PENNICHUCK CORPORATION AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

PENNICHUCK CORPORATION AND SUBSIDIARIES

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MARCUM
ACCOUNTANTS ▲ ADVISORS

INDEPENDENT AUDITORS' REPORT

Board of Directors and Stockholder
Pennichuck Corporation and Subsidiaries

Opinion

We have audited the consolidated financial statements of Pennichuck Corporation and Subsidiaries, which comprise the consolidated balance sheet as of December 31, 2023, and the related consolidated statements of income (loss), comprehensive income (loss), changes in stockholder's equity (deficit), and cash flows for the year 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 consolidated financial position of Pennichuck Corporation and Subsidiaries as of December 31, 2023, and the consolidated 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 audit 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 Consolidated 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 audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Auditors' Report on the 2022 Consolidated Financial Statements

The consolidated financial statements of Pennichuck Corporation and Subsidiaries as of December 31, 2022 and for the year then ended, were audited by Melanson, P.C., whose practice was combined with Marcum LLP as of January 1, 2023, and whose report dated March 21, 2023, expressed an unmodified opinion on those statements.

Marcum LLP / 9 Executive Park Drive / Suite 100 / Merrimack, NH 03054 / **Phone** 603.882.1111 / **marcumllp.com**

Responsibilities of Management for the Consolidated 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.

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 Consolidated 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.

Marcum LLP

Merrimack, NH
March 26, 2024

PENNICHUCK CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2023

(in thousands, except share data)

	2023	2022
Assets		
Property, Plant and Equipment, net	$ 251,517	$ 247,062
Current Assets		
Cash and cash equivalents	707	3,138
Restricted cash - RSFs and Restricted Accounts	9,799	10,837
Restricted cash - CIAC	134	134
Restricted cash - Bond Project Funds	221	219
Accounts receivable - billed, net of allowance for credit losses of $52 and $70, respectively	5,490	5,048
Accounts receivable - unbilled, net of allowance for credit losses of $0 and $0, respectively	3,017	3,277
Accounts receivable - other	28	16
Inventory	1,194	991
Prepaid expenses	930	908
Prepaid property taxes	904	1,064
Deferred and refundable income taxes	28	11
Total Current Assets	22,452	25,643
Other Assets		
Right-of-use asset	4,816	5,101
Deferred charges and other assets	3,538	4,184
Acquisition premium, net	60,646	62,899
Total Other Assets	69,000	72,184
Total Assets	$ 342,969	$ 344,889

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

PENNICHUCK CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (CONTINUED)

DECEMBER 31, 2023

(In thousands, except share data)

	2023	2022
Stockholder's Deficit and Liabilities		
Stockholder's Deficit		
Common stock; $0.01 par value; 1,000 shares authorized, issued and outstanding	$ --	$ --
Additional paid in capital	30,561	30,561
Accumulated deficit	(41,660)	(36,363)
Accumulated other comprehensive income	513	524
Total Stockholder's Deficit	(10,586)	(5,278)
Long-Term Debt, Less Current Portion and Unamortized Debt Issuance Costs	233,270	229,303
Current Liabilities		
Lines of credit	8,204	6,246
Current portion of long-term debt	7,399	7,999
Current portion of operating lease liability	271	285
Accounts payable	3,124	3,258
Accrued property taxes	46	--
Deferred revenue	76	69
Accrued interest payable	1,474	1,389
Other accrued expenses	507	278
Accrued wages and payroll withholding	420	438
Customer deposits and other	712	654
Total Current Liabilities	22,233	20,616
Other Liabilities and Deferred Credits		
Deferred income taxes	13,811	14,418
Accrued pension liability	5,019	6,177
Unamortized debt premium	3,448	3,556
Deferred investment tax credits	305	338
Regulatory liability	9,881	9,894
Accrued post-retirement benefits	3,771	3,401
Customer advances	84	84
Contributions in aid of construction, net	56,961	57,306
Derivative instrument	27	10
Long-term operating lease liability, net of current portion	4,545	4,816
Other long-term liabilities	200	248
Total Other Liabilities and Deferred Credits	98,052	100,248
Total Stockholder's Deficit and Liabilities	$ 342,969	$ 344,889

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, 2023 AND 2022

(In thousands)

	2023	2022
Operating Revenues	$ 52,637	$ 56,081
Operating Expenses		
Operations and maintenance	28,521	29,003
Depreciation and amortization	9,095	8,856
Taxes other than income taxes	6,654	6,399
Total Operating Expenses	44,270	44,258
Operating Income	8,367	11,823
Interest expense	(14,617)	(14,114)
Other, net	588	--
Loss Before (Provision) Benefit for Income Taxes	(5,662)	(2,291)
(Provision) Benefit for Income Taxes	643	587
Net Loss	$ (5,019)	$ (1,704)

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, 2023 AND 2022

(In thousands)

	2023	2022
Net Loss	$ (5,019)	$ (1,704)
Other Comprehensive Income (Loss)		
Unrealized gain (loss) on derivatives	(2)	206
Reclassification of net income (loss) realized in net loss	(15)	73
Income tax provision relating to other comprehensive income (loss)	6	(111)
Other Comprehensive Income (Loss)	(11)	168
Comprehensive Loss	$ (5,030)	$ (1,536)

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)
CURRENT YEAR

FOR THE YEAR ENDED DECEMBER 31, 2023
(In thousands, except per share data)

	Common Stock		Additional Paid-in	Accumulated	Accumulated Other Comprehensive	
	Shares	Amount	Capital	Deficit	Income	Total
Balance as of January 1, 2023	$ 1,000	$ --	$ 30,561	$ (36,363)	$ 524	$ (5,278)
Common dividends declared	--	--		(278)	--	(278)
Net loss	--	--	--	(5,019)	--	(5,019)
Other Comprehensive Income						
Unrealized loss on derivatives, net of taxes of $0	--	--	--	--	(2)	(2)
Reclassification of net loss realized in net loss, net of taxes of $6	--	--	--	--	(9)	(9)
Balance as of December 31, 2023	1,000	$ --	$ 30,561	$ (41,660)	$ 513	$ (10,586)

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)
PRIOR YEAR

FOR THE YEAR ENDED DECEMBER 31, 2022
(In thousands, except per share data)

	Common Stock		Additional Paid-in	Accumulated	Accumulated Other Comprehensive	
	Shares	Amount	Capital	Deficit	Income	Total
Balance as of January 1, 2022	1,000	$ --	$ 30,561	$ (34,381)	$ 356	$ (3,464)
Common dividends declared	--	--	--	(278)	--	(278)
Net loss	--	--	--	(1,704)	--	(1,704)
Other Comprehensive Income						
Unrealized gain on derivatives, net of taxes of $82	--	--	--	--	124	124
Reclassification of net income realized in net loss, net of taxes of $29	--	--	--	--	44	44
Balance as of December 31, 2022	1,000	$ --	$ 30,561	$ (36,363)	$ 524	$ (5,278)

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, 2023 AND 2022

(In thousands)

	2023	2022
Cash Flows From Operating Activities		
Net loss	$ (5,019)	$ (1,704)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	9,205	8,967
Amortization of deferred investment tax credits	(33)	(33)
Provision for deferred income taxes	(613)	(557)
Gain on disposition of property	(575)	--
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable billed, unbilled and other	(194)	1,528
(Increase) decrease in inventory	(203)	(258)
(Increase) decrease in prepaid expenses	139	(541)
(Increase) decrease in deferred and refundable income taxes	(17)	(11)
(Increase) decrease in deferred charges and other assets	3,700	11,344
Increase (decrease) in accounts payable and deferred revenue	(159)	865
Increase (decrease) in accrued property taxes	45	(145)
Increase (decrease) in accrued interest payable	85	48
Increase (decrease) in other	(536)	(8,268)
Net Cash Provided by Operating Activities	5,825	11,235
Cash Flows From Investing Activities		
Purchase of property, plant and equipment including debt component of allowance for funds used during construction	(12,228)	(8,653)
Proceeds from sale of property	790	--
Net Cash Used in Investing Activities	(11,438)	(8,653)
Cash Flows From Financing Activities		
Borrowings (payments) on lines of credit, net	1,958	(362)
Payments on long-term debt	(8,038)	(9,152)
Contributions in aid of construction	261	16
Proceeds from long-term borrowings	8,585	7,441
Debt issuance costs	(342)	(323)
Dividends paid	(278)	(278)
Net Cash Provided by (Used in) Financing Activities	2,146	(2,658)
Increase (Decrease) in Cash, Cash Equivalents and Restricted Cash	(3,467)	(76)
Cash, Cash Equivalents and Restricted Cash - Beginning	14,328	14,404
Cash, Cash Equivalents and Restricted Cash - Ending	$ 10,861	$ 14,328

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, 2023 AND 2022

(In thousands)

Supplemental Disclosure of Cash Flow and Non-Cash Items

	2023	2022
Cash Paid During the Year for:		
Interest	$ 11,541	$ 11,114
Income taxes	$ 162	$ 151
Non-Cash Items:		
Contributions in aid of construction	$ 808	$ 1,381
Forgiveness of debt	$ 112	$ 112

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

NOTE 1 - DESCRIPTION OF BUSINESS

Pennichuck Corporation ("the Company," "we," or "our") is a holding company headquartered 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 39,000 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".

NOTE 2 - 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 – RSFS AND RESTRICTED ACCOUNTS

This restricted cash balance consists of funds maintained for the Rate Stabilization Funds ("RSF"), which was initially established in conformity with the requirements of NHPUC Order No. 25,292, as explained more fully in Note 15 of these consolidated financial statements. The RSF is a set of imprest funds of $5 million in the aggregate, which is subject to funding above or below the imprest fund balance, reflecting actual revenue and/or expense performance as it relates to prescribed revenue and specific expense levels supported by the RSF. The excess or deficient amount (versus the $5 million imprest balances) 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 authorized the reallocation of the initial and existing $5,000,000 RSF among the Company's utility subsidiaries. Such that, Pennichuck Water's allocated share of the RSF funds would be $3,920,000, with the remaining balance of $1,080,000 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 was 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 was to provide additional reserves at the individual entity level, which would aid in ensuring sufficient capital reserve funds are available to each entity Company, to support its operations. For the years ended December 31, 2023 and 2022, the aggregated balances in the RSFs and restricted cash accounts were approximately $9.8 million and $10.8 million, respectively.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 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 remained in effect. Subsequently, in April 2022, legislation was passed in New Hampshire to reinstate the non-taxability of water utility CIAC for Business Profits Taxes. As such, the Company was able to cease collection of these taxes for both Federal and State purposes, after effective dates that the exemptions were reinstated. For the years ended December 31, 2023 and 2022, the balances in this restricted cash account were approximately $134,000 for each of the years ended. 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 our tax-exempt bonds (the "Bonds"). 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, 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, 2022, the funds in these restricted cash accounts totaled approximately $219,000. During 2023, approximately $219,000 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 2023, approximately $221,000 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, 2024 for the Bonds. As of December 31, 2023, the funds in these restricted cash accounts totaled approximately $221,000.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2023 and 2022, the Company had approximately $11,000,000 and $14,000,000 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 Company's accounts receivables are primarily derived from water sales and services. At each balance sheet date, the Company recognizes an expected allowance for credit losses. In addition, also at each reporting date, this estimate is updated to reflect any changes in credit risk since the receivable was initially recorded. This estimate is calculated on a pooled basis where similar risk characteristics exist.

The allowance estimate is derived from a review of the Company's historical losses based on the loss rate. This estimate is adjusted for management's assessment of current conditions, reasonable and supportable forecasts regarding future events, and any other factors deemed relevant by the Company. The Company believes historical loss information is a reasonable starting point in which to calculate the expected allowance for credit losses. Due to various factors, the Company is anticipating similar expected credit losses that have been incurred in the past. As a result, management has determined that its allowance for credit losses is reasonable.

The Company writes off receivables when there is information that indicates the debtor is facing significant financial difficulty and there is no possibility of recovery. If any recoveries are made from any accounts previously written off, they will be recognized in income or an offset to credit loss expense in the year of recovery, in accordance with the entity's accounting policy election. The total amount of write-offs was immaterial to the consolidated financial statements as a whole for the years ended December 31, 2023 and 2022.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, with 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

REVENUE RECOGNITION

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.

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CONTRACT COMBINATION (CONTINUED)

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 MODIFICATIONS

Contracts may be modified to account for changes in contract specifications and requirements. Contract modifications are considered to exist when the modification either creates new or changes the existing enforceable rights and obligations. Most of the Company's contract modifications are for services that are not distinct from existing contracts due to the significant integration provided in the context of the contract and are accounted for as if they were part of the original contract. The effect of a contract modification on the transaction price and the measure of progress for the performance obligation to which it relates is recognized as an adjustment to revenue (either as an increase in or a reduction of revenue) on a cumulative catch-up basis.

Contract modifications are accounted for as a separate contract when the modification results in the promise to deliver additional goods or services that are distinct and the increase in price of the contract is for the same amount as the stand-alone selling price of the additional goods or services included in the modification.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Typically, the Company does not have variable consideration.

SIGNIFICANT JUDGMENTS

The Company recognizes contract revenue for operations, planned maintenance, and water testing and billing contracts. 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 Consolidated Balance Sheets.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PRACTICAL EXPEDIENTS

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

LEASES

The Company is the lessee in several noncancellable operating leases, for corporate office space and other office equipment. The Company determines if an arrangement is a lease, or contains a lease, at inception of a contract and when the terms of an existing contract are changed. The Company recognizes a lease liability and a right-of-use (ROU) asset at the commencement date of the lease. The lease liability is initially and subsequently recognized based on the present value of its future lease payments. Variable payments are included in the future lease payments when those variable payments depend on an index or a rate. The Company generally does not have access to the rate implicit in the lease, and therefore the Company utilizes its incremental borrowing rate as the discount rate for real estate and the risk-free rate as the discount rate for office equipment at the lease commencement date. The Company's incremental borrowing rate for a lease is the rate of interest it would have to pay on a collateralized basis to borrow an amount equal to the lease payments under similar terms and in a similar economic environment.

The ROU asset is subsequently measured throughout the lease term at the amount of the remeasured lease liability (i.e., present value of the remaining lease payments), plus unamortized initial direct costs, plus (minus) any prepaid (accrued) lease payments, less the unamortized balance of lease incentives received, and any impairment recognized. Lease cost for operating lease payments for the utility subsidiaries is recognized based on the lease payment and for service corporation is recognized on a straight-line basis over the lease term.

The Company has elected, for all underlying classes of assets, to not recognize ROU assets and lease liabilities for short-term leases that have a lease term of 12 months or less at lease commencement, and do not include an option to purchase the underlying asset that the Company is reasonably certain to exercise. The Company recognizes lease cost associated with short-term leases on a straight-line basis over the lease term. The Company made an accounting policy election by class of underlying asset, for office equipment, to account for each separate lease component of a contract and its associated non-lease components (lessor-provided maintenance) as a single lease component.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

RECENTLY ADOPTED ACCOUNTING GUIDANCE

Allowance for Credit Losses

In June 2016, the Financial Accounting Standards Board (FASB) issued guidance (FASB ASC 326), *Current Expected Credit Losses*, which significantly changed how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The most significant change in this standard is a shift from the incurred loss model to the expected loss model. Under the standard, disclosures are required to provide users of the financial statements with useful information in analyzing an entity's exposure to credit risk and the measurement of credit losses. Financial assets held by the Company that are subject to the guidance in FASB ASC 326 were accounts receivable.

The Company adopted the standard effective January 1, 2023. The impact of adoption was not considered material to the consolidated financial statements and primarily resulted in new or enhanced disclosures only.

NOTE 3 - PROPERTY, PLANT AND EQUIPMENT

The components of property, plant and equipment as of December 31, 2023 and 2022 were as follows:

(in thousands)	2023	2022	Useful Lives (in years)
Utility Property:			
Land and land rights	$ 5,763	$ 5,963	-
Source of supply	73,800	73,535	3 - 70
Pumping and purification	33,963	32,901	7 - 64
Transmission and distribution, including services, meters and hydrants	213,634	206,375	15 - 91
General and other equipment	19,514	17,626	7 - 75
Intangible plant	790	790	20
Construction work in progress	1,749	1,234	
Total utility property	349,213	338,424	
Total non-utility property	5	5	5 - 10
Total property, plant and equipment	349,218	338,429	
Less accumulated depreciation	(97,701)	(91,367)	
Property, Plant and Equipment, net	$ 251,517	$ 247,062	

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 2.42% and 2.42% in 2023 and 2022, respectively.

NOTE 4 - 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 consolidated statements of cash flows.

(in thousands)	2023	2022
Cash and cash equivalents	$ 707	$ 3,138
Restricted cash - RSFs and Restricted Accounts	9,799	10,837
Restricted cash - CIAC	134	134
Restricted cash - Bond Project Funds	221	219
Total cash, cash equivalents and restricted cash shown in the consolidated statements of cash flows	$ 10,861	$ 14,328

Amounts included in restricted cash represent those required to be set aside as outlined in Note 2.

NOTE 5 - ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at December 31, 2023 and 2022 including beginning balance:

(in thousands)	December 31, 2023	December 31, 2022	January 1, 2022
Accounts receivable - billed	$ 5,542	$ 5,118	$ 3,663
Less allowance	(52)	(70)	(87)
Accounts receivable - billed, net	$ 5,490	$ 5,048	$ 3,576
Accounts receivable - unbilled	$ 3,017	$ 3,277	$ 6,277
Less allowance	--	--	--
Accounts receivable - unbilled, net	$ 3,017	$ 3,277	$ 6,277

NOTE 6 - DEFERRED CHARGES AND OTHER ASSETS

Deferred charges and other assets as of December 31, 2023 and 2022 consisted of the following:

(in thousands)	2023	2022	Recovery Period (in years)
Regulatory assets:			
Source development charges	$ 797	$ 908	5 - 25
Miscellaneous studies	1,239	1,031	2 - 25
Unrecovered pension and post-retirement benefits expense	614	1,379	
Total regulatory assets	2,650	3,318	
Supplemental executive retirement plan asset	888	866	
Total deferred charges and other assets	$ 3,538	$ 4,184	

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

NOTE 7 - 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 $405 based on years of service.

The following table sets forth information regarding our DB Plan and our OPEB Plans as of December 31, 2023 and for the year then ended:

(in thousands)	DB Plan	OPEB Plans
Projected benefit obligations	$ 32,518	$ 4,296
Employer contribution	1,375	11
Benefits paid, excluding expenses	(999)	(99)
Fair value of plan assets	27,499	496
Accumulated benefit obligation	30,150	--
Funded status	(5,019)	(3,771)
Net periodic benefit cost	1,151	289
Amount of the funded status recognized in the Consolidated Balance Sheet consisted of:		
Current liability	$ --	$ --
Non-current liability	(5,019)	(3,771)
Total	$ (5,019)	$ (3,771)

NOTE 7 - POST-RETIREMENT BENEFIT PLANS (CONTINUED)

PENSION PLAN AND OTHER POST-RETIREMENT BENEFITS (CONTINUED)

The following table sets forth information regarding our DB Plan and our OPEB Plans as of December 31, 2022 and for the year then ended:

(in thousands)	DB Plan	OPEB Plans
Projected benefit obligations	$ 29,787	$ 3,878
Employer contribution	863	11
Benefits paid, excluding expenses	(862)	(91)
Fair value of plan assets	23,610	524
Accumulated benefit obligation	27,616	--
Funded status	(6,177)	(3,401)
Net periodic benefit cost	1,310	368
Amount of the funded status recognized in the Consolidated Balance Sheet consisted of:		
Current liability	$ --	$ --
Non-current liability	(6,177)	(3,401)
Total	$ (6,177)	$ (3,401)

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 to these consolidated financial statements.

Changes in plan assets and benefit obligations recognized in regulatory assets, for the year ended December 31, 2023, were as follows:

(in thousands)	DB Plan	OPEB Plans
Regulatory asset balance, beginning of period	$ 2,025	$ (646)
Net actuarial (gain) loss incurred during the period	(935)	144
Prior service cost incurred during the period	--	17
Recognized net actuarial loss	--	9
Regulatory asset balance, end of period	$ 1,090	$ (476)

NOTE 7 - POST-RETIREMENT BENEFIT PLANS (CONTINUED)

PENSION PLAN AND OTHER POST-RETIREMENT BENEFITS (CONTINUED)

Changes in plan assets and benefit obligations recognized in regulatory assets, for the year ended December 31, 2022, were as follows:

(in thousands)	DB Plan	OPEB Plans
Regulatory asset balance, beginning of period	$ 8,454	$ 1,106
Net actuarial gain incurred during the period	(6,099)	(1,730)
Prior service cost incurred during the period	--	16
Recognized net actuarial gain	(330)	(38)
Regulatory asset balance, end of period	$ 2,025	$ (646)

Amounts recognized in regulatory assets for the DB Plan and OPEB Plans that have not yet been recognized as components of net periodic benefit cost of the following as of December 31, 2023:

(in thousands)	DB Plan	OPEB Plans
Net actuarial (gain) loss	$ 1,090	$ (410)
Prior service cost	--	(66)
Regulatory asset	$ 1,090	$ (476)

Amounts recognized in regulatory assets for the DB Plan and OPEB Plans that have not yet been recognized as components of net periodic benefit cost of the following as of December 31, 2022:

(in thousands)	DB Plan	OPEB Plans
Net actuarial (gain) loss	$ 2,025	$ (563)
Prior service cost	--	(83)
Regulatory asset	$ 2,025	$ (646)

NOTE 7 - POST-RETIREMENT BENEFIT PLANS (CONTINUED)

PENSION PLAN AND OTHER POST-RETIREMENT BENEFITS (CONTINUED)

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

	2023	2022
Discount rate for net periodic benefit cost, beginning of year	4.98%	2.74%
Discount rate for benefit obligations, end of year [a]	4.78%	4.98%
Expected return on plan assets for the period (net of investment expenses)	6.50%	7.00%
Rate of compensation increase, beginning of year	3.00%	3.00%
Healthcare cost trend rate (applicable only to OPEB Plans)	5.00%	5.00%

[a] An increase or decrease in the discount rate of 0.5% would result in a change in the funded status as of December 31, 2023, for the DB Plan and the OPEB Plans of approximately $2.2 million and $328 thousand, respectively.

The estimated net actuarial loss for our DB Plan that will be amortized in 2024 from the regulatory assets into net periodic benefit costs is $1,090. The estimated net actuarial gain and prior service cost for our OPEB Plans that will be amortized in 2024 from the regulatory assets into net periodic benefit costs is $476.

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.

NOTE 7 - POST-RETIREMENT BENEFIT PLANS (CONTINUED)

PENSION PLAN AND OTHER POST-RETIREMENT BENEFITS (CONTINUED)

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, 2023, as well as the targeted allocation range:

	DB Plan		OPEB Plans	
		Asset Allocation Range		Asset Allocation Range
Equities	61%	30% - 100%	67%	30% - 100%
Fixed income	21%	20% - 70%	14%	0% - 50%
Cash and cash equivalents	18%	0% - 15%	19%	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, 2022, as well as the targeted allocation range:

	DB Plan		OPEB Plans	
		Asset Allocation Range		Asset Allocation Range
Equities	61%	30% - 100%	71%	30% - 100%
Fixed income	15%	20% - 70%	16%	0% - 50%
Cash and cash equivalents	24%	0% - 15%	13%	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.

NOTE 7 - POST-RETIREMENT BENEFIT PLANS (CONTINUED)

PENSION PLAN AND OTHER POST-RETIREMENT BENEFITS (CONTINUED)

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 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.

NOTE 7 - POST-RETIREMENT BENEFIT PLANS (CONTINUED)

PENSION PLAN AND OTHER POST-RETIREMENT BENEFITS (CONTINUED)

The fair value of DB Plan and OPEB Plan assets by levels within the fair value hierarchy used as of December 31, 2023 was as follows:

(in thousands)	Fair Value	Level 1	Level 2	Level 3
DB Plan:				
Guaranteed Interest Accounts	$ 5,067	$ --	$ --	$ 5,067
Total Assets in the Fair Value Hierarchy	5,067	--	--	5,067
Investments measured at net asset value[(a)]	22,432	--	--	--
DB Plan Investments, at Fair Value	27,499	--	--	5,067
OPEB Plans:				
Common stocks	254	254	--	--
Mutual funds	110	110	--	--
Fixed income funds	74	74	--	--
Money market funds	102	--	102	--
Total Assets in the Fair Value Hierarchy	540	438	102	--
Investments measured at net asset value[(a)]	--	--	--	--
OPEB Plans Investments, at Fair Value	540	438	102	--
Totals	$ 28,039	$ 438	$ 102	$ 5,067

(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.

NOTE 7 - POST-RETIREMENT BENEFIT PLANS (CONTINUED)

PENSION PLAN AND OTHER POST-RETIREMENT BENEFITS (CONTINUED)

The fair value of DB Plan and OPEB Plan assets by levels within the fair value hierarchy used as of December 31, 2022 was as follows:

(in thousands)	Fair Value	Level 1	Level 2	Level 3
DB Plan:				
Guaranteed Interest Accounts	$ 5,668	$ --	$ --	$ 5,668
Total Assets in the Fair Value Hierarchy	5,668	--	--	5,668
Investments measured at net asset value[(a)]	17,942	--	--	--
DB Plan Investments, at Fair Value	23,610	--	--	5,668
OPEB Plans:				
Common stocks	276	276	--	--
Mutual funds	96	96	--	--
Fixed income funds	85	85	--	--
Money market funds	67	--	67	--
Total Assets in the Fair Value Hierarchy	524	457	67	--
Investments measured at net asset value[(a)]	--	--	--	--
OPEB Plans Investments, at Fair Value	524	457	67	--
Totals	$ 24,134	$ 457	$ 67	$ 5,668

(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 following table summarizes investments at fair value based on NAV per share as of December 31, 2023 and 2022, respectively:

(in thousands)	Fair Value
December 31, 2023	
Pooled Separate Accounts:	
Equities	$ 18,190
Fixed Income	4,242
Total Pooled Separate Accounts	$ 22,432
December 31, 2022	
Pooled Separate Accounts:	
Equities	$ 14,377
Fixed Income	3,565
Total Pooled Separate Accounts	$ 17,942

NOTE 7 - POST-RETIREMENT BENEFIT PLANS (CONTINUED)

PENSION PLAN AND OTHER POST-RETIREMENT BENEFITS (CONTINUED)

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)	2023	2022
Balance, beginning of year	$ 5,668	$ 6,642
Plan transfers	39	(381)
Contributions	294	216
Benefits paid	(1,013)	(874)
Return on plan assets (net of investment expenses)	79	65
Balance, end of year	$ 5,067	$ 5,668

In order to satisfy the minimum funding requirements of the Employee Retirement Income Security Act of 1974, applicable to defined benefit pension plans, the Company anticipates it will contribute approximately $1.0 million to the DB Plan in 2024.

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

(in thousands)	DB Plan	OPEB Plans
2024	$ 1,416	$ 132
2025	1,550	143
2026	1,619	154
2027	1,763	172
2028	1,948	194
2029 to 2033	11,054	1,120
Total	$ 19,350	$ 1,915

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.

NOTE 7 - POST-RETIREMENT BENEFIT PLANS (CONTINUED)

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 $323,000 and $311,000 for the years ended December 31, 2023 and 2022, respectively.

NOTE 8 - LEASES

The Company leases its corporate office facilities and office equipment for various terms under long-term, noncancelable operating lease agreements. The leases expire at various dates through 2025 and provide for renewal options ranging from 3 months to 5 years. The exercise of these renewal options is at the sole discretion of the Company, and only lease options that the Company believes are reasonably certain to exercise are included in the measurement of the lease assets and liabilities. In the normal course of business, it is expected that these leases will be renewed or replaced by leases on other properties.

Operating lease costs were approximately $380,000 and $383,000 during the years ended December 31, 2023 and 2022, respectively. These costs are primarily related to long-term operating leases but may also include immaterial amounts for variable lease payments and short-term leases with terms greater than 30 days.

During the years ended December 31, 2023 and 2022, the Company had the following cash and non-cash activities related to leases:

(in thousands)

	2023	2022
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows for operating leases	$ 380	$ 383
Non-cash investing and financing activities:		
ROU assets obtained in exchange for lease liabilities:		
Operating leases	$ --	$ 5,401

NOTE 8 - LEASES (CONTINUED)

Weighted average lease term and discount rate as of December 31, 2023 and 2022 were as follows:

	2023	2022
Weighted average remaining lease term (in years)	9.58	9.88
Weighted average discount rate	5.00%	5.00%

Maturities of lease liabilities under noncancellable operating leases as of December 31, 2023, are as follows for the years ending December 31:

(in thousands)	
2024	$ 380
2025	380
2026	380
2027	380
2028	380
Thereafter	8,348
Total lease payments	10,248
Less imputed interest	(5,432)
Present value of lease liability	$ 4,816

NOTE 9 - 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:

NOTE 9 - FINANCIAL MEASUREMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

- 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, 2023 and 2022 were as follows:

	December 31, 2023			
(in thousands)	Total	Level 1	Level 2	Level 3
Liabilities:				
Interest rate swap	$ (27)	$ --	$ (27)	$ --

	December 31, 2022			
(in thousands)	Total	Level 1	Level 2	Level 3
Liabilities:				
Interest rate swap	$ (10)	$ --	$ (10)	$ --

The carrying value of certain financial instruments included in the accompanying Consolidated Balance Sheets, along with the related fair value, as of December 31, 2023 and 2022 was as follows:

	2023		2022	
(in thousands)	Carrying Value	Fair Value	Carrying Value	Fair Value
Liabilities:				
Interest rate swap liability	$ (27)	$ (27)	$ (10)	$ (10)

The fair market value of the interest rate swap represents the estimated cost to terminate this agreement as of December 31, 2023 and 2022 based upon the then-current interest rates and the related credit risk.

NOTE 9 - FINANCIAL MEASUREMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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.

NOTE 10 - REVENUE FROM CONTRACTS WITH CUSTOMERS

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

Non-Regulated Entities

For the years ended December 31, 2023 and 2022, revenue recognized for goods and services transferred over time totaled $2,168,931 and $2,857,868, respectively.

For the year ended December 31, 2023, approximately 35% of revenues were from large-contract customers, 36% of revenues were from small contract customers (con-ops), and 29% of revenues were from residential maintenance and other customers. For the year ended December 31, 2022, approximately 48% of revenues were from large-contract customers, 31% of revenues were from small-contract customers (con-ops), and 21% of revenues were from residential maintenance and other customers. In addition, substantially all of the Company's contracts were service-related type contracts.

Utility Subsidiaries

For the years ended December 31, 2023 and 2022, all PWW, PEU and PAC water-related revenue was recognized at a point in time.

NOTE 11 - INCOME TAXES

The components of the federal and state income tax provision (benefit) as of December 31, 2023 and 2022 were as follows:

(in thousands)	2023	2022
Federal	$ (669)	$ (391)
State	59	(163)
Amortization of investment tax credits	(33)	(33)
Total	$ (643)	$ (587)
Current	$ --	$ --
Deferred	(643)	(587)
Total	$ (643)	$ (587)

The temporary items that give rise to the net deferred tax liability as of December 31, 2023 and 2022 were as follows:

(in thousands)	2023	2022
Liabilities:		
Property-related, net	$ 25,530	$ 23,668
Other	--	922
Total liabilities	25,530	24,590
Assets:		
Pension accrued liability	2,012	2,043
Net operating loss carryforward	8,673	7,105
Alternative minimum tax credit	476	476
NH Business Enterprise Tax credits	1,387	967
Other	558	548
	13,106	11,139
Less valuation allowance	(1,387)	(967)
Total assets	11,719	10,172
Net deferred income tax liability	$ 13,811	$ 14,418

NOTE 11 - INCOME TAXES (CONTINUED)

The Company has accumulated federal net operating losses. The federal tax benefit of the cumulative net operating losses is approximately $6.7 million, begins to expire in 2033, and is included in deferred income taxes in the Consolidated Balance Sheet as of December 31, 2023. Approximately 50% 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 48% of the net operating losses were generated in 2019 through 2023 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 $2.0 million which begins to expire in 2023 and is included in deferred income taxes in the Consolidated Balance Sheet as of December 31, 2023.

As of December 31, 2023 and 2022, 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, 2023 and 2022, the Company had New Hampshire Business Enterprise Tax (“NHBET”) credits of approximately $1.4 million and $967,000, respectively. NHBET credits begin to expire in 2024. 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 $420,000 and $145,000 in the years ended December 31, 2023 and 2022, 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 $9,881,000 and $9,894,000 as of December 31, 2023 and 2022, 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.

NOTE 11 - INCOME TAXES (CONTINUED)

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 2023 and 2022. We incurred no penalties during the years ended December 31, 2023 and 2022.

NOTE 12 - LONG-TERM DEBT

Long-term debt as of December 31, 2023 and 2022 consisted of the following:

(in thousands)	2023 Principal	2023 Unamortized Debt Issuance Costs
Unsecured note payable to City of Nashua, 5.75%, due 12/25/2041	$ 94,079	$ --
Unsecured Business Finance Authority:		
Revenue Bonds (Series 2014B), 4.50%, due January 1, 2045	4,500	92
Revenue Bonds (Series 2018A), interest rates from 4.375% to 5.00%, due April 1, 2048	4,460	217
Revenue Bonds (Series 2018B), 4.33%, due April 1, 2028	600	31
Revenue Bonds (Series 2019A), interest rates from 2.19% to 4.15%, due April 1, 2049	7,655	248
Revenue Bonds (Series 2020A), interest rates from 3.15% to 4%, due April 1, 2050	6,985	256
Revenue Bonds (Series 2020C), interest rates from 1.25% to 4.02%, due September 1, 2055 (3)	69,955	2,200
Revenue Bonds (Series 2021A), interest rates from 4% to 5%, due April 1, 2051	4,900	224
Revenue Bonds (Series 2021B), 1.05%, due April 1, 2024	45	--
Revenue Bonds (Series 2022A), interest rate 4 to 5%, due April 1, 2052	6,590	253
Revenue Bonds (Series 2022B), 3.63%, due April 1,2025	60	--
Revenue Bonds (Series 2023A), 5.0%, due April 1, 2058	5,930	226
Revenue Bonds (Series 2023B), 4.750%, due April 1, 2025	105	--
Unsecured notes payable to bank, floating-rate, due March 1, 2030	1,786	8
Unsecured notes payable to bank, 4.20%, due December 20, 2041	1,021	4
Unsecured notes payable to bank, 4.83%, due December 20, 2041	788	4
Unsecured notes payable to bank, 4.25%, due June 20, 2033	538	4
Unsecured notes payable to bank, 4.90%, due March 6, 2040	487	27
Unsecured notes payable to bank, 5.33%, due June 20, 2043	307	8
Unsecured notes payable to bank, 4.38%, due September 20, 2044	1,033	14
Unsecured notes payable to bank, 3.98%, due January 1, 2046	741	11
Unsecured notes payable to bank, 4.18%, due October 20, 2046	1,077	10
Unsecured notes payable to bank, 4.25%, due December 20, 2046	2,428	12
Unsecured notes payable to bank, 7.16%, due October 1, 2047	645	6
Unsecured notes payable to bank, 6.23%, due June 1, 2033	987	2
Unsecured notes payable to bank, 7.26%, due August 1, 2028	742	20
Unsecured New Hampshire Drinking Water & Groundwater Trust Fund ("DWGTF") notes (2)	8,641	27
Unsecured New Hampshire State Revolving Fund ("SRF") notes (1)	20,204	155
Unamortized debt issuance costs for defeased obligations, allowed by regulation	--	2,561
Total	247,289	$ 6,620
Less current portion	(7,399)	
Less unamortized debt issuance costs	(6,620)	
Total long-term debt, less current portion and unamortized debt issuance costs	$ 233,270	

(1) SRF notes are due through 2051 at interest rates ranging from 1.29% to 3.8%. These notes are payable in 120 to 360 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 1.6% 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 2024, to then be used to facilitate retirement of the bonds. Of the remaining $2,200 of Unamortized Debt Issuance Costs as of December 31, 2020 generated by the September 2nd issuance, $935 are directly tied the advance refunding and will fully-amortize on a straight-line basis until their respective call dates.

NOTE 12 - LONG-TERM DEBT (CONTINUED)

(in thousands)	2022 Principal	2022 Unamortized Debt Issuance Costs
Unsecured note payable to City of Nashua, 5.75%, due 12/25/2041	$ 96,937	$ --
Unsecured Business Finance Authority:		
Revenue Bonds (Series 2014B), 4.50%, due January 1, 2045	4,615	96
Revenue Bonds (Series 2018A), interest rates from 4.375% to 5.00%, due April 1, 2048	4,460	226
Revenue Bonds (Series 2018B), 4.33%, due April 1, 2028	705	37
Revenue Bonds (Series 2019A), interest rates from 2.19% to 4.15%, due April 1, 2049	7,805	258
Revenue Bonds (Series 2020A), interest rates from 3.15% to 4%, due April 1, 2050	7,000	265
Revenue Bonds (Series 2020B), 5.25%, due April 1, 2023	125	1
Revenue Bonds (Series 2020C), interest rates from 1.25% to 4.02%, due September 1, 2055 (3)	71,195	5,018
Revenue Bonds (Series 2021A), interest rates from 4% to 5%, due April 1, 2051	4,985	234
Revenue Bonds (Series 2021B), 1.05%, due April 1, 2024	85	--
Revenue Bonds (Series 2022A), interest rate 4 to 5%, due April 1, 2052	6,695	262
Revenue Bonds (Series 2022B), 3.63%, due April 1, 2025	90	--
Unsecured notes payable to bank, floating-rate, due March 1, 2030	2,030	9
Unsecured notes payable to bank, 3.62%, due June 20, 2023	1,060	1
Unsecured notes payable to bank, 4.20%, due December 20, 2041	1,058	5
Unsecured notes payable to bank, 4.83%, due December 20, 2041	815	4
Unsecured notes payable to bank, 4.25%, due June 20, 2033	583	5
Unsecured notes payable to bank, 4.90%, due March 6, 2040	506	28
Unsecured notes payable to bank, 5.33%, due June 20, 2043	316	9
Unsecured notes payable to bank, 4.38%, due September 20, 2044	1,063	14
Unsecured notes payable to bank, 3.98%, due January 1, 2046	761	12
Unsecured notes payable to bank, 4.18%, due October 20, 2046	1,105	10
Unsecured notes payable to bank, 4.25%, due December 20, 2046	2,489	13
Unsecured notes payable to bank, 7.16%, due October 1, 2047	654	6
Unsecured New Hampshire State Revolving Fund ("SRF") notes (1)	21,269	157
Unsecured New Hampshire Drinking Water & Groundwater Trust Fund ("DWGTF") notes (2)	8,337	20
Unamortized debt issuance costs for defeased obligations, allowed by regulation	--	2,751
Total	246,743	$ 9,441
Less current portion	(7,999)	
Less unamortized debt issuance costs	(9,441)	
Total long-term debt, less current portion and unamortized debt issuance costs	$ 229,303	

(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 $5,018 of Unamortized Debt Issuance Costs as of December 31, 2020 generated by the September 2nd issuance, $3,713 are directly tied the advance refunding and will fully-amortize on a straight-line basis until their respective call dates.

NOTE 12 - LONG-TERM DEBT (CONTINUED)

The aggregate principal payment requirements subsequent to December 31, 2023 are as follows:

(in thousands)	Amount
2024	$ 7,399
2025	7,681
2026	7,984
2027	8,286
2028	8,660
2029 and thereafter	207,279
Total	$ 247,289

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, 2023 and 2022, Pennichuck Water's net worth was $84.0 million and $92.0 million, respectively.

The 2014B, 2018A, 2018B, 2019A, 2020A, 2020B, 2020C, 2021A, 2021B, 2022A, 2022B, 2023A and 2023B 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, 2023 and 2022, Pennichuck Water has a Debt to Capital Coverage ratio of 0.7 and 0.7, respectively.

NOTE 12 - LONG-TERM DEBT (CONTINUED)

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 15 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, 2023 and 2022, 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, 2023 and 2022, this ratio was 1.7 and 1.9, 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, 2023 and 2022, the Rate Covenant coverage ratio was 1.89 and 1.75, respectively.

Pennichuck East's loan agreement for its unsecured notes payable to a bank of $12.6 million and $12.4 million at December 31, 2023 and 2022, respectively, contains a minimum debt service coverage ratio requirement of 1.10. At December 31, 2023 and 2022, this ratio was 1.29 and 1.41, respectively.

As of December 31, 2023 and 2022, the Company had a $1.8 million and $2.0 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 $2.0 million loan which has a floating interest rate based on the three-month Secured Overnight Financing Rate ("SOFR")plus 1.85% as of December 31, 2023. The combined effect of the SOFR-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, 2023 and 2022, included in our Consolidated Balance Sheets under "Other Liabilities and Deferred Credits" as "Derivative instrument" was $27,000 and $10,000, respectively. Changes in the fair value of this derivative were deferred in accumulated other comprehensive income.

NOTE 12 - LONG-TERM DEBT (CONTINUED)

On March 31, 2023, the London Interbank Offered Rate (LIBOR) rate ceased to be available as a market-based rate for debt instruments. As of that date, all of the debt instruments outstanding and forward-looking are based upon the Secured Overnight Financing Rate ("SOFR") which replaced the LIBOR rate. Instead of a calculated rate of LIBOR plus 1.88%, the new rate is SOFR plus 1.85%. The Swap agreement was repriced as of that date, as well, to reflect the new rate based upon SOFR that allows for a net borrowing cost equal to or less than the previous 5.95% "all in fixed borrowing cost."

Swap settlements are recorded in the consolidated statements of income (loss) with the hedged item as interest expense. During the years ended December 31, 2023 and 2022, $15,000 loss and $73,000 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 $21,000, pre-tax, from accumulated other comprehensive income to interest expense as a result of swap settlements, over the next twelve months.

NOTE 13 - LINES OF CREDIT

The Company's existing $4 million Working Capital Line of Credit (WCLOC) is set to expire on June 30, 2024. Pennichuck Corp is currently in negotiations on renewal and extension of this multi-year facility. Pennichuck Water's $12 million Fixed Asset Line of Credit (PWW FALOC) was renewed in 2023 for an additional two years, expiring on June 30, 2025. Pennichuck East's Fixed Asset Line of Credit (PEU FALOC) was renewed in 2023 and extended for an additional three years expiring on September 25, 2026. Additionally, as part of the renewal and extension of the PEU FALOC, the capacity of that facility was increased from $3 million to $4 million. The two Fixed Asset Lines of Credit (PWW FALOC and PEU FALOC) are used to fund construction work in progress on capital projects, which are 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, 2023 and 2022 was:

(in thousands)	2023	2022
Established line as of December 31,	$ 4,000	$ 4,000
Maximum amount outstanding during period	1,111	2,236
Average amount outstanding during period	61	785
Amount outstanding as of December 31,	--	785
Weighted average interest rate during period	6.89%	3.42%
Interest rate as of December 31,	7.08%	6.07%

NOTE 13 - LINES OF CREDIT (CONTINUED)

Short-term borrowing activity under PWW FALOC for the years ended December 31, 2023 and 2022 was:

(in thousands)	2023	2022
Established line as of December 31,	$ 12,000	$ 12,000
Maximum amount outstanding during period	7,232	7,138
Average amount outstanding during period	4,223	3,552
Amount outstanding as of December 31,	7,232	4,628
Weighted average interest rate during period	6.85%	3.07%
Interest rate as of December 31,	7.09%	5.81%

Short-term borrowing activity under PEU FALOC for the years ended December 31, 2023 and 2022 was:

(in thousands)	2023	2022
Established line as of December 31,	$ 4,000	$ 3,000
Maximum amount outstanding during period	1,103	833
Average amount outstanding during period	900	678
Amount outstanding as of December 31,	972	833
Weighted average interest rate during period	7.23%	3.01%
Interest rate as of December 31,	7.50%	6.46%

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, 2023 and 2022, Pennichuck Water has a Debt to Capital Coverage ratio of 0.7and 0.7, respectively.

NOTE 13 - LINES OF CREDIT (CONTINUED))

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 15 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, 2023 and 2022, 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, 2023 and 2022 this ratio was1.7 and 1.9, 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, 2023 and 2022, the Rate Covenant coverage ratio was 1.89 and 1.75, respectively.

NOTE 14 - ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table presents changes in accumulated other comprehensive income by component for the years ended December 31, 2023 and 2022:

	Interest Rate Contract	
(in thousands)	2023	2022
Beginning balance	$ 524	$ 356
Other comprehensive income before reclassifications	(2)	124
Amounts reclassified from accumulated other comprehensive income (loss)	(9)	44
Net current period other comprehensive income (loss)	(11)	168
Ending balance	$ 513	$ 524

NOTE 14 - ACCUMULATED OTHER COMPREHENSIVE INCOME (CONTINUED)

The following table presents reclassifications out of accumulated other comprehensive income for the years ended December 31, 2023 and 2022:

Details about Accumulated Other Comprehensive Income (Loss) Components	Amounts Reclassified from Accumulated Other Comprehensive Income (loss)	
(in thousands)	2023	2022
Gain on cash flow hedges:		
Interest rate contracts	$ (15)	$ 73
	6	(29)
Amounts reclassified from accumulated other comprehensive income (loss)	$ (9)	$ 44

NOTE 15 - 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.

NOTE 15 - TRANSACTION WITH THE CITY OF NASHUA (CONTINUED)

TRANSACTIONS WITH RELATED PARTY – CITY OF NASHUA

As part of the City's acquisition in 2012, the Company issued a promissory note to the City 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%. Additionally, 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, 2023 and 2022 was approximately $94.1 million and $96.9 million, respectively, as disclosed in Note 12 to these consolidated financial statements. During 2023 and 2022, dividends of approximately $278,000 and $278,000, respectively, were declared and paid to the City. The dividends paid to the City during 2023 comprised approximately $278,000 of regular quarterly dividends declared and paid; and no special dividend was declared or paid in 2023. The dividends paid to the City during 2022 comprised approximately $278,000 of regular quarterly dividends declared and paid; and no special dividend was declared or paid in 2022.

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. For the years ended December 31, 2023 and 2022, respectively, approximately $4.1 million and $3.9 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 $2.1 million for the year ended December 31, 2023, and approximately $2.3 million for the year ended December 31, 2022.

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 2 of these consolidated financial statements.

NOTE 15 - TRANSACTION WITH THE CITY OF NASHUA (CONTINUED)

MUNICIPAL ACQUISITION REGULATORY ASSET ("MARA")

As part of the City's acquisition and pursuant to the NHPUC Order, the Company established a new Regulatory asset (MARA) which represented 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, 2023 and 2022 was approximately $64 million, reduced by the non-regulated credit of approximately $3.5 million and approximately $66.6 million, reduced by the non-regulated credit of approximately $3.7 million, respectively.

Aggregate amortization expense for the years ended December 31, 2023 and 2022 totaled approximately $2,252,000 and $2,183,000, respectively.

The following table represents the future estimated amortization of MARA:

(in thousands)	Estimated Amortization Expense
2024	$ 2,328
2025	2,409
2026	2,498
2027	2,590
2028	2,700
2029 and thereafter	48,121
Total	$ 60,646

NOTE 16 - SEGMENT REPORTING

For the years ended December 31, 2023 and 2022, and as of those dates, the following financial results were generated by the segments of the Company:

(in thousands)	2023	2022
Operating Revenues:		
Pennichuck Water	$ 38,595	$ 39,837
Pennichuck East	11,051	12,504
Pittsfield Aqueduct	810	869
Subtotal Regulated Segment	50,456	53,210
Service Corporation	2,169	2,858
Other	12	13
Total Operating Revenues	$ 52,637	$ 56,081
Depreciation and Amortization Expense:		
Pennichuck Water	$ 7,818	$ 7,610
Pennichuck East	1,296	1,259
Pittsfield Aqueduct	112	114
Subtotal Regulated Segment	9,226	8,983
Service Corporation	--	--
Other	(131)	(127)
Total Depreciation and Amortization Expense	$ 9,095	$ 8,856
Operating Income:		
Pennichuck Water	$ 6,421	$ 8,848
Pennichuck East	1,418	2,640
Pittsfield Aqueduct	118	125
Subtotal Regulated Segment	7,957	11,613
Service Corporation	357	159
Other	53	51
Total Operating Income	$ 8,367	$ 11,823
Interest Expense:		
Pennichuck Water	$ 6,695	$ 7,071
Pennichuck East	1,226	928
Pittsfield Aqueduct	57	45
Subtotal Regulated Segment	7,978	8,044
Service Corporation	7	5
Other	6,632	6,065
Total Interest Expense	$ 14,617	$ 14,114

NOTE 16 - SEGMENT REPORTING (CONTINUED)

(in thousands)	2023	2022
Income Taxes Provision (Benefit):		
Pennichuck Water	$ 205	$ 1,029
Pennichuck East	69	641
Pittsfield Aqueduct	(2)	33
Subtotal Regulated Segment	272	1,703
Service Corporation	(6)	46
Other	(909)	(2,336)
Total Income Taxes Provision (Benefit)	$ (643)	$ (587)
Net Income (Loss):		
Pennichuck Water	$ (460)	$ 749
Pennichuck East	122	1,071
Pittsfield Aqueduct	65	48
Subtotal Regulated Segment	(273)	1,868
Service Corporation	356	106
Other	(5,102)	(3,678)
Total Net Income (Loss)	$ (5,019)	$ (1,704)
Total Net Assets:		
Pennichuck Water	$ 294,451	$ 294,446
Pennichuck East	66,384	65,852
Pittsfield Aqueduct	2,725	2,815
Subtotal Regulated Segment	363,560	363,113
Service Corporation	249	(5)
Other	(20,840)	(18,219)
Total Net Assets	$ 342,969	$ 344,889
Total Liabilities:		
Pennichuck Water	$ 209,631	$ 202,465
Pennichuck East	57,984	57,278
Pittsfield Aqueduct	1,310	1,352
Subtotal Regulated Segment	268,925	261,095
Service Corporation	(43)	(48)
Other	84,673	89,120
Total Liabilities	$ 353,555	$ 350,167

NOTE 16 - SEGMENT REPORTING (CONTINUED)

(in thousands)	2023	2022
Total Long-Term Debt (less current portion and unamortized debt insurance costs):		
Pennichuck Water	$ 118,825	$ 112,648
Pennichuck East	23,284	22,465
Pittsfield Aqueduct	121	129
Subtotal Regulated Segment	142,230	135,242
Service Corporation	--	--
Other	91,040	94,061
Total Long-Term Debt	$ 233,270	$ 229,303

NOTE 17 - RATE CASES

PENNICHUCK WATER-QUALIFIED CAPITAL PROJECT ADJUSTMENT CHARGE

On February 14, 2023, Pennichuck Water filed a petition with the NHPUC for a 1.37% surcharge on all capital improvements completed and placed in service by Pennichuck Water in 2022.

On August 21, 2023, the NHPUC issued Order Nisi No. 26,875 approving a QCPAC surcharge of 1.36% for capital projects placed in service in 2022. This order became effective with services rendered back to April 26, 2023 and allowed for recovery in the form of a monthly recoupment surcharge, to be collected over a three-month period from the date of the order.

NOTE 17 - RATE CASES (CONTINUED)

PENNICHUCK EAST-QUALIFIED CAPITAL PROJECT ADJUSTMENT CHARGE

On January 27, 2023, the NHPUC issued order Nisi No. 26,767 approving a QCPAC surcharge of 0.94% for capital projects placed in service in 2021. This order became effective with services rendered back to October 18, 2022, and allowed recovery in the form of a monthly recoupment surcharge, to be collected over a three-month period from the date of the order.

On February 14, 2023, Pennichuck East filed a petition with the NHPUC for a 1.36% surcharge on all capital improvements completed and placed in service by Pennichuck East in 2022.

On November 30, 2023, the NHPUC issued Order No. 26,907 approving a QCPAC surcharge of 1.35% for capital projects placed in service in 2022. This order became effective with services rendered back to September 25, 2023 and allowed for recovery in the form of a monthly recoupment surcharge, to be collected over a three-month period from the date of the order.

NOTE 18 - POTENTIAL COMBINATION AND MERGER OF SUBSIDIARIES

On November 21, 2023, the Company's regulated subsidiaries, Pennichuck Water, Pennichuck East, and PAC filed a joint petition with the NHPUC seeking approval of a consolidation of allowed water rates, inclusive of the water rates and revenues for each of the utilities. The proposed structure for the consolidated rates is substantially the same as the current rate structure for Pennichuck Water as described above. Additionally, on December 15, 2023, Pennichuck Water, Pennichuck East, and PAC filed a joint petition with the NHPUC seeking the approval of a merger of these three entities into one surviving entity, Pennichuck Water.

After approvals by the NHPUC, the consolidation of entities and rates would require the approval of the Company's sole stockholder, the City of Nashua and the Company's Board of Directors. Additionally, certain amendments to existing agreements and documents will need to be approved by Pennichuck Water's Board of Directors, as well as the existing lenders to the Company, Pennichuck Water, Pennichuck East, and PAC, all of which has been discussed with the pertinent parties. Final approval by the NHPUC on the proposed consolidation of rates and merger of subsidiaries is expected to be received in late 2024 or early 2025.

NOTE 19 - SUBSEQUENT EVENTS

The Company has evaluated the events and transactions that have occurred through March 26, 2024, the date that these consolidated financial statements were available for issuance.

PENNICHUCK WATER-QUALIFIED CAPITAL PROJECT ADJUSTMENT CHARGE

On February 15, 2024, Pennichuck Water filed a petition with the NHPUC for a 2.59% surcharge on all capital improvements completed and placed in service by Pennichuck Water in 2023. The commission has not yet issued an Order approving this requested surcharge. When the Commission issues the Order, the approved surcharge will become effective retroactively on a services rendered basis. The Order will allow recoupment of the surcharge from all its customers based on their actual bills incurred between the services rendered date and the final effective date of the Order. Final approval by the NHPUC on this QCPAC surcharge is expected to be received in late 2024.

PENNICHUCK EAST -QUALIFIED CAPITAL PROJECT ADJUSTMENT CHARGE

On February 15, 2024, Pennichuck East filed a petition with the NHPUC for a 2.46% surcharge on all capital improvements completed and placed in service by Pennichuck East in 2023. The commission has not yet issued an Order approving this requested surcharge. When the Commission issues the Order, the approved surcharge will become effective retroactively on a services rendered basis. The Order will allow recoupment of the surcharge from all its customers based on their actual bills incurred between the services rendered date and the final effective date of the Order. Final approval by the NHPUC on this QCPAC surcharge is expected to be received in late 2024.