best interest of the  
14 community, its customers and its stockholder.

**f. List and discuss all effects of the transaction upon current customers.**

1 The parties expect that the Proposed Transaction will be seamless from the  
2 customers' perspective, and customers will experience no interruption in service in  
3 connection with NW Natural's acquisition of Salmon Valley. The purchaser expects that  
4 there will be no immediate changes to Salmon Valley's rates or billing system, and  
5 customers will continue to be able to pay bills online as they have in the past. Salmon Valley  
6 will retain its current management, water master, and independent contractors, who will  
7 remain available for customer service and emergency response just the same as before the  
8 Proposed Transaction.

**g. List and discuss the benefits current customers will realize from this transaction.**

9 NW Natural expects that Salmon Valley's customers will benefit as a result of the  
10 Proposed Transaction. See discussion in Section II.C, above.

**h. Provide evidence that the purchasers are financially able and willing to take over and operate the utility. Include any experience that the future owners have that will assist them in utility operations and the reasons why they desire to acquire the property. (Attach a copy of the purchaser's financial statements.)**

11 Under the Proposed Transaction, NWN Water LLC will be the new parent company  
12 for Salmon Valley, but the water utility will continue to be run under its current management.  
13 NWN Water LLC is a non-operating entity formed to be a corporate platform to hold the  
14 stock of any water utility it may acquire. NWN Water LLC is a wholly-owned subsidiary of  
15 NW Natural and is financially able to acquire Salmon Valley. NW Natural's financial  
16 statements are included with this Application as Exhibit C. NW Natural is an extremely well-  
17 run utility with strong finances, and favorable access to capital. NW Natural's access to  
18 capital will allow it, through NWN Water LLC, to make investments in upgrades to Salmon  
19 Valley's infrastructure.



1 NWN Water LLC's parent company, NW Natural, will be available to consult with  
2 Salmon Valley as needed, and Salmon Valley will have the benefit of NW Natural's  
3 substantial experience in the utility industry. NW Natural has been providing safe and  
4 reliable utility service in Oregon for over 100 years, and has significant experience and  
5 competence in planning, constructing, and maintaining safe and reliable utility infrastructure.

i. **Attach a copy of all grants of easements to be transferred. Also  
attach all water rights to be transferred.**

6 Because NWN Water LLC is acquiring all of the stock of Salmon Valley, and Salmon  
7 Valley will continue to exist as a subsidiary of NWN LLC after the transaction, all easements  
8 and water rights will continue to be recorded in Salmon Valley's name.

**III. REQUEST**

9 NW Natural requests that the Commission approve the Proposed Transaction in  
10 accordance with ORS 757.480(5).

11 Respectfully submitted this 17<sup>th</sup> day of January, 2018.

**McDOWELL RACKNER GIBSON PC**



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Lisa F. Rackner  
Jocelyn C. Pease  
Attorneys for Northwest Natural Gas Company

NORTHWEST NATURAL GAS COMPANY  
Zachary D. Kravitz  
Associate Counsel  
220 NW Second Ave  
Portland, OR 97209

**BEFORE THE PUBLIC UTILITY COMMISSION  
OF OREGON**

**UP \_\_\_\_\_**

**NORTHWEST NATURAL GAS COMPANY**

**Exhibit A to Application for Sale of Salmon Valley  
CONFIDENTIAL**

**Stock Purchase Agreement**

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January 17, 2018

**EXHIBIT A IS CONFIDENTIAL PER  
OAR 860-001-0070 AND WILL BE  
PROVIDED SEPARATELY**

**BEFORE THE PUBLIC UTILITY COMMISSION  
OF OREGON**

**UP \_\_\_\_\_**

**NORTHWEST NATURAL GAS COMPANY**

**Exhibit B to Application for Sale of Salmon Valley**

**Draft Customer Notice**

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January 17, 2018

# CUSTOMER NOTICE

The purpose of this notice is to inform customers of Salmon Valley Water Company (“Salmon Valley” or “Company”) of the Company’s sale to Northwest Natural Gas Company’s (“NW Natural”) wholly-owned subsidiary, NW Natural Water Company, LLC (“NWN Water LLC”). NWN Water LLC and Salmon Valley entered into the transaction on December 18, 2017, and the transaction will close and the sale will be effective following regulatory approval by the Public Utility Commission of Oregon.

The owner of Salmon Valley is selling the Company to NWN Water LLC as the owner believes it is in the best interest of the community, its customers and its stockholder. The entire company will be sold to NWN Water LLC and will continue to exist as Salmon Valley after the sale, with the same employees, billing platform, and customer service representatives. NWN Water LLC and Salmon Valley expect that the transition will be seamless, and customers will not be harmed by the transaction.

The property transaction being proposed by the water utility is under review by the Public Utility Commission of Oregon. For more information about the filing or to follow the regulatory process of the Commission’s review check the Commission’s website at [www.puc.state.or.us](http://www.puc.state.or.us) or contact the Consumer Services Section at 503-378-6600; 1-800-522-2404; or TTY 711.

If you have questions about the transaction and transition to NWN Water LLC ownership, you may contact Salmon Valley or NW Natural.

Contact information for Salmon Valley:

Salmon Valley Water Company  
Mailing Address: PO Box 205, Welches, OR 97067  
Physical Address: 24525 E Welches Road, Welches, OR 97067  
Telephone Number: 503-622-4083  
Emergency Phone Number: 503-622-4083  
E-mail Address: [thesvwco@frontier.com](mailto:thesvwco@frontier.com)  
Website: <http://www.thesvwc.com/>

Contact information for NW Natural:

Northwest Natural Gas Company  
220 NW Second Avenue  
Portland, Oregon 97209  
Telephone Number: 503-226-4211  
Website: <https://www.nwnatural.com/>

**BEFORE THE PUBLIC UTILITY COMMISSION  
OF OREGON**

**UP \_\_\_\_\_**

**NORTHWEST NATURAL GAS COMPANY**

**Exhibit C to Application for Sale of Salmon Valley**

**NW Natural's Financial Statements**

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January 17, 2018

## NORTHWEST NATURAL GAS COMPANY

### CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

<i>In thousands, except per share data</i>	Year Ended December 31,		
	2016	2015	2014
Operating revenues	\$ 675,967	\$ 723,791	\$ 754,037
Operating expenses:			
Cost of gas	260,588	327,305	365,490
Operations and maintenance	149,974	157,521	136,982
Environmental remediation	13,298	3,513	—
General taxes	30,538	30,281	29,407
Depreciation and amortization	82,289	80,923	79,193
Total operating expenses	536,687	599,543	611,072
Income from operations	139,280	124,248	142,965
Other income (expense), net	(543)	7,747	1,933
Interest expense, net	39,128	42,539	44,563
Income before income taxes	99,609	89,456	100,335
Income tax expense	40,714	35,753	41,643
Net income	58,895	53,703	58,692
Other comprehensive income:			
Change in employee benefit plan liability, net of taxes of \$452 for 2016, (\$988) for 2015, and \$2,857 for 2014	(744)	1,561	(4,364)
Amortization of non-qualified employee benefit plan liability, net of taxes of (\$624) for 2016, (\$883) for 2015, and (\$438) for 2014	955	1,353	646
Comprehensive income	\$ 59,106	\$ 56,617	\$ 54,974
Average common shares outstanding:			
Basic	27,647	27,347	27,164
Diluted	27,779	27,417	27,223
Earnings per share of common stock:			
Basic	\$ 2.13	\$ 1.96	\$ 2.16
Diluted	2.12	1.96	2.16
Dividends declared per share of common stock	1.87	1.86	1.85

See Notes to Consolidated Financial Statements

## NORTHWEST NATURAL GAS COMPANY CONSOLIDATED BALANCE SHEETS

<i>In thousands</i>	As of December 31,	
	2016	2015
<b>Assets:</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 3,521	\$ 4,211
Accounts receivable	66,700	68,228
Accrued unbilled revenue	64,946	57,987
Allowance for uncollectible accounts	(1,290)	(870)
Regulatory assets	42,362	69,178
Derivative instruments	17,031	2,719
Inventories	54,129	70,868
Gas reserves	15,926	17,094
Income taxes receivable	—	7,900
Other current assets	24,728	33,460
Total current assets	288,053	330,775
<b>Non-current assets:</b>		
Property, plant, and equipment	3,208,816	3,089,380
Less: Accumulated depreciation	947,916	906,717
Total property, plant, and equipment, net	2,260,900	2,182,663
Gas reserves	100,184	114,552
Regulatory assets	357,530	370,711
Derivative instruments	3,265	27
Other investments	68,376	68,066
Other non-current assets	1,493	2,616
Total non-current assets	2,791,748	2,738,635
Total assets	\$ 3,079,801	\$ 3,069,410

See Notes to Consolidated Financial Statements



## NORTHWEST NATURAL GAS COMPANY CONSOLIDATED BALANCE SHEETS

<i>In thousands</i>	As of December 31,	
	2016	2015
<b>Liabilities and equity:</b>		
<b>Current liabilities:</b>		
Short-term debt	\$ 53,300	\$ 270,035
Current maturities of long-term debt	39,989	24,973
Accounts payable	85,664	73,219
Taxes accrued	12,149	10,420
Interest accrued	5,966	5,873
Regulatory liabilities	40,290	29,927
Derivative instruments	1,315	22,092
Other current liabilities	35,844	41,148
Total current liabilities	274,517	477,687
Long-term debt	679,334	569,445
<b>Deferred credits and other non-current liabilities:</b>		
Deferred tax liabilities	557,085	530,021
Regulatory liabilities	349,319	339,287
Pension and other postretirement benefit liabilities	225,725	223,105
Derivative instruments	913	3,447
Other non-current liabilities	142,411	145,446
Total deferred credits and other non-current liabilities	1,275,453	1,241,306
<b>Commitments and contingencies (see Note 14 and Note 15)</b>		
<b>Equity:</b>		
Common stock - no par value; authorized 100,000 shares; issued and outstanding 28,630 and 27,427 at December 31, 2016 and 2015, respectively	445,187	383,144
Retained earnings	412,261	404,990
Accumulated other comprehensive loss	(6,951)	(7,162)
Total equity	850,497	780,972
Total liabilities and equity	\$ 3,079,801	\$ 3,069,410

See Notes to Consolidated Financial Statements

## NORTHWEST NATURAL GAS COMPANY

### CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>In thousands</i>	Year Ended December 31,		
	2016	2015	2014
<b>Operating activities:</b>			
Net income	\$ 58,895	\$ 53,703	\$ 58,692
Adjustments to reconcile net income to cash provided by operations:			
Depreciation and amortization	82,289	80,923	79,193
Regulatory amortization of gas reserves	15,525	17,991	19,335
Deferred tax liabilities, net	32,056	26,972	24,772
Qualified defined benefit pension plan expense	5,274	5,697	4,984
Contributions to qualified defined benefit pension plans	(14,470)	(14,120)	(10,500)
Deferred environmental (expenditures) recoveries, net	(10,469)	(10,568)	88,849
Regulatory disallowance of prior environmental cost deferrals	3,287	15,000	—
Interest income on deferred environmental expenses	—	(5,322)	—
Amortization of environmental remediation	13,298	3,513	—
Other	3,225	3,709	1,853
Changes in assets and liabilities:			
Receivables, net	(7,484)	2,373	14,948
Inventories	16,620	6,964	(17,163)
Income taxes	9,467	(6,541)	1,709
Accounts payable	12,380	(17,175)	(2,020)
Interest accrued	93	(206)	(1,024)
Deferred gas costs	(10,204)	31,918	(23,114)
Other, net	12,365	(10,143)	(24,857)
Cash provided by operating activities	<u>222,147</u>	<u>184,688</u>	<u>215,657</u>
<b>Investing activities:</b>			
Capital expenditures	(139,511)	(118,320)	(120,092)
Utility gas reserves	—	(1,549)	(26,798)
Proceeds from sale of assets	521	410	175
Restricted cash	—	3,000	1,000
Other	2,361	1,161	1,392
Cash used in investing activities	<u>(136,629)</u>	<u>(115,298)</u>	<u>(144,323)</u>
<b>Financing activities:</b>			
Common stock issued, net	60,122	3,875	8,986
Long-term debt issued	150,000	—	—
Long-term debt retired	(25,000)	(60,000)	(80,000)
Change in short-term debt	(216,735)	35,335	46,500
Cash dividend payments on common stock	(51,508)	(49,243)	(50,093)
Other	(3,087)	(4,680)	3,336
Cash used in financing activities	<u>(86,208)</u>	<u>(74,713)</u>	<u>(71,271)</u>
(Decrease) increase in cash and cash equivalents	(690)	(5,323)	63
Cash and cash equivalents, beginning of period	4,211	9,534	9,471
Cash and cash equivalents, end of period	<u>\$ 3,521</u>	<u>\$ 4,211</u>	<u>\$ 9,534</u>
<b>Supplemental disclosure of cash flow information:</b>			
Interest paid, net of capitalization	\$ 36,023	\$ 39,634	\$ 42,602
Income taxes paid, net of refunds	(7,157)	17,306	19,445

See Notes to Consolidated Financial Statements