PENNICHUCK WATER SPECIAL COMMITTEE

APRIL 9, 2020

7:00 PM Call in Number: 978-990-5298 Access Code: 273974

ROLL CALL

ELECTION OF COMMITTEE CLERK

COMMUNICATIONS

From: Larry D. Goodhue, CEO, Pennichuck Corporation
Re: Pennichuck Corporation Quarterly Report for Quarter Ended September 30, 2019

From: Larry D. Goodhue, CEO, Pennichuck Corporation
Re: Annual Meeting of Sole Shareholder and Proxy Statement

From: Larry D. Goodhue, CEO, Pennichuck Corporation
Re: Annual Report to the Sole Shareholder

From: Melanson Heath
Re: Pennichuck Corporation and Subsidiaries, Consolidated Financial Statements December 31, 2019 and 2018 (With Independent Auditors' Report Thereon)

UNFINISHED BUSINESS – None

NEW BUSINESS – RESOLUTIONS - None

NEW BUSINESS – ORDINANCES – None

PUBLIC COMMENT

REMARKS BY THE ALDERMEN

POSSIBLE NON-PUBLIC SESSION

ADJOURNMENT

Meetings are broadcast live on Channel 16, streaming live on the City's website and Roku channel. For those that don't have access to a computer or TV, they can dial *978-990-5298*; Access Code: *273974* to listen live.

If there is a problem with the audio, please dial *603-821-2049* to advise.

PENNICHUCK

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MERRIMACK, NH 03054-1947

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WWW.PENNICHUCK.COM

December 12, 2019

Ms. Lori Wilshire
President, Board of Aldermen
City of Nashua
229 Main Street
Nashua, NH 03060

Dear President Wilshire:

Enclosed for your information is the Pennichuck Corporation Quarterly Report to the Sole Shareholder for the Quarter Ended September 30, 2019.

Please contact me at 603-913-2312 if you have any questions relative to the report.

Sincerely,

Larry D. Goodhue
Chief Executive Officer

cc. Board of Aldermen
Mayor James Donchess
Steven Bolton, City Corporation Counsel
John Griffin, City Chief Financial Officer

PENNICHUCK®

Pennichuck Corporation

Quarterly Report to the Sole Shareholder (City of Nashua Board of Aldermen)

Quarter Ended September 30, 2019

Executive Summary

- Revenues for the third quarter of 2019 were 0.7% higher than the prior year ($13.9 million for 2019 versus $13.8 million for 2018). Revenues on a year-to-date basis were 2.0% lower than last year ($33.9 million for the nine months in 2019 versus $34.6 million in 2018). Quarterly revenues were slightly higher to prior year results despite a slight decrease in consumption year-over-year, as the Company benefited from the Pennichuck East Utility, Inc. Permanent and Step rate increases which were approved by the NHPUC on Order No. 26,136 and became effective in May and October of 2018, respectively. However, the decrease to prior year results is attributed to a weather-related reduction in consumption levels in the late Spring and early Summer, versus comparative amounts. The Pennichuck Water Service Company revenues were also below 2018 comparative results, due to a reduction in their Unplanned Revenue activities, non-renewal of the Hudson contract in July of 2018 which decreased actuals versus prior year results, and the implementation of ASU 2014-09, *Revenue from Contracts with Customers* which recognizes revenue when goods and/or services are transferred to the customer, as opposed to the ratable amortization of a planned revenue contract which was in use prior to the new FASB pronouncement.

- Operating Income for the third quarter of 2019 was 2.6% higher than the prior year ($4.0 million for 2019 versus $3.9 million for 2018). Operating Income on a year-to-date basis was 13.6% lower than the prior year ($5.1 million for 2019 versus $5.9 million for 2018). Both of these variances are almost exclusively attributable to the quarter and year-to-date revenue variations as previously discussed.

- Pre-Tax Income for the third quarter of 2019 was $1.3 million versus $1.2 million for 2018. On a year-to-date basis, the pre-tax loss was $3.1 million for 2019 versus pre-tax loss of $2.2 million for 2018.

- Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA) for the third quarter of 2019 was 5.1% higher than the prior year ($6.2 million in 2019 versus $5.9 million for 2018). On a year-to-date basis, EBITDA was $11.5 million for 2019 versus $11.9 million for 2018.

- During the quarter, the Company paid approximately $2.1 million to the City in principal, interest and dividends to fund the City Acquisition Debt. Year-to-date, the Company has paid approximately $6.4 million to the City in principal, interest and dividends to fund the City Acquisition Debt.

- Capital expenditures for the third quarter of 2019 were $6.9 million compared to $4.7 million in the third quarter of 2018. On a year-to-date basis, capital expenditures for 2019 were $9.4 million compared to $6.9 million in 2018. The increase in activity year-over-year can be attributed mainly to the Pennichuck Water Works, Inc. Lake Street project in Nashua, which involves the upsizing of almost 3,000 linear feet of 6" diameter water main to 12" diameter, to ensure adequate fire protection flows are provided.

We remain focused on the Company's primary mission, in that we continue to provide clean water and excellent service to our customers and operate within the confines of the budgeted and planned levels of operating and capital expenditures.

Unaudited Financial Highlights

Financial highlights on a Generally Accepted Accounting Principles ("GAAP") basis for the third quarter of 2019 as compared to the third quarter of 2018, and the nine months of 2019 as compared to the nine months of 2018, are as follows:

(000's)

	Quarter Ended		Year-to-Date	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Revenues				
Regulated Utilities	$ 13,201	$ 13,110	$ 31,748	$ 31,946
Other	689	693	2,176	2,640
Total	$ 13,890	$ 13,803	$ 33,924	$ 34,586
Operating Expenses				
Regulated Utilities	$ 9,287	$ 9,262	$ 26,787	$ 26,123
Other	639	640	2,026	2,567
Total	$ 9,926	$ 9,902	$ 28,813	$ 28,690
Operating Income	$ 3,964	$ 3,901	$ 5,111	$ 5,896
Non-Operational Income (Expense)	143	61	159	58
Net Interest Expense	(2,847)	(2,785)	(8,344)	(8,143)
Pre-Tax Income (Loss)	$ 1,260	$ 1,177	$ (3,074)	$ (2,189)
Income Tax Benefit (Expense)	(437)	(875)	(253)	136
Net Income (Loss)	$ 823	$ 302	$ (3,327)	$ (2,053)
Earnings Before Interest, Taxes, Depreciation and Amortization	$ 6,153	$ 5,920	$ 11,512	$ 11,936

Revenues from the water utility operations increased 0.8% in the quarter and decreased 0.6% on an annual basis versus last year. Revenues include actual billed amounts through and including the September billing cycles, plus an accrual of unbilled amounts through the end of that month (based upon trailing consumption patterns). Revenues from the unregulated water service business have decreased 0.3% in the quarter and 17.6% on an annual basis, respectively. This is primarily due to the June 30, 2018 expiration and non-renewal of the Town of Hudson service contract.

Operating Expenses have increased approximately 0.2% in the third quarter and 0.3% on a year-to-year basis. The increase is mainly attributable to increased direct operating costs associated with increases in transmission and distribution related activities and labor costs.

Operating Income has decreased year-over-year as a result of the variation in revenue and operating expense levels recognized for the quarter and year-to-date.

Interest Expense increased slightly in the third quarter by 2.2%, as compared to the third quarter of last year; year-to-date versus last year it has increased 2.5%, resulting from the interest costs associated with the additional financed amounts for capital projects which have been incurred for ongoing infrastructure replacement, in conformity with the Company's key mission objectives.

The third quarter pre-tax income and year-to-date pre-tax loss for 2019 versus pre-tax levels for 2018 are due to the revenue and expense variations discussed above.

The year-to-date income tax expense in the current year reflects the treatment for the Municipal Acquisition Regulatory Asset as well as the inclusion of contributions-in-aid-of-construction ("CIAC"), which are not deductible for tax purposes. Therefore, the tax expense is -8.2% versus the statutory rate benefit of 27.08% on a year-to-date basis.

Earnings before interest, taxes, depreciation and amortization (EBITDA) are lower than EBITDA for the same periods last year due to decreased revenues, increased operating expenses and increased interest expense levels than 2018.

Balance Sheet

	(000's) As of September 30, 2019 (Unaudited)	(000's) As of December 31, 2018 (Audited)
Assets		
Property, Plant & Equipment, Net	$ 228,712	$ 221,860
Current Assets:		
Cash	3,245	1,575
Restricted Cash	6,210	3,428
Restricted Cash – Bond Project Funds	46	3,337
Accounts Receivable Note 1	6,902	6,348
Inventory	592	611
Other Current Assets Note 2	1,008	1,631
Total Current Assets	18,003	16,930
Other Assets:		
Acquisition Premium	69,765	71,268
Other Assets	12,825	13,076
Total Other Assets	82,590	84,344
TOTAL ASSETS	$ 329,305	$ 323,134
Shareholder's Equity and Liabilities		
Shareholder's Equity	$ 4,963	$ 8,410
Bonds, Notes and Mortgages	206,639	200,225
Current Liabilities:		
Lines of Credit Note 3	5,419	6,626
Current Portion of Long-Term Debt	6,536	6,019
Other Current Liabilities Note 4	9,307	8,388
Total Current Liabilities	21,262	21,033
Other Long-Term Liabilities:		
CIAC, net	54,384	51,961
Deferred Income Taxes	14,334	14,110
Accrued Pension Liability Note 5	9,885	10,021
Other Long-Term Liabilities	17,838	17,374
Total Other Long-Term Liabilities	96,441	93,466
TOTAL SHAREHOLDER'S EQUITY AND LIABILITIES	$ 329,305	$ 323,134

Notes to Balance Sheet

Note 1 (Accounts Receivable) – During the nine months of 2019, the balance in Accounts Receivable increased approximately $554,000 from the year-end total at December 31, 2018 of $6,348,000. This is mainly attributed to revenue increases generated at Pennichuck East Utility, Inc., from the NHPUC approvals of Temporary, Permanent and Step increases which became effective in May and October of 2018, respectively.

Note 2 (Other Current Assets) – At September 30, 2019, the balance of $1,008,000 represents a reduction of $623,000 from the end of 2018, mainly due to the $680,000 expensing of prepaid property taxes in the first quarter of 2019.

Note 3 (Lines of Credit) – At September 30, 2019, approximately $1,281,000 of this balance was comprised of the corporate Working Capital Line of Credit which is periodically drawn upon in support of our operations. The remaining $4,138,000 balance relates to Pennichuck Water Works, Inc. and Pennichuck East Utility, Inc. Fixed Asset Lines of Credit (FALOC), which are used to fund Construction Work in Progress on capital projects which will be refinanced into long-term debt obligations or tax-exempt or taxable bond indebtedness annually.

Note 4 (Other Current Liabilities) – At September 30, 2019, approximately $7,022,000 of this balance is comprised of accounts payable which relates to activities that were performed in the third quarter of 2019.

Note 5 (Accrued Pension Liability) – During the nine months of 2019, $917,000 was contributed into the Pension Plan, while approximately $518,000 in benefit payments were made to participants and approximately $81,000 of investment income and appreciation was earned in the plan.

Unaudited Cash Flow Statement

Cash Flow on a GAAP basis for the third quarter of 2019 as compared to the third quarter of 2018, and the year-to-date 2019 versus 2018, are as follows:

	(000's)			
	Quarter Ended		Year-to-Date	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Operating Activities:				
Net Income (Loss)	$ 823	$ 302	$ (3,327)	$ (2,053)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities:				
Depreciation and Amortization	2,105	2,022	6,299	6,042
Provision for Deferred Taxes	444	884	274	(110)
Other	(227)	(18)	(269)	(37)
Changes in Assets and Liabilities:				
(Increase) Decrease in Accounts Receivable	72	(1,038)	(554)	(2,135)
(Increase) Decrease in Inventory	8	(13)	19	13
(Increase) Decrease in Other Assets	1,201	1,254	820	745
Increase (Decrease) in Accounts Payable	2,197	(987)	1,571	304
Increase (Decrease) in Other Liabilities	653	1,046	(598)	(348)
Net Cash Provided by (Used in) Operating Activities	7,276	3,452	4,235	2,421
Investing Activities:				
Purchases of Property, Plant & Equipment, including the Debt Component of AFUDC	(6,746)	(4,851)	(9,340)	(7,219)
Proceeds from Sale of Property, Plant & Equipment	198	-	221	-
(Increase) Decrease in Restricted Cash	-	-	-	-
Sale of Investment Securities	-	-	-	-
Change in Deferred Land Costs	109	(3)	80	(19)
Net Cash Provided by (Used in) Investing Activities	(6,439)	(4,854)	(9,039)	(7,238)
Financing Activities:				
Borrowings (Repayments) on Line of Credit	(881)	3,738	(1,208)	(1,116)
Payments on Long-term Debt	(932)	(875)	(5,066)	(4,728)
Contributions in Aid of Construction	5	319	24	400
Proceeds from Long-term Borrowings	3,008	1,390	12,098	8,087
Debt Issuance Costs	34	-	327	426
Dividends Paid	(70)	(70)	(210)	(210)
Net Cash Provided by (Used in) Financing Activities	1,164	4,502	5,965	2,859
Increase (Decrease) in Cash and Cash Equivalents	2,001	3,100	1,161	(1,958)
Cash and Cash Equivalents at Beginning of Period	7,500	4,178	8,340	9,236
Cash and Cash Equivalents at End of Period	$ 9,501	$ 7,278	$ 9,501	$ 7,278

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

Capital Expenditures

Capital Expenditures in the third quarter of 2019 were $6.9 million as compared to $4.7 million in the third quarter of 2018. Capital Expenditures for the year-to-date were $9.4 million as compared to $6.9 million in 2018.

Major expenditures in the nine months of 2019 included:

Merrimack River Intake	$2,688,000
Lake Street Main Replacement, Nashua	$1,412,000
Deerwood Drive, N.W. Main Improvements, Nashua	$512,000
Carbon Filter Media Replacement	$495,000
Gilman Street Main Replacement, Nashua	$414,000
Manchester Street Main Improvements, Nashua	$380,000

Financing

On February 12, 2019, Pennichuck East Utility, Inc. closed on a financing transaction with the New Hampshire Department of Environmental Services under the State of New Hampshire's Drinking Water Revolving Loan Fund Program in the amount of $4,240,000 for a 30-year term. The loan will be used to finance the cost of the Locke Lake New Groundwater Source/Treatment/Main Replacement project in Barnstead, NH. The funds for this project will be drawn down during the 2019 and 2020 calendar years.

On February 12, 2019, Pennichuck Water Works, Inc. closed on a financing transaction with the New Hampshire Department of Environmental Services under the State of New Hampshire's Drinking Water and Groundwater Trust Fund in the amount of $3,375,000 for a 30-year term. The loan has and will be used to finance the cost of the Pennichuck Core Water Main Replacement project, in the northwest portion of the system's distribution system in Nashua. The entire project is scheduled to be completed within 2019.

On April 4, 2019, the Company's Pennichuck Water Works, Inc. subsidiary issued approximately $8.3 million of tax-exempt and taxable bonds through the NH Business Finance Authority as reimbursement for its 2018 capital improvements in PWW's water supply, distribution and support systems. The bond issuance was approved by the Pennichuck Board of Directors and the Sole Shareholder. This issuance had previously received NHPUC approval on Order No. 26,101, dated February 2, 2018, which authorized up to $32.5 million in bonds via multiple issuances for the years 2018 – 2021.

On June 12, 2019, Pennichuck Water Works, Inc. closed on a financing transaction with the New Hampshire Department of Environmental Services under the State of New Hampshire's Drinking Water and Groundwater Trust Fund in the amount of $5.5 million for a 30-year term. The loan will be used to finance the design and construction of a new deep river intake in the Merrimack River, which will provide water to PWW's water treatment plant in Nashua.

On July 22, 2019, the Company's Pennichuck East Utility, Inc. subsidiary closed on a term loan financing transaction with CoBank, ACB in the amount of $1,153,000 for a term of 25 years. The loan proceeds were used to repay Fixed Asset Line of Credit monies borrowed during 2018 for capital projects for that year, which were placed in service by December 31, 2018.

Subsequent Events

On October 9, 2019, the NHPUC issued NISI Order No. 26,183, with an effective date of November 9, 2019, approving a 4.06% QCPAC (Qualified Capital Project Adjustment Charge) surcharge related to all capital improvements completed and placed in service by PWW in 2018. This surcharge will apply retroactively and going forward to PWW bills rendered after April 4, 2019.

PENNICHUCK™

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WWW.PENNICHUCK.COM

VIA HAND DELIVERY

March 4, 2020

Ms. Lori Wilshire, President
Board of Aldermen
City of Nashua
229 Main Street
Nashua, NH 03060

Dear President Wilshire:

On behalf of the Pennichuck Corporation Board of Directors, I am enclosing the following items with respect to the Annual Meeting of Sole Shareholder to be held on Saturday, May 2, 2020, at Pennichuck's Distribution Facility, 16 Daniel Webster Highway, in Merrimack:

1. Notice of Annual Meeting of Sole Shareholder and Proxy Statement
2. Proxy Card

Please contact Thomas J. Leonard, Chairman of the Board of Directors, or me, if you need further information.

Regards,

Larry D. Goodhue
Chief Executive Officer,
Chief Financial Officer
and Treasurer

cc. Mayor James Donchess
Board of Aldermen
Steven Bolton, Corporation Counsel
Susan Lovering, City Clerk

PENNICHUCK

PENNICHUCK CORPORATION

25 Manchester Street
Merrimack, New Hampshire 03054

NOTICE OF ANNUAL MEETING OF SOLE SHAREHOLDER

To be Held on Saturday, May 2, 2020 at 9:00 a.m.

To the City of Nashua, New Hampshire, in its capacity as the Sole Shareholder of Pennichuck Corporation:

In accordance with the By-Laws of Pennichuck Corporation and applicable laws, Pennichuck Corporation hereby provides notice that you are cordially invited to attend the Annual Meeting of Sole Shareholder of Pennichuck Corporation. The City of Nashua, New Hampshire, is the Sole Shareholder of Pennichuck Corporation.

The Annual Meeting will be held at Pennichuck's Distribution Facility, 16 Daniel Webster Highway, Merrimack, New Hampshire, on Saturday, May 2, 2020 at 9:00 a.m., for the following purpose:

1. To elect four directors, each for a three-year term, and until their successors are elected and qualified.

To facilitate the City's review of the matters to be addressed at the Annual Meeting, the Pennichuck Corporation Board of Directors have approved the delivery of the Proxy Statement attached to this Notice.

By Order of the Board of Directors,

LARRY D. GOODHUE
Chief Executive Officer,
Chief Financial Officer
and Treasurer

Merrimack, New Hampshire
March 4, 2020

PENNICHUCK®

PENNICHUCK CORPORATION

25 Manchester Street
Merrimack, New Hampshire 03054

PROXY STATEMENT

2020 Annual Meeting of Sole Shareholder
To be Held on Saturday, May 2, 2020 at 9:00 a.m.

This Proxy Statement is furnished to the City of Nashua, New Hampshire (the "City"), in its capacity as the Sole Shareholder of Pennichuck Corporation ("Pennichuck Corporation" or the "Company"), by the Board of Directors of Pennichuck Corporation, in connection with the solicitation of a proxy to be voted at the Annual Meeting of Sole Shareholder for the purpose set forth in the accompanying Notice of Annual Meeting of Sole Shareholder.

The Annual Meeting will be held at Pennichuck's Distribution Facility, 16 Daniel Webster Highway, Merrimack, New Hampshire, on Saturday, May 2, 2020 at 9:00 a.m.

Matter to be Voted Upon at the Annual Meeting

At the Annual Meeting, the City, in its capacity as the Sole Shareholder of Pennichuck Corporation, is being asked to consider and vote upon the following:

(1) To elect James P. Dore, Elizabeth A. Dunn, H. Scott Flegal and Deborah Novotny to the Pennichuck Corporation Board of Directors, as Class B directors, each for a three-year term, and until their successors are elected and qualified.

Voting at the Annual Meeting

Background. Pennichuck Corporation was acquired by the City on January 25, 2012. This acquisition was accomplished pursuant to an Agreement and Plan of Merger reached between the City and Pennichuck Corporation dated November 11, 2010 (the "Merger Agreement"). The transaction, in which the City issued $150.6 million of general obligation bonds to acquire the outstanding stock of Pennichuck Corporation and pay all transaction costs, was authorized by special legislation enacted by the State Legislature in 2007 and 2010. The Mayor and the Board of Aldermen unanimously approved the acquisition pursuant to this special legislation on January 11, 2011. The New Hampshire Public Utilities Commission approved the Merger Agreement on November 23, 2011, concluding that "the transaction is in the public interest and will not have an adverse effect on rates, terms, service, or operation of the utilities."

Corporate Structure. As part of the acquisition, the corporate structure of Pennichuck Corporation and its utility subsidiaries was retained. Under this structure, the City is the sole shareholder of Pennichuck Corporation. Pennichuck Corporation continues to own five corporate subsidiaries, including three regulated public utilities (Pennichuck Water Works, Inc., Pennichuck East Utility, Inc., and Pittsfield Aqueduct Company, Inc.), an unregulated service company (Pennichuck Water Service Corporation), and a former real estate holding company (The Southwood Corporation).

Election of the Board of Directors. Under this corporate governance system, the City exercises its control over Pennichuck Corporation in its capacity as the Company's Sole Shareholder in accordance with the Articles of Incorporation, the By-Laws and the New Hampshire laws governing business corporations. In accordance with these rules, Pennichuck Corporation's business affairs are managed and overseen by a Board of Directors. One of the most important responsibilities of the City, in its capacity as Sole Shareholder, is to elect members of the Board of Directors from individuals nominated by the Pennichuck Corporation Board of Directors at the Company's Annual Meeting.

Voting at the Annual Meeting. It is important to remember that the City itself is the Sole Shareholder, not any individual person who may hold an office with the City. The City must exercise its responsibilities as Sole Shareholder through public meetings of the City's Board of Aldermen and Mayor, acting in accordance with applicable New Hampshire laws and the provisions of the City Charter. As a municipal entity, the City is not typically in a position to "attend" an annual meeting, or any other meeting of the Sole Shareholder, "in person."

Traditional corporate law principles provide a ready solution for this type of "institutional" voting of shares. As the Sole Shareholder, the City may review the proposed vote and take action at appropriate City meetings determined by the City. The City may then either designate an individual person to attend the Annual Meeting in person with the authority to vote the City's shares in accordance with the City's determination, or the City may vote its shares by proxy.

To facilitate these options, the Pennichuck Corporation Board of Directors has prepared this Proxy Statement which contains details of the business to be conducted at the Annual Meeting. If the City determines to vote its shares by proxy, it should cause the enclosed proxy card to be completed and returned to Pennichuck Corporation prior to the Annual Meeting. By executing the enclosed proxy card, the City will be designating the actions it has determined to take with respect to the matters to be heard at the Annual Meeting and will be authorizing the officers of the Company named on the proxy card to act as the City's proxy to vote on the City's behalf at the Annual Meeting in accordance with the instructions set forth on the proxy card.

Corporate Governance Matters

Current Board of Directors. The Pennichuck Corporation Board of Directors is divided into three classes, each class serving for three years following their election and until their successors have been elected and qualified.

The number of Directors is currently fixed at eleven. There is a vacancy on the Board in Class B due to the resignation of a Board member in November 2019. The Board of Directors is nominating H. Scott Flegal for election as a Class B director to fill the vacancy in Class B.

The Board currently has ten "seated" directors. Of the ten directors, three have terms ending in 2020 (Class B), three have terms ending in 2021 (Class C), and four have terms ending in 2022 (Class A).

The current members of the Company's Board of Directors are as follows:

Term Expiring 2020 Class B	Term Expiring 2021 Class C	Term Expiring 2022 Class A
James P. Dore	David P. Bernier	C. George Bower
Elizabeth A. Dunn	Stephen D. Genest	Jay N. Lustig
Deborah Novotny	Thomas J. Leonard	John D. McGrath
[Vacancy]		Preston J. Stanley, Jr.

Board Meetings, Committee Meetings and Attendance. In 2019, the Company's Board of Directors held 11 regular Board meetings, 1 Annual Board meeting, and 14 Committee meetings. Each current member of the Board attended 75% or more of the total number of meetings of the Board of Directors and the number of meetings of all committees of the Board on which they served. All but one member of the Board of Directors attended the 2019 Annual Meeting of Sole Shareholder.

Board Compensation. In 2019, each director, with the exception of John Murphy and Deborah Novotny, received an annual retainer of $12,000. Mr. Murphy, who resigned from the Board on November 20, 2019, received $11,000 in compensation for his services as a director. Ms. Novotny, who joined the Board on May 4, 2019, received $8,000 in compensation for her services as a director.

Annual Performance Evaluation. The Board of Directors conducts an annual self-evaluation of the Board and its Committees to determine whether they are functioning effectively. Each Committee is also required to evaluate their performance.

Corporate Code of Conduct. The Company has adopted a written Corporate Code of Conduct that applies to its directors, officers and employees. A current copy of the Corporate Code of Conduct can be found on the Company's website at www.pennichuck.com, under the "Board of Directors – Meetings, Minutes and Corporate Governance" caption.

Board Committees. The Board of Directors has established four standing committees: the Audit, Finance and Risk Committee, the Communications Committee, the Compensation and Benefits Committee, and the Nominating and Governance Committee.

Each Committee has adopted a written Charter which sets forth its purpose, membership, duties and responsibilities. A copy of each Charter can be found on the Company's website at www.pennichuck.com, under the "Board of Directors – Meetings, Minutes and Corporate Governance" caption.

The current members of the Board Committees are as follows:

Audit, Finance and Risk Committee	Communications Committee
James P. Dore, Chairman	Jay N. Lustig, Chairman
C. George Bower	James P. Dore
Thomas J. Leonard	Thomas J. Leonard
Deborah Novotny	Deborah Novotny
	Preston J. Stanley, Jr.

Compensation and Benefits Committee	Nominating and Governance Committee
Stephen D. Genest, Chairman	Elizabeth A. Dunn, Chairman
David P. Bernier	Stephen D. Genest
C. George Bower	Thomas J. Leonard
Elizabeth A. Dunn	Jay N. Lustig
Thomas J. Leonard	Preston J. Stanley, Jr.
John D. McGrath	

Audit, Finance and Risk Committee. The Audit, Finance and Risk Committee is responsible for the appointment, compensation and retention of the independent auditors; preapproval of all audit and non-audit services to be provided by the independent auditors; review and approval of all related party transactions; review and evaluation of the qualifications, performance and independence of the lead partner of the independent auditors; oversight of the integrity of the Company's financial statements and internal controls; oversight of Company financing activities; oversight of the policies and procedures established to assess, monitor and control operational and financial risk; and oversight of the Company's insurance programs. The Audit, Finance and Risk Committee held 3 meetings in 2019.

Communications Committee. The Communications Committee develops and assists with the policies and strategies of external communications between the Board, the Company and the Sole Shareholder, other stakeholders, and the public, as needed. The Communications Committee held 1 meeting in 2019.

Compensation and Benefits Committee. The Compensation and Benefits Committee is responsible for annually reviewing and approving corporate goals and objectives relevant to Chief Executive Officer compensation; evaluating the Chief Executive Officer's performance in light of those goals and objectives, and determining and recommending to the Board of Directors the Chief Executive Officer's compensation based on evaluation of performance; reviewing and approving executive salaries; reviewing and approving any employment agreements, special compensation and benefits, or severance arrangements as they pertain to executive officers other than the Chief Executive Officer; overseeing the Company's compensation and benefit policies; and recommending to the Board of Directors the establishment, termination or amendment of existing compensation and employee benefit plans. The Compensation and Benefits Committee held 5 meetings in 2019.

Nominating and Governance Committee. The Nominating and Governance Committee is responsible for identifying individuals qualified to become Board members; recommending to the Board the persons to be nominated by the Board for election as directors at the Annual Meeting of Sole Shareholder; developing and recommending to the Board of Directors a set of corporate governance principles; overseeing an annual self-evaluation of the Board; and annually reviewing the Corporate Code of Conduct. The Nominating and Governance Committee is authorized to retain advisors and consultants and to compensate them for their services. The Nominating and Governance Committee did not retain such advisors or consultants during 2019. The Nominating and Governance Committee held 5 meetings in 2019.

As part of the nomination process, the Nominating and Governance Committee reviewed the current composition of the Board as a whole, reviewed the qualifications and performance of the incumbent directors who are up for re-election to the Board in 2020, discussed recommendations from Board members to identify and evaluate director candidates to fill the vacancy on the Board, and conducted non-public and public interviews of a director candidate.

The Nominating and Governance Committee considers whether to nominate any candidate for director in accordance with the criteria set forth in its Charter, subject to the restrictions set forth in the Company's By-Laws. These criteria include the candidate's integrity, business acumen, knowledge of the Company's business and industry, experience, diligence, conflicts of interest, and the ability to act in the interests of the Sole Shareholder. The Committee does not assign specific weights to particular criteria and no particular criterion is a prerequisite for each prospective nominee. The backgrounds and qualifications of the Company's directors, considered as a group, should provide a composite mix of experience, knowledge and abilities that will allow the Board of Directors to fulfill its responsibilities.

Senior Management. The members of the Company's Senior Management team are as follows:

Larry D. Goodhue, ***Chief Executive Officer, Chief Financial Officer and Treasurer***

Mr. Goodhue has been the Chief Executive Officer, Chief Financial Officer and Treasurer of Pennichuck Corporation and its subsidiaries since November 6, 2015, and the Chief Financial Officer, Treasurer and Controller from March 2012 through November 2015. He was Controller from December 2006 to March 2012. Mr. Goodhue served as a financial consultant to Metrobility Optical Systems, Inc. from July 2006 to October 2006 and to Pennichuck Corporation from October 2006 to November 2006. From October 2005 to June 2006, he was the Vice President of Finance and Administration for Metrobility Optical Systems, Inc. and the Corporate Controller from September 2000 to September 2005. From May 2000 to August 2000, he served as Acting Chief Operating Officer for Annalee Mobilitee Dolls, Inc. and was the Controller from January 1998 to April 2000. Mr. Goodhue holds a Bachelor of Science degree in Business Administration from Merrimack College, and is a Certified Public Accountant in the State of New Hampshire (for which his certification is currently in an inactive status). Mr. Goodhue's base annual salary beginning as of April 1, 2019 was $211,816.80.

Donald L. Ware, ***Chief Operating Officer***

Mr. Ware has been the Chief Operating Officer of Pennichuck Corporation since January 27, 2012. He was the Senior Vice President of Operations and Engineering of Pennichuck Corporation from 2004 to January 2012, and Chief Engineer and Vice President from 1995 to 2004. Mr. Ware is also the Chief Operating Officer of Pennichuck Water Works, Inc. and the Company's other water utilities. From 1986 to 1995, Mr. Ware was General Manager for the Augusta Water District in Augusta, Maine. Mr. Ware holds a Bachelor of Science degree in Civil Engineering from Bucknell University and a Master of Business Administration degree from the Whittemore Business School at the University of New Hampshire. Mr. Ware's base annual salary beginning as of April 1, 2019 was \$206,618.88.

Summary of Proposal to be Voted Upon at the Annual Meeting

PROPOSAL 1 – ELECTION OF DIRECTORS

On March 3, 2020, the Company's Board of Directors took action to recommend that the Sole Shareholder elect James P. Dore, Elizabeth A. Dunn, H. Scott Flegal and Deborah Novotny as Class B directors, each for a three-year term and until their successors are elected and qualified.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" EACH OF THESE FOUR NOMINEES.

Information regarding the professional backgrounds for each nominee follows:

Nominees for Director:

James P. Dore
(Director Since: May 2014)

Mr. Dore has been the Chief Executive Officer of Pageflex, Inc. (a software developer and marketer of publishing and browsing software products and technologies) since July 2017 and Chief Financial Officer since March 2012. He was the Chief Financial Officer of Bitstream Inc. from March 2003 to March 2012, and Corporate Controller from June 1999 to March 2003. He was the Chief Financial Officer of Celerity Solutions, Inc. from April 1999 to June 1999, and Corporate Controller from January 1997 to March 1999. Mr. Dore has experience in both publicly traded and privately held companies. Mr. Dore is a Certified Public Accountant. Mr. Dore holds a Bachelor of Science degree, with distinction, from Clarkson University.

Elizabeth A. Dunn
(Director Since: January 2012)

Ms. Dunn was an Assistant Attorney General with the State of New Hampshire, Department of Justice, from December 2001 to September 2007. She was a Commissioner of the New Hampshire Crime Victim's Assistance Commission from May 2002 to 2011. She was an Assistant County Attorney with the Office of the Rockingham County Attorney in Brentwood, NH, from May 1999 to December 2001, and an Associate Attorney with the law firm of Boutin & Associates from February 1998 to May 1999. Ms. Dunn previously served as a member of the Board of Selectmen and the Zoning Board of Adjustment for the Town of Windham, NH. She has been the Windham NH School District Moderator since 1993. Ms. Dunn holds a Juris Doctor degree from the University of New Hampshire Law School and a Bachelor of Science degree in Education from Framingham State College.

H. Scott Flegal
(Director Since: N/A)

Attorney Flegal has practiced law in Nashua since 1985. He began his career at the law firm of Sullivan & Gregg, P.A. He opened his own law firm in 1994. By appointment of the New Hampshire Supreme Court, Attorney Flegal served from 1991-2001 on the New Hampshire Board of Bar Examiners, and served in 2007 as a member of the New Hampshire Judicial Branch Dispute Resolution Committee. He is a past President of the Nashua Bar Association. In the Nashua community, Attorney Flegal served as past President of the Board of Directors of the Greater Nashua Mental Health Center, past Board Chair of the Greater Nashua Chamber of Commerce, and was a founding director and past president of Great American Downtown. He currently serves on the Board of Directors of the Nashua Education Foundation and is Chair-elect at Home Health & Hospice Care. Attorney Flegal earned a B.A. from Amherst College and a J.D. from DePaul University College of Law in Chicago.

Deborah Novotny
(Director Since: May 2019)

Ms. Novotny has been a Commercial Lender and Senior Vice President of Enterprise Bank in Nashua, NH, since June 2013. From April 2007 to June 2013, Ms. Novotny was a Business Banker and Vice President for Peoples United Bank in Nashua, NH, and from May 1995 to April 2007, Ms. Novotny was a Business Development and Sales Manager and Vice President for TD Bank in Nashua, NH. Ms. Novotny has held many positions with non-profit organizations over the years, including past President of the Nashua Rotary Club, Board member and past President of the Nashua Boys & Girls Club, Board member of the Nashua Education Foundation, member of the Allocation Committee of the United Way of Greater Nashua, Board Member of Marguerite's Place, member of the City of Nashua Business & Industrial Development Authority, and past president of the Nashua Adult Learning Center.

PENNICHUCK®

PROXY CARD
PENNICHUCK CORPORATION

PROXY for Annual Meeting of Sole Shareholder - May 2, 2020

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

The Sole Shareholder, the City of Nashua, New Hampshire, hereby appoints LARRY D. GOODHUE or DONALD L. WARE, as proxies to represent and vote as designated hereon, all shares of common stock of Pennichuck Corporation (the "Company") which the Sole Shareholder would be entitled to vote if personally present at the Annual Meeting of Sole Shareholder of the Company to be held at the Company's Distribution Facility, 16 Daniel Webster Highway, Merrimack, NH, on Saturday, May 2, 2020 at 9:00 a.m. The shares represented by this proxy will be voted as directed by the Sole Shareholder.

The Board of Directors recommends a vote "FOR" each of the nominees named in Proposal 1.

Proposal 1:

To elect James P. Dore, Elizabeth A. Dunn, H. Scott Flegal and Deborah Novotny to the Pennichuck Corporation Board of Directors, as Class B directors, each for a three-year term, and until their successors are elected and qualified.

	For	Against
James P. Dore	☐	☐
Elizabeth A. Dunn	☐	☐
H. Scott Flegal	☐	☐
Deborah Novotny	☐	☐

Authorized Signature:

CITY OF NASHUA, NEW HAMPSHIRE (Sole Shareholder)

By: ______________________________ Date: ____________________

Name: ______________________________

Title: ______________________________

This Proxy Card is Valid Only When Signed and Dated

PENNICHUCK®

April 1, 2020

ANNUAL REPORT TO THE SOLE SHAREHOLDER

Dear Shareholder:

The Annual Meeting of Pennichuck Corporation will be held at 9:00 a.m. on Saturday, May 2, 2020 at Pennichuck's Distribution Facility, 16 Daniel Webster Highway, Merrimack, New Hampshire. Due to the ongoing COVID-19 response, as dictated by the State, Federal Government and the CDC, the format of the meeting may need to be altered as to physical presence of attendees, versus electronic or remote participation allowing for prudent social distancing.

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

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

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

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

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

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

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

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

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

Pennichuck East Utility, Inc. provides water service to approximately 8,200 customers in 19 communities which include Atkinson, Barnstead, Bow, Chester, Conway, Derry, Exeter, Hooksett, Lee, Litchfield, Londonderry, Middleton, Pelham, Plaistow, Raymond, Sandown, Tilton, Weare and Windham.

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

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

Until December of 2019, The Southwood Corporation owned various parcels of land in the Town of Merrimack. As of the end of 2019, all of those parcels of land have had their ownership transferred from Southwood to Pennichuck Corporation, and Southwood is being retained only as a "corporate shell" at this time.

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

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

The Company currently has 124 employees. The employees are committed to supporting the Company's mission. Each of our managers has goals and objectives to support the strategies supporting the mission. Pennichuck is an Equal Opportunity/Affirmative Action Employer. It is the policy of the Company to hire, train, promote, and otherwise provide terms and conditions of employment without regard to race, color, religion, sex, sexual orientation, gender identity, national origin, ancestry, age, marital status, pregnancy, disability or veteran status. All employment and promotion decisions are based solely on valid requirements, in accordance with the principles of equal employment opportunity and affirmative action.

Financial Performance During the Last Year. The Company's audited consolidated financial statements for the year ended December 31, 2019 are attached to this report.

($ Millions)	4th Quarter		Year-to-Date	
	2019	2018	2019	2018
Revenues	$10.6	$10.7	$44.5	$45.3
Operating Expenses	(9.8)	(9.4)	(38.6)	(38.1)
Operating Income	0.8	1.3	5.9	7.2
Interest Expense	(2.8)	(2.8)	(11.1)	(10.9)
Other Income	0.1	-	0.2	-
Pre-Tax Income (Loss)	(1.9)	(1.5)	(5.0)	(3.7)
Income Tax Provision (Benefit)	0.1	1.7	0.3	1.6
Net Income (Loss)	(2.0)	(3.2)	(5.3)	(5.3)
Dividends Paid to the Shareholder	0.1	0.1	0.3	0.3
Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)	3.2	3.5	14.7	15.4

- Consolidated revenues for the fourth quarter decreased slightly by $0.1 million from $10.7 million in 2018 to $10.6 million in 2019. The decrease is primarily attributable to lower water usage for Pennichuck Water Works, Inc.

- Consolidated year-to-date revenues decreased from $45.3 million in 2018 to $44.5 million in 2019, a decrease of 1.8%. Revenues from the regulated utilities decreased primarily due to reduced consumption totals in the late Spring and early Summer, which were never fully recovered. The Service Company revenues decreased from prior year due to a reduction in their Unplanned Revenue activities, in addition to non-renewal of the Hudson contract in July of 2018, which also negatively impacted current versus prior year results.

- Consolidated operating expenses increased by $0.4 million for the fourth quarter of 2019, over the same quarter in 2018. The increase is primarily related to labor related costs, inflationary increases, higher maintenance related costs, and higher depreciation costs associated with ongoing capital investments.

- Consolidated operating expenses increased by $0.5 million, or 1.3%, for the full year, from 2018 to 2019, mainly due to higher maintenance related costs, production costs, increased depreciation costs, and labor related costs.

- Interest expense increased slightly in 2019 when compared to 2018 due to interest costs associated with the additional financed amounts for capital projects which have been incurred for ongoing infrastructure replacement, in conformity with the Company's key mission objectives.

- Pre-tax loss for the fourth quarter increased to $1.9 million in 2019 versus $1.5 million in 2018, due to the decrease in revenues which was coupled with increased operating expenses, primarily maintenance and production related, and depreciation costs, year-over-year.

- The pre-tax loss for the year increased from $3.7 million in 2018 to $5.0 million in 2019, or 26%, due to the $0.8 million decrease in revenues discussed previously, in addition to the increased operating costs year-over-year, which resulted in the higher pre-tax loss in 2019.

- Dividends paid to the sole shareholder in both 2019 and 2018 were consistent with, and were paid pursuant to, the CBFRR structure provided for in the New Hampshire Public Utilities Commission's Order approving the City's ownership of the Company.

- The Income Tax Provision in the current year reflects the tax accounting for the amortization of the Municipal Acquisition Regulatory Asset, which is not deductible for tax purposes, and as such, constitutes a permanent difference in the deductibility of those amortization expenses for tax purposes, as opposed to their inclusion in the GAAP based financial statements. The Income Tax Provision (Benefit) also reflects the taxation of CIAC as income for Regulated Water Utilities, due to the elimination of an exemption allowed prior to the passage of the *2017 Tax Cuts and Jobs Act* ("TCJA") which made broad and complex changes to the U.S. tax code. However, on November 27, 2019, the regulated utilities received NHPUC approval on the requested amendments to their tariffs which now allow for recovery of tax costs from developers and other CIAC contributors. This now allows the regulated utilities to fully fund the associated tax liability, on a going forward basis, which resulted from the change in the 2017 federal tax law. Due to these two significant items, the year-to-date results reflect a tax provision of approximately -6.3% of pre-tax income for 2019, compared to the statutory tax rate expense of 27.08%.

- Earnings Before Interest, Taxes, Depreciation and Amortization decreased in the fourth quarter from $3.5 million in 2018 to $3.2 million in 2019, or 8.6%, due to a decrease in revenues as discussed previously, coupled with operating expense increases (excluding interest).

- Earnings Before Interest, Taxes, Depreciation and Amortization for 2019 decreased from 2018 by approximately $0.7 million, or 4.5%, again due to lower revenues earned year-over-year, coupled with operating expense increases, excluding interest expense.

Unaudited Cash Flow Statement

Cash Flow on a GAAP basis for the fourth quarter of 2019 as compared to the fourth quarter of 2018, and the year-to-date 2019 versus 2018, are as follows:

	($000's)			
	Quarter Ended		Year-to-Date	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Operating Activities:				
Net Income (Loss)	$ (2,010)	$ (3,229)	$ (5,337)	$ (5,282)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities:				
Depreciation and Amortization	2,238	2,154	8,537	8,196
Provision for Deferred Taxes	67	1,316	341	1,206
(Gain) on Disposition of Property	(61)	(115)	(150)	(115)
Other	251	(17)	71	(54)
Changes in Assets and Liabilities:				
(Increase) Decrease in Accounts Receivable	1,271	1,486	717	(649)
(Increase) Decrease in Inventory	(56)	(20)	(37)	(7)
(Increase) Decrease in Other Assets	(3,839)	(951)	(3,019)	(206)
Increase (Decrease) in Accounts Payable	(3,407)	3,513	(1,836)	3,817
Increase (Decrease) in Other Liabilities	4,457	1,458	3,859	1,110
Net Cash Provided by (Used in) Operating Activities	(1,089)	5,595	3,146	8,016
Investing Activities:				
Purchases of Property, Plant & Equipment, including the Debt Component of AFUDC	(7,503)	(6,571)	(16,843)	(13,790)
(Increase) Decrease in Restricted Cash/Investments	0	0	0	0
Proceeds from Sale of Property	0	119	221	119
Change in Deferred Land Costs	(80)	0	0	(19)
Net Cash Provided by (Used in) Investing Activities	(7,583)	(6,452)	(16,622)	(13,690)
Financing Activities:				
Borrowings (Repayments) on Line of Credit	3,864	2,168	2,656	1,052
Payments on Long-term Debt	(968)	(886)	(6,034)	(5,614)
Contributions in Aid of Construction	24	296	48	696
Proceeds from Long-term Borrowings	6,594	406	18,692	8,493
Debt Issuance Costs	0	5	327	431
Dividends Paid	(69)	(70)	(279)	(280)
Net Cash Provided by (Used in) Financing Activities	9,445	1,919	15,410	4,778
Increase (Decrease) in Cash and Cash Equivalents	773	1,062	1,934	(896)
Cash and Cash Equivalents at Beginning of Period	9,501	7,278	8,340	9,236
Cash and Cash Equivalents at End of Period	$ 10,274	$ 8,340	$ 10,274	$ 8,340

Balance Sheet

	($000's) As of December 31, 2019 (Audited)	($000's) As of December 31, 2018 (Audited)
Assets		
Property, Plant & Equipment, Net	$ 237,182	$ 221,860
Current Assets:		
Cash	4,885	1,575
Restricted Cash	1,963	3,428
Investments – Bond Project Funds	3,426	3,337
Accounts Receivable	5,631	6,348
Inventory	648	611
Other Current Assets [Note 1]	1,418	1,631
Total Current Assets	17,971	16,930
Other Assets:		
Acquisition Premium [Note 2]	69,263	71,268
Other Assets	13,727	13,075
Total Other Assets	82,990	84,343
TOTAL ASSETS	$ 338,143	$ 323,133
Shareholders' Equity and Liabilities		
Shareholders' Equity	$ 2,739	$ 8,410
Bonds, Notes and Mortgages	212,296	200,225
Current Liabilities:		
Lines of Credit	9,283	6,626
Current Portion of Long-Term Debt	6,582	6,019
Other Current Liabilities	6,722	8,388
Total Current Liabilities	22,587	21,033
Other Long-Term Liabilities:		
CIAC, net	54,770	51,961
Deferred Income Taxes	14,427	14,110
Accrued Pension Liability [Note 3]	12,971	10,021
Other Long-Term Liabilities	18,353	17,373
Total Other Long-Term Liabilities	100,521	93,465
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	$ 338,143	$ 323,133

Notes to Balance Sheet

Note 1 (Other Current Assets) – At December 31, 2019, approximately $1.0 million of this balance is comprised of prepaid property taxes, which will be expensed in the first quarter of 2020, relating to taxes paid in November and December of 2019 for the second half of the property tax year ended March 31, 2020.

Note 2 (Acquisition Premium) – In accordance with GAAP, the Acquisition Premium is being written-off over the 30-year life of the principal of the City Acquisition Debt.

Note 3 (Accrued Pension Liability) – During 2019, approximately $1.2 million was contributed into the Pension Plan, while approximately $0.7 million in benefit payments were made to participants, and approximately $3.2 million of investment gains were recorded, attributed to changes in market values.

Capital Expenditures

Capital expenditures in the fourth quarter of 2019 were $7.2 million compared to $6.6 million in the fourth quarter of 2018. For the year 2019, capital expenditures were $16.6 million as compared to $13.6 million in 2018.

The major expenditures for 2019 were as follows:

Merrimack River Intake	$5,632,000
Lake Street Main Replacements	$1,609,000
Deerwood Drive Main Replacements	$1,373,000
Carbon Filter Media Replacements	$991,000
Route 101A Main Replacements	$568,000
Manchester Street Main Improvements	$525,000

Rate Case – Pennichuck Water Works, Inc.

On July 1, 2019, Pennichuck Water filed a request with the NHPUC for a rate increase of 11.91% over its current rates for the test year 2018, effective August 1, 2019. The proposed permanent rate increase includes a 2018 Qualified Capital Project Adjustment Charge (QCPAC) surcharge of 1.69%, a proposed 2019 QCPAC of 2.37%, and further modification to its ratemaking structure. The overall rate increase is subject to the normal regulatory filing process with the NHPUC, as followed for all prior rate case filings, and as such, the final permanent rate increase granted will be effective retroactive back to a regulatory approved date, with final approval by the NHPUC in the Fall of 2020.

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

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

The proposed modifications include:

- creating a Material Operating Expense Supplement (MOES), an expense factor on top of its material operating expenses to cover inflationary increases between rate filings;
- including the actual cost of Federal and State corporate income taxes in the Company's Operating Expense Revenue Requirement (OERR) component of allowed revenues;
- reprioritizing the use of 0.1 Debt Service Revenue Requirement (DSRR) funds;
- reallocating the value of the aggregate RSF; and
- changing the treatment of debt issuance costs for long-term debt, other than tax exempt and taxable bond issuances.

Qualified Capital Project Adjustment Charge (QCPAC)

On October 9, 2019, the NHPUC issued Nisi Order No. 26,298 approving a 4.06% surcharge on all capital improvements completed and placed in service by Pennichuck Water in 2018. This surcharge went into effect in October 2019 as a subset of Pennichuck Water's next allowed permanent rate case and is recoupable for bills rendered after April 4, 2019.

On December 6, 2019, the NHPUC issued Nisi Order No. 26,313 approving a 2.98% surcharge on all capital improvements completed and placed in service by Pennichuck East in 2018. This surcharge went into effect in December 2019 as a subset of Pennichuck East's next allowed permanent rate case and is recoupable for service rendered on or after July 22, 2019.

Financing

On February 12, 2019, Pennichuck East Utility, Inc. closed on a financing transaction with the New Hampshire Department of Environmental Services under the State of New Hampshire's Drinking Water Revolving Loan Fund Program in the amount of $4,240,000 for a 30-year term. The loan will be used to finance the cost of the Locke Lake New Groundwater Source/Treatment/ Main Replacement project in Barnstead, NH. The funds for this project will be drawn down during the 2019 and 2020 calendar years.

On February 12, 2019, Pennichuck Water Works, Inc. closed on a financing transaction with the New Hampshire Department of Environmental Services under the State of New Hampshire's Drinking Water and Groundwater Trust Fund in the amount of $3,375,000 for a 30-year term. The loan has and will be used to finance the cost of the Pennichuck Core Water Main Replacement project, in the northwest portion of the system's distribution system in Nashua. The entire project is scheduled to be completed within 2019, or early 2020 for certain residual costs for the projects.

On April 4, 2019, the Company's Pennichuck Water Works, Inc. subsidiary issued approximately $8.3 million of tax-exempt and taxable bonds through the NH Business Finance Authority as reimbursement for its 2018 capital improvements in PWW's water supply, distribution and support systems. The bond issuance was approved by the Pennichuck Board of Directors and the Sole Shareholder. This issuance had previously received NHPUC approval on Order No. 26,101, dated February 2, 2018, which authorized up to $32.5 million in bonds via multiple issuances for the years 2018 – 2020.

On June 12, 2019, Pennichuck Water Works, Inc. closed on a financing transaction with the New Hampshire Department of Environmental Services under the State of New Hampshire's Drinking Water and Groundwater Trust Fund in the amount of $5.5 million for a 30-year term. The loan was used to finance the design and construction of a new deep river intake in the Merrimack River, which will provide water to PWW's water treatment plant in Nashua. This project was completed and placed into service as of the end of 2019.

On July 22, 2019, the Company's Pennichuck East Utility, Inc. subsidiary closed on a term loan financing transaction with CoBank, ACB in the amount of $1,153,000 for a term of 25 years. The loan proceeds were used to repay Fixed Asset Line of Credit monies borrowed during 2018 for capital projects for that year, which were placed in service by December 31, 2018.

Other Events

Southwood assumed 100% ownership of the previously joint investment in HECOP IV, LLC, for which it was previously a 50% owner, and subsequent to December 31, 2019, has begun the process of dissolving and liquidating this Limited Liability Corporation. This process is expected to be completed in the first quarter of 2020, which includes complying with New Hampshire state filing requirements and obtaining such approvals.

The Company is currently under a temporary extension of its $4 million Working Capital Line of Credit facility with TD Bank, NA through March 31, 2020, pending a further temporary extension as it procures a multi-year renewal to be put in place during 2020. Repayment on this revolving line consists of monthly interest only payments with the outstanding principal balance paid at maturity. This facility is periodically drawn upon in support of the Company's overall operations.

PFOA Contamination Issues

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

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

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

The Company was also asked by the NHDES to design a further buildout for SGPP in Litchfield to bring public water to an additional 30 residences in Litchfield, due to this contamination site. The Company is working with SGPP on another contract with the Company for the expansion of the Company's water system in that area, construction of which would expect to begin in the Summer of 2020, and would be fully paid for by SGPP, and included in CIAC assets at such time as those projects were completed. This contract will include a payment from SGPP for the now approved inclusion of the taxes due on the CIAC contributed for the project.

As of March 20, 2018, SGPP and NHDES entered into a Consent Decree, and as such, the Company is currently working with SGPP in the scheduling of these projects, including the construction management agreements tied to this activity. Under the Consent Decree, SGPP was to fulfill their obligations by November 2019 on all of these currently identified activities. The Company understands that SGPP has been involved with the NHDES as to the compliancy with this agreement, in light of delays in the process of bringing total remediation to impacted residents, and in light of the new proposed State standard for PFAS, which is currently being challenged in the court system.

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

Company Goals – 2020

The Company's main goals for 2020 are as follows:

- File PEU Rate Case for test year 2019, including request for rate structure modification relating to MOES annual surcharge for inflationary increases in operating expenses
- Complete PWW 2018 test year rate case, with final rates expected in Q3/Q4 2020, inclusive of rate structure modifications requested
- File annual PWW and PEU QCPAC cases
- Begin implementation and usage of social media in customer relations and outreach
- Complete construction and installation of Locke Lake overflow intake and treatment facilities upgrades
- Continued development and implementation of the Asset Management, GIS and DPaC modules, including criticality and vulnerability assessment to establish framework for long-term Capex planning
- Continued roll-out and implementation of companywide Customer Security Program, to the benefit and safety of customers and employees
- Continued disposal of "excess" land portfolio outside the watershed
- Completion and ongoing response and action to PFOA contamination issues in Merrimack, Litchfield, Bedford and Amherst, in cooperation with the NHDES and other State agencies
- Implementation of the new PFAS MCL and Arsenic MCL, as governed by the NHDES
- Continued training, mentoring and succession planning throughout the organization, including impending retirements occurring in mid to late 2020 for certain key roles
- Complete design of enhancements needed for Bowers and Supply Pond Dams, in preparation of projects to be completed in 2020/2021
- Replace the carbon media in the remaining 4 of the12 Filter Bays in the Treatment Plant
- Complete Bond issuance reimbursement financing for PWW 2019 Capex
- Complete CoBank term loan financing in Q2 2020 for PEU 2019 Capex reimbursement/refinance
- File for new multi-year approval of bond financing for PWW Capex for next 3-5 years (including Board, City and NHPUC approval); process to begin in Q1 2020
- Continued participation in multiple educational outreach efforts within the Company's customer coverage radius
- Procure and install new WAM application, replacing existing Work Order Software application (Synergen), including re-establishment of inter-application links

- Continued focus on system and applications integration companywide, in response to results of gap analysis done with ISO 27001 study
- Comprehensive review of Emergency Action Plan conducted during Internal Control Review process
- Finalize and secure several new contracts for PWSC, including extension/renewals of existing contracts (Amesbury, Eastham and Wellfleet)
- Implementation of New Online Platform for customers
- Evaluate and implement Customer Communication System to allow for texting and email notifications to customers
- Research potential enhancements or upgrade to Macola ES application
- Installation of Solar field to augment long-term power needs and rates
- Continual enhancement and review of cybersecurity needs, risks and tools
- Complete HQ relocation to new downtown location, including
    - Completion of construction of the site
    - Installation of IT infrastructure
    - Procurement of systems needed for new building
    - Culminating in the move to the new facility and vacancy of existing HQ in November/December of 2020
- Maintain continuous service to customers during the nationwide and global response to the COVID-19 pandemic, in a manner that is safe and secure for customers and employees, while continuing to provide necessary services and water in compliancy with State and Federal guidelines and requirements.

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

Sincerely,

Larry D. Goodhue
Chief Executive Officer,
Chief Financial Officer
and Treasurer

Pennichuck Corporation and Subsidiaries

Consolidated Financial Statements

December 31, 2019 and 2018

(With Independent Auditors' Report Thereon)

CONTENTS

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INDEPENDENT AUDITORS' REPORT

Board of Directors and Stockholder
Pennichuck Corporation and Subsidiaries

We have audited the accompanying consolidated financial statements of Pennichuck Corporation and Subsidiaries (the Company), which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of income (loss), comprehensive income (loss), changes in stockholder's equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Pennichuck Corporation and Subsidiaries as of December 31, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Melanson Heath

March 24, 2020

PENNICHUCK CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
As of December 31, 2019 and 2018
(in thousands, except share data)

	2019	2018
ASSETS		
Property, Plant and Equipment, net	$ 237,182	$ 221,860
Current Assets:		
Cash and cash equivalents	4,885	1,575
Restricted cash - RSF	1,963	3,428
Restricted cash - Bond Project Funds	3,426	3,337
Accounts receivable - billed, net	3,041	3,417
Accounts receivable - unbilled, net	2,575	2,927
Accounts receivable - other	16	4
Inventory	648	611
Prepaid expenses	418	610
Prepaid property taxes	992	1,021
Deferred and refundable income taxes	8	-
Total Current Assets	17,972	16,930
Other Assets:		
Deferred land costs	-	2,275
Deferred charges and other assets	13,727	10,697
Investment in real estate partnership	-	104
Acquisition premium, net	69,263	71,268
Total Other Assets	82,990	84,344
TOTAL ASSETS	$ 338,144	$ 323,134

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

PENNICHUCK CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS - CONTINUED
As of December 31, 2019 and 2018
(in thousands, except share data)

	2019	2018
STOCKHOLDER'S EQUITY AND LIABILITIES		
Stockholder's Equity:		
Common stock; $0.01 par value; 1,000 shares authorized, issued and outstanding	$ -	$ -
Additional paid in capital	30,561	30,561
Accumulated deficit	(28,140)	(22,523)
Accumulated other comprehensive income	318	372
Total Stockholder's Equity	2,739	8,410
Long-Term Debt, Less Current Portion and Unamortized Debt Issuance Costs	212,296	200,225
Current Liabilities:		
Lines of credit	9,283	6,626
Current portion of long-term debt	6,582	6,019
Accounts payable	3,529	5,362
Deferred revenue	59	63
Accrued interest payable	1,723	1,682
Other accrued expenses	898	700
Accrued wages and payroll withholding	192	346
Customer deposits and other	322	235
Total Current Liabilities	22,588	21,033
Other Liabilities and Deferred Credits:		
Deferred income taxes	14,427	14,110
Accrued pension liability	12,971	10,021
Unamortized debt premium	3,162	2,966
Deferred investment tax credits	438	470
Regulatory liability	9,930	9,943
Accrued post-retirement benefits	3,982	3,201
Customer advances	84	84
Contributions in aid of construction, net	54,770	51,961
Derivative instrument	353	263
Other long-term liabilities	404	447
Total Other Liabilities and Deferred Credits	100,521	93,466
TOTAL STOCKHOLDER'S EQUITY AND LIABILITIES	$ 338,144	$ 323,134

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, 2019 and 2018
(in thousands)

	2019	2018
Operating Revenues	$ 44,779	$ 45,265
Operating Expenses:		
Operations and maintenance	24,158	23,540
Depreciation and amortization	8,449	8,113
Taxes other than income taxes	6,287	6,509
Total Operating Expenses	38,894	38,162
Operating Income	5,885	7,103
Interest Expense	(11,172)	(10,910)
Allowance for Funds Used During Construction	-	106
Other, Net	264	111
Loss Before Provision for Income Taxes	(5,023)	(3,590)
Provision for Income Taxes	(314)	(1,692)
Net Loss	$ (5,337)	$ (5,282)

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, 2019 and 2018
(in thousands)

	2019	2018
Net Loss	$ (5,337)	$ (5,282)
Other Comprehensive Income (Loss):		
Unrealized gain (loss) on derivatives	(160)	53
Reclassification of net income realized in net income	70	59
Income tax provision (benefit) relating to other comprehensive income (loss)	36	(45)
Other Comprehensive Income (Loss)	(54)	67
Comprehensive Loss	$ (5,391)	$ (5,215)

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

PENNICHUCK CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDER'S EQUITY
For the Year Ended December 31, 2019
(in thousands, except per share data)

	Common Stock		Additional Paid in	Retained	Accumulated Other Comprehensive	
	Shares	Amount	Capital	Earnings/(Deficit)	Income	Total
	1,000	$ -	$ 30,561	$ (22,523)	$ 372	$ 8,410
	-	-		(280)	-	(280)
	-	-	-	(5,337)	-	(5,337)
	-	-		-	(97)	(97)
taxes	-	-		-	43	43
	1,000	$ -	$ 30,561	$ (28,140)	$ 318	$ 2,739

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

PENNICHUCK CORPORATION AND SUBSIDIARIES

NSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDER'S EQUITY

For the Year Ended December 31, 2018

(in thousands, except per share data)

	Common Stock		Additional Paid in Capital	Retained Earnings/(Deficit)	Accumulated Other Comprehensive Income	Total
	Shares	Amount				
	1,000	$ -	$ 30,561	$ (16,961)	$ 305	$ 13,905
	-	-	-	(280)	-	(280)
clared	-	-	-	(5,282)	-	(5,282)
ncome:						
:rivatives,	-	-	-	-	32	32
t income :, net of	-	-	-	-	35	35
	1,000	$ -	$ 30,561	$ (22,523)	$ 372	$ 8,410

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, 2019 and 2018
(in thousands)

	2019	2018
Operating Activities:		
Net Loss	$ (5,337)	$ (5,282)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	8,537	8,196
Equity component of AFUDC	-	(20)
Amortization of deferred investment tax credits	(33)	(33)
Provision for deferred income tax	341	1,206
Undistributed (income) loss in real estate partnership	104	(1)
Gain on disposition of property	(150)	(114)
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable billed, unbilled and other	718	(649)
(Increase) decrease in inventory	(37)	(7)
(Increase) decrease in prepaid expenses	221	110
(Increase) decrease in refundable income taxes	(8)	516
(Increase) decrease in deferred charges and other assets	(2,579)	550
Increase (decrease) in accounts payable and deferred revenue	(1,836)	3,817
Increase (decrease) in accrued interest payable	41	57
Increase in other	3,818	534
Net cash provided by operating activities	3,800	8,880
Investing Activities:		
Purchase of property, plant and equipment including debt component of allowance for funds used during construction	(16,843)	(13,790)
Proceeds from sale of property	221	119
Change in investment in real estate partnership and deferred land costs	-	(19)
Net cash used by investing activities	(16,622)	(13,690)

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, 2019 and 2018
(in thousands)

	2019	2018
Financing Activities:		
Borrowings (payments) on lines of credit, net	$ 2,657	$ 1,052
Payments on long-term debt	(6,034)	(5,614)
Contributions in aid of construction	48	696
Proceeds from long-term borrowings	18,692	8,492
Debt issuance costs	(327)	(431)
Dividends paid	(280)	(280)
Net cash provided by financing activities	14,756	3,915
Increase (Decrease) in cash, cash equivalents, and restricted cash	1,934	(895)
Cash, cash equivalents, and restricted cash at beginning of period	8,340	9,235
Cash, cash equivalents, and restricted cash at end of period	$ 10,274	$ 8,340

Supplemental Disclosure on Cash Flow and Non-cash Items
For the Years Ended December 31, 2019 and 2018 (in thousands)

	2019	2018
Cash paid during the period for:		
Interest	$ 10,963	$ 10,645
Income taxes	157	141
Non-cash items:		
Contributions in aid of construction	4,061	4,962
Forgiveness of debt	89	87

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

PENNICHUCK CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Description of Business and Summary of Significant Accounting Policies

Description of Business:

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

The Company's utility subsidiaries are engaged principally in the collection, storage, treatment and distribution of potable water to approximately 37,663 customers throughout the State of New Hampshire. The utility subsidiaries, which are regulated by the New Hampshire Public Utilities Commission (the "NHPUC"), are subject to the provisions of Accounting Standards Codification ("ASC") Topic 980 "*Regulated Operations.*"

Summary of Significant Accounting Policies:

Basis of Presentation

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

Use of Estimates in the Preparation of Consolidated Financial Statements

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

Property, Plant and Equipment

Property, plant and equipment, which includes principally the water utility assets of the Company's utility subsidiaries, is recorded at cost plus an allowance for funds used during construction on major, long-term projects and includes property funded with contributions in aid of construction. Maintenance, repairs and minor improvements are charged to expense as incurred. Improvements which significantly increase the value of property, plant and equipment are capitalized.

Cash and Cash Equivalents

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

Restricted Cash – RSF

This restricted cash balance consists of funds maintained for the Rate Stabilization Fund ("RSF"), which was established in conformity with the requirements of NHPUC Order No. 25,292, as explained more fully in Note 14 of these financial statements. The RSF is an imprest fund of $5 million, which is subject to funding above or below the imprest fund balance, reflecting actual revenue performance as it relates to prescribed revenue levels supported by the RSF. The excess or deficient amount (versus the $5 million imprest balance) is subject to return or collection to rate payers over the succeeding three-year period of time, as of the rate order issued with the next promulgated rate case filing. On November 7, 2017, the NHPUC approved and issued Order No. 26,070 which established new rates for Pennichuck Water. In addition, the rate order then authorized the reallocation of the existing $5,000,000 RSF among the Company's utility subsidiaries. Such that, Pennichuck Water's allocated share of the RSF would now be $3,920,000, with the remaining balance of $1,080,000 to be allocated between Pennichuck East and PAC. Rate order No. 26,179, under docket DW 17-128 then allocated $980,000 of the $1,080,000 to Pennichuck East with the remaining $100,000 to PAC. The purpose for splitting and allocating the existing RSF is to provide additional reserves which ensure sufficient capital to enable the Company to support its operations. For the years ending December 31, 2019 and 2018, the balances in the RSF were approximately $2.0 million and $3.4 million, respectively.

Restricted Cash – Bond Project Funds

This restricted cash balance consists of funds remaining from the issuance of the Series 2014, 2015, 2018 and 2019 tax-exempt bonds (the "Bonds") in December of 2014, October of 2015 and April 2018 and 2019, respectively. The proceeds from those bond issuance transactions are maintained in separate restricted cash accounts, with Trustee oversight, and are subject to withdrawal as a reimbursement of eligible capital project expenditures for the years 2014 through 2019, as defined by the indenture and issuance documents associated with each offering. The restricted cash accounts are also used as a "conduit" for the transfer of money from operating cash to restricted cash, allowing the Trustee to make the required payments to bondholders for principal and interest due semi-annually.

As of December 31, 2018, the funds in these restricted cash accounts totaled approximately $3.3 million. During 2019, approximately $3.3 million was withdrawn from the restricted cash accounts to make the principal and interest payments for the Bonds, on January 1, July 1 and October 1. In December 2019, approximately $3.4 million 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, 2020 for the Bonds. As of December 31, 2019, the funds in these restricted cash accounts totaled approximately $3.4 million.

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, 2019 and 2018, the Company had approximately $9,600,000 and $6,900,000 in excess of FDIC insured limits, respectively. Our accounts receivable balances primarily represent amounts due from the residential, commercial and industrial customers of our regulated water utility operations, as well as receivables from our Service Corporation customers.

Accounts Receivable – Billed, Net

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

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

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

Accounts Receivable – Unbilled, Net

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

Inventory

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

Deferred Land Costs

Deferred land costs have been recorded in all reporting periods leading up to and including 2019 by Southwood, the Company's real estate subsidiary. Southwood was passively engaged in the management and maintenance of land holdings outside of any of the land holdings held in ownership by the Company's utility subsidiaries. Included in deferred land costs is the Company's original basis in its undeveloped landholdings and any land improvement costs, which are stated at the lower of cost or market. All costs associated with real estate and land projects are capitalized and allocated to the project to which the costs relate. Administrative labor and the related fringe benefit costs attributable to the acquisition, active development, and construction of land parcels are capitalized as deferred land costs. No labor and benefits were capitalized for the years ended December 31, 2019 and 2018.

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

Deferred Charges and Other Assets

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

Unamortized Debt Issuance Costs

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

Contributions in Aid of Construction

Under construction contracts with real estate developers and others, the Company's utility subsidiaries may receive non-refundable advances for the cost of installing new water mains. These advances are recorded as Contributions in Aid of Construction ("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.

Revenue Recognition – Regulated Entities

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

Revenue Recognition – Non-Regulated Entities

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

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

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

Contract Combination

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

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

Performance Obligations

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

Contract Estimates and Modifications

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

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

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

Variable Consideration

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

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

Significant Judgments

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

Contract Assets and Liabilities

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

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

Practical Expedients

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

Investment in Joint Venture

Southwood uses the equity method of accounting for its investment in a joint venture in which it does not have a controlling interest. Under this method, Southwood records its proportionate share of losses under "Other, net" in the accompanying Consolidated Statements of Income (Loss) with a corresponding decrease in the carrying value of the investment.

As of the end of 2019, Southwood assumed 100% ownership of this investment, and as such, has consolidated the operating results of the investment in its 2019 results.

Income Taxes

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

Adoption of New Accounting Standards

Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board (FASB) issued ASC 606, *Revenue from Contracts with Customers*, which provides a five-step analysis of contracts to determine when and how revenue is recognized and replaces most existing revenue recognition guidance in U.S. generally accepted accounting principles (U.S. GAAP). The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. ASC 606 is effective for annual reporting periods beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. The Company adopted ASC 606 effective January 1, 2019, the first day of the Company's fiscal year, using the full-retrospective method for the non-regulated entities.

As part of the adoption of ASC 606, the Company elected to use the following transition practical expedients: (1) revenue from contracts which begin and end in the same fiscal year has not been restated; (2) hindsight was used when determining the transaction price for contracts that include variable consideration, rather than estimating variable consideration amounts in the comparative reporting period; (3) the amount of transaction price allocated to unsatisfied performance obligations and when those amounts are expected to be recognized, for the reporting periods prior to the date of initial application of the guidance, have not been disclosed; and (4) all contract modifications that occurred prior to the date of initial application when identifying the satisfied and unsatisfied performance obligations, determining the transaction price, and allocating the transaction price have been reflected in the aggregate.

The majority of the Company's revenue is recognized over time as the performance obligation is satisfied. Revenue recognized over time primarily consists of performance obligations that are satisfied within one year or less. In addition, the majority of the Company's contracts do not contain variable consideration and contract modifications are generally minimal. For these reasons, there is not a significant impact as a result of electing these transition practical expedients.

The adoption of ASC 606 did not have a significant impact on the Company's financial position, results of operations, or cash flows. The majority of the Company's revenue arrangements generally consist of a single performance obligation to transfer promised goods or services. Based on the Company's evaluation of its contracts with customers, the timing and amount of revenue recognized previously is consistent with how revenue is recognized under the new standard. No changes were required to previously reported revenues as a result of the adoption.

See *Summary of Significant Accounting Policies, Revenue Recognition*, above for further discussion of the effects of the adoption of ASC 606 on our significant accounting policies.

Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost

In 2019, the Company adopted FASB Accounting Standards Update (ASU) 2017-07, *Compensation – Retirement Benefits (Topic 715) - Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, which requires reporting the service cost component in the same line item as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net periodic benefit cost are presented separately from the service cost component and outside a subtotal from operations. The Company adopted ASU 2017-07 retrospectively. There was no material impact on the Company's results of operations or financial condition upon adoption of the new standard.

New Accounting Standards to be Adopted in the Future

Leases

In February 2016, the FASB issued ASU 2016-02, *Leases*. The ASU requires all leases with lease terms more than 12 months to be capitalized as a right of use asset and lease liability on the balance sheet at the date of lease commencement. Leases will be classified as either finance leases or operating leases. This distinction will be relevant for the pattern of expense recognition in the income statement. This ASU will be effective for the Company for the year ending December 31, 2021. The Company is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

Credit Losses

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

Note 2 – Property, Plant and Equipment

The components of property, plant and equipment as of December 31, 2019 and 2018 were as follows:

(in thousands)	2019	2018	Useful Lives (in years)
Utility Property:			
Land and land rights	$ 5,993	$ 3,346	-
Source of supply	72,360	65,807	3 - 70
Pumping and purification	29,929	29,823	7 - 64
Transmission and distribution, including services, meters and hydrants	188,069	176,263	15 - 91
General and other equipment	16,352	16,742	7 - 75
Intangible plant	790	790	20
Construction work in progress	1,225	2,175	
Total utility property	314,718	294,946	
Total non-utility property	5	5	5 - 10
Total property, plant and equipment	314,723	294,951	
Less accumulated depreciation	(77,541)	(73,091)	
Property, Plant and Equipment, net	$ 237,182	$ 221,860	

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 2.53% and 2.54% in 2019 and 2018, respectively.

Note 3 – Restricted Cash

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

(in thousands)	2019	2018
Cash and cash equivalents	$ 4,885	$ 1,575
Restricted cash - RSF	1,963	3,428
Restricted cash - Bond Project Funds	3,426	3,337
Total cash, cash equivalents and restricted cash shown in the consolidated statements of cash flows	$ 10,274	$ 8,340

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

Note 4 – Accounts Receivable

Accounts receivable consisted of the following at December 31, 2019 and 2018:

(in thousands)	2019	2018
Accounts receivable - billed	$ 3,091	$ 3,461
Less allowance for doubtful accounts	(50)	(44)
Accounts receivable - billed, net	$ 3,041	$ 3,417
Accounts receivable - unbilled	$ 2,575	$ 2,927
Less allowance for doubtful accounts	-	-
Accounts receivable - unbilled, net	$ 2,575	$ 2,927

Note 5 – Deferred Charges and Other Assets

Deferred charges and other assets as of December 31, 2019 and 2018 consisted of the following:

(in thousands)	2019	2018	Recovery Period (in years)
Regulatory assets:			
Source development charges	$ 801	$ 873	5 - 25
Miscellaneous studies	790	865	2 - 25
Unrecovered pension and post-retirement benefits expense	11,347	8,197	(1)
Total regulatory assets	12,938	9,935	
Supplemental executive retirement plan asset	789	762	
Total deferred charges and other assets	$ 13,727	$ 10,697	

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

Note 6 – Post-retirement Benefit Plans

Pension Plan and Other Post-Retirement Benefits

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

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

Upon retirement, if a qualifying employee elects to receive medical benefits under our Post-65 Plan, we pay up to a maximum monthly benefit of $360 based on years of service.

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

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

The following table sets forth information regarding our DB Plan and our OPEB Plans as of December 31, 2018 and for the year then ended:

(in thousands)	DB Plan	OPEB Plans
Projected benefit obligations	$ 27,369	$ 3,735
Employer contribution	1,097	11
Benefits paid, excluding expenses	(648)	(58)
Fair value of plan assets	17,348	534
Accumulated benefit obligation	24,823	-
Funded status	(10,021)	(3,201)
Net periodic benefit cost	1,286	251
Amount of the funded status recognized in the Consolidated Balance Sheet consisted of:		
Current liability	-	-
Non-current liability	(10,021)	(3,201)
Total	$ (10,021)	$ (3,201)

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

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

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

Changes in plan assets and benefit obligations recognized in regulatory assets, for the year ended December 31, 2018, were as follows:

(in thousands)	DB Plan	OPEB Plans
Regulatory asset balance, beginning of period	$ 7,593	$ 651
Net actuarial gain incurred during the period	374	(77)
Prior service cost incurred during the period	-	16
Recognized net actuarial (gain)/loss	(335)	(25)
Regulatory asset balance, end of period	$ 7,632	$ 565

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

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

Amounts recognized in regulatory assets for the DB and OPEB Plans that have not yet been recognized as components of net periodic benefit cost of the following as of December 31, 2018:

(in thousands)	DB Plan	OPEB Plans
Net actuarial loss	$ 7,632	$ 712
Prior service cost	-	(147)
Regulatory asset	$ 7,632	$ 565

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

	2019	2018
Discount rate for net periodic benefit cost, beginning of year	4.15%	3.50%
Discount rate for benefit obligations, end of year [a]	3.13%	4.15%
Expected return on plan assets for the period (net of investment expenses)	7.00%	7.00%
Rate of compensation increase, beginning of year	3.00%	3.00%
Healthcare cost trend rate (applicable only to OPEB Plans)	6.50%	7.00%

[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, 2019, for the DB Plan and the OPEB Plans of approximately $2.8 million and $421 thousand, respectively.

The estimated net actuarial loss for our DB Plan that will be amortized in 2020 from the regulatory assets into net periodic benefit costs is $493,000. The estimated net actuarial gain and prior service cost for our OPEB Plans that will be amortized in 2020 from the regulatory assets into net periodic benefit costs is $29,500.

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

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

The investment strategy for the Company's DB Plan and OPEB Plans utilizes several different asset classes with varying risk/return characteristics. The following table indicates the asset allocation percentages of the fair value of the DB Plan and OPEB Plans' assets for each major type of plan asset as of December 31, 2019, as well as the targeted allocation range:

	DB Plan		OPEB Plans	
		Asset Allocation Range		**Asset Allocation Range**
Equities	61%	30% - 100%	69%	30% - 100%
Fixed income	39%	20% - 70%	29%	0% - 50%
Cash and cash equivalents	0%	0% - 15%	2%	0% - 15%
Total	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, 2018, as well as the targeted allocation range:

	DB Plan		OPEB Plans	
		Asset Allocation Range		**Asset Allocation Range**
Equities	59%	30% - 100%	65%	30% - 100%
Fixed income	41%	20% - 70%	32%	0% - 50%
Cash and cash equivalents	0%	0% - 15%	3%	0% - 15%
Total	100%		100%	

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

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

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

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

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

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

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

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

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

The fair value of DB Plan and OPEB Plan assets by levels within the fair value hierarchy used as of December 31, 2018 was as follows:

(in thousands)	Fair Value	Level 1	Level 2	Level 3
DB Plan:				
Guaranteed Interest Accounts	$ 4,414	$ -	$ -	$ 4,414
Total Assets in the Fair Value Hierarchy	4,414	-	-	4,414
Investments measured at net asset value[(a)]	12,934	-	-	-
DB Plan Investments, at Fair Value	17,348	-	-	4,414
OPEB Plans:				
Common stocks	252	252	-	-
Mutual funds	93	93	-	-
Fixed income funds	170	170	-	-
Money market funds	19	-	19	-
Total Assets in the Fair Value Hierarchy	534	515	19	-
Investments measured at net asset value[(a)]	-	-	-	-
OPEB Plans Investments, at Fair Value	534	515	19	-
Totals	$ 17,882	$ 515	$ 19	$ 4,414

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

Level 1: Based on quoted prices in active markets for identical assets.
Level 2: Based on significant observable inputs.
Level 3: Based on significant unobservable inputs.

The following table summarizes investments at fair value based on NAV per share as of December 31, 2019 and 2018, respectively:

(in thousands)	Fair Value
December 31, 2019	
Pooled Separate Accounts:	
Equities	$ 12,870
Fixed Income	3,162
Total Pooled Separate Accounts	$ 16,032
December 31, 2018	
Pooled Separate Accounts:	
Equities	$ 10,257
Fixed Income	2,677
Total Pooled Separate Accounts	$ 12,934

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)	2019	2018
Balance, beginning of year	$ 4,414	$ 3,215
Plan transfers	1,079	1,548
Contributions	249	219
Benefits paid	(691)	(645)
Return on plan assets (net of investment expenses)	104	77
Balance, end of year	$ 5,155	$ 4,414

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 $1.3 million to the DB Plan in 2020.

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
2020	$ 981	$ 86
2021	1,146	103
2022	1,275	119
2023	1,325	125
2024	1,453	139
2025 - 2029	8,840	889
Total	$ 15,020	$ 1,461

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 980 ("Regulated Operations"). Based on prior regulatory practice, we recorded underfunded DB Plan and OPEB Plan obligations as a regulatory asset, and we expect to recover those costs in rates charged to customers.

Defined Contribution Plan

In addition to the defined benefit plan, the Company provides and maintains a defined contribution plan covering substantially all employees. Under this plan, the Company matches 100% of the first 3% of each participating employee's salary contributed to the plan. The matching employer's contributions, recorded as operating expenses, were approximately $278,000 and $269,000 for the years ended December 31, 2019 and 2018, respectively.

Note 7 – Commitments and Contingencies

Operating Leases

The Company's corporate office space, as well as certain office equipment, is leased under operating lease agreements. Total rent expense was approximately $385,400 and $367,400 for the years ended December 31, 2019 and 2018, respectively.

The remaining non-cancelable lease commitments for the corporate office space and leased equipment as of December 31, 2019 were as follows:

(in thousands)	Amount
2020	$ 364
2021	354
2022	342
2023	330
2024	330
Thereafter	4,007
Total	$ 5,727

Note 8 – Financial Measurement and Fair Value of Financial Instruments

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

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

Level 1: Based on quoted prices in active markets for identical assets.
Level 2: Based on significant observable inputs.
Level 3: Based on significant unobservable inputs.

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

For assets and liabilities measured at fair value on a recurring basis, the fair value measurement by levels within the fair value hierarchy used as of December 31, 2019 and 2018 were as follows:

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

	December 31, 2018			
(in thousands)	Total	Level 1	Level 2	Level 3
Liabilities:				
Interest rate swap	$ (263)	$ -	$ (263)	$ -

The carrying value of certain financial instruments included in the accompanying Consolidated Balance Sheets, along with the related fair value, as of December 31, 2019 and 2018 was as follows:

	2019		2018	
(in thousands)	Carrying Value	Fair Value	Carrying Value	Fair Value
Liabilities:				
Long-term debt	$ (223,245)	$ (258,839)	$ (210,588)	$ (234,381)
Interest rate swap liability	$ (353)	$ (353)	$ (263)	$ (263)

The fair value of long-term debt has been determined by discounting the future cash flows using current market interest rates for similar financial instruments of the same duration. The fair value for long-term debt shown above does not purport to represent the amounts at which those debt obligations would be settled. The fair market value of the interest rate swap represents the estimated cost to terminate this agreement as of December 31, 2019 and 2018 based upon the then-current interest rates and the related credit risk.

The carrying values of our cash and cash equivalents, accounts receivable and accounts payable approximate their fair values because of their short maturity dates. The carrying value of our CIAC approximates its fair value because it is expected that this is the amount that will be recovered in future rates.

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

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

Disaggregation of Revenue

For the years ended December 31, 2019 and 2018, revenue recognized for goods transferred over time totaled $2,892,868 and $3,358,800, respectively.

For the year ended December 31, 2019, approximately 59% of revenues were from large-contract customers, 20% of revenues were from small contract customers (con-ops), and 21% revenues were from residential maintenance and other customers. For the year ended December 31, 2018, approximately 61% of revenues were from large-contract customers, 21% of revenues were from small contract customers (con-ops), and 18% revenues were from residential maintenance and other customers. In addition, substantially all of the Company's contracts were service-related type contracts.

Note 10 – Income Taxes

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the TCJA). The TCJA made broad and complex changes to the U.S. tax code, including, but not limited to, (1) reducing the U.S. federal corporate tax rate from 35 percent to 21 percent; (2) elimination of the corporate alternative minimum tax (AMT) and changing how existing AMT credits can be realized; (3) changing rules related to usage and limitation of net operating loss carryforwards created in tax years beginning after December 31, 2017; (4) changing rules related to limitation of interest expense deductions; and (5) the taxation of CIAC as income for Regulated Water Utilities, due to the elimination of an exemption allowed prior to the TCJA. Certain of the TCJA's provisions require interpretation, which may be clarified through issuances of guidance by the U.S. Treasury Department, regulations, or future technical corrections.

The components of the federal and state income tax provision (benefit) as of December 31, 2019 and 2018 were as follows:

(in thousands)	2019	2018
Federal	$ 144	$ 913
State	203	812
Amortization of investment tax credits	(33)	(33)
Total	$ 314	$ 1,692
Current	$ -	$ 518
Deferred	314	1,174
Total	$ 314	$ 1,692

The following is a reconciliation between the statutory federal income tax rate and the effective income tax rate for 2019 and 2018:

	2019	2018
Statutory federal rate	21.0 %	21.0 %
State tax rate, net of federal benefits	6.1	6.2
Permanent differences	(33.9)	(75.7)
Amortization of investment tax credits	0.7	0.9
Effective tax rate	(6.1) %	(47.6) %

The temporary items that give rise to the net deferred tax liability as of December 31, 2019 and 2018 were as follows:

(in thousands)	2019	2018
Liabilities:		
Property-related, net	$ 21,396	$ 20,682
Other	519	424
Total liabilities	21,915	21,106
Assets:		
Pension accrued liability	1,403	1,272
Net operating loss carryforward	4,953	4,556
Alternative minimum tax credit	476	476
NH Business Enterprise Tax credits	1,123	997
Other	656	692
	8,611	7,993
Less valuation allowance	(1,123)	(997)
Total assets	7,488	6,996
Net non-current deferred income tax liability	$ 14,427	$ 14,110

The Company has accumulated federal net operating losses. The federal tax benefit of the cumulative net operating losses is approximately $3.9 million, begin to expire in 2033, and is included in deferred income taxes in the Consolidated Balance Sheet as of December 31, 2019. The net operating losses are 100 percent available to be applied to taxable income in future years and are not subject to the TCJA as they were generated prior to the 2018 tax year. The enactment of the TCJA now limits the net operating loss shelter to 80 percent of taxable income, for post-2017 tax year losses. The TCJA also provides for net operating losses to be carried forward indefinitely instead of limited to 20 years, as is the case for pre-2018 losses; however, carrybacks of these losses are no longer permitted.

The Company has accumulated New Hampshire net operating losses. The New Hampshire tax benefit of the cumulative net operating loss is approximately $1.3 million which begins to expire in 2023, and is included in deferred income taxes in the Consolidated Balance Sheet as of December 31, 2019.

As of December 31, 2019 and 2018, 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, 2019 and 2018, the Company had New Hampshire Business Enterprise Tax ("NHBET") credits of approximately $1.1 million and $997,000, respectively. NHBET credits begin to expire in 2019. 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 increased by approximately $126,000 and $144,000 in the years ended December 31, 2019 and 2018, 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 $9,930,000 and $9,943,000 as of December 31, 2019 and 2018, respectively. This represents the estimated future reduction in revenues associated with deferred taxes which were collected at rates higher than the currently enacted rates and the amortization of deferred investment tax credits.

A review of the portfolio of uncertain tax positions was performed. In this regard, an uncertain tax position represents the expected treatment of a tax position taken in a filed tax return, or 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 2019 and 2018. We incurred no penalties during the years ended December 31, 2019 and 2018.

Note 11 – Long-Term Debt

Long-term debt as of December 31, 2019 and 2018 consisted of the following:

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

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

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

(in thousands)	2018 Principal	2018 Unamortized Debt Issuance Costs
Unsecured note payable to City of Nashua, 5.75%, due 12/25/2041	$ 106,830	$ -
Unsecured senior note payable due to an insurance company 7.40%, due March 1, 2021	3,200	18
Unsecured Business Finance Authority:		
Revenue Bonds (Series 2014A), interest rates from 3.00% to 4.125%, due January 1, 2045	38,905	1,803
Revenue Bonds (Series 2014B), 4.50%, due January 1, 2045	5,030	114
Revenue Bonds (Series 2015A), interest rates from 4.00% to 5.00%, due January 1, 2046	19,490	1,450
Revenue Bonds (Series 2015B), 4.50%, due January 1, 2046	1,840	230
Revenue Bonds (Series 2018A), interest rates from 4.375% to 5.00%, due April 1, 2048	4,460	325
Revenue Bonds (Series 2018B), 4.33%, due April 1, 2028	1,075	-
Unsecured notes payable to bank, floating-rate, due March 1, 2030	2,928	14
Unsecured notes payable to bank, 3.62%, due June 20, 2023	1,367	7
Unsecured notes payable to bank, 4.20%, due December 20, 2041	1,192	6
Unsecured notes payable to bank, 4.83%, due December 20, 2041	909	5
Unsecured notes payable to bank, 4.25%, due June 20, 2033	744	7
Unsecured notes payable to bank, 4.90%, due March 6, 2040	573	35
Unsecured notes payable to bank, 5.33%, due June 20, 2043	346	19
Unsecured New Hampshire State Revolving Fund ("SRF") notes (1)	21,699	182
Unamortized debt issuance costs for defeased obligations, allowed by regulation	-	129
Total	210,588	$ 4,344
Less current portion	(6,019)	
Less unamortized debt issuance costs	(4,344)	
Total long-term debt, less current portion and unamortized debt issuance costs	$ 200,225	

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

The aggregate principal payment requirements subsequent to December 31, 2019 are as follows:

(in thousands)	Amount
2020	$ 6,582
2021	8,836
2022	6,744
2023	8,054
2024	7,324
2025 and thereafter	185,705
Total	$ 223,245

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, 2019 and 2018, Pennichuck Water's net worth was \$107.4 million and \$112.4 million, respectively.

The 2014A, 2014B, 2015A, 2015B, 2018A, 2018B, 2019A and 2019B 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, 2019 and 2018, Pennichuck Water has a Debt to Capital Coverage ratio of 0.6 and 0.5, respectively.
>
> **All Bonds Test** - Additionally, Pennichuck Water cannot create, issue, incur, assume or guarantee any new funded debt, if the total outstanding funded debt ("Total Funded Debt") will exceed the sum of MARA (as defined in Note 14 of these consolidated financial statements) and 85% of its Net Capital Properties ("MARA and Capital Properties"), and unless net revenues or EBITDA (earnings before interest, taxes, depreciation and amortization) shall equal or exceed for at least 12 consecutive months out of the 15 months preceding the issuance of the new funded debt by 1.1 times the maximum amount for which Pennichuck Water will be obligated to pay in any future year ("Max Amount Due"), as a result of the new funded debt being incurred. Thereby, the ratio of Total Funded Debt to MARA and Capital Properties must be equal to or less than 1.0; as of December 31, 2019 and 2018, this coverage ratio was 0.5 and 0.4, respectively. Also, the ratio of EBITDA to the Max Amount Due must be equal to or greater than 1.1; as of December 31, 2019 and 2018, this ratio was 1.5 and 1.6, respectively.
>
> **Rate Covenant Test** - If during any fiscal year, the EBITDA of Pennichuck Water shall not equal at least 1.1 times all amounts paid or required to be paid during that year ("Amounts Paid"), then the Company shall undertake reasonable efforts to initiate a rate-making proceeding with the NHPUC, to rectify this coverage requirement in the succeeding fiscal years. Thereby, the ratio of EBITDA to Amounts Paid must be equal to or greater than 1.1; as of December 31, 2019 and 2018, the Rate Covenant coverage ratio was 1.98 and 1.48, respectively.

Pennichuck East's loan agreement for its unsecured notes payable to a bank of \$8.8 million and \$8.1 million at December 31, 2019 and 2018, respectively, contains a minimum debt service coverage ratio requirement of 1.10. At December 31, 2019 and 2018, this ratio was 1.84 and 0.89, respectively. Prior to 2019 Pennichuck East was required to maintain a maximum ratio of total debt to total capitalization of 65%; this covenant has since been eliminated by CoBank. At December 31, 2018 this ratio was 65%.

As of December 31, 2019 and 2018, the Company had a $2.7 million and $2.9 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 $2.7 million loan which has a floating interest rate based on the three-month London Interbank Offered Rate ("LIBOR") plus 1.75% as of December 31, 2019. The combined effect of the LIBOR-based borrowing formula and the swap produces an "all-in fixed borrowing cost" equal to 5.95%. The fair value of the financial derivative, as of December 31, 2019 and 2018, included in our Consolidated Balance Sheets under "Other Liabilities and Deferred Credits" as "Derivative instrument" was $353,000 and $263,000, respectively. Changes in the fair value of this derivative were deferred in accumulated other comprehensive income.

Swap settlements are recorded in the statements of income (loss) with the hedged item as interest expense. During the years ended December 31, 2019 and 2018, $70,000 and $59,000, respectively, was reclassified pre-tax from accumulated other comprehensive income to interest expense as a result of swap settlements. The Company expects to reclassify approximately $50,000, pre-tax, from accumulated other comprehensive income to interest expense as a result of swap settlements, over the next twelve months.

Note 12 – Lines of Credit

In April of 2018, the Company's existing Line of Credit, which had a $6 million limit for borrowings was replaced by a new $4 million Working Capital Line of Credit, and two new Fixed Asset Lines of Credit for Pennichuck Water ($10 million FALOC) and Pennichuck East ($3 million FALOC), to be used to fund construction work in progress on capital projects, which will be refinanced into long-term debt term loan obligations or issued bond indebtedness, annually.

Short-term borrowing activity under the Company's Working Capital Line of Credit for the years ended December 31, 2019 and 2018 was:

(in thousands)	2019	2018
Established line as of December 31,	$ 4,000	$ 4,000
Maximum amount outstanding during period	3,311	5,981
Average amount outstanding during period	934	1,701
Amount outstanding as of December 31,	2,439	361
Weighted average interest rate during period	3.98%	3.45%
Interest rate as of December 31,	3.55%	4.27%

Short-term borrowing activity under Pennichuck Water's $10 million FALOC for the years ended December 31, 2019 and 2018 was:

(in thousands)	2019	2018
Established line as of December 31,	$ 10,000	$ 10,000
Maximum amount outstanding during period	8,850	5,574
Average amount outstanding during period	4,131	1,821
Amount outstanding as of December 31,	5,848	5,574
Weighted average interest rate during period	4.07%	3.05%
Interest rate as of December 31,	3.55%	4.27%

Short-term borrowing activity under Pennichuck East's $3 million FALOC for the years ended December 31, 2019 and 2018 was:

(in thousands)	2019	2018
Established line as of December 31,	$ 3,000	$ 3,000
Maximum amount outstanding during period	1,894	691
Average amount outstanding during period	1,172	113
Amount outstanding as of December 31,	996	691
Weighted average interest rate during period	4.56%	3.11%
Interest rate as of December 31,	3.99%	4.71%

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, 2019 and 2018, Pennichuck Water has a Debt to Capital Coverage ratio of 0.6 and 0.5, respectively.

All Bonds Test - Additionally, Pennichuck Water cannot create, issue, incur, assume or guarantee any new funded debt, if the total outstanding funded debt ("Total Funded Debt") will exceed the sum of MARA (as defined in Note 14 of these consolidated financial statements) and 85% of its Net Capital Properties ("MARA and Capital Properties"), and unless net revenues or EBITDA (earnings before interest, taxes, depreciation and amortization) shall equal or exceed for at least 12 consecutive months out of the 15 months preceding the issuance of the new funded debt by 1.1 times the maximum amount for which Pennichuck Water will be obligated to pay in any future year ("Max Amount Due"), as a result of the new funded debt being incurred. Thereby, the ratio of Total Funded Debt to MARA and Capital Properties must be equal to or less than 1.0; as of December 31, 2019 and 2018, this coverage ratio was 0.5 and 0.4, respectively. Also, the ratio of EBITDA to the Max Amount Due must be equal to or greater than 1.1; as of December 31, 2019 and 2018 this ratio was 1.5 and 1.6, respectively.

Rate Covenant Test - If during any fiscal year, the EBITDA of Pennichuck Water shall not equal at least 1.1 times all amounts paid or required to be paid during that year ("Amounts Paid"), then the Company shall undertake reasonable efforts to initiate a rate-making proceeding with the NHPUC, to rectify this coverage requirement in the succeeding fiscal years. Thereby, the ratio of EBITDA to Amounts Paid must be equal to or greater than 1.1; as of December 31, 2019 and 2018, the Rate Covenant coverage ratio was 1.98 and 1.48, respectively.

Note 13 – Accumulated Other Comprehensive Income

The following table presents changes in accumulated other comprehensive income by component for the years ended December 31, 2019 and 2018:

	Interest Rate Contract	
(in thousands)	2019	2018
Beginning balance	$ 372	$ 305
Other comprehensive income (loss) before reclassifications	(97)	32
Amounts reclassified from accumulated other comprehensive income	43	35
Net current period other comprehensive income	(54)	67
Ending balance	$ 318	$ 372

The following table presents reclassifications out of accumulated other comprehensive income for the years ended December 31, 2019 and 2018:

Details about Accumulated Other Comprehensive Income Components	**Amounts Reclassified from Accumulated Other Comprehensive Income**		**Affected Line Item in the Statement Where Net Income is Presented**
(in thousands)	**2019**	**2018**	
Gain (loss) on cash flow hedges			
Interest rate contracts	$ 70	$ 59	Interest expense
	(27)	(24)	Tax expense
Amounts reclassified from accumulated other comprehensive income	$ 43	$ 35	Net of tax

Note 14 – Transaction with the City of Nashua

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

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

Transactions with Related Party – City of Nashua

The Company issued a promissory note to the City of Nashua in the amount of approximately \$120 million to be repaid over a thirty (30) year period with monthly payments of approximately \$707,000, including interest at 5.75%. The Company recorded an additional amount of approximately \$30.6 million as contributed capital. The remaining outstanding balance of the note payable to the City at December 31, 2019 and 2018 was approximately \$105 million and \$107 million, respectively, as disclosed in Note 11 to these consolidated financial statements. During 2019 and 2018, dividends of approximately \$280,000 and \$280,000, respectively, were declared and paid to the City. The dividends paid to the City during 2019 comprised approximately \$280,000 of regular quarterly dividends declared and paid; and no special dividend was declared or paid in 2019. The dividends paid to the City during 2018 comprised approximately \$280,000 of regular quarterly dividends declared and paid; and no special dividend was declared or paid in 2018.

Additional ongoing transactions occur in the normal course of business, between the Company and the City, related to municipal water usage, fire protection and sewer billing support services, and property taxes related to real property owned by the Company within the City of Nashua. For the years ended December 31, 2019 and 2018, respectively, approximately \$3.4 million and \$3.4 million were paid to the Company by the City for municipal water consumption, fire protection charges, and sewer billing support services. Conversely, the Company paid property taxes to the City of Nashua of approximately \$2.3 million for the year ended December 31, 2019, and approximately \$2.6 million for the year ended December 31, 2018.

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 a RSF, allowing for the maintenance of stable water utility rates and providing a mechanism to ensure the Company's continued ability to meet its obligations under the promissory note to the City, in the event of adverse revenue developments. Restricted cash consists of amounts set aside in the RSF account and is adjusted monthly as required in the NHPUC Order, as discussed in Note 1 of these financial statements.

Municipal Acquisition Regulatory Asset ("MARA")

Pursuant to the NHPUC Order, the Company established a new Regulatory asset (MARA) which represents the amount that the Acquisition Price exceeded the net book assets of the Company's regulated subsidiaries (Pennichuck Water, Pennichuck East, and PAC) at December 31, 2011. The initial amount of the MARA was approximately \$89 million for the regulated companies, offset by a non-regulated amount of approximately \$4.8 million. The MARA is to be amortized over a thirty (30) year period in the same manner as the repayment of debt service for the City's acquisition bonds. The balance in the MARA at December 31, 2019 was approximately \$73.3 million, reduced by the non-regulated credit of approximately \$4.0 million.

Aggregate amortization expense for the years ended December 31, 2019 and 2018 totaled approximately \$2,006,000 and \$1,958,000, respectively.

The following table represents the total estimated amortization of MARA:

(in thousands)	Estimated Amortization Expense
2020	$ 2,061
2021	2,119
2022	2,183
2023	2,253
2024	2,328
2025 and thereafter	58,319
Total	$ 69,263

Note 15 – Segment Reporting

For the years ended December 31, 2019 and 2018, and as of those dates, the following financial results were generated by the segments of the Company:

(in thousands)	2019	2018
Operating Revenues:		
Pennichuck Water	$ 32,280	$ 32,391
Pennichuck East	8,819	8,724
Pittsfield Aqueduct	775	791
Subtotal Regulated Segment	41,874	41,906
Service Corporation	2,893	3,347
Other	12	12
Total Operating Revenues	$ 44,779	$ 45,265
Depreciation and Amortization Expense:		
Pennichuck Water	$ 7,211	$ 6,978
Pennichuck East	1,239	1,134
Pittsfield Aqueduct	116	115
Subtotal Regulated Segment	8,566	8,227
Service Corporation	-	-
Other	(117)	(114)
Total Depreciation and Amortization Expense	$ 8,449	$ 8,113

(continued)

(continued)

(in thousands)	2019	2018
Operating Income:		
Pennichuck Water	$ 5,303	$ 6,247
Pennichuck East	355	780
Pittsfield Aqueduct	62	45
Subtotal Regulated Segment	5,720	7,072
Service Corporation	165	31
Other	-	-
Total Operating Income	$ 5,885	$ 7,103
Interest Expense:		
Pennichuck Water	$ 3,517	$ 3,455
Pennichuck East	937	753
Pittsfield Aqueduct	42	48
Subtotal Regulated Segment	4,496	4,256
Service Corporation	6	7
Other	6,670	6,647
Total Interest Expense	$ 11,172	$ 10,910
Income Taxes Provision (Benefit):		
Pennichuck Water	$ 1,521	$ 2,351
Pennichuck East	415	771
Pittsfield Aqueduct	14	111
Subtotal Regulated Segment	1,950	3,233
Service Corporation	49	7
Other	(1,685)	(1,548)
Total Income Taxes Provision (Benefit)	$ 314	$ 1,692
Net Income (Loss):		
Pennichuck Water	$ 387	$ 459
Pennichuck East	(980)	(540)
Pittsfield Aqueduct	6	(114)
Subtotal Regulated Segment	(587)	(195)
Service Corporation	111	16
Other	(4,861)	(5,103)
Total Net Income (Loss)	$ (5,337)	$ (5,282)

(continued)

(continued)

(in thousands)	2019	2018
Total Net Assets:		
Pennichuck Water	$ 292,311	$ 279,467
Pennichuck East	58,203	55,942
Pittsfield Aqueduct	3,278	3,332
Subtotal Regulated Segment	353,792	338,741
Service Corporation	24	(13)
Other	(15,672)	(15,594)
Total Net Assets	$ 338,144	$ 323,134
Total Liabilities:		
Pennichuck Water	$ 184,942	$ 167,107
Pennichuck East	49,143	45,693
Pittsfield Aqueduct	1,509	1,534
Subtotal Regulated Segment	235,594	214,334
Service Corporation	(22)	35
Other	99,833	100,355
Total Liabilities	$ 335,405	$ 314,724
Total Long-Term Debt (including current portion and unamortized debt insurance costs):		
Pennichuck Water	$ 94,323	$ 80,838
Pennichuck East	19,842	18,435
Pittsfield Aqueduct	143	146
Subtotal Regulated Segment	114,308	99,419
Service Corporation	-	-
Other	104,570	106,825
Total Long-Term Debt	$ 218,878	$ 206,244

Note 16 – Rate Cases

Pennichuck Water

On July 1, 2019, Pennichuck Water filed a request with the NHPUC for a rate increase of 11.91% over its current rates for the test year 2018, effective August 1, 2019. The proposed permanent rate increase includes a 2018 Qualified Capital Project Adjustment Charge (QCPAC) surcharge of 1.69%, a proposed 2019 QCPAC of 2.37%, and further modification to its ratemaking structure. The overall rate increase is subject to the normal regulatory filing process with the NHPUC, as followed for all prior rate case filings, and as such, the final permanent rate increase granted will be effective retroactive back to the filing date, with final approval by the NHPUC in the Fall of 2020.

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

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

- creating a Material Operating Expense Supplement (MOES), an expense factor on top of its material operating expenses to cover inflationary increases between rate filings;
- including the actual cost of Federal and State corporate income taxes in the Company's Operating Expense Revenue Requirement (OERR) component of allowed revenues;
- reprioritizing the use of 0.1 Debt Service Revenue Requirement (DSRR) funds;
- reallocating the value of the aggregate RSF; and
- changing the treatment of debt issuance costs for long-term debt, other than tax exempt and taxable bond issuances.

Pennichuck East

On October 18, 2017, Pennichuck East filed a request with the NHPUC for a rate increase of 20.78% over its current rates for the test year 2016, for which 19.36% of this increase is related to a permanent rate increase and 1.42% is related to a prospective step increase (associated with capital investments and other allowable expenditures in the twelve months following the test year).

On May 31, 2018, the NHPUC issued Order No. 26,136 approving the requested 12.24% increase in temporary rates effective on a bills-rendered basis as of January 8, 2018.

On October 4, 2018, the NHPUC issued Order No. 26,179 approving an overall permanent rate increase of 17.86%, inclusive of the 12.24% increase in temporary rates previously approved on May 31, 2018 on a bills-rendered basis as of January 8, 2018. This overall rate increase also includes a 1.43% step increase earned on a forward-looking basis for bills rendered on or after November 16, 2018.

In addition to the rate increases granted in the order the NHPUC approved the following modifications to Pennichuck East's rate structure:

- the establishment of a five-year average of revenues versus the previous test-year revenues methodology for allowed revenue calculations, and
- the creation of the following additional revenue requirements as similarly adopted for Pennichuck Water in 2017:
    - OERR, and
    - DSRR
- the establishment of dedicated RSFs in support of the revenue requirement structure, and
- the establishment of a QCPAC that will assess annual surcharges between rate cases for capital expenditures placed in service in the prior year to fund the annual principal and interest payments of the associated new debt, in addition to the incremental property taxes associated with that capital.

Qualified Capital Project Adjustment Charge

On October 9, 2019, the NHPUC issued Nisi Order No. 26,298 approving a 4.06% surcharge on all capital improvements completed and placed in service by Pennichuck Water in 2018. This surcharge went into effect in October 2019 as a subset of Pennichuck Water's next allowed permanent rate case and is recoupable for bills rendered after April 4, 2019.

On December 6, 2019, the NHPUC issued Nisi Order No. 26,313 approving a 2.98% surcharge on all capital improvements completed and placed in service by Pennichuck East in 2018. This surcharge went into effect in December 2019 as a subset of Pennichuck East's next allowed permanent rat case and is recoupable for service rendered on or after July 22, 2019.

Note 17 – Subsequent Events

The Company has evaluated the events and transactions that have occurred through March 24, 2020, the date that these consolidated financial statements were available for issuance.

As referenced in Note 1, Southwood assumed 100% ownership of the previously joint investment in HECOP IV, LLC and subsequent to December 31, 2019, has begun the process of dissolving and liquidating this Limited Liability Corporation. This process is expected to be completed in the first quarter of 2020, which includes complying with New Hampshire state filing requirements and obtaining such approvals.

As referenced in Note 12, the Company is currently under a temporary extension of its $4 million Working Capital Line of Credit facility with TD Bank, NA through March 31, 2020, pending a further temporary extension as it procures a multi-year renewal to be put in place during 2020. Repayment on this revolving line consists of monthly interest only payments with the outstanding principal balance paid at maturity. This facility is periodically drawn upon in support of the Company's overall operations.

The COVID-19 outbreak in the United States has resulted in economic uncertainties for many individuals and companies. The disruption is expected to be temporary, but there is considerable uncertainty around the duration and scope. The extent of the impact of COVID-19 on our operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on our customers, employees, and vendors all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact our financial condition or results of operations is uncertain. The Company has a comprehensive pandemic response plan and protocol as a part of its Emergency Response and Action Plans, and has put that plan into effect, in cooperation with local, State and Federal authorities. The plan allows for the Company to continue to operate during this time, in light of the COVID-19 concerns, to continue to provide necessary services to its customers, jobs for its employees, and safety for all, in an abundance of caution.