



March 31, 2021

ANNUAL REPORT TO THE SOLE SHAREHOLDER

Dear Shareholder:

The Annual Meeting of Pennichuck Corporation will be held at 9:00 a.m. on Saturday, May 8, 2021. Due to the state of emergency declared by Governor Sununu relating to the COVID-19 virus, the Annual Meeting of Sole Shareholder will be conducted via electronic and telephonic means. To attend the meeting, please use the following dial-in instructions – Dial-in Number: 1-425-436-6322, Access Code: 871028#.

Background on the City's Acquisition and Our Corporate Structure. The City's acquisition of the shares of Pennichuck Corporation was completed on January 25, 2012. As part of the acquisition, the corporate structure of Pennichuck Corporation and its subsidiaries was retained. Under the structure, the City of Nashua is the sole shareholder of Pennichuck Corporation. Under the Company's By-Laws, the City in its capacity as shareholder makes its decisions through actions by its Board of Aldermen, in accordance with the City's Charter. No single person – the Mayor or any individual member of the Board of Aldermen – is him or herself a shareholder; rather, the entity of the City itself is the sole shareholder of Pennichuck Corporation represented by the Board of Aldermen and the Mayor.

Pennichuck continues to own five corporate subsidiaries, including three regulated utilities (Pennichuck Water Works, Inc., Pennichuck East Utility, Inc., and Pittsfield Aqueduct Company, Inc.), an unregulated service company (Pennichuck Water Service Corporation), and a shell company (The Southwood Corporation).

As unanimously approved by the City's Board of Aldermen at the time of the acquisition, the corporate structure was retained for several reasons.

First, the City's Mayor and Board of Aldermen desired to maintain some stability and continuity for all of the customers and employees of the Pennichuck companies. Retaining the existing corporate structure minimized the need for any radical changes to the utility companies and operations and encouraged support by all of the communities served by the utilities.

Second, retaining the corporate structure provided continuity for the regulatory and financial status of the companies and their respective businesses. The New Hampshire Public Utilities Commission continues to provide regulatory oversight for the utility companies, and banks, lenders and other contract parties continue to be able to rely on existing contracts and other rules with respect to financing and other operations.

Third, the Mayor and Board of Aldermen unanimously agreed to establish a corporate governance system for the purposes of managing Pennichuck Corporation. This corporate governance system relies upon well-established principles of corporate law, and is established pursuant to Pennichuck Corporation's Articles of Incorporation and By-Laws, as adopted by the City and the Company at the time of the acquisition pursuant to the Merger Agreement.

This well-known corporate governance model, which incorporates well-established principles regarding fiduciary obligations of board members, was structured to provide assurances to the City's rating agencies, potential lenders, the New Hampshire Public Utilities Commission and the many communities we serve that decisions are based on sound business and financial analysis, and in a manner that minimizes political considerations.

Operations, Communities and Customers. Our companies provide water service to a wide range of communities and customers.

Pennichuck Water Works, Inc. provides water service to approximately 29,000 customers in 11 communities which include Amherst, Bedford, Derry, Epping, Hollis, Merrimack, Milford, Nashua, Newmarket, Plaistow and Salem.

Pennichuck East Utility, Inc. provides water service to approximately 8,400 customers in 19 communities which include Atkinson, Barnstead, Bow, Chester, Conway, Derry, Exeter, Hooksett, Lee, Litchfield, Londonderry, Middleton, Pelham, Plaistow, Raymond, Sandown, Tilton, Weare and Windham.

Pittsfield Aqueduct Company, Inc. provides water service to approximately 640 customers in Pittsfield.

Pennichuck Water Service Corporation provides service in connection with the management of water operations services for 1 community; water operations, billing, collection and customer services for 3 communities; billing services for 4 communities; and water meter testing services, as well as contracted water services at various levels, for approximately 70 small independently owned water systems.

The Southwood Corporation previously owned various parcels of land in the Town of Merrimack, which were all transferred to ownership by Pennichuck Corporation as of the end of 2019. Southwood remains as a "corporate shell" at this time, in order to facilitate any actions which might arise from legacy contractual obligations.

The Company's mission is to be a premier supplier of water in New Hampshire by providing reliable, high quality and affordable water in sufficient quantities, and be New England's premier supplier of water related contract services by providing high quality solutions to meet our customers' needs.

Strategies supporting the corporate mission have been developed relative to our water resources, employees, financing, customer services and Company assets. These strategies are available on the Company's website, www.pennichuck.com, under the "Management and Financial Information" caption, and the sub-caption of "Strategic Plan."

The Company currently has 127 employees. The employees are committed to supporting the Company's mission. Each of our managers has goals and objectives to support the strategies supporting the mission. Pennichuck is an Equal Opportunity/Affirmative Action Employer. It is the policy of the Company to hire, train, promote, and otherwise provide terms and conditions of employment without regard to race, color, religion, sex, sexual orientation, gender identity, national origin, ancestry, age, marital status, pregnancy, disability or veteran status. All employment and promotion decisions are based solely on valid requirements, in accordance with the principles of equal employment opportunity and affirmative action.

Financial Performance During the Last Year. The Company's audited consolidated financial statements for the year ended December 31, 2020 are attached to this report.

	(\$ Millions)			
	4 th Quarter		Year-to-Date	
	2020	2019	2020	2019
Revenues	\$12.1	\$10.6	\$49.7	\$44.5
Operating Expenses	(10.4)	(9.8)	(39.4)	(38.6)
Operating Income	1.7	0.8	10.3	5.9
Interest Expense	(3.6)	(2.8)	(11.9)	(11.1)
Other Income	0.1	0.1	0.1	0.2
Pre-Tax Income (Loss)	(1.8)	(1.9)	(1.5)	(5.0)
Income Tax Provision (Benefit)	0.8	0.1	0.5	0.3
Net Income (Loss)	(2.6)	(2.0)	(2.0)	(5.3)
Dividends Paid to the Shareholder	0.1	0.1	0.3	0.3
Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)	4.0	3.2	19.1	14.7

- Consolidated revenues for the fourth quarter increased by \$1.5 million from \$10.6 million in 2019 to \$12.1 million in 2020. The increase is attributable to \$1.6 million in additional recoupment revenues earned and recorded for Pennichuck Water Works, Inc. in the fourth quarter, which resulted from the November 24, 2020 NHPUC issued Order No. 26,425. This order approved an overall rate increase of 11.85%, which was effective for services rendered back to April 14, 2020.
- Consolidated year-to-date revenues increased from \$44.5 million in 2019 to \$49.7 million in 2020, an increase of 11.7%. Revenues from the regulated utilities increased due to: (1) increased consumption levels at the regulated utilities due to the dry weather patterns experienced during the Spring and mid-Summer months, versus the comparative year; and (2) the additional \$1.6 million in recoupment revenues recorded for PWW, resulting from the November 24, 2020 NHPUC order, as previously discussed. The Service Company revenues decreased from the prior year due to reductions in their Unplanned Revenues and Backflow Sales, as these activities were negatively impacted by the ongoing COVID-19 pandemic, versus prior year results and unimpeded activities.
- Consolidated operating expenses increased by \$0.6 million for the fourth quarter of 2020, over the same quarter in 2019. The increase is related to increased direct operating costs associated with the increase in water consumption levels, as well as labor and benefit related costs.

- Consolidated operating expenses increased by \$0.8 million, or 2.1%, for the full year, from 2019 to 2020, mainly due to the higher direct production costs, as well as labor and benefit costs, as previously discussed.
- Interest expense increased in 2020 when compared to 2019 due to interest costs associated with: (1) the additional financed amounts for capital projects which have been incurred for ongoing infrastructure replacement, in conformity with the Company's key mission objectives; (2) interest costs associated with a \$2.5 million Paycheck Protection Program Loan which was received on May 7, 2020 as part of the Coronavirus Aid, Relief and Economic Security Act; and (3) increased debt amortization costs associated with the write-off to maturity in 2014 and 2015 of escrow deposits required to facilitate the advanced refunding of existing debt, which resulted from the issuance of \$73.6 million of taxable bonds by Pennichuck Water Works on August 26, 2020.
- Pre-tax loss for the fourth quarter decreased to \$1.8 million in 2020 versus \$1.9 million in 2019, due to the increase in revenues as previously discussed.
- The pre-tax loss for the year decreased from \$5.0 million in 2019 to \$1.5 million in 2020, or 26%, due to the \$5.2 million increase in revenues partially offset by expense increases, as discussed previously, which resulted in the lower pre-tax loss in 2020.
- Dividends paid to the sole shareholder in both 2020 and 2019 were consistent with, and were paid pursuant to, the CBFRR structure provided for in the New Hampshire Public Utilities Commission's Order approving the City's ownership of the Company.
- The Income Tax Provision in the current year reflects the tax accounting for the amortization of the Municipal Acquisition Regulatory Asset, which is not deductible for tax purposes, and as such, constitutes a permanent difference in the deductibility of those amortization expenses for tax purposes, as opposed to their inclusion in the GAAP based financial statements. The Income Tax Provision (Benefit) also reflects the taxation of CIAC as income for Regulated Water Utilities, due to the elimination of an exemption allowed prior to the passage of the *2017 Tax Cuts and Jobs Act* ("TCJA") which made broad and complex changes to the U.S. tax code. However, on November 27, 2019, the regulated utilities received NHPUC approval on the requested amendments to their tariffs which now allow for recovery of tax costs from developers and other CIAC contributors. This will now allow the regulated utilities to fully fund the associated tax liability, which resulted from the change in the 2017 federal tax law, for all CIAC contributions from independent third parties. Due to these two significant items, the year-to-date results reflect a tax provision of approximately - 34.2% of pre-tax income for 2020, compared to the statutory tax rate expense of 27.08%.
- Earnings Before Interest, Taxes, Depreciation and Amortization increased in the fourth quarter from \$3.2 million in 2019 to \$4.0 million in 2020, or 25.0%, due to an increase in revenues as discussed previously, over-and-above any operating expense increases.
- Earnings Before Interest, Taxes, Depreciation and Amortization for 2020 increased from 2019 by approximately \$4.4 million, or 29.9%, again due to increased revenues earned year-over-year, over-and-above operating expense increases.

Unaudited Cash Flow Statement

Cash Flow on a GAAP basis for the fourth quarter of 2020 as compared to the fourth quarter of 2019, and the year-to-date 2020 versus 2019, are as follows:

	(\$000's)			
	Quarter Ended		Year-to-Date	
	December 31, 2020	December 31, 2019	December 31, 2020	December 31, 2019
Operating Activities:				
Net Income (Loss)	\$ (2,577)	\$ (2,010)	\$ (1,984)	\$ (5,337)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities:				
Depreciation and Amortization	2,223	2,238	8,637	8,537
Provision for Deferred Taxes	790	67	534	341
(Gain) on Disposition of Property	0	(61)	0	(150)
Other	(8)	251	(33)	71
Changes in Assets and Liabilities:				
(Increase) Decrease in Accounts Receivable	(964)	1,271	(3,154)	717
(Increase) Decrease in Inventory	28	(56)	50	(37)
(Increase) Decrease in Other Assets	(3,686)	(3,839)	(2,441)	(2,692)
Increase (Decrease) in Accounts Payable	287	(3,407)	(550)	(1,836)
Increase (Decrease) in Other Liabilities	<u>4,265</u>	<u>4,457</u>	<u>2,610</u>	<u>3,859</u>
Net Cash Provided by (Used in) Operating Activities	<u>358</u>	<u>(1,089)</u>	<u>3,669</u>	<u>3,473</u>
Investing Activities:				
Purchases of Property, Plant & Equipment, including the Debt Component of AFUDC	(4,419)	(7,503)	(10,165)	(16,843)
(Increase) Decrease in Restricted Cash/Investments	0	0	0	0
Proceeds from Sale of Property	0	0	0	221
Change in Deferred Land Costs	<u>0</u>	<u>(80)</u>	<u>0</u>	<u>0</u>
Net Cash Provided by (Used in) Investing Activities	<u>(4,419)</u>	<u>(7,583)</u>	<u>(10,165)</u>	<u>(16,622)</u>
Financing Activities:				
Borrowings (Repayments) on Line of Credit	218	3,864	(3,803)	2,656
Payments on Long-term Debt	(1,064)	(968)	(77,588)	(6,034)
Contributions in Aid of Construction	15	24	35	48
Proceeds from Long-term Borrowings	2,255	6,594	87,290	18,692
Debt Issuance Costs	0	0	0	0
Dividends Paid	<u>(70)</u>	<u>(69)</u>	<u>(280)</u>	<u>(279)</u>
Net Cash Provided by (Used in) Financing Activities	<u>1,354</u>	<u>9,445</u>	<u>5,654</u>	<u>15,083</u>
Increase (Decrease) in Cash and Cash Equivalents	(2,707)	773	(842)	1,934
Cash and Cash Equivalents at Beginning of Period	<u>12,139</u>	<u>9,501</u>	<u>10,274</u>	<u>8,340</u>
Cash and Cash Equivalents at End of Period	\$ <u>9,432</u>	\$ <u>10,274</u>	\$ <u>9,432</u>	\$ <u>10,274</u>

Balance Sheet

(\$000's)

	As of December 31, 2020 (Audited)	As of December 31, 2019 (Audited)
Assets		
Property, Plant & Equipment, Net	\$ <u>242,469</u>	\$ <u>237,182</u>
Current Assets:		
Cash	310	4,885
Restricted Cash ^{Note 1}	8,885	1,963
Investments – Bond Project Funds	237	3,426
Accounts Receivable ^{Note 2}	8,785	5,631
Inventory	598	648
Other Current Assets ^{Note 3}	<u>1,797</u>	<u>1,418</u>
Total Current Assets	<u>20,612</u>	<u>17,791</u>
Other Assets:		
Acquisition Premium ^{Note 4}	67,202	69,263
Other Assets	<u>17,014</u>	<u>13,727</u>
Total Other Assets	<u>84,216</u>	<u>82,990</u>
TOTAL ASSETS	\$ <u>347,297</u>	\$ <u>338,148</u>
Shareholders' Equity and Liabilities		
Shareholders' Equity	\$ <u>412</u>	\$ <u>2,739</u>
Bonds, Notes and Mortgages ^{Note 5}	<u>226,912</u>	<u>212,296</u>
Current Liabilities:		
Lines of Credit	5,480	9,283
Current Portion of Long-Term Debt	6,020	6,582
Other Current Liabilities	<u>5,474</u>	<u>6,722</u>
Total Current Liabilities	<u>16,974</u>	<u>22,587</u>
Other Long-Term Liabilities:		
CIAC, net	56,536	54,770
Deferred Income Taxes	14,931	14,427
Accrued Pension Liability ^{Note 6}	15,424	12,971
Other Long-Term Liabilities	<u>16,108</u>	<u>18,353</u>
Total Other Long-Term Liabilities	<u>102,999</u>	<u>100,521</u>
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	\$ <u>347,297</u>	\$ <u>338,143</u>

Notes to Balance Sheet

Note 1 (Restricted Cash) – At December 31, 2020, the balance of \$8.9 million represents an increase of \$6.9 million from the end of 2019, mainly due to: (1) the cash generated from the increased revenue levels year-over-year; and (2) the additional proceeds received from Pennichuck Water's September 2nd bonding event as a one-time replenishment of the existing MOERR Rate Stabilization Fund.

Note 2 (Accounts Receivable) – At December 31, 2020, the balance in Accounts Receivable increased approximately \$3.2 million from the year-end total at December 31, 2019 of \$5.6 million. This is attributed to: (1) revenue increases generated by the regulated utilities due to the increased consumption levels year-over-year; and (2) the additional \$1.6 million in recoupment revenues recorded for PWW (which remain as unbilled receivables as of December 31, 2020), resulting from the November 24, 2020 NHPUC order as previously discussed.

Note 3 (Other Current Assets) – At December 31, 2020, approximately \$1.3 million of this balance is comprised of prepaid property taxes, which will be expensed in the first quarter of 2021, relating to taxes paid in November and December of 2020 for the second half of the property tax year ended March 31, 2021.

Note 4 (Acquisition Premium) – In accordance with GAAP, the Acquisition Premium is being written-off over the 30-year life of the principal of the City Acquisition Debt. This amortization will continue until the full value of this asset is written off in January 2042.

Note 5 (Bonds, Notes and Mortgages) – At December 31, 2020, the balance in Bonds, Notes and Mortgages increased approximately \$14.6 million from the year-end total at December 31, 2019 of \$212.3 million. This is attributed to: (1) the additional financed amounts for capital projects which have been incurred for ongoing infrastructure replacement, in conformity with the Company's key mission objectives; (2) a \$2.5 million Paycheck Protection Program Loan which was received on May 7, 2020 as part of the Coronavirus Aid, Relief and Economic Security Act, aimed at allowing the Company to retain its existing workforce at full-employment, during the current COVID-19 global pandemic; (3) and the remaining proceeds which resulted from the \$73.6 million of taxable bonds issued by Pennichuck Water Works on August 26, 2020. This event was primarily used to retire or refinance existing debt, with the remaining proceeds to replenish the MOERR RSF for PWW back to its authorized imprest value, and to repay the Pennichuck Corporation Working Capital Line of Credit for funds used to support the RSF funds as the Company awaited the completion of the debt refinancing and the approval of PWW's new rates.

Note 6 (Accrued Pension Liability) – During 2020, approximately \$1.5 million was contributed into the Pension Plan, while approximately \$0.7 million in benefit payments were made to participants, and approximately \$2.7 million of investment gains were recorded, attributed to changes in market values.

Capital Expenditures

Capital expenditures in the fourth quarter of 2020 were \$4.9 million compared to \$7.2 million in the fourth quarter of 2019. For the year 2020, capital expenditures were \$10.7 million as compared to \$16.6 million in 2019.

The major expenditures for 2020 were as follows:

Locke Lake New Water Source	\$ 1,923,000
25 Walnut Street Office Building Fit-Up and Relocation	619,000
Peacham Road Pipeline – Locke Lake	591,000
Carbon Filter Media Changeout – 5 & 6	495,000
Merrimack River Intake	485,000
Workorder System Replacement – CMMS	433,000

Rate Cases

Pennichuck Water Works, Inc. – On November 24, 2020, the NHPUC issued Order No. 26,425 approving an overall permanent rate increase of 11.85%, becoming effective with services rendered back to April 14, 2020. The permanent rate increase is inclusive of QCPAC surcharges of 4.06% previously approved by NHPUC Order No. 26,298 on October 19, 2019 for 2018 capital expenditures, resulting in a net increase of billed rates to customers over and above the QCPAC surcharge already in place, of 7.79%.

Pennichuck East Utility, Inc. – On November 24, 2020, Pennichuck East filed a request with the NHPUC for a rate increase of 21.05% over its current rates for the test year 2019, effective December 24, 2020, for which 15.0% of this increase is related to a request for a temporary rate increase effective for services rendered on or after December 24, 2020. The 15.0% temporary rate increase would be inclusive of a 2.98% QCPAC surcharge which was approved on December 6, 2019 in Order No. 26,313 and a 1.97% QCPAC surcharge which is currently pending in DW 20-019.

Pittsfield Aqueduct Company, Inc. – On November 16, 2020, Pittsfield Aqueduct filed a request with the NHPUC for a rate increase of 11.18% over its current rates for the test year 2019, effective December 17, 2020. The overall rate increase is subject to the normal regulatory filing process with the NHPUC, as followed for all prior rate case filings, and as such, the final permanent rate increase granted will be effective retroactive back to the filing date, with final approval by the NHPUC in the Fall of 2021.

Financing

On April 23, 2020, the Company's Pennichuck Water Works, Inc. subsidiary issued approximately \$7.5 million of tax-exempt and taxable bonds through the NH Business Finance Authority as reimbursement for its 2019 capital improvements in Pennichuck Water Works' water supply, distribution and support systems. The bond issuance was approved by the Pennichuck Board of

Directors and the Sole Shareholder. This issuance had previously received NHPUC approval on Order No. 26,101, dated February 2, 2018, which authorized up to \$32.5 million in bonds via multiple issuances for the years 2018-2021.

On May 6, 2020, the NHPUC issued Order No. 26,354 which permitted Pennichuck Water Works, Inc. to borrow up to \$2,563,662 from the federal Small Business Administration Paycheck Protection Program. This loan includes a 2-year maturity at an interest rate of 1 percent, which includes a provision in which a portion or all of the loan can be forgiven if all employees are kept on the payroll for eight weeks upon disbursement of the loan proceeds. The loan proceeds were disbursed by TD Bank, Inc., on behalf of the Small Business Administration on May 8, 2020. The PPP loan was approved by the Pennichuck Corporation Board of Directors and the Sole Shareholder. Approved forgiveness of this obligation has not yet been requested by the Company but will be filed for during the early part of 2021.

On August 26, 2020, the Company's Pennichuck Water Works, Inc. (PWW) subsidiary issued approximately \$73.6 million of taxable bonds through the NH Business Finance Authority to: (1) advance refund and refinance PWW's series 2014A, 2015A, and 2015B bonds, (2) early retire an AULI bank loan set to mature on March 1, 2021 with a "bullet" maturity due at that date, (3) complete the replenishment of the MOERR RSF for PWW back to its authorized imprest value, and (4) to repay the Pennichuck Corporation Working Capital Line of Credit for monies borrowed to bolster the MOERR RSF at PWW while awaiting rate relief from this bonding event and the current PWW Rate Case. The bond issuance was approved by the Pennichuck Board of Directors and the Sole Shareholder. This issuance had previously received NHPUC approval on Order No. 26,383 dated July 24, 2020, which authorized up to \$75.0 million in bonds.

In December of 2020, the Company's existing Working Capital Line of Credit (WCLOC) and Pennichuck Water's Fixed Asset Line of Credit (FALOC) were renewed. The WCLOC was extended and renewed for an additional year and a half, expiring on June 30, 2022, whereas the FALOC was extended and renewed for an additional two and a half years, expiring on June 30, 2023. Additionally, as a part of the renewal and extension of the FALOC, the capacity of that facility was increased from \$10 million to \$12 million, while the Company's WCLOC remains at \$4 million. Pennichuck East's Fixed Asset Line of Credit (PEU FALOC) was renewed and extended for an additional three years on November 24, 2020, expiring on September 30, 2023, at its current facility level of \$3 million. The two Fixed Asset Lines of Credit (FALOC and PEU FALOC) are used to fund construction work in progress on capital projects, which will be refinanced into long-term debt term loan obligations or issued bond indebtedness, annually. The renewal and extension of all of these facilities were approved by the Company's Board of Directors, the Shareholder, and in the case of the two FALOC facilities, the NHPUC.

Qualified Capital Project Adjustment Charge (QCPAC)

On February 11, 2021, Pennichuck Water filed a petition with the NHPUC for a 5.44% QCPAC surcharge on all capital improvements completed and placed in service by Pennichuck Water in 2020. The Commission has not issued an Order approving this requested surcharge. When the Commission issues the Order, the surcharge will become effective retroactively to customers on a "service rendered basis" back to April 1, 2021, which is the date for which PWW's annual

bond issuance associated with these capital investments and the QCPAC surcharge will be completed and funded. The Order will allow recoupment of the surcharge from all its customers based on their actual bills incurred between April 1, 2021 and the final effective date of the Order.

On February 11, 2021, Pennichuck East filed a petition with the NHPUC for a 4.08% surcharge on all capital improvements completed and placed in service by Pennichuck East in 2020. The Commission has not issued an Order approving this requested surcharge. When the Commission issues the Order, the surcharge will become effective retroactively on a "service rendered basis" back to a date on or around July 31, 2021, depending upon the timing for which PEU completes its annual debt financing with CoBank, which is done each year to convert FALOC borrowings used to fund capital projects for the previous year, to a term loan with repayment terms of up to 25 years. The Order will allow recoupment of the surcharge from all its customers based on their actual bills incurred between this estimated July 31, 2021 date and the final effective date of the Order.

Other Events

PFOA Contamination Issues

During 2016, the Company was significantly involved in assisting the New Hampshire Department of Environmental Services ("NHDES") in assessing and bringing remediation solutions to bear, in light of the PFOA contamination issues discovered in the towns surrounding the Saint Gobain Performance Plastics ("SGPP") site in north Merrimack. This included self-instituting comprehensive and regular testing of the Company's water supplies and water systems, not only in the area adjacent to this site, but taking and processing at least two sets of tests at all water sources that the Company owns throughout the State. This was done in order to detect if any levels of contamination existed in the water sources, to aid the NHDES in completing their statewide assessment, and to allow the Company to respond with certainty to any of its customers as to any detectable levels. With regards to the water supply systems directly adjacent to or connected to the Merrimack Village District, the Company has been taking periodic regularly scheduled samples since this contamination site was disclosed in March of 2016. The results of these tests were that none of the Company's water sources had detectable levels exceeding EPA lifetime advisory levels, or the State's emergency and impending permanent standard detection levels.

Additionally, at the request of the NHDES, the Company was asked to enter into a contract with SGPP for the design of the expansion of public water to residents in the northern portion of Litchfield, where private wells had been contaminated, in some cases well above acceptable levels. Based upon the results of that design work, the Company was then contracted by SGPP to expand the public water system owned by the Company in Litchfield to approximately 400 property owners, including nearly 10 miles of new water mains and nearly 10 miles of new service lines. The cost of the design work and the expansion of the water system has and is being paid totally by SGPP and was contributed to the Company as Contributions in Aid of Construction (CIAC), as assets to be owned by the Company, the Town or DOT (for pavement restoration on town or State roads), or the residents (in the case of the service lines) going forward.

Additionally, during 2018 the Company was asked by NHDES to contract for similar design services with SGPP for expansion of its public water system in southern Bedford. This project was initiated in 2018, and was slated for completion in the first half of 2019, bringing water to approximately 90 new customers in that community.

The Company was also asked by the NHDES to design a further buildout for SGPP in Litchfield to bring public water to an additional 30 residences in Litchfield, due to this contamination site. SGPP entered into another contract with the Company for the expansion of the Company's water system in that area, construction of which was completed between 2019 and early 2020, and was fully paid for by SGPP, and included in CIAC assets at such time as that project was completed.

As of March 20, 2018, SGPP and NHDES entered into a Consent Decree. Under the Consent Decree, SGPP needs to fulfill their obligations by November 2019 on all of these currently identified activities, and/or request an extension of time to fulfill their obligations, due to circumstances outside of their control, including the availability of qualified contractors to complete the buildout of the public water system in the impacted areas.

A similar effort on behalf of Textiles Coated International, Inc. ("TCI") in the town of Amherst, due to PFOA contamination related to their previous existence as a manufacturer in that town, was also undertaken at the request of the NHDES. The Company was contracted to do design services for the expansion of the public water system in that area of Amherst, by TCI, and construction of the expansion of that part of the system began in 2017, and was fully completed in 2018. Once again, the entire cost of this project was borne by TCI, and has become part of the Company's owned infrastructure as CIAC assets.

Company Goals – 2021

The Company's main goals for 2021 are as follows:

- Complete the PEU Rate Case for test year 2019, including requests for rate structure modification relating to an MOEF (Material Operating Expense Factor to be included in the allowed revenue calculation for the utility to provide adequate cash flows between rate case filings for inflationary and other increases in operating expenses), with temporary rates expected in Q2/Q3 2021 and permanent rates expected in Q1 2022
- Complete the PAC Rate Case for test year 2019, with final rates expected in Q3/Q4 2021, inclusive of rate structure modifications requested for PAC equivalent to those granted to PWW in its last two filed rate cases
- File annual PWW and PEU QCPAC cases
- Complete construction and installation of Locke Lake overflow intake and treatment facilities upgrades, which were initiated in project construction during late 2019 and throughout 2020.
- Continued development and implementation of the Asset Management, GIS and DPAC modules, including criticality and vulnerability assessment to establish framework for long-term Capex planning
- Continued roll-out and implementation of Company-wide Customer Security Program, to the benefit and safety of customers and employees

- Completion and ongoing response and action to PFOA contamination issues in Southern NH, in cooperation with the NHDES and other State agencies
- Implementation of the new PFAS MCL and Arsenic MCL, as governed by the NHDES
- Continued training, mentoring and succession planning throughout the organization, including impending retirements occurring 2021-2023 for certain key roles
- Complete design of enhancements needed for Bowers and Supply Pond Dams, in response to new “100 year storm” requirements, in preparation of capital improvement projects on the dams to be completed in 2021
- Complete Bond issuance reimbursement financing in early April for PWW 2020 Capex
- Complete CoBank term loan financing in June/July for PEU 2020 Capex reimbursement/refinance
- Continued participation in multiple educational outreach efforts within the Company’s customer coverage radius
- Continued focus on system and applications integration Company-wide, in response to results of gap analysis done with ISO 27001 study
- Comprehensive review of Emergency Action Plan conducted during Internal Control Review process
- Finalize and secure several new contracts for PWSC, including extension/renewals of existing contracts (Amesbury, Eastham and Wellfleet)
- Evaluate and implement Customer Communication System to allow for texting and email notifications to customers
- Research potential enhancements or upgrade to Macola ES application
- Installation of Solar field to augment long-term power needs and rates
- Continual enhancement and review of cybersecurity needs, risks and tools
- Continued monitoring and response to COVID-19 pandemic, including but not limited to:
 - Timing of possible resumption of “normal” activities
 - Ongoing monitoring and protection of customers and employees
 - Continued monitoring and response to financial impact on the Company of the pandemic
 - Considerations for “new normal” operating activities on a going forward basis

Other detailed information is included in the Company’s financial statements.

Sincerely,



Larry D. Goodhue
Chief Executive Officer and
Chief Financial Officer



PENNICHUCK®

PENNICHUCK CORPORATION AND SUBSIDIARIES

**Consolidated Financial Statements
December 31, 2020 and 2019**

(With Independent Auditors' Report Thereon)

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INDEPENDENT AUDITORS' REPORT

Board of Directors and Stockholder
Pennichuck Corporation and Subsidiaries

We have audited the accompanying consolidated financial statements of Pennichuck Corporation and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of income (loss), comprehensive income (loss), changes in stockholder's equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

Merrimack, New Hampshire
Andover, Massachusetts
Greenfield, Massachusetts
Ellsworth, Maine

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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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Pennichuck Corporation and Subsidiaries as of December 31, 2020 and 2019, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Merrimack, New Hampshire
March 23, 2021

PENNICHUCK CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets
As of December 31, 2020 and 2019
(in thousands, except share data)

	<u>2020</u>	<u>2019</u>
ASSETS		
Property, Plant and Equipment, net	\$ 242,469	\$ 237,182
Current Assets:		
Cash and cash equivalents	310	4,885
Restricted cash - RSF	8,611	1,963
Restricted cash - CIAC	274	-
Restricted cash - Bond Project Funds	237	3,426
Accounts receivable - billed, net	4,297	3,041
Accounts receivable - unbilled, net	4,473	2,575
Accounts receivable - other	16	16
Inventory	598	648
Prepaid expenses	507	418
Prepaid property taxes	1,290	992
Deferred and refundable income taxes	-	8
Total Current Assets	<u>20,613</u>	<u>17,972</u>
Other Assets:		
Deferred charges and other assets	17,014	13,727
Acquisition premium, net	<u>67,202</u>	<u>69,263</u>
Total Other Assets	<u>84,216</u>	<u>82,990</u>
TOTAL ASSETS	\$ <u>347,298</u>	\$ <u>338,144</u>

The accompanying notes are an integral part of these consolidated financial statements.

PENNICHUCK CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets - Continued

As of December 31, 2020 and 2019

(in thousands, except share data)

	<u>2020</u>	<u>2019</u>
STOCKHOLDER'S EQUITY AND LIABILITIES		
Stockholder's Equity:		
Common stock; \$0.01 par value; 1,000 shares authorized, issued and outstanding	\$ -	\$ -
Additional paid in capital	30,561	30,561
Accumulated deficit	(30,403)	(28,140)
Accumulated other comprehensive income	<u>254</u>	<u>318</u>
Total Stockholder's Equity	<u>412</u>	<u>2,739</u>
Long-Term Debt, Less Current Portion and Unamortized Debt Issuance Costs	<u>223,805</u>	<u>212,296</u>
Current Liabilities:		
Lines of credit	5,480	9,283
Current portion of long-term debt	6,018	6,582
Accounts payable	2,973	3,529
Deferred revenue	66	59
Accrued interest payable	1,304	1,723
Other accrued expenses	390	898
Accrued wages and payroll withholding	306	192
Customer deposits and other	<u>435</u>	<u>322</u>
Total Current Liabilities	<u>16,972</u>	<u>22,588</u>
Other Liabilities and Deferred Credits:		
Deferred income taxes	14,931	14,427
Accrued pension liability	15,424	12,971
Unamortized debt premium	3,109	3,162
Deferred investment tax credits	405	438
Regulatory liability	9,918	9,930
Accrued post-retirement benefits	4,910	3,982
Customer advances	84	84
Contributions in aid of construction, net	56,536	54,770
Derivative instrument	460	353
Other long-term liabilities	<u>332</u>	<u>404</u>
Total Other Liabilities and Deferred Credits	<u>106,109</u>	<u>100,521</u>
TOTAL STOCKHOLDER'S EQUITY AND LIABILITIES	<u><u>\$ 347,298</u></u>	<u><u>\$ 338,144</u></u>

The accompanying notes are an integral part of these consolidated financial statements.

PENNICHUCK CORPORATION AND SUBSIDIARIES

**Consolidated Statements Of Income (Loss)
For the Years Ended December 31, 2020 and 2019
(in thousands)**

	<u>2020</u>	<u>2019</u>
Operating Revenues	\$ <u>50,091</u>	\$ <u>44,779</u>
Operating Expenses:		
Operations and maintenance	24,768	24,158
Depreciation and amortization	8,549	8,449
Taxes other than income taxes	<u>6,445</u>	<u>6,287</u>
Total Operating Expenses	<u>39,762</u>	<u>38,894</u>
Operating Income	10,329	5,885
Interest Expense	(11,896)	(11,172)
Other, Net	<u>90</u>	<u>264</u>
Loss Before Provision for Income Taxes	(1,477)	(5,023)
Provision for Income Taxes	<u>(507)</u>	<u>(314)</u>
Net Loss	\$ <u>(1,984)</u>	\$ <u>(5,337)</u>

The accompanying notes are an integral part of these consolidated financial statements.

PENNICHUCK CORPORATION AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income (Loss)
For the Years Ended December 31, 2020 and 2019
(in thousands)

	<u>2020</u>	<u>2019</u>
Net Loss	\$ (1,984)	\$ (5,337)
Other Comprehensive Loss:		
Unrealized loss on derivatives	(149)	(160)
Reclassification of net income realized in net loss	42	70
Income tax provision relating to other comprehensive loss	<u>43</u>	<u>36</u>
Other Comprehensive Loss	<u>(64)</u>	<u>(54)</u>
Comprehensive Loss	\$ <u>(2,048)</u>	\$ <u>(5,391)</u>

The accompanying notes are an integral part of these consolidated financial statements.

PENNICHUCK CORPORATION AND SUBSIDIARIES
Consolidated Statement of Changes in Stockholder's Equity

For the Year Ended December 31, 2020
(in thousands, except per share data)

	Common Stock		Additional	Accumulated	Accumulated Other Comprehensive	
	Shares	Amount	Paid in Capital	Deficit	Income	Total
Balance as of January 1, 2020	1,000	\$ -	\$ 30,561	\$ (28,140)	\$ 318	\$ 2,739
Common dividends declared	-	-		(279)	-	(279)
Net loss	-	-	-	(1,984)	-	(1,984)
Other comprehensive income:						
Unrealized loss on derivatives, net of taxes of \$(60)	-	-		-	(89)	(89)
Reclassification of net income realized in net loss, net of taxes of \$17	-	-		-	25	25
Balance as of December 31, 2020	<u>1,000</u>	<u>\$ -</u>	<u>\$ 30,561</u>	<u>\$ (30,403)</u>	<u>\$ 254</u>	<u>\$ 412</u>

The accompanying notes are an integral part of these consolidated financial statements.

PENNICHUCK CORPORATION AND SUBSIDIARIES

**Consolidated Statement of Changes in Stockholder's Equity
For the Year Ended December 31, 2019
(in thousands, except per share data)**

	<u>Common Stock</u>		<u>Additional Paid in Capital</u>	<u>Accumulated Deficit</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>				
Balance as of January 1, 2019	1,000	\$ -	\$ 30,561	\$ (22,523)	\$ 372	\$ 8,410
Common dividends declared	-	-	-	(280)	-	(280)
Net loss	-	-	-	(5,337)	-	(5,337)
Other comprehensive income:						
Unrealized gain on derivatives, net of taxes of \$(63)	-	-	-	-	(97)	(97)
Reclassification of net income realized in net income, net of taxes of \$27	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>43</u>	<u>43</u>
Balance as of December 31, 2019	<u>1,000</u>	<u>\$ -</u>	<u>\$ 30,561</u>	<u>\$ (28,140)</u>	<u>\$ 318</u>	<u>\$ 2,739</u>

The accompanying notes are an integral part of these consolidated financial statements.

PENNICHUCK CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows
For the Years Ended December 31, 2020 and 2019
(in thousands)

	<u>2020</u>	<u>2019</u>
Cash Flows From Operating Activities:		
Net Loss	\$ (1,984)	\$ (5,337)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	8,637	8,537
Amortization of deferred investment tax credits	(33)	(33)
Provision for deferred income tax	534	341
Undistributed loss in real estate partnership	-	104
Gain on disposition of property	-	(150)
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable billed, unbilled and other	(3,154)	718
(Increase) decrease in inventory	50	(37)
(Increase) decrease in prepaid expenses	(387)	221
(Increase) decrease in refundable income taxes	8	(8)
(Increase) decrease in deferred charges and other assets	(2,079)	(2,579)
Increase (decrease) in accounts payable and deferred revenue	(549)	(1,836)
Increase (decrease) in accrued interest payable	(419)	41
Increase in other	<u>3,027</u>	<u>3,818</u>
Net cash provided by operating activities	<u>3,651</u>	<u>3,800</u>
Cash Flows From Investing Activities:		
Purchase of property, plant and equipment including debt component of allowance for funds used during construction	(10,165)	(16,843)
Proceeds from sale of property	<u>-</u>	<u>221</u>
Net cash used for investing activities	<u>(10,165)</u>	<u>(16,622)</u>

(continued)

The accompanying notes are an integral part of these consolidated financial statements.

PENNICHUCK CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows - Continued
For the Years Ended December 31, 2020 and 2019
(in thousands)

	<u>2020</u>	<u>2019</u>
Cash Flows From Financing Activities:		
Borrowings (payments) on lines of credit, net	\$ (3,803)	\$ 2,657
Payments on long-term debt	(65,649)	(6,034)
Contributions in aid of construction	35	48
Proceeds from long-term borrowings	87,290	18,692
Debt issuance costs	(11,922)	(327)
Dividends paid	<u>(279)</u>	<u>(280)</u>
Net cash provided by financing activities	<u>5,672</u>	<u>14,756</u>
Increase (Decrease) in cash, cash equivalents, and restricted cash	(842)	1,934
Cash, cash equivalents, and restricted cash at beginning of period	<u>10,274</u>	<u>8,340</u>
Cash, cash equivalents, and restricted cash at end of period	\$ <u>9,432</u>	\$ <u>10,274</u>

Supplemental Disclosure of Cash Flow and Non-cash Items
For the Years Ended December 31, 2020 and 2019 (in thousands)

	<u>2020</u>	<u>2019</u>
Cash paid during the period for:		
Interest	\$ 11,207	\$ 10,963
Income taxes	96	157
Non-cash items:		
Contributions in aid of construction	3,391	4,061
Forgiveness of debt	89	89

The accompanying notes are an integral part of these consolidated financial statements.

PENNICHUCK CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

1. Description of Business and Summary of Significant Accounting Policies

Description of Business

Pennichuck Corporation ("the Company," "we," or "our") is a holding company headquartered in Merrimack, New Hampshire with five wholly owned operating subsidiaries: Pennichuck Water Works, Inc., ("Pennichuck Water") Pennichuck East Utility, Inc., ("Pennichuck East") and Pittsfield Aqueduct Company, Inc. ("PAC") (collectively referred to as the Company's "utility subsidiaries"), which are involved in regulated water supply and distribution to customers in New Hampshire; Pennichuck Water Service Corporation ("Service Corporation") which conducts non-regulated water-related services; and The Southwood Corporation ("Southwood") which has historically owned several parcels of undeveloped land (please refer to "Deferred Land Costs" in Note 1).

The Company's utility subsidiaries are engaged principally in the collection, storage, treatment and distribution of potable water to approximately 38,047 customers throughout the State of New Hampshire. The utility subsidiaries, which are regulated by the New Hampshire Public Utilities Commission (the "NHPUC"), are subject to the provisions of Accounting Standards Codification ("ASC") Topic 980 "Regulated Operations."

Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany transactions have been eliminated in consolidation.

Use of Estimates in the Preparation of Consolidated Financial Statements

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

Property, Plant and Equipment

Property, plant and equipment, which includes principally the water utility assets of the Company's utility subsidiaries, is recorded at cost plus an allowance for funds used during construction on major, long-term projects and includes property funded with contributions in aid of construction.

Maintenance, repairs and minor improvements are charged to expense as incurred. Improvements which significantly increase the value of property, plant and equipment are capitalized.

Cash and Cash Equivalents

Cash and cash equivalents generally consist of cash, money market funds and other short-term liquid investments with original maturities of three months or less.

Restricted Cash – RSF

This restricted cash balance consists of funds maintained for the Rate Stabilization Fund ("RSF"), which was established in conformity with the requirements of NHPUC Order No. 25,292, as explained more fully in Note 15 of these financial statements. The RSF is an imprest fund of \$5 million, which is subject to funding above or below the imprest fund balance, reflecting actual revenue performance as it relates to prescribed revenue levels supported by the RSF. The excess or deficient amount (versus the \$5 million imprest balance) is subject to return or collection to rate payers over the succeeding three-year period of time, as of the rate order issued with the next promulgated rate case filing. On November 7, 2017, the NHPUC approved and issued Order No. 26,070 which established new rates for Pennichuck Water. In addition, the rate order then authorized the reallocation of the existing \$5,000,000 RSF among the Company's utility subsidiaries. Such that, Pennichuck Water's allocated share of the RSF would now be \$3,920,000, with the remaining balance of \$1,080,000 to be allocated between Pennichuck East and PAC. Rate order No. 26,179, under docket DW 17-128 then allocated \$980,000 of the \$1,080,000 to Pennichuck East with the remaining \$100,000 to PAC. The purpose for splitting and allocating the existing RSF is to provide additional reserves which ensure sufficient capital to enable the Company to support its operations. For the years ended December 31, 2020 and 2019, the balances in the RSF were approximately \$8.6 million and \$2.0 million, respectively.

Restricted Cash – CIAC

This restricted cash balance consists of funds maintained for the income tax impact from Contributions in Aid of Construction ("CIAC"), which was established in conformity with the NHPUC approval provided to the Company's regulated utilities on November 27, 2019. This amendment to the Company's tariffs allows for the recovery from developers and other CIAC contributors, the tax costs needed to fully fund the associated tax liability created from the elimination of an exemption whereby CIAC to water utilities was exempt from taxation, was eliminated with the passage of the Tax Cuts and Jobs Act of 2017 ("the TCJA"). For the years ended December 31, 2020 and 2019, the balances in this restricted cash account were approximately \$0.2 million and \$0, respectively. In accordance with the amended tariffs, these funds are the first used to pay for income tax liability payments incurred by the Company, when and if actually incurred.

Restricted Cash – Bond Project Funds

This restricted cash balance consists of funds remaining from the issuance of the Series 2014, 2015, 2019 and 2020 tax-exempt bonds (the “Bonds”) in December of 2014, October of 2015, April of 2019, and April and August of 2020, respectively. The proceeds from those bond issuance transactions are maintained in separate restricted cash accounts, with Trustee oversight, and are subject to withdrawal as a reimbursement of eligible capital project expenditures for the years 2014 through 2019, as defined by the indenture and issuance documents associated with each offering. The restricted cash accounts are also used as a “conduit” for the transfer of money from operating cash to restricted cash, allowing the Trustee to make the required payments to bondholders for principal and interest due semi-annually.

As of December 31, 2019, the funds in these restricted cash accounts totaled approximately \$3.4 million. During 2020, approximately \$3.4 million was withdrawn from the restricted cash accounts to make the principal and interest payments for the Bonds, on January 1, July 1 and October 1. In December 2020, approximately \$215,000 was transferred into these restricted cash accounts from the Company’s operating cash accounts, to provide the funds needed to make the net principal and interest payments due on January 1, 2021 for the Bonds. As of December 31, 2020, the funds in these restricted cash accounts totaled approximately \$237,000.

Concentration of Credit Risks

Financial instruments that subject the Company to credit risk consist primarily of cash (including cash equivalents and restricted cash) and accounts receivable. Cash balances are invested in financial institutions insured by the Federal Deposit Insurance Corporation (“FDIC”). At December 31, 2020 and 2019, the Company had approximately \$9,300,000 and \$9,600,000 in excess of FDIC insured limits, respectively. Our accounts receivable balances primarily represent amounts due from the residential, commercial and industrial customers of our regulated water utility operations, as well as receivables from our Service Corporation customers.

Accounts Receivable – Billed, Net

Water utility accounts receivable (regulated) are recorded at invoiced amounts.

Non-regulated accounts receivable are recorded based on contracted prices when the Company obtains an unconditional right to payment under the terms of the contract.

The allowance for doubtful accounts is our best estimate of the amount of probable credit losses in our existing accounts receivable and is determined based on historical write-off experience and the aging of account balances. We review the allowance for doubtful accounts quarterly. Account balances are written off against the allowance when it is probable the receivable will not be recovered.

Accounts Receivable – Unbilled, Net

We read our customer meters on a monthly basis and record revenues based on meter reading results. Information from the last meter reading date is used to estimate the value of unbilled revenues through the end of the accounting period. Estimates of water utility revenues for water delivered to customers but not yet billed are accrued at the end of each accounting period. Actual results could differ from those estimates.

Inventory

Inventory is stated at the lower of cost or net realizable value, cost being determined using the average cost method which approximates the first-in, first-out (FIFO) method.

Deferred Land Costs

Deferred land costs have been recorded in all reporting periods leading up to and including 2019 by Southwood, the Company's real estate subsidiary. Southwood was passively engaged in the management and maintenance of land holdings outside of any of the land holdings held in ownership by the Company's utility subsidiaries. Included in deferred land costs is the Company's original basis in its undeveloped landholdings and any land improvement costs, which are stated at the lower of cost or market. All costs associated with real estate and land projects are capitalized and allocated to the project to which the costs relate. Administrative labor and the related fringe benefit costs attributable to the acquisition, active development, and construction of land parcels are capitalized as deferred land costs. No labor and benefits were capitalized for the years ended December 31, 2020 and 2019.

As of the end of 2019, all of the land holdings previously owned by Southwood were transferred to the Company, which now has assumed the passive management and maintenance of those land holdings. On a going forward basis, Southwood will be maintained as a "corporate shell" allowing for its usage in possible future land management opportunities, should they occur.

Deferred Charges and Other Assets

Deferred charges include certain regulatory assets and other assets. Regulatory assets are amortized over the periods they are recovered through NHPUC-authorized water rates. The Company's utility subsidiaries have recorded certain regulatory assets in cases where the NHPUC has permitted, or is expected to permit, recovery of these costs over future periods. Currently, the regulatory assets are being amortized over periods ranging from 2 to 25 years.

Unamortized Debt Issuance Costs

Unamortized debt issuance costs are amortized over the original term of the related bonds and notes. The Company's utility subsidiaries have recorded unamortized debt issuance costs in cases where the NHPUC has permitted or is expected to permit recovery of these costs over future periods. The debt issuance costs are being amortized over the original lives of the associated debt.

Contributions in Aid of Construction

Under construction contracts with real estate developers and others, the Company's utility subsidiaries may receive non-refundable advances for the cost of installing new water mains. These advances are recorded as CIAC. The Company's utility subsidiaries also record to plant and CIAC the fair market value of developer installed mains and any excess of fair market value over the cost of community water systems purchased from developers. CIAC are amortized over the life of the related properties.

Paycheck Protection Program Loan

The Company accounts for its Paycheck Protection Program (PPP) loan in accordance with the guidelines established by the Financial Accounting Standards Board (FASB) ASC 470, *Debt*. The guidance requires the company to account for the proceeds from the PPP loan as debt and apply interest considering the ten-month interest payment deferral allowed for the loan. The loan and accrued interest may be forgivable after eight or twenty-four weeks if the loan proceeds are used for eligible purposes. The Company has elected to report the PPP loan as long-term debt. No income will be recognized from the extinguishment of the PPP debt (whether as a result of forgiveness or otherwise) until the Company has been legally released as the primary obligor of the loan.

Revenue Recognition – Regulated Entities

Standard charges for water utility services to customers are recorded as revenue, based upon meter readings and contract service, as services are provided. The majority of the Company's water revenues are based on rates approved by the NHPUC. Estimates of unbilled service revenues are recorded in the period the services are provided. Provision is made in the consolidated financial statements for estimated uncollectible accounts.

Revenue Recognition – Non-Regulated Entities

The Company derives its non-regulated revenues primarily from water management services which include contract operations and maintenance, and water testing and billing services to municipalities and small, privately owned community water systems. Revenue is measured based on consideration specified in contracts with customers. The Company recognizes revenue when it satisfies performance obligations under the terms of the contract which generally occurs with the transfer of control of the services to the customer. Revenues from unplanned additional work are based upon time and materials incurred in connection with activities not specifically identified in the contract, or for which work levels exceed contracted amounts.

Revenues from real estate operations, other than undistributed earnings or losses from equity method joint ventures, are recorded upon completion of a sale of real property. The Company's real estate holdings outside of the Company's utility subsidiaries are comprised primarily of undeveloped land.

The Company does not have any significant financing components as payment is received at or shortly after the point of sale.

Contract Combination

To determine the proper revenue recognition method for contracts, the Company evaluates whether two or more contracts should be combined and accounted for as one single contract and whether the combined or single contract should be accounted for as more than one performance obligation. This evaluation requires significant judgment and the decision to combine a group of contracts or separate a combined or single contract into multiple performance obligations could change the amount of revenue and profit recorded in a given period. Contracts are considered to have a single performance obligation if the promise to transfer the individual goods or services is not separately identifiable from other promises in the contracts, which is mainly because the Company provides a significant service of integrating a complex set of tasks and components into a single project or capability.

For contracts with multiple performance obligations, the Company allocates the transaction price to each performance obligation using management's best estimate of the standalone selling price of each distinct good or service in the contract. In cases where the Company does not provide the distinct good or service on a standalone basis, the primary method used to estimate standalone selling price is the expected cost plus a margin approach, under which management forecasts the Company's expected costs of satisfying a performance obligation and then adds an appropriate margin for that distinct good or service.

Performance Obligations

For performance obligations related to operations, planned maintenance, and water testing and billing services, control transfers to the customer over time as the services are provided. These services are sold primarily to municipalities or small, privately owned community water systems. The majority of the Company's unplanned maintenance contracts are billed on a time and materials basis and revenue is recognized over time as the services are performed. The majority of the Company's operations, planned maintenance, and water testing and billing contracts are billed on a fixed price basis. For fixed price contracts, the Company measures its progress towards complete satisfaction of the performance obligation using a time-based measure. This method is used because management considers time elapsed to be the best available measure of progress on contracts.

Contract Estimates and Modifications

Due to the nature of the work required to be performed on many of the Company's performance obligations, the estimation of total revenue and cost at completion is complex, subject to many variables and requires significant judgment.

As a significant change in one or more of these estimates could affect the profitability of the Company's contracts, management reviews and updates the Company's contract-related estimates regularly through a Company-wide project review process in which management reviews the progress and execution of the Company's performance obligations and the estimate at completion. As part of this process, management reviews information including, but not limited to, any outstanding key contract matters, progress towards completion and the related program schedule, and the related changes in estimates of revenues and costs. Management must make assumptions and estimates regarding labor productivity and availability, the complexity of the work to be performed, the cost and availability of materials, among other variables.

The Company recognizes adjustments in estimated profit on contracts under the cumulative catch-up method. Under this method, the impact of the adjustment on profit recorded to date is recognized in the period the adjustment is identified. Revenue and profit in future periods of contract performance is recognized using the adjusted estimate. If at any time the estimate of contract profitability indicates an anticipated loss on the contract, the Company recognizes the total loss in the period it is identified.

Variable Consideration

Variable consideration is estimated at the most likely amount to which the Company is expected to be entitled. Any variable consideration is included in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. Estimates of variable consideration and the determination of whether to include estimated amounts in the transaction price are based largely on assessments of legal enforceability, the Company's performance, and all information (historical, current, and forecasted) that is reasonably available to management.

Variable consideration is allocated entirely to a performance obligation or to a distinct good or service within a performance obligation if it relates specifically to efforts to satisfy the performance obligation or transfer the distinct good or service, and the allocation depicts the amount of consideration the Company expects to be entitled.

Significant Judgments

The Company recognizes contract revenue for financial reporting purposes over time. Progress toward completion of the Company's contracts is measured using a time-based criterion for each contract and requires significant judgment. This method is used because management considers time-elapsed to be the best available measure of progress on contracts.

Contract Assets and Liabilities

Billing practices are governed by the contract terms of each project based upon achievement of milestones or pre-agreed schedules. Billings do not necessarily correlate with revenue recognized using a time-elapsed method of revenue recognition. Contract assets include unbilled amounts typically resulting from revenue under long-term contracts when the time-elapsed method of revenue recognition is utilized and revenue recognized exceeds the amount billed to the customer, and right to payment is not unconditional. Contract liabilities consist of deferred revenue.

Contract assets and liabilities are reported in a net position on a contract-by-contract basis at the end of each reporting period. The Company classifies deferred revenue as current or noncurrent based on the timing of when revenue is expected to be recognized. The current portion of deferred revenue is included in current liabilities in the Balance Sheets.

Practical Expedients

The Company generally expenses pre-contract costs when incurred because the amortization period would have been one year or less.

Income Taxes

Income taxes are recorded using the accrual method and the provision for federal and state income taxes is based on income reported in the consolidated financial statements, adjusted for items not recognized for income tax purposes. Provisions for deferred income taxes are recognized for accelerated depreciation and other temporary differences. A valuation allowance is provided to offset any net deferred tax assets if, based upon available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. Investment tax credits previously realized for income tax purposes are amortized for financial statement purposes over the life of the property, giving rise to the credit.

Adoption of New Accounting Standards

Effective January 1, 2020, the Company adopted Accounting Standards Update (ASU) 2018-13, *Fair Value Measurement (Topic 820), Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*, which removes certain disclosure requirements from FASB ASC 820 and modifies certain other disclosures. The Company has applied this guidance retrospectively for certain disclosures and prospectively for other disclosures as required by the standard. There was no prior year effect to the financial statements as a result of this change.

New Accounting Standards to be Adopted in the Future **Leases**

In February 2016, the FASB issued ASU 2016-02, *Leases*. The ASU requires all leases with lease terms more than 12 months to be capitalized as a right of use asset and lease liability on the balance sheet at the date of lease commencement. Leases will be classified as either finance leases or operating leases. This distinction will be relevant for the pattern of expense recognition in the income statement. This ASU will be effective for the Company for the year ending December 31, 2022. The Company is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

Credit Losses

In June 2016, the FASB issued ASU 2016-13, *Measurement of Credit Losses on Financial Instruments*. The ASU requires a financial asset (including trade receivables) measured at amortized cost basis to be presented at the net amount expected to be collected. Thus, the income statement will reflect the measurement of credit losses for newly recognized financial assets as well as the expected increases or decreases of expected credit losses that have taken place during the period. This ASU will be effective for the Company for the year ending December 31, 2023. The Company is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

2. Property, Plant and Equipment

The components of property, plant and equipment as of December 31, 2020 and 2019 were as follows:

(in thousands)	2020	2019	Useful Lives (in years)
Utility Property:			
Land and land rights	\$ 5,972	\$ 5,993	-
Source of supply	73,721	72,360	3 - 70
Pumping and purification	31,846	29,929	7 - 64
Transmission and distribution, including services, meters and hydrants	194,244	188,069	15 - 91
General and other equipment	17,023	16,352	7 - 75
Intangible plant	790	790	20
Construction work in progress	792	1,225	
Total utility property	324,388	314,718	
Total non-utility property	5	5	5 - 10
Total property, plant and equipment	324,393	314,723	
Less accumulated depreciation	(81,924)	(77,541)	
Property, Plant and Equipment, net	\$ <u>242,469</u>	\$ <u>237,182</u>	

The provision for depreciation is computed on the straight-line method over the estimated useful lives of the assets, which range from 3 to 91 years. The weighted average composite depreciation rate was 2.58% and 2.53% in 2020 and 2019, respectively.

3. Restricted Cash

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the consolidated balance sheets that sum to the total of the same such amounts shown in the statements of cash flows.

(in thousands)	2020	2019
Cash and cash equivalents	\$ 310	\$ 4,885
Restricted cash - RSF	8,611	1,963
Restricted cash - CIAC	274	-
Restricted cash - Bond Project Funds	237	3,426
Total cash, cash equivalents and restricted cash shown in the consolidated statements of cash flows	\$ <u>9,432</u>	\$ <u>10,274</u>

Amounts included in restricted cash represent those required to be set aside as outlined in Note 1.

4. Accounts Receivable

Accounts receivable consisted of the following at December 31, 2020 and 2019:

(in thousands)	2020	2019
Accounts receivable - billed	\$ 4,365	\$ 3,091
Less allowance for doubtful accounts	<u>(68)</u>	<u>(50)</u>
Accounts receivable - billed, net	<u>\$ 4,297</u>	<u>\$ 3,041</u>
Accounts receivable - unbilled	\$ 4,473	\$ 2,575
Less allowance for doubtful accounts	<u>-</u>	<u>-</u>
Accounts receivable - unbilled, net	<u>\$ 4,473</u>	<u>\$ 2,575</u>

5. Deferred Charges and Other Assets

Deferred charges and other assets as of December 31, 2020 and 2019 consisted of the following:

(in thousands)	2020	2019	Recovery Period (in years)
Regulatory assets:			
Source development charges	\$ 1,004	\$ 801	5 - 25
Miscellaneous studies	998	790	2 - 25
Unrecovered pension and post-retirement benefits expense	<u>14,197</u>	<u>11,347</u>	(1)
Total regulatory assets	16,199	12,938	
Supplemental executive retirement plan asset	<u>815</u>	<u>789</u>	
Total deferred charges and other assets	<u>\$ 17,014</u>	<u>\$ 13,727</u>	

(1) We expect to recover these amounts consistent with the anticipated expense recognition of these assets.

6. Post-Retirement Benefit Plans

Pension Plan and Other Post-Retirement Benefits

The Company has a non-contributory, defined benefit pension plan (the "DB Plan") that covers substantially all employees. The benefits are based on years of service and participant compensation levels. The Company's funding policy is to contribute annual amounts that meet the requirements for funding under the U.S. Department of Labor's Pension Protection Act. Contributions are intended to provide not only for benefits attributed to service to date, but also for those expected to be earned in the future.

Post-retirement medical benefits are provided for eligible retired employees through one of two plans (collectively referred to as our "OPEB Plans"). For employees who retire on or after the normal retirement age of 65, benefits are provided through a post-retirement plan (the "Post-65 Plan"). For eligible non-union employees who retire prior to their normal retirement age and who have met certain age and service requirements, benefits are provided through a post-employment medical plan (the "Post-employment Plan"). Future benefits under the Post-65 Plan increase annually based on the actual percentage of wage and salary increases earned from the plan inception date to the normal retirement date. The benefits under the Post-employment Plan allow for the continuity of medical benefits coverage at group rates from the employee's retirement date until the employee becomes eligible for Medicare, which are fully funded by the retiree. The liability related to the Post-65 Plan will be funded from the general assets of our Company.

Upon retirement, if a qualifying employee elects to receive medical benefits under our Post-65 Plan, we pay up to a maximum monthly benefit of \$373 based on years of service.

The following table sets forth information regarding our DB Plan and our OPEB Plans as of December 31, 2020 and for the year then ended:

(in thousands)	DB Plan	OPEB Plans
Projected benefit obligations	\$ 39,050	\$ 5,549
Employer contribution	1,491	11
Benefits paid, excluding expenses	(1,964)	(72)
Fair value of plan assets	23,626	639
Accumulated benefit obligation	35,020	-
Funded status	(15,424)	(4,910)
Net periodic benefit cost	1,688	345
Amount of the funded status recognized in the Consolidated Balance Sheet consisted of:		
Current liability	-	-
Non-current liability	(15,424)	(4,910)
Total	<u>\$ (15,424)</u>	<u>\$ (4,910)</u>

The following table sets forth information regarding our DB Plan and our OPEB Plans as of December 31, 2019 and for the year then ended:

(in thousands)	DB Plan	OPEB Plans
Projected benefit obligations	\$ 34,158	\$ 4,586
Employer contribution	1,181	11
Benefits paid, excluding expenses	(695)	(63)
Fair value of plan assets	21,187	604
Accumulated benefit obligation	30,643	-
Funded status	(12,971)	(3,982)
Net periodic benefit cost	1,494	279
Amount of the funded status recognized in the Consolidated Balance Sheet consisted of:		
Current liability	-	-
Non-current liability	(12,971)	(3,982)
Total	\$ (12,971)	\$ (3,982)

The components of net periodic benefit cost other than the service cost component are included in the line item operations and maintenance in the consolidated statements of income (loss), as the amounts are immaterial.

Changes in plan assets and benefit obligations recognized in regulatory assets, for the year ended December 31, 2020, were as follows:

(in thousands)	DB Plan	OPEB Plans
Regulatory asset balance, beginning of period	\$ 10,269	\$ 1,078
Net actuarial gain incurred during the period	2,733	621
Prior service cost incurred during the period	-	16
Recognized net actuarial (gain)/loss	(477)	(43)
Regulatory asset balance, end of period	\$ 12,525	\$ 1,672

Changes in plan assets and benefit obligations recognized in regulatory assets, for the year ended December 31, 2019, were as follows:

(in thousands)	DB Plan	OPEB Plans
Regulatory asset balance, beginning of period	\$ 7,632	\$ 565
Net actuarial gain incurred during the period	2,991	516
Prior service cost incurred during the period	-	16
Recognized net actuarial (gain)/loss	<u>(354)</u>	<u>(19)</u>
Regulatory asset balance, end of period	<u>\$ 10,269</u>	<u>\$ 1,078</u>

Amounts recognized in regulatory assets for the DB and OPEB Plans that have not yet been recognized as components of net periodic benefit cost of the following as of December 31, 2020:

(in thousands)	DB Plan	OPEB Plans
Net actuarial loss	\$ 12,525	\$ 1,787
Prior service cost	<u>-</u>	<u>(115)</u>
Regulatory asset	<u>\$ 12,525</u>	<u>\$ 1,672</u>

Amounts recognized in regulatory assets for the DB and OPEB Plans that have not yet been recognized as components of net periodic benefit cost of the following as of December 31, 2019:

(in thousands)	DB Plan	OPEB Plans
Net actuarial loss	\$ 10,269	\$ 1,209
Prior service cost	<u>-</u>	<u>(131)</u>
Regulatory asset	<u>\$ 10,269</u>	<u>\$ 1,078</u>

The key assumptions used to value benefit obligations and calculate net periodic benefit cost for our DB and OPEB Plans include the following:

	2020	2019
Discount rate for net periodic benefit cost, beginning of year	3.13%	4.15%
Discount rate for benefit obligations, end of year ^(a)	2.39%	3.13%
Expected return on plan assets for the period (net of investment expenses)	7.00%	7.00%
Rate of compensation increase, beginning of year	3.00%	3.00%
Healthcare cost trend rate (applicable only to OPEB Plans)	6.00%	6.50%

^(a) An increase or decrease in the discount rate of 0.5% would result in a change in the funded status as of December 31, 2020, for the DB Plan and the OPEB Plans of approximately \$3.4 million and \$544 thousand, respectively.

The estimated net actuarial loss for our DB Plan that will be amortized in 2021 from the regulatory assets into net periodic benefit costs is \$625,000. The estimated net actuarial gain and prior service cost for our OPEB Plans that will be amortized in 2021 from the regulatory assets into net periodic benefit costs is \$60,200.

In establishing its investment policy, the Company has considered the fact that the DB Plan is a major retirement vehicle for its employees and the basic goal underlying the establishment of the policy is to provide that the assets of the DB Plan are invested in accordance with the asset allocation range targets to achieve our expected return on DB Plan assets. The Company's investment strategy applies to its OPEB Plans as well as the DB Plan. The expected long-term rate of return on DB Plan and OPEB Plan assets is based on the Plans' expected asset allocation, expected returns on various classes of Plan assets, as well as historical returns.

The assets of our Post-65 Plan are held in two separate Voluntary Employee Beneficiary Association ("VEBA") trusts. The VEBA plan assets are maintained in directed trust accounts at a commercial bank.

The investment strategy for the Company's DB Plan and OPEB Plans utilizes several different asset classes with varying risk/return characteristics. The following table indicates the asset allocation percentages of the fair value of the DB Plan and OPEB Plans' assets for each major type of plan asset as of December 31, 2020, as well as the targeted allocation range:

	DB Plan		OPEB Plans	
		Asset Allocation Range		Asset Allocation Range
Equities	61%	30% - 100%	69%	30% - 100%
Fixed income	39%	20% - 70%	24%	0% - 50%
Cash and cash equivalents	0%	0% - 15%	7%	0% - 15%
Total	<u>100%</u>		<u>100%</u>	

The following table indicates the asset allocation percentages of the fair value of the DB Plan and OPEB Plans' assets for each major type of plan asset as of December 31, 2019, as well as the targeted allocation range:

	DB Plan		OPEB Plans	
		Asset Allocation Range		Asset Allocation Range
Equities	61%	30% - 100%	69%	30% - 100%
Fixed income	39%	20% - 70%	29%	0% - 50%
Cash and cash equivalents	0%	0% - 15%	2%	0% - 15%
Total	<u>100%</u>		<u>100%</u>	

Management uses its best judgment in estimating the fair value of its financial instruments. However, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts that we could realize in a sales transaction for these instruments. The estimated fair value amounts have been measured as of year-end and have not been reevaluated or updated for purposes of these consolidated financial statements subsequent to those respective dates.

Investments in common stock and mutual funds are stated at fair value by reference to quoted market prices. Money market funds are valued utilizing the net asset value per unit based on the fair value of the underlying assets as determined by the directed trustee.

The DB Plan also holds assets under an immediate participation guarantee group annuity contract with a life insurance company. The assets under the contract are invested in pooled separate accounts and in a general investment account. The pooled separate accounts are valued based on net asset value (NAV) per unit of participation in the fund. The NAV is used as a practical expedient to estimate fair values. This practical expedient is not used when it is determined to be probable that the fund will sell the investment for an amount different than that reported at NAV. These accounts have no unfunded commitments or significant redemption restrictions at year-end. The value of these units is determined by the trustee based on the current market values of the underlying assets of the pooled separate accounts. Therefore, the value of the pooled separate accounts is deemed to be at estimated fair value.

The general investment account is not actively traded, and significant other observable inputs are not available. The fair value of the general investment account is calculated by discounting the related cash flows based on current yields of similar instruments with comparable durations.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Plan's management believes the valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain investments could result in a different fair value measurement at the reporting date.

A fair value hierarchy which prioritizes the inputs to valuation methods is used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The fair value of DB Plan and OPEB Plan assets by levels within the fair value hierarchy used as of December 31, 2020 was as follows:

(in thousands)	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
DB Plan:				
Guaranteed Interest Accounts	\$ <u>5,731</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>5,731</u>
Total Assets in the Fair Value Hierarchy	<u>5,731</u>	<u>-</u>	<u>-</u>	<u>5,731</u>
Investments measured at net asset value ^(a)	<u>17,895</u>	<u>-</u>	<u>-</u>	<u>-</u>
DB Plan Investments, at Fair Value	<u>23,626</u>	<u>-</u>	<u>-</u>	<u>5,731</u>
OPEB Plans:				
Common stocks	349	349	-	-
Mutual funds	124	124	-	-
Fixed income funds	143	143	-	-
Money market funds	<u>23</u>	<u>-</u>	<u>23</u>	<u>-</u>
Total Assets in the Fair Value Hierarchy	<u>639</u>	<u>616</u>	<u>23</u>	<u>-</u>
Investments measured at net asset value ^(a)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
OPEB Plans Investments, at Fair Value	<u>639</u>	<u>616</u>	<u>23</u>	<u>-</u>
Totals	\$ <u>24,265</u>	\$ <u>616</u>	\$ <u>23</u>	\$ <u>5,731</u>

(a) In accordance with Subtopic 820-10, certain investments that were measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of assets available for benefits of the Plans.

The fair value of DB Plan and OPEB Plan assets by levels within the fair value hierarchy used as of December 31, 2019 was as follows:

(in thousands)	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
DB Plan:				
Guaranteed Interest Accounts	\$ <u>5,155</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>5,155</u>
Total Assets in the Fair Value Hierarchy	<u>5,155</u>	<u>-</u>	<u>-</u>	<u>5,155</u>
Investments measured at net asset value ^(a)	<u>16,032</u>	<u>-</u>	<u>-</u>	<u>-</u>
DB Plan Investments, at Fair Value	<u>21,187</u>	<u>-</u>	<u>-</u>	<u>5,155</u>
OPEB Plans:				
Common stocks	311	311	-	-
Mutual funds	109	109	-	-
Fixed income funds	170	170	-	-
Money market funds	<u>14</u>	<u>-</u>	<u>14</u>	<u>-</u>
Total Assets in the Fair Value Hierarchy	<u>604</u>	<u>590</u>	<u>14</u>	<u>-</u>
Investments measured at net asset value ^(a)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
OPEB Plans Investments, at Fair Value	<u>604</u>	<u>590</u>	<u>14</u>	<u>-</u>
Totals	\$ <u>21,791</u>	\$ <u>590</u>	\$ <u>14</u>	\$ <u>5,155</u>

(a) In accordance with Subtopic 820-10, certain investments that were measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of assets available for benefits of the Plans.

Level 1: Based on quoted prices in active markets for identical assets.

Level 2: Based on significant observable inputs.

Level 3: Based on significant unobservable inputs.

The following table summarizes investments at fair value based on NAV per share as of December 31, 2020 and 2019, respectively:

(in thousands)	<u>Fair Value</u>
December 31, 2020	
Pooled Separate Accounts:	
Equities	\$ 14,391
Fixed Income	<u>3,504</u>
Total Pooled Separate Accounts	\$ <u>17,895</u>
December 31, 2019	
Pooled Separate Accounts:	
Equities	\$ 12,870
Fixed Income	<u>3,162</u>
Total Pooled Separate Accounts	\$ <u>16,032</u>

The following table presents a period-end reconciliation of DB Plan assets measured and recorded at fair value on a recurring basis, using significant unobservable inputs (Level 3):

(in thousands)	2020	2019
Balance, beginning of year	\$ 5,155	\$ 4,414
Plan transfers	1,941	1,079
Contributions	373	249
Benefits paid	(1,844)	(691)
Return on plan assets (net of investment expenses)	106	104
Balance, end of year	<u>\$ 5,731</u>	<u>\$ 5,155</u>

In order to satisfy the minimum funding requirements of the Employee Retirement Income Security Act of 1974, applicable to defined benefit pension plans, the Company anticipates it will contribute approximately \$1.4 million to the DB Plan in 2021.

The following maximum benefit payments, which reflect expected future service, as appropriate, are expected to be paid in the years indicated:

(in thousands)	DB Plan	OPEB Plans
2021	\$ 1,135	\$ 99
2022	1,300	115
2023	1,350	120
2024	1,480	136
2025	1,592	144
2026 and thereafter	9,522	943
Total	<u>\$ 16,379</u>	<u>\$ 1,557</u>

Because the Company is subject to regulation in the state in which it operates, we are required to maintain our accounts in accordance with the regulatory authority's rules and regulations. In those instances, we follow the guidance of ASC Topic 980 ("Regulated Operations"). Based on prior regulatory practice, we recorded underfunded DB Plan and OPEB Plan obligations as a regulatory asset, and we expect to recover those costs in rates charged to customers.

Defined Contribution Plan

In addition to the defined benefit plan, the Company provides and maintains a defined contribution plan covering substantially all employees. Under this plan, the Company matches 100% of the first 3% of each participating employee's salary contributed to the plan. The matching employer's contributions, recorded as operating expenses, were approximately \$272,000 and \$278,000 for the years ended December 31, 2020 and 2019, respectively.

7. Commitments and Contingencies

Operating Leases

The Company's corporate office space, as well as certain office equipment, is leased under operating lease agreements. Total rent expense was approximately \$389,800 and \$385,400 for the years ended December 31, 2020 and 2019, respectively.

The remaining non-cancelable lease commitments for the corporate office space and leased equipment as of December 31, 2020 were as follows:

(in thousands)	<u>Amount</u>
2021	\$ 379
2022	364
2023	348
2024	347
2025	330
Thereafter	<u>3,677</u>
Total	<u>\$ 5,445</u>

8. Financial Measurement and Fair Value of Financial Instruments

Management uses its best judgment in estimating the fair value of its financial instruments. However, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts that we could realize in a sales transaction for these instruments. The estimated fair value amounts have been measured as of the period end and have not been reevaluated or updated for purposes of these consolidated financial statements subsequent to those respective dates.

A fair value hierarchy is used, which prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of fair value hierarchy are as follows:

Level 1: Based on quoted prices in active markets for identical assets.

Level 2: Based on significant observable inputs.

Level 3: Based on significant unobservable inputs.

An asset or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

For assets and liabilities measured at fair value on a recurring basis, the fair value measurement by levels within the fair value hierarchy used as of December 31, 2020 and 2019 were as follows:

(in thousands)	December 31, 2020			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Liabilities:				
Interest rate swap	\$ <u>(460)</u>	\$ <u>-</u>	\$ <u>(460)</u>	\$ <u>-</u>

(in thousands)	December 31, 2019			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Liabilities:				
Interest rate swap	\$ <u>(353)</u>	\$ <u>-</u>	\$ <u>(353)</u>	\$ <u>-</u>

The carrying value of certain financial instruments included in the accompanying Consolidated Balance Sheets, along with the related fair value, as of December 31, 2020 and 2019 was as follows:

(in thousands)	2020		2019	
	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Carrying Value</u>	<u>Fair Value</u>
Liabilities:				
Interest rate swap liability	\$ (460)	\$ (460)	\$ (353)	\$ (353)

The fair market value of the interest rate swap represents the estimated cost to terminate this agreement as of December 31, 2020 and 2019 based upon the then-current interest rates and the related credit risk.

The carrying values of our cash and cash equivalents, restricted cash, accounts receivable and accounts payable approximate their fair values because of their short-term maturity dates. The carrying value of CIAC approximates its fair value because it is expected that this is the amount that will be recovered in future rates. The carrying values of lines of credit and long-term debt approximate fair value, as interest rates approximate market rates.

9. Revenue from Contracts with Customers – Non-Regulated Entities

Revenue is recognized when control of the promised goods or services is transferred to customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services.

Disaggregation of Revenue

For the years ended December 31, 2020 and 2019, revenue recognized for goods transferred over time totaled \$2,777,693 and \$2,892,868, respectively.

For the year ended December 31, 2020, approximately 62% of revenues were from large-contract customers, 21% of revenues were from small contract customers (con-ops), and 17% revenues were from residential maintenance and other customers. For the year ended December 31, 2019, approximately 59% of revenues were from large-contract customers, 20% of revenues were from small contract customers (con-ops), and 21% revenues were from residential maintenance and other customers. In addition, substantially all of the Company's contracts were service-related type contracts.

10. Income Taxes

The components of the federal and state income tax provision (benefit) as of December 31, 2020 and 2019 were as follows:

(in thousands)	<u>2020</u>	<u>2019</u>
Federal	\$ 656	\$ 144
State	(116)	203
Amortization of investment tax credits	<u>(33)</u>	<u>(33)</u>
Total	<u>\$ 507</u>	<u>\$ 314</u>
Current	\$ 33	\$ -
Deferred	<u>474</u>	<u>314</u>
Total	<u>\$ 507</u>	<u>\$ 314</u>

The following is a reconciliation between the statutory federal income tax rate and the effective income tax rate for 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Statutory federal rate	21.0 %	21.0 %
State tax rate, net of federal benefits	6.1	6.1
Permanent differences	(63.6)	(33.9)
Amortization of investment tax credits	<u>2.2</u>	<u>0.7</u>
Effective tax rate	<u>(34.3) %</u>	<u>(6.1) %</u>

The temporary items that give rise to the net deferred tax liability as of December 31, 2020 and 2019 were as follows:

(in thousands)	<u>2020</u>	<u>2019</u>
Liabilities:		
Property-related, net	\$ 22,496	\$ 21,396
Other	<u>704</u>	<u>519</u>
Total liabilities	<u>23,200</u>	<u>21,915</u>
Assets:		
Pension accrued liability	1,659	1,403
Net operating loss carryforward	5,415	4,953
Alternative minimum tax credit	476	476
NH Business Enterprise Tax credits	957	1,123
Other	<u>718</u>	<u>656</u>
	9,225	8,611
Less valuation allowance	<u>(956)</u>	<u>(1,123)</u>
Total assets	<u>8,269</u>	<u>7,488</u>
Net non-current deferred income tax liability	<u>\$ 14,931</u>	<u>\$ 14,427</u>

The Company has accumulated federal net operating losses. The federal tax benefit of the cumulative net operating losses is approximately \$4 million, begin to expire in 2033, and is included in deferred income taxes in the Consolidated Balance Sheet as of December 31, 2020. Approximately 88% of the net operating losses are 100 percent available to be applied to taxable income in future years and are not subject to the TCJA as they were generated prior to the 2018 tax year. The enactment of the TCJA now limits the net operating loss shelter to 80 percent of taxable income, for post-2017 tax year losses. The TCJA also provides for net operating losses to be carried forward indefinitely instead of limited to 20 years, as is the case for pre-2018 losses; however, carrybacks of these losses are no longer permitted. Approximately 12% of the net operating losses were generated in 2019 and 2020 and therefore are subject to the 80% limitation.

The Company has accumulated New Hampshire net operating losses. The New Hampshire tax benefit of the cumulative net operating loss is approximately \$1.4 million which begins to expire in 2023 and is included in deferred income taxes in the Consolidated Balance Sheet as of December 31, 2020.

As of December 31, 2020 and 2019, it is estimated that approximately \$476,000 and \$476,000, respectively, of cumulative federal alternative minimum tax credits may be carried forward indefinitely as a credit against our regular tax liability.

As of December 31, 2020 and 2019, the Company had New Hampshire Business Enterprise Tax ("NHBET") credits of approximately \$960,000 and \$1.1 million, respectively. NHBET credits begin to expire in 2021. It is anticipated that these NHBET credits will not be fully utilized before they expire; therefore, a valuation allowance has been recorded related to these credits. The valuation allowance decreased by approximately \$167,000 and increased by approximately \$126,000 in the years ended December 31, 2020 and 2019, respectively.

Investment tax credits resulting from utility plant additions are deferred and amortized. The unamortized investment tax credits are being amortized through the year 2033.

The Company had a regulatory liability related to income taxes of approximately \$9,918,000 and \$9,930,000 as of December 31, 2020 and 2019, respectively. This represents the estimated future reduction in revenues associated with deferred taxes which were collected at rates higher than the currently enacted rates and the amortization of deferred investment tax credits.

A review of the portfolio of uncertain tax positions was performed. In this regard, an uncertain tax position represents the expected treatment of a tax position taken in a filed tax return, or as planned to be taken in a future tax return, that has not been reflected in measuring income tax expense for financial reporting purposes. As a result of this review, it was determined that the Company had no material uncertain tax positions, and tax planning strategies will be used, if required and when possible, to avoid the expiration of any future net operating loss and/or tax credits.

The Company's practice is to recognize interest and/or penalties related to income tax matters in "Other, Net" in the Consolidated Statements of Income. We incurred no interest in 2020 and 2019. We incurred no penalties during the years ended December 31, 2020 and 2019.

11. Long-Term Debt

Long-term debt as of December 31, 2020 and 2019 consisted of the following:

(in thousands)	2020	
	Principal	Unamortized Debt Issuance Costs
Unsecured note payable to City of Nashua, 5.75%, due 12/25/2041	\$ 102,173	\$ -
Unsecured Business Finance Authority:		
Revenue Bonds (Series 2014B), 4.50%, due January 1, 2045	4,830	105
Revenue Bonds (Series 2018A), interest rates from 4.375% to 5.00%, due April 1, 2048	4,460	244
Revenue Bonds (Series 2018B), 4.33%, due April 1, 2028	900	50
Revenue Bonds (Series 2019A), interest rates from 2.19% to 4.15%, due April 1, 2049	8,080	277
Revenue Bonds (Series 2020A), interest rates from 3.15% to 4%, due April 1, 2050	7,000	284
Revenue Bonds (Series 2020B), 5.25%, due April 1, 2023	380	12
Revenue Bonds (Series 2020C), interest rates from 1.25% to 4.02%, due September 1, 2055 (3)	73,630	10,654
Unsecured notes payable to bank, floating-rate, due March 1, 2030	2,494	12
Unsecured notes payable to bank, 3.62%, due June 20, 2023	1,219	4
Unsecured notes payable to bank, 4.20%, due December 20, 2041	1,128	4
Unsecured notes payable to bank, 4.83%, due December 20, 2041	864	5
Unsecured notes payable to bank, 4.25%, due June 20, 2033	667	5
Unsecured notes payable to bank, 4.90%, due March 6, 2040	541	31
Unsecured notes payable to bank, 5.33%, due June 20, 2043	332	11
Unsecured notes payable to bank, 4.38%, due September 20, 2044	1,118	15
Unsecured notes payable to bank, 3.98%, due January 1, 2046	800	12
Unsecured New Hampshire State Revolving Fund ("SRF") notes (1)	23,048	162
Unsecured New Hampshire Drinking Water & Groundwater Trust Fund ("DWGTF") notes (2)	8,675	11
Paycheck Protection Program Loan, 1.00%, due May 7, 2022	2,544	-
Unamortized debt issuance costs for defeased obligations, allowed by regulation	-	3,162
Total	244,883	\$ 15,060
Less current portion	(6,018)	
Less unamortized debt issuance costs	(15,060)	
Total long-term debt, less current portion and unamortized debt issuance costs	\$ 223,805	

(1) SRF notes are due through 2051 at interest rates ranging from 1% to 3.8%. These notes are payable in 120 to 240 consecutive monthly installments of principal and interest. The 1% rate applies to construction projects still in process until the earlier of (i) the date of substantial completion of the improvements, or (ii) various dates specified in the note (such earlier date being the interest rate change date). Commencing on the interest rate change date, the interest rate changes to the lower of (i) the rate as stated in the note or (ii) 80% of the established 11 General Obligations Bond Index published during the specified time period before the interest rate change date.

(2) DWGTF notes are due through 2050 at interest rates ranging from 1% to 3.38%. These notes are payable in 360 consecutive monthly installments of principle and interest. The 1% rate applies to construction projects still in process until the earlier of (i) the date of substantial completion of the improvements or (ii) June 1, 2020 as specified in the note (such earlier date being the interest rate change date). Commencing on the interest rate change date, the interest rate change to the rate as stated in the note.

(3) Revenue Bonds (2020C) proceeds were partially used to advance refund the 2014A, 2015A and 2015B bonds with maturity dates of January 1, 2045, January 1, 2046, and January 1, 2031 respectively. The advance refunding proceeds are held in escrow until their future call dates of December 2023 and December 2024, to then be used to facilitate retirement of the bonds. Of the remaining \$10,654 of Unamortized Debt Issuance Costs as of December 31, 2020 generated by the September 2nd Issuance, \$9,269 are directly tied the advance refunding and will fully-amortize on a straight-line basis until their respective call dates.

(in thousands)	2019	
	Principal	Unamortized Debt Issuance Costs
Unsecured note payable to City of Nashua, 5.75%, due 12/25/2041	\$ 104,570	\$ -
Unsecured senior note payable due to an insurance company 7.40%, due March 1, 2021	2,800	10
Unsecured Business Finance Authority:		
Revenue Bonds (Series 2014A), interest rates from 3.00% to 4.125%, due January 1, 2045	37,830	1,708
Revenue Bonds (Series 2014B), 4.50%, due January 1, 2045	4,930	109
Revenue Bonds (Series 2015A), interest rates from 4.00% to 5.00%, due January 1, 2046	18,925	1,373
Revenue Bonds (Series 2015B), 5.00%, due January 1, 2046	1,735	209
Revenue Bonds (Series 2018A), interest rates from 4.375% to 5.00%, due April 1, 2048	4,460	253
Revenue Bonds (Series 2018B), 4.33%, due April 1, 2028	990	57
Revenue Bonds (Series 2019A), interest rates from 2.19% to 4.15%, due April 1, 2049	8,080	287
Revenue Bonds (Series 2019B), 3.38%, due April 1, 2020	170	2
Unsecured notes payable to bank, floating-rate, due March 1, 2030	2,716	13
Unsecured notes payable to bank, 3.62%, due June 20, 2023	1,294	6
Unsecured notes payable to bank, 4.20%, due December 20, 2041	1,160	6
Unsecured notes payable to bank, 4.83%, due December 20, 2041	887	5
Unsecured notes payable to bank, 4.25%, due June 20, 2033	706	6
Unsecured notes payable to bank, 4.90%, due March 6, 2040	557	33
Unsecured notes payable to bank, 5.33%, due June 20, 2043	339	13
Unsecured notes payable to bank, 4.38%, due September 20, 2044	1,145	16
Unsecured New Hampshire State Revolving Fund ("SRF") notes (1)	21,783	172
Unsecured New Hampshire Drinking Water & Groundwater Trust Fund ("DWGTF") notes (2)	8,168	11
Unamortized debt issuance costs for defeased obligations, allowed by regulation	-	78
Total	223,245	\$ 4,367
Less current portion	(6,582)	
Less unamortized debt issuance costs	(4,367)	
Total long-term debt, less current portion and unamortized debt issuance costs	\$ 212,296	

(1) SRF notes are due through 2049 at interest rates ranging from 1% to 3.8%. These notes are payable in 120 to 240 consecutive monthly installments of principal and interest. The 1% rate applies to construction projects still in process until the earlier of (i) the date of substantial completion of the improvements, or (ii) various dates specified in the note (such earlier date being the interest rate change date). Commencing on the interest rate change date, the interest rate changes to the lower of (i) the rate as stated in the note or (ii) 80% of the established 11 General Obligations Bond Index published during the specified time period before the interest rate change date.

(2) DWGTF notes are due through 2050 at interest rates ranging from 1% to 3.38%. These notes are payable in 360 consecutive monthly installments of principle and interest. The 1% rate applies to construction projects still in process until the earlier of (i) the date of substantial completion of the improvements or (ii) June 1, 2020 as specified in the note (such earlier date being the interest rate change date). Commencing on the interest rate change date, the interest rate change to the rate as stated in the note.

The aggregate principal payment requirements subsequent to December 31, 2020 are as follows:

(in thousands)	Amount
2021	\$ 6,018
2022	6,272
2023	7,508
2024	6,721
2025	7,013
2026 and thereafter	<u>211,351</u>
Total	<u>\$ 244,883</u>

Several of Pennichuck Water's loan agreements contain a covenant that prevents Pennichuck Water from declaring dividends if Pennichuck Water does not maintain a minimum net worth of \$4.5 million. As of December 31, 2020 and 2019, Pennichuck Water's net worth was \$103.6 million and \$107.4 million, respectively.

The 2014A, 2014B, 2015A, 2015B, 2018A, 2018B, 2019A, 2020A, 2020B and 2020C bonds were issued under a new bond indenture and loan and trust agreement, established with the issuance of the 2014 Series Bonds, which contains certain covenant obligations upon Pennichuck Water, which are as follows:

Debt to Capital Covenant - Pennichuck Water cannot create, issue, incur, assume or guarantee any short-term debt if (1) the sum of the short-term debt plus its funded debt ("Debt") shall exceed 85% of the sum of its short-term debt, funded debt and capital stock plus surplus accounts ("Capital"), unless the short-term debt issued in excess of the 85% is subordinated to the Series 2014 bonds. Thereby, the ratio of Debt to Capital must be equal to or less than 1.0. As of December 31, 2020 and 2019, Pennichuck Water has a Debt to Capital Coverage ratio of 0.6 and 0.6, respectively.

All Bonds Test - Additionally, Pennichuck Water cannot create, issue, incur, assume or guarantee any new funded debt, if the total outstanding funded debt ("Total Funded Debt") will exceed the sum of MARA (as defined in Note 14 of these consolidated financial statements) and 85% of its Net Capital Properties ("MARA and Capital Properties"), and unless net revenues or EBITDA (earnings before interest, taxes, depreciation and amortization) shall equal or exceed for at least 12 consecutive months out of the 15 months preceding the issuance of the new funded debt by 1.1 times the maximum amount for which Pennichuck Water will be obligated to pay in any future year ("Max Amount Due"), as a result of the new funded debt being incurred. Thereby, the ratio of Total Funded Debt to MARA and Capital Properties must be equal to or less than 1.0; as of December 31, 2020 and 2019, this coverage ratio was 0.6 and 0.5, respectively. Also, the ratio of EBITDA to the Max Amount Due must be equal to or greater than 1.1; as of December 31, 2020 and 2019, this ratio was 2.6 and 1.5, respectively.

Rate Covenant Test - If during any fiscal year, the EBITDA of Pennichuck Water shall not equal at least 1.1 times all amounts paid or required to be paid during that year ("Amounts Paid"), then the Company shall undertake reasonable efforts to initiate a rate-making proceeding with the NHPUC, to rectify this coverage requirement in the succeeding fiscal years. Thereby, the ratio of EBITDA to Amounts Paid must be equal to or greater than 1.1; as of December 31, 2020 and 2019, the Rate Covenant coverage ratio was 3.57 and 1.98, respectively.

Pennichuck East's loan agreement for its unsecured notes payable to a bank of \$9.2 million and \$8.8 million at December 31, 2020 and 2019, respectively, contains a minimum debt service coverage ratio requirement of 1.10. At December 31, 2020 and 2019, this ratio was 2.07 and 1.84, respectively.

On September 2, 2020, Pennichuck Water issued approximately \$73.6 million of taxable bonds through the New Hampshire Business Finance Authority to: (1) advance refund and refinance Pennichuck Water's series 2014A, 2015A, and 2015B bonds; (2) early retire an AULI bank loan set to mature on March 1, 2021 with a "bullet" maturity due at that date; (3) complete the replenishment of the Material Operating Expense Revenue Requirement (MOERR) RSF for Pennichuck Water back to nearly its authorized imprest value; and (4) repay Pennichuck Water's Fixed Asset Line of Credit (FALOC) for monies borrowed while awaiting rate relief from this bonding event and the Pennichuck Water rate case approved by NHPUC Order No. 26,425. The bond issuance was approved by the Company's Board of Directors and the Sole Stockholder. This issuance received NHPUC approval in Order No. 26,383 dated July 24, 2020, which authorized up to \$75.0 million in bonds.

As of December 31, 2020 and 2019, the Company had a \$2.5 million and \$2.7 million, respectively, interest rate swap which qualifies as a derivative. This financial derivative is designated as a cash flow hedge. This financial instrument is used to mitigate interest rate risk associated with our outstanding \$2.5 million loan which has a floating interest rate based on the three-month London Interbank Offered Rate ("LIBOR") plus 1.75% as of December 31, 2020. The combined effect of the LIBOR-based borrowing formula and the swap produces an "all-in fixed borrowing cost" equal to 5.95%. The fair value of the financial derivative, as of December 31, 2020 and 2019, included in our Consolidated Balance Sheets under "Other Liabilities and Deferred Credits" as "Derivative instrument" was \$460,000 and \$353,000, respectively. Changes in the fair value of this derivative were deferred in accumulated other comprehensive income.

Swap settlements are recorded in the statements of income (loss) with the hedged item as interest expense. During the years ended December 31, 2020 and 2019, \$42,000 and \$70,000, respectively, was reclassified pre-tax from accumulated other comprehensive income to interest expense as a result of swap settlements. The Company expects to reclassify approximately \$94,000, pre-tax, from accumulated other comprehensive income to interest expense as a result of swap settlements, over the next twelve months.

Paycheck Protection Program Loan

On May 7, 2020, the Company received loan proceeds in the amount of approximately \$2,543,600 under the Small Business Administration (SBA) PPP. The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act (CARES Act), which was enacted March 27, 2020, provides for loans to qualifying businesses for amounts up to 2.5 times the average monthly payroll expenses of the qualifying business. The loan and accrued interest may be forgiven after eight or twenty-four weeks providing the Company uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains certain payroll levels. The amount of loan forgiveness will be reduced if the Company terminates employees or reduces salaries during the eight or twenty-four week period.

Any unforgiven portion of the PPP loan is payable over two years at an interest rate of 1%, with deferral of payments for the first ten months. The Company intends to use the proceeds for purposes consistent with the PPP requirements. While the Company currently believes that its use of the loan proceeds will meet the conditions for forgiveness of the loan, the Company cannot guarantee that the loan will be forgiven, in whole or in part.

12. Lines of Credit

In December of 2020, the Company's existing Working Capital Line of Credit (WCLOC) and Pennichuck Water 's FALOC were renewed. The WCLOC was extended and renewed for an additional year and a half, expiring on June 30, 2022, whereas the FALOC was extended and renewed for an additional two and a half years, expiring on June 30, 2023. Additionally, as a part of the renewal and extension of the FALOC, the capacity of that facility was increased from \$10 million to \$12 million, while the Company's WCLOC remains at \$4 million. Pennichuck East's Fixed Asset Line of Credit (PEU FALOC) was renewed and extended for an additional three years on November 24, 2020, expiring on September 30, 2023, at its current facility level of \$3 million. The two Fixed Asset Lines of Credit (FALOC and PEU FALOC) are used to fund construction work in progress on capital projects, which will be refinanced into long-term term loan obligations or issued bond indebtedness, annually.

Short-term borrowing activity under the Company's WCLOC for the years ended December 31, 2020 and 2019 was:

(in thousands)	2020	2019
Established line as of December 31,	\$ 4,000	\$ 4,000
Maximum amount outstanding during period	3,006	3,311
Average amount outstanding during period	1,354	934
Amount outstanding as of December 31,	624	2,439
Weighted average interest rate during period	2.47%	3.98%
Interest rate as of December 31,	1.90%	3.55%

Short-term borrowing activity under Pennichuck Water's FALOC for the years ended December 31, 2020 and 2019 was:

(in thousands)	2020	2019
Established line as of December 31,	\$ 12,000	\$ 10,000
Maximum amount outstanding during period	7,223	8,850
Average amount outstanding during period	3,610	4,131
Amount outstanding as of December 31,	4,550	5,848
Weighted average interest rate during period	2.80%	4.07%
Interest rate as of December 31,	1.90%	3.55%

Short-term borrowing activity under Pennichuck East's FALOC for the years ended December 31, 2020 and 2019 was:

	2020	2019
Established line as of December 31,	\$ 3,000	\$ 3,000
Maximum amount outstanding during period	1,106	1,894
Average amount outstanding during period	1,022	1,172
Amount outstanding as of December 31,	306	996
Weighted average interest rate during period	2.80%	4.56%
Interest rate as of December 31,	2.15%	3.99%

The Company's revolving credit loan facilities with TD Bank contain certain covenant obligations upon Pennichuck Water, which are as follows:

Debt to Capital Covenant - Pennichuck Water cannot create, issue, incur, assume or guarantee any short-term debt if (1) the sum of the short-term debt plus its funded debt ("Debt") shall exceed 85% of the sum of its short-term debt, funded debt and capital stock plus surplus accounts ("Capital"), unless the short-term debt issued in excess of the 85% is subordinated to the loan facility. Thereby, the ratio of Debt to Capital must be equal to or less than 1.0. As of December 31, 2020 and 2019, Pennichuck Water has a Debt to Capital Coverage ratio of 0.6 and 0.6, respectively.

All Bonds Test - Additionally, Pennichuck Water cannot create, issue, incur, assume or guarantee any new funded debt, if the total outstanding funded debt ("Total Funded Debt") will exceed the sum of MARA (as defined in Note 14 of these consolidated financial statements) and 85% of its Net Capital Properties ("MARA and Capital Properties"), and unless net revenues or EBITDA (earnings before interest, taxes, depreciation and amortization) shall equal or exceed for at least 12 consecutive months out of the 15 months preceding the issuance of the new funded debt by 1.1 times the maximum amount for which Pennichuck Water will be obligated to pay in any future year ("Max Amount Due"), as a result of the new funded debt being incurred. Thereby, the ratio of Total Funded Debt to MARA and Capital Properties must be equal to or less than 1.0; as of December 31, 2020 and 2019, this coverage ratio was 0.6 and 0.5, respectively. Also, the ratio of EBITDA to the Max Amount Due must be equal to or greater than 1.1; as of December 31, 2020 and 2019 this ratio was 2.6 and 1.5, respectively.

Rate Covenant Test - If during any fiscal year, the EBITDA of Pennichuck Water shall not equal at least 1.1 times all amounts paid or required to be paid during that year ("Amounts Paid"), then the Company shall undertake reasonable efforts to initiate a rate-making proceeding with the NHPUC, to rectify this coverage requirement in the succeeding fiscal years. Thereby, the ratio of EBITDA to Amounts Paid must be equal to or greater than 1.1; as of December 31, 2020 and 2019, the Rate Covenant coverage ratio was 3.57 and 1.98, respectively.

13. Accumulated Other Comprehensive Income

The following table presents changes in accumulated other comprehensive income by component for the years ended December 31, 2020 and 2019:

(in thousands)	Interest Rate Contract	
	2020	2019
Beginning balance	\$ 318	\$ 372
Other comprehensive loss before reclassifications	(89)	(97)
Amounts reclassified from accumulated other comprehensive income	25	43
Net current period other comprehensive income	(64)	(54)
Ending balance	<u>\$ 254</u>	<u>\$ 318</u>

The following table presents reclassifications out of accumulated other comprehensive income for the years ended December 31, 2020 and 2019:

<u>Details about Accumulated Other Comprehensive Income Components</u> (in thousands)	<u>Amounts Reclassified from Accumulated Other Comprehensive Income</u>		<u>Affected Line Item in the Statement Where Net Income is Presented</u>
	<u>2020</u>	<u>2019</u>	
Gain on cash flow hedges:			
Interest rate contracts	\$ 42	\$ 70	Interest expense
	<u>(17)</u>	<u>(27)</u>	Tax expense
Amounts reclassified from accumulated other comprehensive income	\$ <u>25</u>	\$ <u>43</u>	Net of tax

14. Transaction with the City of Nashua

On January 25, 2012, in full settlement of an ongoing Eminent Domain lawsuit filed by the City of Nashua ("City") and with the approval of the NHPUC, the City acquired all of the outstanding shares of the Company and, thereby, indirect acquisition of its regulated subsidiaries. The total amount of the acquisition was \$150.6 million ("Acquisition Price") of which \$138.4 million was for the purchase of the outstanding shares, \$5.0 million for the establishment of a Rate Stabilization Fund, \$2.6 million for legal and due diligence costs, \$2.3 million for severance costs, \$1.3 million for underwriting fees, and \$1.0 million for bond discount and issue costs. The entire purchase of \$150.6 million was funded by General Obligation Bonds ("Bonds") issued by the City of Nashua. The Company is not a party to the Bonds and has not guaranteed nor is obligated in any manner for the repayment of the Bonds. The Company remains an independent corporation with an independent Board of Directors, with the City of Nashua as its sole stockholder.

Pennichuck Water, Pennichuck East, PAC, Service Corporation, and Southwood will continue as subsidiaries of Pennichuck Corporation and Pennichuck Water, Pennichuck East and PAC will continue as regulated companies under the jurisdiction of the NHPUC. The terms of the merger and the requisite accounting and rate-setting mechanisms were agreed to in the NHPUC Order No. 25,292 ("PUC Order") dated November 23, 2011.

Transactions with Related Party – City of Nashua

The Company issued a promissory note to the City of Nashua in the amount of approximately \$120 million to be repaid over a thirty (30) year period with monthly payments of approximately \$707,000, including interest at 5.75%. The Company recorded an additional amount of approximately \$30.6 million as contributed capital. The remaining outstanding balance of the note payable to the City at December 31, 2020 and 2019 was approximately \$102 million and \$105 million, respectively, as disclosed in Note 11 to these consolidated financial statements. During 2020 and 2019, dividends of approximately \$279,000 and \$280,000, respectively, were declared and paid to the City. The dividends paid to the City during 2020 comprised approximately \$279,000 of regular quarterly dividends declared and paid; and no special dividend was declared or paid in 2020. The dividends paid to the City during 2019 comprised approximately \$280,000 of regular quarterly dividends declared and paid; and no special dividend was declared or paid in 2019.

Additional ongoing transactions occur in the normal course of business, between the Company and the City, related to municipal water usage, fire protection and sewer billing support services, and property taxes related to real property owned by the Company within the City of Nashua. For the years ended December 31, 2020 and 2019, respectively, approximately \$3.4 million and \$3.4 million were paid to the Company by the City for municipal water consumption, fire protection charges, and sewer billing support services. Conversely, the Company paid property taxes to the City of Nashua of approximately \$2.7 million for the year ended December 31, 2020, and approximately \$2.3 million for the year ended December 31, 2019.

Rate Stabilization Fund – Restricted Cash

As a part of the acquisition, the Company agreed to contribute \$5,000,000 of the proceeds from the settlement transaction to Pennichuck Water, which was used to establish an RSF, allowing for the maintenance of stable water utility rates and providing a mechanism to ensure the Company's continued ability to meet its obligations under the promissory note to the City, in the event of adverse revenue developments. Restricted cash consists of amounts set aside in the RSF account and is adjusted monthly as required in the NHPUC Order, as discussed in Note 1 of these financial statements.

Municipal Acquisition Regulatory Asset ("MARA")

Pursuant to the NHPUC Order, the Company established a new Regulatory asset (MARA) which represents the amount that the Acquisition Price exceeded the net book assets of the Company's regulated subsidiaries (Pennichuck Water, Pennichuck East, and PAC) at December 31, 2011. The initial amount of the MARA was approximately \$89 million for the regulated companies, offset by a non-regulated amount of approximately \$4.8 million. The MARA is to be amortized over a thirty (30) year period in the same manner as the repayment of debt service for the City's acquisition bonds. The balance in the MARA at December 31, 2020 was approximately \$71.1 million, reduced by the non-regulated credit of approximately \$3.9 million.

Aggregate amortization expense for the years ended December 31, 2020 and 2019 totaled approximately \$2,061,000 and \$2,006,000, respectively.

The following table represents the total estimated amortization of MARA:

(in thousands)	Estimated Amortization Expense
2021	\$ 2,119
2022	2,183
2023	2,253
2024	2,328
2025	2,409
2026 and thereafter	<u>55,910</u>
Total	<u>\$ 67,202</u>

15. Segment Reporting

For the years ended December 31, 2020 and 2019, and as of those dates, the following financial results were generated by the segments of the Company:

(in thousands)	2020	2019
<u>Operating Revenues:</u>		
Pennichuck Water	\$ 36,688	\$ 32,280
Pennichuck East	9,805	8,819
Pittsfield Aqueduct	808	775
Subtotal Regulated Segment	47,301	41,874
Service Corporation	2,778	2,893
Other	12	12
Total Operating Revenues	\$ 50,091	\$ 44,779
<u>Depreciation and Amortization Expense:</u>		
Pennichuck Water	\$ 7,341	\$ 7,211
Pennichuck East	1,212	1,239
Pittsfield Aqueduct	116	116
Subtotal Regulated Segment	8,669	8,566
Service Corporation	-	-
Other	(120)	(117)
Total Depreciation and Amortization Expense	\$ 8,549	\$ 8,449
<u>Operating Income:</u>		
Pennichuck Water	\$ 8,961	\$ 5,303
Pennichuck East	1,148	355
Pittsfield Aqueduct	80	62
Subtotal Regulated Segment	10,189	5,720
Service Corporation	119	165
Other	21	-
Total Operating Income	\$ 10,329	\$ 5,885
<u>Interest Expense:</u>		
Pennichuck Water	\$ 4,903	\$ 3,517
Pennichuck East	777	937
Pittsfield Aqueduct	40	42
Subtotal Regulated Segment	5,720	4,496
Service Corporation	2	6
Other	6,174	6,670
Total Interest Expense	\$ 11,896	\$ 11,172

(continued)

(continued)

(in thousands)	2020	2019
<u>Income Taxes Provision (Benefit):</u>		
Pennichuck Water	\$ 1,728	\$ 1,521
Pennichuck East	738	415
Pittsfield Aqueduct	21	14
Subtotal Regulated Segment	<u>2,487</u>	<u>1,950</u>
Service Corporation	34	49
Other	(2,014)	(1,685)
Total Income Taxes Provision (Benefit)	<u>\$ 507</u>	<u>\$ 314</u>
<u>Net Income (Loss):</u>		
Pennichuck Water	\$ 2,409	\$ 387
Pennichuck East	(361)	(980)
Pittsfield Aqueduct	19	6
Subtotal Regulated Segment	<u>2,067</u>	<u>(587)</u>
Service Corporation	84	111
Other	(4,135)	(4,861)
Total Net Income (Loss)	<u>\$ (1,984)</u>	<u>\$ (5,337)</u>
<u>Total Net Assets:</u>		
Pennichuck Water	\$ 298,004	\$ 292,311
Pennichuck East	61,881	58,203
Pittsfield Aqueduct	3,056	3,278
Subtotal Regulated Segment	<u>362,941</u>	<u>353,792</u>
Service Corporation	(12)	24
Other	(15,631)	(15,672)
Total Net Assets	<u>\$ 347,298</u>	<u>\$ 338,144</u>
<u>Total Liabilities:</u>		
Pennichuck Water	\$ 194,433	\$ 184,942
Pennichuck East	53,757	49,143
Pittsfield Aqueduct	1,402	1,509
Subtotal Regulated Segment	<u>249,592</u>	<u>235,594</u>
Service Corporation	(31)	(22)
Other	97,325	99,833
Total Liabilities	<u>\$ 346,886</u>	<u>\$ 335,405</u>

(continued)

(continued)

(in thousands)	2020	2019
<u>Total Long-Term Debt (including current portion and unamortized debt insurance costs):</u>		
Pennichuck Water	\$ 105,447	\$ 94,323
Pennichuck East	22,067	19,842
Pittsfield Aqueduct	140	143
Subtotal Regulated Segment	<u>127,654</u>	<u>114,308</u>
Service Corporation	-	-
Other	102,169	104,570
Total Long-Term Debt	<u>\$ 229,823</u>	<u>\$ 218,878</u>

16. Rate Cases

Pennichuck Water

On July 1, 2019, Pennichuck Water filed a request with the NHPUC for a rate increase of 11.91% over its current rates for the test year 2018, effective August 1, 2019. The proposed permanent rate increase includes a 2018 Qualified Capital Project Adjustment Charge (QCPAC) surcharge of 1.69%, a proposed 2019 QCPAC of 2.37%, and further modification to its ratemaking structure. The overall rate increase is subject to the normal regulatory filing process with the NHPUC, as followed for all prior rate case filings, and as such, the final permanent rate increase granted will be effective retroactive back to the filing date.

The request for the overall permanent rate increase was based upon increased Pennichuck Water operating expenses since the last allowed rate increase in 2017 (for the 2015 test year), and to provide enough revenues to pay for investments made in plant and treatment systems to ensure its continued compliance with the Safe Drinking Water Act.

In addition to the requested rate increase, Pennichuck Water has proposed several modifications to its current ratemaking structure which are designed to provide adequate and timely cash coverage of operating expenses so that Pennichuck Water can avoid incurring additional debt. The proposed modifications include:

- creating a Material Operating Expense Factor (MOEF), an expense factor on top of its material operating expenses to cover inflationary increases between rate filings; as a component of allowed revenues in determining permanent rates;
- including the actual cost of Federal and State corporate income taxes in Pennichuck Water's Operating Expense Revenue Requirement (OERR) component of allowed revenues;
- reprioritizing the use of Debt Service Revenue Requirement (DSRR) 0.1 funds;

- reallocating the value of components of the aggregate RSF; and
- changing the treatment of debt issuance costs for long-term debt, other than tax exempt and taxable bond issuances.

On July 24, 2020, the NHPUC issued Order No. 26,383 which approved the following modifications to its current ratemaking structure: (1) the creation of the MOEF. The MOEF percentage factor will be applied to Pennichuck Water's MOERR and established in each rate proceeding; (2) the inclusion of actual NHBET cash payments in the revenue requirement, included as part of the MOERR component; (3) reprioritization of DSRR 0.1 funds to include funding of deferred assets, replenishment of RSF fund balances to their imprest values, and for funding of capital improvements.

On November 24, 2020, the NHPUC issued Order No. 26,425, which approved a MOEF of 9.5% to be applied to the MOERR, as a factor determining that overall portion of allowed revenues in determining permanent rates.

In this Order, the Commission also approved an overall permanent rate increase of 11.85%, becoming effective with services rendered on the date of the order. The permanent rate increase is inclusive of a QCPAC of 4.06% previously approved by NHPUC Order No. 26,298 on October 19, 2019 for 2018 capital expenditures, resulting in a net increase of billed rates to customers over and above the QCPAC surcharge already in place, of 7.79%.

Pennichuck East

On November 24, 2020, Pennichuck East filed a request with the NHPUC for a rate increase of 21.05% over its current rates for the test year 2019, effective December 24, 2020, for which 15.0% of this increase is related to a request for a temporary rate increase effective for services rendered on or after December 24, 2020. The temporary rate increase is subject to approval by the Commission which is separate and distinct from the final rate increase approval, as the Commission's final determination on the permanent rate increase request is processed to completion. The 15.0% temporary rate increase would be inclusive of a 2.98% QCPAC surcharge which was approved on December 6, 2019 in Order No. 26,313 and a 1.97% QCPAC surcharge which is currently pending in DW 20-019.

In addition to the rate increase requested, Pennichuck East has requested certain modifications to its ratemaking structure which were similarly approved for Pennichuck Water on July 24, 2020 by NHPUC Order No. 26,383. These modifications would include:

- creating a MOEF, an expense factor on top of its material operating expenses to cover inflationary increases between rate filings, as a component of that portion of its allowed revenues in determining permanent rates;
- inclusion of actual NHBET cash payments in its revenue requirement calculation;
- reprioritizing the use of DSRR 0.1 funds;

- recovery of State Revolving Loan Fund and Drinking Water Groundwater Trust Fund debt issuance costs; and
- re-establishment of imprest levels of the components of the RSF account and the retention of a previously approved reconciliation mechanism.

Pittsfield Aqueduct

On November 16, 2020, PAC filed a request with the NHPUC for a rate increase of 11.18% over its current rates for the test year 2019, effective December 17, 2020. The overall rate increase is subject to the normal regulatory filing process with the NHPUC, as followed for all prior rate case filings, and as such, the final permanent rate increase granted will be effective retroactive back to the filing date, with final approval by the NHPUC in the Fall of 2021.

The request for the overall permanent rate increase was based upon increased PAC operating expenses since the last allowed rate increase in 2014 (for the 2012 test year), and to provide sufficient revenues to pay for investments made in its treatment systems to ensure its continued compliance with the Safe Drinking Water Act.

In addition to the rate increase requested, PAC is requesting certain modifications to its ratemaking structure which were similarly approved for Pennichuck Water on November 7, 2017 by the NHPUC in Order No. 26,070 and July 24, 2020 by Order No. 26,383. These modifications would include:

- use of a five-year trailing average of revenues and expenses as a test period;
- creating an MOERR RSF, a DSRR RSF, and a City Bond Fixed Revenue Requirement Rate Stabilization Fund (CBFRR) RSF to provide rate stabilization and cash flow coverage for operating expenses, debt service, and the CBFRR portion of revenues, between permanent rate filings;
- creating three “buckets” of allowed revenues comprising the allowed revenues for the Company, in their component levels, including:
 - OERR
 - Comprised of the MOERR and the NOERR
 - DSRR
 - Comprised of the DSRR 1.0 and DSRR 0.1
 - CBFRR
 - Which already existed in PAC’s rate structure, but is being redefined as an overall component in determining allowed revenues;
- creating a MOEF, an expense factor on top of its test year material operating expenses, in defining the overall value of the MOERR portion of allowed revenues, and to cover inflationary increases between rate filings, as a component of that portion of its allowed revenues in determining permanent rates;

- inclusion of actual NHBET cash payments in its revenue requirement calculation; and
- the establishment of a revenue requirement structure, and the mechanics and methodology for its approval, resetting and funding, inclusive of the RSFs and allowed revenue “buckets” shown above, which is the same as approved for Pennichuck Water by NHPUC Order Nos. 26,070, and 26,383

Qualified Capital Project Adjustment Charge

On February 19, 2020, Pennichuck Water filed a petition with the NHPUC for a 3.83% QCPAC surcharge on all capital improvements completed and placed in service by Pennichuck Water in 2019. The Commission has not issued an Order approving this requested surcharge. When the Commission issues the Order, the surcharge will become effective retroactively on a service rendered basis back to April 30, 2020. The Order will allow recoupment of the surcharge from all its customers based on their actual bills incurred between April 30, 2020 and the final effective date of the Order.

On February 13, 2020, Pennichuck East filed a petition with the NHPUC for a 1.97% surcharge on all capital improvements completed and placed in service by Pennichuck East in 2019. The Commission has not issued an Order approving this requested surcharge. When the Commission issues the Order the surcharge will become effective retroactively on a service rendered basis back to November 23, 2020. The Order will allow recoupment of the surcharge from all its customers based on their actual bills incurred between November 23, 2020 and the final effective date of the Order.

17. COVID-19 Pandemic Impact

In March 2020, the World Health Organization (“WHO”) recognized COVID-19 as a global pandemic and the President of the United States of America declared the COVID-19 outbreak in the United States a national emergency. This prompted many national, regional, and local governments to implement preventative or protective measures, such as travel and business restrictions, temporary business closures, and wide-sweeping quarantines and stay-at-home orders.

During the COVID-19 pandemic, the Company’s services have generally been considered essential in nature and have not been materially interrupted. As the situation continues to evolve, management is closely monitoring the impact of the COVID-19 pandemic on all aspects of the Company’s business, including how it impacts customers, subcontractors, suppliers, vendors, and employees, in addition to how the COVID-19 pandemic impacts the Company’s ability to provide services to customers. We believe the ultimate impact of the COVID-19 pandemic on operating results, cash flows and financial condition is likely to be determined by factors which are uncertain, unpredictable, and outside of our control. The situation surrounding COVID-19 remains fluid, and if disruptions do arise, they could materially adversely impact our business.

18. Subsequent Events

The Company has evaluated the events and transactions that have occurred through March 23, 2021, the date that these consolidated financial statements were available for issuance.