



Pennichuck Corporation

Quarterly Report to the

**Sole Shareholder
(City of Nashua Board of Aldermen)**

Quarter Ended March 31, 2016

Executive Summary

- Revenues for the first quarter of 2016 were 2.6% greater than the prior year (\$8.69 million versus \$8.47 million).
- Operating Income for the first quarter of 2016 was 23.7% below the prior year (\$0.55 million versus \$0.73 million) due to increased operating costs.
- Pre-Tax Loss for the first quarter of 2016 was 32.4% greater than the prior year loss (\$2.18 million versus \$1.65 million).
- Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA) for the first quarter of 2016 were 2.7% lower than the prior year (\$2.25 million versus \$2.31 million).
- As expected, during the quarter, the Company paid approximately \$2.1 million to the City in principal, interest and dividends to fund the City Acquisition Debt.
- Capital expenditures for the first quarter of 2016 were \$1.8 million compared to \$1.0 million in the first quarter of 2015.
- The Annual Meeting of Sole Shareholder will be held at the Courtyard Marriott, 2200 Southwood Drive, Nashua, New Hampshire, on Saturday, May 7, 2016 at 9:00 a.m.

We continue to operate as planned. We continue to provide excellent service to our customers and there has been little or no disruption in the Company’s operations.

Unaudited Financial Highlights

Financial highlights on a Generally Accepted Accounting Principles (“GAAP”) basis for the first quarter of 2016 as compared to the first quarter of 2015 are as follows:

	<u>Quarter Ended</u>	
	<u>March 31, 2016</u>	<u>March 31, 2015</u>
	(Unaudited)	(Unaudited)
	(000’s)	
Revenues		
Regulated Utilities	\$ 7,801	\$ 7,670
Other	<u>888</u>	<u>796</u>
Total	\$ 8,689	\$ 8,466
Operating Expenses		
Regulated Utilities	\$ 7,224	\$ 6,994
Other	<u>912</u>	<u>744</u>
Total	\$ 8,136	\$ 7,738
Operating Income	\$ 553	\$ 728
Non-Operational Expense	(1)	(1)
Other Income	43	(6)
Net Interest Expense	<u>(2,776)</u>	<u>(2,367)</u>
Pre-Tax (Loss)	\$ (2,181)	\$ (1,646)
Income Tax Benefit	<u>(601)</u>	<u>(323)</u>
Net (Loss)	\$ <u>(1,580)</u>	\$ <u>(1,323)</u>
Earnings Before Interest, Taxes Depreciation and Amortization	\$ <u>2,251</u>	\$ <u>2,309</u>

Revenues from the water utility operations increased approximately 1.7%. The increase is mainly attributable to slightly increased consumption, as well as the impact of the WICA surcharge for Pennichuck Water Works, Inc. Revenues from the unregulated water service business increased 11.8% over the prior year, partially due to an increase in business gained during the prior year, and partially due to the effect on increases in contract rates for certain existing contracts.

Operating Expenses have increased approximately 5.1% year-over-year. The increase is partially attributable to increased property taxes, pension and health insurance costs.

Operating Income has decreased year-over-year as a result of the increased operating costs.

Interest Expense increased 19.7% year-over-year due to the interest cost associated with the increased financed amounts for capital projects, partially offset by the refinancing of several debt instruments in October 2015.

The income tax benefit in the current year reflects the tax treatment for the Municipal Acquisition Regulatory Asset (MARA), which is not deductible for tax purposes. Therefore, the tax benefit rate is 27.6% versus the statutory rate benefit of 39.6% for the first quarter of 2016.

The first quarter pretax loss for 2016 is higher than the pretax loss for 2015. Typically the first quarter is the most difficult quarter from a profitability perspective, as water usage is at the lowest level for the year.

Earnings before interest, taxes, depreciation and amortization (EBITDA) is 2.7% lower than EBITDA for the same period last year due to increased operating costs, coupled with only slightly higher revenue levels.

Balance Sheet

	As of <u>March 31, 2016</u> (Unaudited)	As of <u>December 31, 2015</u> (Audited)
(000's)		
<u>Assets</u>		
Property, Plant & Equipment, Net	\$ <u>184,346</u>	\$ <u>183,241</u>
Current Assets:		
Cash	714	1,246
Restricted Cash	5,489	5,729
Investments – 2014 and 2015 Bond Project Funds	17,684	19,779
Investments – Bond Refund Escrow	-	-
Accounts Receivable	4,179	4,502
Inventory	708	712
Other Current Assets ^{Note 1}	<u>788</u>	<u>2,232</u>
Total Current Assets	<u>29,562</u>	<u>34,200</u>
Other Assets:		
Acquisition Premium	76,559	77,028
Other Assets	<u>16,042</u>	<u>16,194</u>
Total Other Assets	<u>92,601</u>	<u>93,222</u>
TOTAL ASSETS	\$ <u>306,509</u>	\$ <u>310,663</u>
<u>Shareholders' Equity and Liabilities</u>		
Shareholders' Equity	\$ <u>20,312</u>	\$ <u>22,041</u>
Bonds, Notes and Mortgages	<u>203,309</u>	<u>206,052</u>
Current Liabilities:		
Current Portion of Long-Term Debt	4,835	4,120
Other Current Liabilities	<u>3,687</u>	<u>3,490</u>
Total Current Liabilities	<u>8,522</u>	<u>7,610</u>
Other Long-Term Liabilities:		
CIAC, net	37,840	37,929
Deferred Income Taxes	20,001	20,642
Accrued Pension Liability ^{Note 2}	8,332	8,286
Other Long-Term Liabilities	<u>8,193</u>	<u>8,103</u>
Total Other Long-Term Liabilities	<u>74,366</u>	<u>74,960</u>
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	\$ <u>306,509</u>	\$ <u>310,663</u>

Note 1 (Other Current Assets) – At December 31, 2015, approximately \$1,335,000 of this balance is comprised of prepaid property taxes, which were expensed in the first quarter of 2016, relating to taxes paid in November and December of 2015 for the second half of the property tax year ended March 31, 2016. The balance of prepaid property taxes as of March 31, 2016, is \$0.

Note 2 (Accrued Pension Liability) – During the first quarter of 2016, \$195,000 was contributed into the Pension Plan, while approximately \$149,000 in benefit payments were made to participants and approximately \$18,000 of investment income and appreciation was earned in the plan.

Unaudited Cash Flow Statement

Cash Flow on a GAAP basis for the first quarter of 2016 as compared to the first quarter of 2015 is as follows:

	<u>March 31, 2016</u> (Unaudited)	<u>March 31, 2015</u> (Unaudited)
	(000's)	
Operating Activities:		
Net Income (Loss)	\$ (1,580)	\$ (1,323)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	1,752	1,315
Provision for Deferred Taxes	(588)	(310)
Other	(22)	(11)
Changes in Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	323	149
(Increase) Decrease in Inventory	4	24
(Increase) Decrease in Other Assets	1,631	1,376
Increase (Decrease) in Accounts Payable	340	(594)
Increase (Decrease) in Other Liabilities	<u>(98)</u>	<u>445</u>
Net Cash Provided by (Used in) Operating Activities	<u>1,762</u>	<u>1,071</u>
Investing Activities:		
Purchases of Property, Plant & Equipment, including the Debt Component of AFUDC	(2,514)	(1,212)
(Increase) Decrease in Restricted Cash	(4,668)	23,957
Purchase of Marketable Securities	7,002	-
Change in Deferred Land Costs and Interest in Real Estate Partnerships	<u>6</u>	<u>-</u>
Net Cash Provided by (Used in) Investing Activities	<u>(174)</u>	<u>22,745</u>
Financing Activities:		
Borrowings (Repayments) on Line of Credit	-	-
Payments on Long-term Debt	(2,098)	(24,366)
Contributions in Aid of Construction	3	-
Proceeds from Long-term Borrowings	69	1,578
Debt Issuance Costs	(24)	-
Dividends Paid	<u>(70)</u>	<u>(69)</u>
Net Cash Provided by (Used in) Financing Activities	<u>(2,120)</u>	<u>(22,857)</u>
Increase (Decrease) in Cash and Cash Equivalents	(532)	959
Cash and Cash Equivalents at Beginning of Period	<u>1,246</u>	<u>2,987</u>
Cash and Cash Equivalents at End of Period	\$ <u>714</u>	\$ <u>3,946</u>

Financial information is available on the Company's website (www.Pennichuck.com) under the "Company Reports" caption.

Capital Expenditures

Capital Expenditures in the first quarter of 2016 were \$1.8 million as compared to \$1.0 million in the first quarter of 2015. Major expenditures in the first quarter of 2016 included:

Harris Dam Spillway Reconstruction	\$ 516,000
Operations Building Design and Construction	\$ 261,000
Dean & Main Building Renovations	\$ 212,000
Vehicles, Trucks and Excavators	\$ 150,000
Asset Management and GIS System	\$ 134,000

Subsequent Events

Financing

On February 2, 2016, Pennichuck Water Works, Inc. filed a petition with the New Hampshire Public Utilities Commission (NHPUC) to approve a Water Infrastructure and Conservation Adjustment (WICA) surcharge to be effective June 1, 2016, approve proposed 2016 WICA projects, and preliminarily approve proposed 2017 WICA projects.

On February 12, 2016, Pennichuck Water Works, Inc. filed a petition with the NHPUC for approval to borrow \$1,400,000 for a 30-year term from the State of New Hampshire's Drinking Water Revolving Loan Fund, to be used to replace a portion of the water main on Amherst Street, and up to three adjoining streets, in Nashua. The financing has been approved by the Pennichuck Board of Directors and the Sole Shareholder. An Order was issued by the NHPUC approving the petition on April 26, 2016, and becomes effective as of May 26, 2016.

On February 12, 2016, Pennichuck East Utility, Inc. filed a petition with the NHPUC for approval to borrow \$1,650,000 for a 20-year term from the State of New Hampshire's Drinking Water Revolving Loan Fund, to be used to replace the water main on Varney Road in the Locke Lake water system in Barnstead. The financing has been approved by the Pennichuck Board of Directors and the Sole Shareholder. An Order was issued by the NHPUC approving the petition on April 29, 2016, and becomes effective as of May 30, 2016.

On February 12, 2016, Pennichuck East Utility, Inc. filed a petition with the NHPUC for approval to borrow \$2,200,000 from CoBank, ACB for a 25-year term, to be used for capital improvement projects. The financing has been approved by the Pennichuck Board of Directors and the Sole Shareholder. An Order was issued by the NHPUC approving the petition on April 29, 2016, and becomes effective as of May 30, 2016.

On February 12, 2016, Pittsfield Aqueduct Company, Inc. filed a petition with the NHPUC for approval to borrow \$440,000 for a 30-year term under the State of New Hampshire's Drinking Water Revolving Loan Fund, to be used for the installation of a water main on Fairview Street and Catamount Road in Pittsfield. The financing has been approved by the Pennichuck Board of Directors and the Sole Shareholder. An Order was issued by the NHPUC approving the petition on April 27, 2016, and becomes effective as of May 27, 2016.

Educational Programs

The Company will be providing tours of the Water Treatment Plant to 4th grade students during the week of May 2nd.

The Company has worked with the Nashua School District and has provided a watershed protection program to 5th grade students.

Flushing of Mains

As in prior years, we have commenced the flushing of the water mains in most of our systems. The process is conducted annually to flush impurities built up in the mains during the year. The flushing program is expected to be completed by mid-June.

Annual Meeting

The Annual Meeting of Sole Shareholder will be held at the Courtyard Marriott, 2200 Southwood Drive, Nashua, New Hampshire, on Saturday, May 7, 2016 at 9:00 a.m. The main purpose of the meeting is to elect four directors nominated for election. The nominees are C. George Bower, Jay N. Lustig, John D. McGrath and Preston J. Stanley, Jr.