



**PENNICHUCK®**

**PENNICHUCK CORPORATION AND SUBSIDIARIES**

Consolidated Financial Statements  
December 31, 2021 and 2020

(With Independent Auditors' Report Thereon)

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## INDEPENDENT AUDITORS' REPORT

Board of Directors and Stockholder  
Pennichuck Corporation and Subsidiaries

### Opinion

We have audited the accompanying consolidated financial statements of Pennichuck Corporation and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of income (loss), comprehensive income (loss), changes in stockholder's equity (deficit), and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Pennichuck Corporation and Subsidiaries as of December 31, 2021 and 2020, 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.

### Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United State of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Pennichuck Corporation and Subsidiaries, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

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

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In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Pennichuck Corporation and Subsidiaries' ability to continue as a going concern for one year after the date that the consolidated financial statements are available to be issued.

### **Auditors' Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Pennichuck Corporation and Subsidiaries' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Pennichuck Corporation and Subsidiaries' ability to continue as a going concern for a reasonable period of time.



We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

*Melanson*

Merrimack, New Hampshire  
March 23, 2022



**PENNICHUCK CORPORATION AND SUBSIDIARIES**

Consolidated Balance Sheets  
As of December 31, 2021 and 2020  
(in thousands, except share data)

	<u>2021</u>	<u>2020</u>
<b>ASSETS</b>		
Property, Plant and Equipment, net	\$ <u>245,197</u>	\$ <u>242,469</u>
Current Assets:		
Cash and cash equivalents	1,493	310
Restricted cash - RSFs and Restricted Accounts	11,619	8,611
Restricted cash - CIAC	1,037	274
Restricted cash - Bond Project Funds	255	237
Accounts receivable - billed, net	3,576	4,297
Accounts receivable - unbilled, net	6,277	4,473
Accounts receivable - other	16	16
Inventory	733	598
Prepaid expenses	506	507
Prepaid property taxes	<u>925</u>	<u>1,290</u>
Total Current Assets	<u>26,437</u>	<u>20,613</u>
Other Assets:		
Deferred charges and other assets	12,516	17,014
Acquisition premium, net	<u>65,082</u>	<u>67,202</u>
Total Other Assets	<u>77,598</u>	<u>84,216</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>349,232</u></b>	<b>\$ <u>347,298</u></b>

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

**PENNICHUCK CORPORATION AND SUBSIDIARIES**

Consolidated Balance Sheets - Continued

As of December 31, 2021 and 2020

(in thousands, except share data)

	2021	2020
<b>STOCKHOLDER'S EQUITY (DEFICIT) AND LIABILITIES</b>		
Stockholder's Equity (Deficit):		
Common stock; \$0.01 par value; 1,000 shares authorized, issued and outstanding	\$ -	\$ -
Additional paid in capital	30,561	30,561
Accumulated deficit	(34,381)	(30,403)
Accumulated other comprehensive income	356	254
Total Stockholder's Equity (Deficit)	(3,464)	412
Long-Term Debt, Less Current Portion and Unamortized Debt Issuance Costs	227,063	223,805
Current Liabilities:		
Lines of credit	6,608	5,480
Current portion of long-term debt	9,149	6,018
Accounts payable	2,452	2,973
Accrued property taxes	142	-
Deferred revenue	67	66
Accrued interest payable	1,341	1,304
Other accrued expenses	559	390
Accrued wages and payroll withholding	387	306
Customer deposits and other	1,298	435
Total Current Liabilities	22,003	16,972
Other Liabilities and Deferred Credits:		
Deferred income taxes	14,850	14,931
Accrued pension liability	12,159	15,424
Unamortized debt premium	3,660	3,109
Deferred investment tax credits	371	405
Regulatory liability	9,906	9,918
Accrued post-retirement benefits	4,748	4,910
Customer advances	84	84
Contributions in aid of construction, net	57,302	56,536
Derivative instrument	290	460
Other long-term liabilities	260	332
Total Other Liabilities and Deferred Credits	103,630	106,109
<b>TOTAL STOCKHOLDER'S EQUITY (DEFICIT) AND LIABILITIES</b>	<b>\$ 349,232</b>	<b>\$ 347,298</b>

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, 2021 and 2020  
(in thousands)

	<u>2021</u>	<u>2020</u>
Operating Revenues	\$ <u>52,004</u>	\$ <u>50,091</u>
Operating Expenses:		
Operations and maintenance	26,707	24,768
Depreciation and amortization	8,751	8,549
Taxes other than income taxes	<u>6,872</u>	<u>6,445</u>
Total Operating Expenses	<u>42,330</u>	<u>39,762</u>
Operating Income	9,674	10,329
Interest Expense	(13,902)	(11,896)
Other, Net	<u>340</u>	<u>90</u>
Loss Before Provision for Income Taxes	(3,888)	(1,477)
(Provision) Benefit for Income Taxes	<u>189</u>	<u>(507)</u>
Net Loss	\$ <u><u>(3,699)</u></u>	\$ <u><u>(1,984)</u></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, 2021 and 2020  
(in thousands)

	<u>2021</u>	<u>2020</u>
Net Loss	\$ (3,699)	\$ (1,984)
Other Comprehensive Income (Loss):		
Unrealized gain (loss) on derivatives	72	(149)
Reclassification of net income (loss) realized in net loss	(68)	42
Income tax provision relating to other comprehensive income (loss)	<u>98</u>	<u>43</u>
Other Comprehensive Income (Loss)	<u>102</u>	<u>(64)</u>
Comprehensive Loss	<u>\$ (3,597)</u>	<u>\$ (2,048)</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 (Deficit)

For the Year Ended December 31, 2021  
(in thousands, except per share data)

	Common Stock		Additional Paid in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total
	Shares	Amount				
Balance as of January 1, 2021	1,000	\$ -	\$ 30,561	\$ (30,403)	\$ 254	\$ 412
Common dividends declared	-	-		(279)	-	(279)
Net loss	-	-	-	(3,699)	-	(3,699)
Other comprehensive income:						
Unrealized gain on derivatives, net of taxes of \$29	-	-		-	43	43
Reclassification of net income realized in net loss, net of taxes of \$39	-	-		-	59	59
Balance as of December 31, 2021	<u>1,000</u>	<u>\$ -</u>	<u>\$ 30,561</u>	<u>\$ (34,381)</u>	<u>\$ 356</u>	<u>\$ (3,464)</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 Paid in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total
	Shares	Amount				
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 \$(63)	-	-	-	-	(89)	(89)
Reclassification of net income realized in net loss, net of taxes of \$27	-	-	-	-	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 Statements of Cash Flows  
For the Years Ended December 31, 2021 and 2020  
(in thousands)

	<u>2021</u>	<u>2020</u>
Cash Flows From Operating Activities:		
Net Loss	\$ (3,699)	\$ (1,984)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	8,843	8,637
Amortization of deferred investment tax credits	(33)	(33)
Provision for deferred income taxes	(161)	534
Gain on disposition of property	(345)	-
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable billed, unbilled and other	(1,084)	(3,154)
(Increase) decrease in inventory	(135)	50
(Increase) decrease in prepaid expenses	365	(387)
(Increase) decrease in refundable income taxes	-	8
(Increase) decrease in deferred charges and other assets	8,179	(2,079)
Increase (decrease) in accounts payable and deferred revenue	(521)	(549)
Increase (decrease) in accrued property taxes	145	-
Increase (decrease) in accrued interest payable	37	(419)
Increase (decrease) in other	<u>(2,387)</u>	<u>3,027</u>
Net cash provided by operating activities	<u>9,204</u>	<u>3,651</u>
Cash Flows From Investing Activities:		
Purchase of property, plant and equipment including debt component of allowance for funds used during construction	(8,816)	(10,165)
Proceeds from sale of property	<u>429</u>	<u>-</u>
Net cash used for investing activities	<u>(8,387)</u>	<u>(10,165)</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, 2021 and 2020  
(in thousands)

	<u>2021</u>	<u>2020</u>
Cash Flows From Financing Activities:		
Borrowings (payments) on lines of credit, net	\$ 1,128	\$ (3,803)
Payments on long-term debt	(6,046)	(65,649)
Contributions in aid of construction	40	35
Proceeds from long-term borrowings	9,614	87,290
Debt issuance costs	(302)	(11,922)
Dividends paid	<u>(279)</u>	<u>(279)</u>
Net cash provided by financing activities	<u>4,155</u>	<u>5,672</u>
Increase (Decrease) in cash, cash equivalents, and restricted cash	4,972	(842)
Cash, cash equivalents, and restricted cash at beginning of period	<u>9,432</u>	<u>10,274</u>
Cash, cash equivalents, and restricted cash at end of period	<u>\$ 14,404</u>	<u>\$ 9,432</u>

**Supplemental Disclosure of Cash Flow and Non-cash Items  
For the Years Ended December 31, 2021 and 2020 (in thousands)**

	<u>2021</u>	<u>2020</u>
Cash paid during the period for:		
Interest	\$ 10,907	\$ 11,207
Income taxes	105	96
Non-cash items:		
Contributions in aid of construction	2,093	3,391
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 head-quartered in Nashua, 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.

The Company’s utility subsidiaries are engaged principally in the collection, storage, treatment and distribution of potable water to approximately 38,394 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 14 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 (for which the approval to allocate these funds to PAC were approved in November 2021 with rate order No. 26,544, in docket DW 20-153). The purpose for splitting and allocating the original RSF funds amongst the regulated subsidiary companies is to provide additional reserves at the individual entity level, which will aid in ensuring sufficient capital reserve funds are available to each entity Company, to support its operations. For the years ended December 31, 2021 and 2020, the aggregated balances in the RSFs and restricted cash accounts were approximately \$11.6 million and \$8.6 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”). The Infrastructure Investment and Jobs act of 2021 retroactively made CIAC non-taxable for federal tax, reversing the effect federally of the TCJA, whereas the taxation of CIAC for NH Business Profits Taxes remains in effect currently. For the years ended December 31, 2021 and 2020, the balances in this restricted cash account were approximately \$1.0 million and \$0.2, 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 or funding of semiannual debt service requirements of the Series 2014, 2019, 2020 and 2021 tax-exempt bonds (the “Bonds”) in December of 2014, April of 2019, April and August of 2020, and April 2021, 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 2020, 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, 2020, the funds in these restricted cash accounts totaled approximately \$237,000. During 2021, approximately \$214,000 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 2021, approximately \$232,000 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, 2022 for the Bonds. As of December 31, 2021, the funds in these restricted cash accounts totaled approximately \$255,000.



### *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, 2021 and 2020, the Company had approximately \$14,500,000 and \$9,300,000 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 upon 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 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 grants or advances for the cost of installing new water mains or other capital assets. These grants or 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 until forgiveness is received or denied. 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, 2021, the Company adopted FASB Accounting Standards Update (ASU) 2017-12, "*Derivatives and Hedging (Topic 815), Targeted Improvements to Accounting for Hedging Activities,*" which made changes to align risk management activities and financial reporting by permitting hedge accounting for risk components in hedging relationships involving nonfinancial risk and interest rate risk, modified certain recognition and presentation of the effects of hedging instruments, and provided other simplifications of hedge accounting guidance. All transition requirements and elections are applied to existing hedging relationships on the date of adoption. For a cash flow hedge existing at the date of adoption, the Company applied this guidance through a cumulative-effect adjustment related to eliminating the separate measurement of ineffectiveness to accumulated other comprehensive income with a corresponding adjustment to the opening balance of retained earnings as of the beginning of the fiscal year that the Company adopts the amendments in this ASU and prospectively for presentation and disclosure guidance. There was no prior year effect to the financial statements as a result of adoption.

## *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, 2021 and 2020 were as follows:

(in thousands)	<u>2021</u>	<u>2020</u>	<u>Useful Lives (in years)</u>
Utility Property:			
Land and land rights	\$ 5,956	\$ 5,972	-
Source of supply	74,318	73,721	3 - 70
Pumping and purification	32,374	31,846	7 - 64
Transmission and distribution, including services, meters and hydrants	202,139	194,244	15 - 91
General and other equipment	17,017	17,023	7 - 75
Intangible plant	790	790	20
Construction work in progress	<u>376</u>	<u>792</u>	
Total utility property	332,970	324,388	
Total non-utility property	<u>5</u>	<u>5</u>	5 - 10
Total property, plant and equipment	332,975	324,393	
Less accumulated depreciation	<u>(87,778)</u>	<u>(81,924)</u>	
Property, Plant and Equipment, net	<u>\$ 245,197</u>	<u>\$ 242,469</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 2.44% and 2.58% in 2021 and 2020, 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)	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 1,493	\$ 310
Restricted cash - RSFs and Restricted Accounts	11,619	8,611
Restricted cash - CIAC	1,037	274
Restricted cash - Bond Project Funds	<u>255</u>	<u>237</u>
Total cash, cash equivalents and restricted cash shown in the consolidated statements of cash flows	<u>\$ 14,404</u>	<u>\$ 9,432</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, 2021 and 2020:

(in thousands)	<u>2021</u>	<u>2020</u>
Accounts receivable - billed	\$ 3,663	\$ 4,365
Less allowance for doubtful accounts	<u>(87)</u>	<u>(68)</u>
Accounts receivable - billed, net	<u>\$ 3,576</u>	<u>\$ 4,297</u>
Accounts receivable - unbilled	\$ 6,277	\$ 4,473
Less allowance for doubtful accounts	<u>-</u>	<u>-</u>
Accounts receivable - unbilled, net	<u>\$ 6,277</u>	<u>\$ 4,473</u>

## 5. Deferred Charges and Other Assets

Deferred charges and other assets as of December 31, 2021 and 2020 consisted of the following:

(in thousands)	<u>2021</u>	<u>2020</u>	<u>Recovery Period (in years)</u>
Regulatory assets:			
Source development charges	\$ 1,016	\$ 1,004	5 - 25
Miscellaneous studies	1,099	998	2 - 25
Unrecovered pension and post-retirement benefits expense	<u>9,560</u>	<u>14,197</u>	(1)
Total regulatory assets	11,675	16,199	
Supplemental executive retirement plan asset	<u>841</u>	<u>815</u>	
Total deferred charges and other assets	\$ <u>12,516</u>	\$ <u>17,014</u>	

<sup>(1)</sup> 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 \$382 based on years of service.

The following table sets forth information regarding our DB Plan and our OPEB Plans as of December 31, 2021 and for the year then ended:

(in thousands)	<u>DB Plan</u>	<u>OPEB Plans</u>
Projected benefit obligations	\$ 39,455	\$ 5,443
Employer contribution	1,144	11
Benefits paid, excluding expenses	(839)	(85)
Fair value of plan assets	27,296	695
Accumulated benefit obligation	35,558	-
Funded status	(12,159)	(4,748)
Net periodic benefit cost	1,950	415
Amount of the funded status recognized in the Consolidated Balance Sheet consisted of:		
Current liability	-	-
Non-current liability	<u>(12,159)</u>	<u>(4,748)</u>
Total	<u>\$ (12,159)</u>	<u>\$ (4,748)</u>

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)	<u>DB Plan</u>	<u>OPEB Plans</u>
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	<u>(15,424)</u>	<u>(4,910)</u>
Total	<u>\$ (15,424)</u>	<u>\$ (4,910)</u>

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, 2021, were as follows:

(in thousands)	<u>DB Plan</u>	<u>OPEB Plans</u>
Regulatory asset balance, beginning of period	\$ 12,525	\$ 1,672
Net actuarial gain incurred during the period	(3,420)	(510)
Prior service cost incurred during the period	-	16
Recognized net actuarial gain	<u>(651)</u>	<u>(72)</u>
Regulatory asset balance, end of period	<u>\$ 8,454</u>	<u>\$ 1,106</u>

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

(in thousands)	<u>DB Plan</u>	<u>OPEB Plans</u>
Regulatory asset balance, beginning of period	\$ 10,269	\$ 1,078
Net actuarial loss incurred during the period	2,733	621
Prior service cost incurred during the period	-	16
Recognized net actuarial gain	<u>(477)</u>	<u>(43)</u>
Regulatory asset balance, end of period	<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, 2021:

(in thousands)	<u>DB Plan</u>	<u>OPEB Plans</u>
Net actuarial loss	\$ 8,454	\$ 1,205
Prior service cost	<u>-</u>	<u>(99)</u>
Regulatory asset	<u>\$ 8,454</u>	<u>\$ 1,106</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)	<u>DB Plan</u>	<u>OPEB Plans</u>
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>

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

	<u>2021</u>	<u>2020</u>
Discount rate for net periodic benefit cost, beginning of year	2.39%	3.13%
Discount rate for benefit obligations, end of year <sup>(a)</sup>	2.74%	2.39%
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)	5.50%	6.00%

<sup>(a)</sup> An increase or decrease in the discount rate of 0.5% would result in a change in the funded status as of December 31, 2021, for the DB Plan and the OPEB Plans of approximately \$3.3 million and \$515 thousand, respectively.

The estimated net actuarial loss for our DB Plan that will be amortized in 2022 from the regulatory assets into net periodic benefit costs is \$329,000. The estimated net actuarial gain and prior service cost for our OPEB Plans that will be amortized in 2022 from the regulatory assets into net periodic benefit costs is \$25,300.

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, 2021, as well as the targeted allocation range:

	DB Plan		OPEB Plans	
		Asset Allocation Range		Asset Allocation Range
Equities	61%	30% - 100%	74%	30% - 100%
Fixed income	15%	20% - 70%	17%	0% - 50%
Cash and cash equivalents	24%	0% - 15%	9%	0% - 15%
Total	100%		100%	

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	100%		100%	

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, 2021 was as follows:

(in thousands)	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>DB Plan:</b>				
Guaranteed Interest Accounts	\$ <u>6,642</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>6,642</u>
Total Assets in the Fair Value Hierarchy	6,642	-	-	6,642
Investments measured at net asset value <sup>(a)</sup>	<u>20,654</u>	<u>-</u>	<u>-</u>	<u>-</u>
DB Plan Investments, at Fair Value	<u>27,296</u>	<u>-</u>	<u>-</u>	<u>6,642</u>
<b>OPEB Plans:</b>				
Common stocks	373	373	-	-
Mutual funds	138	138	-	-
Fixed income funds	120	120	-	-
Money market funds	<u>63</u>	<u>-</u>	<u>63</u>	<u>-</u>
Total Assets in the Fair Value Hierarchy	694	631	63	-
Investments measured at net asset value <sup>(a)</sup>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
OPEB Plans Investments, at Fair Value	<u>694</u>	<u>631</u>	<u>63</u>	<u>-</u>
Totals	\$ <u>27,990</u>	\$ <u>631</u>	\$ <u>63</u>	\$ <u>6,642</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, 2020 was as follows:

(in thousands)	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>DB Plan:</b>				
Guaranteed Interest Accounts	\$ 5,731	\$ -	\$ -	\$ 5,731
Total Assets in the Fair Value Hierarchy	5,731	-	-	5,731
Investments measured at net asset value <sup>(a)</sup>	<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>
<b>OPEB Plans:</b>				
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	639	616	23	-
Investments measured at net asset value <sup>(a)</sup>	<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.

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, 2021 and 2020, respectively:

(in thousands)	<u>Fair Value</u>
December 31, 2021	
Pooled Separate Accounts:	
Equities	\$ 16,648
Fixed Income	<u>4,006</u>
Total Pooled Separate Accounts	<u>\$ 20,654</u>
December 31, 2020	
Pooled Separate Accounts:	
Equities	\$ 14,391
Fixed Income	<u>3,504</u>
Total Pooled Separate Accounts	<u>\$ 17,895</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)	<u>2021</u>	<u>2020</u>
Balance, beginning of year	\$ 5,731	\$ 5,155
Plan transfers	202	1,941
Contributions	599	373
Benefits paid	-	(1,844)
Return on plan assets (net of investment expenses)	<u>110</u>	<u>106</u>
Balance, end of year	<u>\$ 6,642</u>	<u>\$ 5,731</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 \$0.75 million to the DB Plan in 2022.

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

(in thousands)	<u>DB Plan</u>	<u>OPEB Plans</u>
2022	\$ 1,178	\$ 113
2023	1,236	119
2024	1,380	134
2025	1,500	144
2026	1,567	153
2027 and thereafter	<u>9,803</u>	<u>1,001</u>
Total	<u>\$ 16,664</u>	<u>\$ 1,664</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 eligible compensation contributed to the plan. The matching employer's contributions, recorded as operating expenses, were approximately \$294,000 and \$272,000 for the years ended December 31, 2021 and 2020, 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 \$385,300 and \$389,800 for the years ended December 31, 2021 and 2020, respectively.

The remaining non-cancelable lease commitments for the corporate office space and leased equipment as of December 31, 2021 were as follows:

(in thousands)	<u>Amount</u>
2022	\$ 364
2023	348
2024	347
2025	330
2026	363
Thereafter	<u>3,449</u>
Total	<u>\$ 5,201</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, 2021 and 2020 were as follows:

(in thousands)	<u>December 31, 2021</u>			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Liabilities:				
Interest rate swap	\$ <u>(290)</u>	\$ <u>-</u>	\$ <u>(290)</u>	\$ <u>-</u>

  

(in thousands)	<u>December 31, 2020</u>			
	<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>

The carrying value of certain financial instruments included in the accompanying Consolidated Balance Sheets, along with the related fair value, as of December 31, 2021 and 2020 was as follows:

(in thousands)	<u>2021</u>		<u>2020</u>	
	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Carrying Value</u>	<u>Fair Value</u>
Liabilities:				
Interest rate swap liability	\$ <u>(290)</u>	\$ <u>(290)</u>	\$ <u>(460)</u>	\$ <u>(460)</u>

The fair market value of the interest rate swap represents the estimated cost to terminate this agreement as of December 31, 2021 and 2020 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, 2021 and 2020, revenue recognized for goods and services transferred over time totaled \$3,339,069 and \$2,777,693, respectively.

For the year ended December 31, 2021, approximately 58% of revenues were from large-contract customers, 25% of revenues were from small contract customers (con-ops), and 17% of revenues were from residential maintenance and other customers. 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% of 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, 2021 and 2020 were as follows:

(in thousands)	<u>2021</u>	<u>2020</u>
Federal	\$ (151)	\$ 656
State	(5)	(116)
Amortization of investment tax credits	<u>(33)</u>	<u>(33)</u>
Total	<u>\$ (189)</u>	<u>\$ 507</u>
Current	\$ (127)	\$ 33
Deferred	<u>(62)</u>	<u>474</u>
Total	<u>\$ (189)</u>	<u>\$ 507</u>

The following is a reconciliation between the statutory federal income tax rate and the effective income tax rate for 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Statutory federal rate	21.0 %	21.0 %
State tax rate, net of federal benefits	6.1	6.1
Permanent differences	(23.0)	(63.6)
Amortization of investment tax credits	<u>0.9</u>	<u>2.2</u>
Effective tax rate	<u>5.0 %</u>	<u>(34.3) %</u>

The temporary items that give rise to the net deferred tax liability as of December 31, 2021 and 2020 were as follows:

(in thousands)	<u>2021</u>	<u>2020</u>
Liabilities:		
Property-related, net	\$ 23,417	\$ 22,496
Other	<u>740</u>	<u>704</u>
Total liabilities	<u>24,157</u>	<u>23,200</u>
Assets:		
Pension accrued liability	1,817	1,659
Net operating loss carryforward	6,331	5,415
Alternative minimum tax credit	476	476
NH Business Enterprise Tax credits	1,103	957
Other	<u>682</u>	<u>718</u>
	10,409	9,225
Less valuation allowance	<u>(1,102)</u>	<u>(956)</u>
Total assets	<u>9,307</u>	<u>8,269</u>
Net non-current deferred income tax liability	<u>\$ 14,850</u>	<u>\$ 14,931</u>

The Company has accumulated federal net operating losses. The federal tax benefit of the cumulative net operating losses is approximately \$5 million, begins to expire in 2033, and is included in deferred income taxes in the Consolidated Balance Sheet as of December 31, 2021. Approximately 75% of the net operating losses are 100% 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% 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 25% of the net operating losses were generated in 2019 through 2021 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 \$1.6 million which begins to expire in 2023 and is included in deferred income taxes in the Consolidated Balance Sheet as of December 31, 2021.

As of December 31, 2021 and 2020, 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, 2021 and 2020, the Company had New Hampshire Business Enterprise Tax (“NHBET”) credits of approximately \$1,100,000 and \$960,000, respectively. NHBET credits begin to expire in 2022. 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 \$146,000 and \$167,000 in the years ended December 31, 2021 and 2020, 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 \$9,906,000 and \$9,918,000 as of December 31, 2021 and 2020, 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 2021 and 2020. We incurred no penalties during the years ended December 31, 2021 and 2020.

## 11. Long-Term Debt

Long-term debt as of December 31, 2021 and 2020 consisted of the following:

(in thousands)	2021	
	Principal	Unamortized Debt Issuance Costs
Unsecured note payable to City of Nashua, 5.75%, due 12/25/2041	\$ 99,632	\$ -
Unsecured Business Finance Authority:		
Revenue Bonds (Series 2014B), 4.50%, due January 1, 2045	4,725	101
Revenue Bonds (Series 2018A), interest rates from 4.375% to 5.00%, due April 1, 2048	4,460	235
Revenue Bonds (Series 2018B), 4.33%, due April 1, 2028	805	44
Revenue Bonds (Series 2019A), interest rates from 2.19% to 4.15%, due April 1, 2049	7,945	267
Revenue Bonds (Series 2020A), interest rates from 3.15% to 4%, due April 1, 2050	7,000	275
Revenue Bonds (Series 2020B), 5.25%, due April 1, 2023	255	7
Revenue Bonds (Series 2020C), interest rates from 1.25% to 4.02%, due September 1, 2055 (3)	72,420	7,836
Revenue Bonds (Series 2021A), interest rates from 4% to 5%, due April 1, 2051	5,065	240
Revenue Bonds (Series 2021B), 1.05%, due April 1, 2024	125	5
Unsecured notes payable to bank, floating-rate, due March 1, 2030	2,267	10
Unsecured notes payable to bank, 3.62%, due June 20, 2023	1,141	2
Unsecured notes payable to bank, 4.20%, due December 20, 2041	1,094	4
Unsecured notes payable to bank, 4.83%, due December 20, 2041	840	5
Unsecured notes payable to bank, 4.25%, due June 20, 2033	626	5
Unsecured notes payable to bank, 4.90%, due March 6, 2040	524	30
Unsecured notes payable to bank, 5.33%, due June 20, 2043	324	10
Unsecured notes payable to bank, 4.38%, due September 20, 2044	1,091	15
Unsecured notes payable to bank, 3.98%, due January 1, 2046	781	12
Unsecured notes payable to bank, 4.18%, due October 20, 2046	1,131	11
Unsecured notes payable to bank, 4.25%, due December 20, 2046	2,547	12
Unsecured New Hampshire State Revolving Fund ("SRF") notes (1)	22,592	152
Unsecured New Hampshire Drinking Water & Groundwater Trust Fund ("DWGTF") notes (2)	8,520	10
Paycheck Protection Program Loan, 1.00%, due May 7, 2022	2,544	2
Unamortized debt issuance costs for defeased obligations, allowed by regulation	-	2,952
<b>Total</b>	<b>248,454</b>	<b>\$ 12,242</b>
Less current portion	(9,149)	
Less unamortized debt issuance costs	(12,242)	
<b>Total long-term debt, less current portion and unamortized debt issuance costs</b>	<b>\$ 227,063</b>	

(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 2.7% to 3.4%. 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 \$7,836 of Unamortized Debt Issuance Costs as of December 31, 2020 generated by the September 2nd issuance, \$6,491 are directly tied the advance refunding and will fully-amortize on a straight-line basis until their respective call dates.

(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.

The aggregate principal payment requirements subsequent to December 31, 2021 are as follows:

(in thousands)	<u>Amount</u>
2022	\$ 9,149
2023	7,853
2024	7,080
2025	7,338
2026	7,659
2027 and thereafter	<u>209,375</u>
Total	<u>\$ 248,454</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, 2021 and 2020, Pennichuck Water’s net worth was \$97.8 million and \$103.6 million, respectively.

The 2014A, 2014B, 2018A, 2018B, 2019A, 2020A, 2020B, 2020C, 2021A and 2021B 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, 2021 and 2020, Pennichuck Water has a Debt to Capital Coverage ratio of 0.7 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, 2021 and 2020, this coverage ratio was 0.6 and 0.6, respectively. Also, the ratio of EBITDA to the Max Amount Due must be equal to or greater than 1.1; as of December 31, 2021 and 2020, this ratio was 2.3 and 2.6, 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, 2021 and 2020, the Rate Covenant coverage ratio was 2.19 and 3.57, respectively.

Pennichuck East’s loan agreement for its unsecured notes payable to a bank of \$12.4 million and \$9.2 million at December 31, 2021 and 2020, respectively, contains a minimum debt service coverage ratio requirement of 1.10. At December 31, 2021 and 2020, this ratio was 1.47 and 2.07, 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.

On October 29, 2021, the NHPUC issued NISI Order No. 26,538, with an effective date of November 30, 2021, approving Pennichuck East Utility’s request to borrow \$2,546,632 from CoBank, ACB for a 25-year term. This financing was used to fund a “one time” refill and replenishment of the Company’s Material Operating Expense Revenue Requirement (MOERR) RSF, as well as repay intercompany debt incurred to support the Company as it awaits final permanent rate relief (set to occur in early 2022), and the reestablishment of its RSF funds. On November 30, 2021, Pennichuck East Utility closed on this term loan financing transaction with CoBank, ACB in the amount of \$2,546,632 for a term of 25 years at an interest rate of 4.25%.

As of December 31, 2021 and 2020, the Company had a \$2.3 million and \$2.5 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 \$2.3 million loan which has a floating interest rate based on the three-month London Interbank Offered Rate (“LIBOR”) plus 1.88% as of December 31, 2021. 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, 2021 and 2020, included in our Consolidated Balance Sheets under “Other Liabilities and Deferred Credits” as “Derivative instrument” was \$290,000 and \$460,000, 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, 2021 and 2020, \$68,000 loss and \$42,000 income, respectively, was reclassified pre-tax from accumulated other comprehensive income (loss) to interest expense as a result of swap settlements. The Company expects to reclassify approximately \$76,000, 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.

Any unforgiven portion of the PPP loan is payable over two years, from the date of the initial approval of the loan, at an interest rate of 1%, with deferral of payments for the first ten months. Early in 2022, the Company’s application for forgiveness was denied and the PPP loan has been reclassified to current portion of long-term debt with a maturity date of May 7, 2022.

## 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, 2021 and 2020 was:

(in thousands)	<u>2021</u>	<u>2020</u>
Established line as of December 31,	\$ 4,000	\$ 4,000
Maximum amount outstanding during period	2,312	3,006
Average amount outstanding during period	942	1,354
Amount outstanding as of December 31,	-	624
Weighted average interest rate during period	1.88%	2.47%
Interest rate as of December 31,	1.84%	1.90%

Short-term borrowing activity under Pennichuck Water's FALOC for the years ended December 31, 2021 and 2020 was:

(in thousands)	<u>2021</u>	<u>2020</u>
Established line as of December 31,	\$ 12,000	\$ 12,000
Maximum amount outstanding during period	5,851	7,223
Average amount outstanding during period	3,775	3,610
Amount outstanding as of December 31,	5,851	4,550
Weighted average interest rate during period	1.88%	2.80%
Interest rate as of December 31,	1.84%	1.90%

Short-term borrowing activity under Pennichuck East’s FALOC for the years ended December 31, 2021 and 2020 was:

	<u>2021</u>	<u>2020</u>
Established line as of December 31,	\$ 3,000	\$ 3,000
Maximum amount outstanding during period	1,171	1,106
Average amount outstanding during period	909	1,022
Amount outstanding as of December 31,	757	306
Weighted average interest rate during period	2.13%	2.80%
Interest rate as of December 31,	2.09%	2.15%

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, 2021 and 2020, Pennichuck Water has a Debt to Capital Coverage ratio of 0.7 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, 2021 and 2020, this coverage ratio was 0.6 and 0.6, respectively. Also, the ratio of EBITDA to the Max Amount Due must be equal to or greater than 1.1; as of December 31, 2021 and 2020 this ratio was 2.3 and 2.6, 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, 2021 and 2020, the Rate Covenant coverage ratio was 2.19 and 3.57, respectively.

### 13. Accumulated Other Comprehensive Income

The following table presents changes in accumulated other comprehensive income by component for the years ended December 31, 2021 and 2020:

(in thousands)	<u>Interest Rate Contract</u>	
	<u>2021</u>	<u>2020</u>
Beginning balance	\$ 254	\$ 318
Other comprehensive income (loss) before reclassifications	43	(89)
Amounts reclassified from accumulated other comprehensive income	<u>59</u>	<u>25</u>
Net current period other comprehensive income (loss)	<u>102</u>	<u>(64)</u>
Ending balance	<u>\$ 356</u>	<u>\$ 254</u>

The following table presents reclassifications out of accumulated other comprehensive income for the years ended December 31, 2021 and 2020:

<u>Details about Accumulated Other Comprehensive Income Components</u>	<u>Amounts Reclassified from Accumulated Other Comprehensive Income</u>		<u>Affected Line Item in the Statement Where Net Income is Presented</u>
	<u>2021</u>	<u>2020</u>	
(in thousands)			
Gain on cash flow hedges:			
Interest rate contracts	\$ 98	\$ 42	Interest expense
	<u>(39)</u>	<u>(17)</u>	Tax expense
Amounts reclassified from accumulated other comprehensive income	<u>\$ 59</u>	<u>\$ 25</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, 2021 and 2020 was approximately \$99.6 million and \$102 million, respectively, as disclosed in Note 11 to these consolidated financial statements. During 2021 and 2020, dividends of approximately \$279,000 and \$279,000, respectively, were declared and paid to the City. The dividends paid to the City during 2021 comprised approximately \$279,000 of regular quarterly dividends declared and paid; and no special dividend was declared or paid in 2021. 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.

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, 2021 and 2020, respectively, approximately \$3.9 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 \$2.3 million for the year ended December 31, 2021, and approximately \$2.7 million for the year ended December 31, 2020.

**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, 2021 was approximately \$68.9 million, reduced by the non-regulated credit of approximately \$3.8 million.

Aggregate amortization expense for the years ended December 31, 2021 and 2020 totaled approximately \$2,119,000 and \$2,061,000, respectively.

The following table represents the total estimated amortization of MARA:

(in thousands)	Estimated Amortization Expense
2022	\$ 2,183
2023	2,253
2024	2,328
2025	2,409
2026	2,498
2026 and thereafter	<u>53,411</u>
Total	<u>\$ 65,082</u>

## 15. Segment Reporting

For the years ended December 31, 2021 and 2020, and as of those dates, the following financial results were generated by the segments of the Company:

(in thousands)	<u>2021</u>	<u>2020</u>
<u>Operating Revenues:</u>		
Pennichuck Water	\$ 38,024	\$ 36,688
Pennichuck East	9,818	9,805
Pittsfield Aqueduct	<u>810</u>	<u>808</u>
Subtotal Regulated Segment	<u>48,652</u>	<u>47,301</u>
Service Corporation	3,339	2,778
Other	<u>13</u>	<u>12</u>
Total Operating Revenues	<u>\$ 52,004</u>	<u>\$ 50,091</u>
<u>Depreciation and Amortization Expense:</u>		
Pennichuck Water	\$ 7,520	\$ 7,341
Pennichuck East	1,238	1,212
Pittsfield Aqueduct	<u>116</u>	<u>116</u>
Subtotal Regulated Segment	<u>8,874</u>	<u>8,669</u>
Service Corporation	-	-
Other	<u>(123)</u>	<u>(120)</u>
Total Depreciation and Amortization Expense	<u>\$ 8,751</u>	<u>\$ 8,549</u>
<u>Operating Income:</u>		
Pennichuck Water	\$ 8,346	\$ 8,961
Pennichuck East	988	1,148
Pittsfield Aqueduct	<u>71</u>	<u>80</u>
Subtotal Regulated Segment	<u>9,405</u>	<u>10,189</u>
Service Corporation	251	119
Other	<u>18</u>	<u>21</u>
Total Operating Income	<u>\$ 9,674</u>	<u>\$ 10,329</u>
<u>Interest Expense:</u>		
Pennichuck Water	\$ 7,193	\$ 4,903
Pennichuck East	765	777
Pittsfield Aqueduct	<u>40</u>	<u>40</u>
Subtotal Regulated Segment	<u>7,998</u>	<u>5,720</u>
Service Corporation	1	2
Other	<u>5,903</u>	<u>6,174</u>
Total Interest Expense	<u>\$ 13,902</u>	<u>\$ 11,896</u>

(continued)



(continued)

(in thousands)	<u>2021</u>	<u>2020</u>
<u>Income Taxes Provision (Benefit):</u>		
Pennichuck Water	\$ 1,192	\$ 1,728
Pennichuck East	185	738
Pittsfield Aqueduct	<u>20</u>	<u>21</u>
Subtotal Regulated Segment	<u>1,397</u>	<u>2,487</u>
Service Corporation	77	34
Other	<u>(1,663)</u>	<u>(2,014)</u>
Total Income Taxes Provision (Benefit)	<u>\$ (189)</u>	<u>\$ 507</u>
<u>Net Income (Loss):</u>		
Pennichuck Water	\$ 198	\$ 2,409
Pennichuck East	38	(361)
Pittsfield Aqueduct	<u>13</u>	<u>19</u>
Subtotal Regulated Segment	<u>249</u>	<u>2,067</u>
Service Corporation	173	84
Other	<u>(4,121)</u>	<u>(4,135)</u>
Total Net Income (Loss)	<u>\$ (3,699)</u>	<u>\$ (1,984)</u>
<u>Total Net Assets:</u>		
Pennichuck Water	\$ 298,304	\$ 298,004
Pennichuck East	65,183	61,881
Pittsfield Aqueduct	<u>2,912</u>	<u>3,056</u>
Subtotal Regulated Segment	<u>366,399</u>	<u>362,941</u>
Service Corporation	151	(12)
Other	<u>(17,318)</u>	<u>(15,631)</u>
Total Net Assets	<u>\$ 349,232</u>	<u>\$ 347,298</u>
<u>Total Liabilities:</u>		
Pennichuck Water	\$ 200,536	\$ 194,433
Pennichuck East	57,107	53,757
Pittsfield Aqueduct	<u>1,370</u>	<u>1,402</u>
Subtotal Regulated Segment	<u>259,013</u>	<u>249,592</u>
Service Corporation	43	(31)
Other	<u>93,640</u>	<u>97,325</u>
Total Liabilities	<u>\$ 352,696</u>	<u>\$ 346,886</u>

(continued)

(continued)

(in thousands)	<u>2021</u>	<u>2020</u>
<u>Total Long-Term Debt (less current portion and unamortized debt insurance costs):</u>		
Pennichuck Water	\$ 105,875	\$ 103,019
Pennichuck East	24,124	21,023
Pittsfield Aqueduct	<u>132</u>	<u>136</u>
Subtotal Regulated Segment	<u>130,131</u>	<u>124,178</u>
Service Corporation	-	-
Other	<u>96,932</u>	<u>99,627</u>
Total Long-Term Debt	<u>\$ 227,063</u>	<u>\$ 223,805</u>

## 16. Rate Cases

### ***Pennichuck Water***

On October 21, 2021, Pennichuck Water filed an emergency tariff sheet request for approval with the NHPUC. The Company's emergency tariff filing was on behalf of a single customer, the Merrimack Village District (MVD), and would allow this customer to purchase bulk water at Pennichuck Water's variable cost of production. The initial rate to be billed will be \$0.67 per cubic feet. This would allow MVD access to Pennichuck Water's bulk water supply in late 2021 and during 2022, while MVD's water supply systems are brought into compliance with water quality regulations for PFAS contaminants.

On November 12, 2021, the NHPUC issued Order No. 26,552, with an effective date of November 20, 2021, approving Pennichuck Water's request for an emergency tariff filing on behalf of a single customer, the MVD. This emergency tariff is on a temporary basis and must not exceed a term longer than six months from the effective date.

In conjunction with this, Pennichuck Water also opened a docket under DW 21-134 for the approval of a special contract for these emergency rates, in order to bring those rates into full force and effect (preceding and succeeding the emergency rate tariff), upon approval, for the time period from which the emergency usage of this water was initiated on October 20, 2021, for a period not to exceed a termination date of December 31, 2022.

### ***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 15.00% 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 15.00% temporary rate increase would be inclusive of a 2.98% Qualified Capital Project Adjustment Charge (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.

On August 16, 2021, the NHPUC issued Order No. 26,508 approving temporary rates at 14.03% effective on a service rendered basis as of December 24, 2020. The temporary rate increase was inclusive of a QCPAC surcharge of 2.98% which was approved in 2019 within order No. 26,313.

In addition to the rate increase requested, Pennichuck East 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 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 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 Debt Service Revenue Requirement (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.

Final approval by the NHPUC on new permanent rates and the requested modifications to its ratemaking structure for PEU, was expected to be approved early 2022 (see footnote 18).

### ***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 would be effective retroactive back to the filing date.

The request for the overall permanent rate increase, as filed 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 a “three bucket” RSF structure, comprised of: a Material Operating Expense Revenue Requirement (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:
  - Operating Expense Revenue Requirement (OERR)
    - Comprised of the MOERR and the Non-material Operating Expense Revenue Requirement (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.

On November 9, 2021, the NHPUC issued Order No. 26,544 approving an overall permanent rate increase of 5.45%, which became effective with services rendered back to December 17, 2020. In addition, the Order approved the requested modifications to its ratemaking structure.

### ***Qualified Capital Project Adjustment Charge***

#### *Pennichuck Water*

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.

On December 9, 2021, the NHPUC issued Order No. 26,555 approving a QCPAC surcharge of 3.90% for capital projects placed in service in 2019. This order became effective with services rendered back to April 23, 2020 and allows for recovery in the form of a monthly recoupment surcharge, to be collected over a twelve-month period from the date of the order.

#### *Pennichuck East*

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 services 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. However, on September 23, 2021 the NHPUC issued Order No. 26,525 which approved Pennichuck East's subsequent request to embed the surcharge into the current rate case in pendency (see footnote 18). Final approval by the NHPUC on this QCPAC surcharge, combined with new permanent rates and the requested modifications to its ratemaking structure for PEU, was expected to be received in early 2022 (see footnote 18).

## **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, 2022, the date that these consolidated financial statements were available for issuance.

### ***Pennichuck East Utility Rate Case***

On February 18, 2022, the NHPUC issued Order No. 26,586 approving a permanent rate increase of 16.79%, becoming effective with services rendered as of December 24, 2020 for its customers.

In this Order, the Commission also approved modifications to its current ratemaking structure which include:

- the creation of a MOEF of 4%;
- inclusion of actual NHBET cash payments in its revenue requirement calculation;
- reprioritizing the use of DSRR 0.1 funds;
- recovery of debt issuance costs; and
- re-establishment of the prescribed imprest levels of the components of the RSF accounts.

### ***PPP Loan***

On February 2, 2022, the SBA determined that the Company was ineligible for forgiveness of the \$2.5M PPP Loan which was established as part of the CARES Act.

The PPP loan is payable over two years from the initial approval date of the loan, at an interest rate of 1%. Monthly payments on this obligation begin on February 18, 2022, with a final maturity date of May 7, 2022.