PENNICHUCK

March 30, 2017

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 6, 2017 at the Crowne Plaza, 2 Somerset Parkway, Nashua, New Hampshire.

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 real estate holding 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 28,200 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 7,400 customers in 19 communities which include Atkinson, Barnstead, Bow, Chester, Conway, Derry, Exeter, Hooksett, Lee, Litchfield, Londonderry, Middleton, Pelham, Plaistow, Raymond, Sandown, Tilton, Weare and Windham.

Pittsfield Aqueduct Company, Inc. provides water service to approximately 630 customers in Pittsfield.

Pennichuck Water Service Corporation provides service in connection with the management of water services for three communities; billing, collection and customer services for three communities; and water meter testing services, as well as contracted water services at various levels for approximately 85 small independently owned water systems.

The Southwood Corporation owns various parcels of land in the Town of Merrimack.

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 together with the goals and plans to support the strategies are available on the Company's website, www.pennichuck.com, under the "Company Reports" caption.

The Company currently has 113 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, 2016 are attached to this report.

	($ Millions)			
	4th Quarter		Year-to-Date	
	2016	2015	2016	2015
Revenues	$ 8.8	$ 8.9	$ 42.7	$ 40.8
Operating Expenses	(8.3)	(8.1)	(33.9)	(32.0)
Operating Income	0.5	0.8	8.8	8.8
Interest Expense	(2.8)	(3.1)	(10.8)	(10.9)
Other Income	-	0.1	0.9	0.1
Pre-Tax Income (Loss)	(2.2)	(2.2)	(1.1)	(2.0)
Income Tax Expense (Benefit)	(0.1)	0.3	0.1	0.3
Net Income (Loss)	(2.1)	(2.5)	(1.2)	(2.3)
Dividends Paid to the Shareholder	0.1	0.1	0.3	0.3
Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)	2.3	2.7	16.3	15.4

- Consolidated revenues for the fourth quarter decreased by $0.1 million from $8.9 million in 2015 to $8.8 million in 2016. The decrease is primarily attributable to lower water usage for Pennichuck Water Works, Inc.

- Consolidated year-to-date revenues increased from $40.8 million in 2015 to $42.7 million in 2016. Revenues from the regulated utilities increased primarily due to increased consumption in 2016 resulting from the dry weather patterns during the summer months.

- Consolidated operating expenses increased by $0.2 million for the fourth quarter of 2016, over the same quarter in 2015. The increase is related to increases in property taxes and higher depreciation costs associated with ongoing capital investments.

- Consolidated operating expenses increased by $1.9 million from 2015 to 2016 mainly due to higher water treatment and production costs related to higher consumption levels, depreciation adjustments, property taxes, and pension and labor related costs.

- A decrease in interest expense from 2015 to 2016 of approximately $0.1 million is primarily due to the overall reduction in principal amounts outstanding at year-end, resulting from the amortization of the debt instruments relating to their repayment over time.

- Pre-tax loss for the fourth quarter remained at $2.2 million in 2016 versus 2015 due to a decrease in operating income which was offset by lower interest costs, year-over-year.

- The pre-tax loss for the year decreased from $2.0 million in 2015 to $1.1 million in 2016 due to the higher revenues discussed previously, offset by increased operating costs.

- Dividends paid to the sole shareholder in both 2015 and 2016 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.

- Income Tax Expense in the current year reflects the tax accounting for the amortization of the Municipal Acquisition Regulatory Asset, which is not deductible for tax purposes. Therefore, the year-to-date results reflect a tax provision of approximately -12.1% of pre-tax income compared to the statutory tax rate expense of 39.6%.

- Earnings Before Interest, Taxes, Depreciation and Amortization decreased in the fourth quarter from $2.7 million in 2015 to $2.3 million in 2016 due to lower revenues, and enhanced by operating expense variations (excluding depreciation and interest).

- Earnings Before Interest, Taxes, Depreciation and Amortization for 2016 increased over 2015 by approximately $0.9 million, again due to higher revenues earned year-over-year, offset by operating expense increases, excluding depreciation and interest expenses.

Unaudited Cash Flow Statement

Cash Flow on a GAAP basis for the fourth quarter of 2016 as compared to the fourth quarter of 2015, and the year-to-date 2016 versus 2015, are as follows:

	($000's)			
	Quarter Ended		Year-to-Date	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Operating Activities:				
Net Income (Loss)	$ (2,108)	$ (2,473)	$ (1,240)	$ (2,292)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities:				
Depreciation and Amortization	1,837	2,132	6,986	6,804
Provision for Deferred Taxes	(61)	244	190	294
Gain on Disposition of Property	(529)	-	(529)	-
Other	(30)	9	(137)	(24)
Changes in Assets and Liabilities:				
(Increase) Decrease in Accounts Receivable	1,004	2,030	(1,584)	129
(Increase) Decrease in Inventory	16	53	46	90
(Increase) Decrease in Other Assets	(2,274)	(831)	(273)	550
Increase (Decrease) in Accounts Payable	3,220	23	4,480	(152)
Increase (Decrease) in Other Liabilities	2,020	1,145	2,794	1,166
Net Cash Provided by (Used in) Operating Activities	3,095	2,332	10,733	6,565
Investing Activities:				
Purchases of Property, Plant & Equipment, including the Debt Component of AFUDC	(8,043)	(5,215)	(21,886)	(13,866)
(Increase) Decrease in Restricted Cash/Investments	532	(5,436)	11,410	20,328
Proceeds from Sale of Property	311	-	946	-
Change in Deferred Land Costs	-	-	7	(4)
Net Cash Provided by (Used in) Investing Activities	(7,200)	(10,651)	(9,523)	6,458
Financing Activities:				
Borrowings (Repayments) on Line of Credit	-	-	-	-
Payments on Long-term Debt	(737)	(16,849)	(4,227)	(42,485)
Contributions in Aid of Construction	33	117	58	133
Proceeds from Long-term Borrowings	1,893	23,730	4,498	28,098
Debt Issuance Costs	(2)	(95)	(59)	(232)
Dividends Paid	(70)	(71)	(280)	(278)
Net Cash Provided by (Used in) Financing Activities	1,117	6,832	(10)	(14,764)
Increase (Decrease) in Cash and Cash Equivalents	(2,988)	(1,486)	1,200	(1,741)
Cash and Cash Equivalents at Beginning of Period	5,434	2,732	1,246	2,987
Cash and Cash Equivalents at End of Period	$ 2,446	$ 1,246	$ 2,446	$ 1,246

Balance Sheet

	($000's)	
	As of December 31, 2016 (Audited)	As of December 31, 2015 (Audited)
Assets		
Property, Plant & Equipment, Net	$ 201,698	$ 183,241
Current Assets:		
Cash	2,446	1,246
Restricted Cash	6,530	5,729
Investments – 2014 and 2015 Bond Project Funds	7,568	19,779
Investments – Bond Refund Escrow	-	-
Accounts Receivable	6,086	4,502
Inventory	666	712
Other Current Assets Note 1	2,047	2,232
Total Current Assets	25,343	34,200
Other Assets:		
Acquisition Premium Note 2	75,144	77,028
Other Assets	12,410	11,425
Total Other Assets	87,554	88,453
TOTAL ASSETS	$ 314,595	$ 305,894
Shareholders' Equity and Liabilities		
Shareholders' Equity	$ 20,578	$ 22,041
Bonds, Notes and Mortgages	200,758	201,283
Current Liabilities:		
Line of Credit	-	-
Current Portion of Long-Term Debt	5,162	4,120
Other Current Liabilities	9,798	3,490
Total Current Liabilities	14,960	7,610
Other Long-Term Liabilities:		
CIAC, net	40,364	37,929
Deferred Income Taxes	20,869	20,642
Accrued Pension Liability Note 3	9,010	8,286
Other Long-Term Liabilities	8,056	8,103
Total Other Long-Term Liabilities	78,299	74,960
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	$ 314,595	$ 305,894

Notes to Balance Sheet

Note 1 (Other Current Assets) – At December 31, 2016, approximately $1.2 million of this balance is comprised of prepaid property taxes, which will be expensed in the first quarter of 2017, relating to taxes paid in November and December of 2016 for the second half of the property tax year ended March 31, 2017.

Note 2 – 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 – During 2016, approximately $970,000 was contributed into the Pension Plan, while approximately $1,056,000 in benefit payments were made to participants and approximately $1,103,000 of investment gains and appreciation was added to the plan.

Capital Expenditures

Capital expenditures in the fourth quarter of 2016 were $8.1 million compared to $5.0 million in the fourth quarter of 2015. For the year 2016, capital expenditures were $20.8 million as compared to $12.9 million in 2015.

The major expenditures for 2016 were as follows:

	($000's)
New Operations Building	$ 7,000
Harris Dam Spillway	$ 1,900
Varney Road (Locke Lake), Barnstead, NH	$ 1,700
Merrimack Raw Water Transmission Main	$ 1,100
Asset Management / GIS / DPaC	$ 612
Meter Replacements	$ 403
Dean & Main Building Renovation	$ 317
Manchester Road Water Main Replacement (Amherst)	$ 245
Maple Haven Booster Station Upgrade	$ 229

Rate Case – Pennichuck Water Works, Inc.

On September 23, 2016, Pennichuck Water Works, Inc. ("PWW") filed a request with the New Hampshire Public Utilities Commission ("NHPUC") for a rate increase of 17.21% over its current rates for the test year 2015, for which 7.86% is related to a Permanent rate increase, and 9.35% is related to a prospective Step increase (associated with capital investments and other allowable expenditures in the twelve months following the test year). 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 bills rendered on or after December 7, 2016, once approved by the NHPUC. The Step increase, once approved and granted, would be earned on a forward looking basis, as of the date of the order granting such increase. In addition, PWW requested that a Temporary rate increase of 6.21% be granted as a subset of the final permanent rate increase, with the intention that this

Temporary rate increase would be approved very early in 2017. In early 2017, the Company and the NHPUC Staff and Office of Consumer Advocate, agreed to a Temporary rate increase at current rates, which resulted in a Temporary rate increase of 0%, awaiting the final outcome of the Permanent and Step rate increase proceedings. The request for this overall increase is based upon increases in PWW's operating costs since the last allowed rate increase in 2010/2011 (for the 2009 test year), as the last rate case filed for PWW for the 2012 test year resulted in a rate increase at that time of 0%. The current rate increase filing is also based upon the revenues needed to pay the debt service on over $40 million of infrastructure replacements made since the last rate case (inclusive of the $20.8 million invested in replacements during 2016, as indicated previously). The Company continues to invest in infrastructure to maintain the overall assets of the Company, with those dollars being invested in its real property assets, distribution and treatment systems, and other necessary capital items, to ensure continued compliance with the Safe Drinking Water Act and prudent ongoing replacement of aging infrastructure to properly maintain the Company's operating systems. A prehearing conference on the rate case filing occurred on November 21, 2016 at the NHPUC, and notices were mailed to all PWW customers along with a FAQ fact sheet, on November 7, 2016. To date, two rounds of data discovery have been completed along with technical sessions between the parties, leading to a final order which the Company hopes to receive in the third or fourth quarter of 2017.

Water Infrastructure and Conservation Adjustment (WICA)

On May 9, 2016, the New Hampshire Public Utilities Commission issued Order No. 25,896 approving a Water Infrastructure and Conservation Adjustment (WICA) surcharge of 3.03% for customers of Pennichuck Water Works, Inc. in the Nashua Core System. The surcharge is effective for service rendered on and after June 1, 2016. The Order was effective May 31, 2016. The WICA surcharge is a subset of the overall permanent rate increase being sought by Pennichuck Water Works, Inc.

Financing

On June 2, 2016, Pennichuck Water Works, Inc. completed a financing transaction with the New Hampshire Department of Environmental Services under the State of New Hampshire's Drinking Water Revolving Loan Fund (the "SRF") in the amount of $1,400,000 for a 30-year term at an interest rate of 2.5%. The loan was entered into to fund the replacement of a portion of the water mains on Amherst Street, and up to three adjoining streets, in Nashua.

On June 2, 2016, Pennichuck East Utility, Inc. completed a financing transaction with the New Hampshire Department of Environmental Services under the State of New Hampshire's Drinking Water Revolving Loan Fund in the amount of $1,650,000 for a 20-year term at an interest rate of 2.5%. The loan was entered into to fund the replacement of a water main on Varney Road in the Locke Lake water system in Barnstead.

On June 2, 2016, Pittsfield Aqueduct Company, Inc. completed a financing transaction with the New Hampshire Department of Environmental Services under the State of New Hampshire's Drinking Water Revolving Loan Fund in the amount of $440,000 for a 30-year term at an interest rate of 3.2%. The loan was entered into to fund the installation of a water main on Fairview Street and Catamount Road in Pittsfield.

On June 16, 2016, Pennichuck East Utility, Inc. completed a financing transaction with CoBank, ACB in the amount of $2,200,000 for a term of 25 years at an interest rate of 4.2% to be used for non-SRF funded capital improvement projects being completed in 2016, and early 2017. Of this amount, $1.25 million was drawn down at closing, while the remaining $950,000 was drawn down in the fourth quarter of 2016.

Other Events

Operations Facility

On June 30, 2016, the Will Street Operations facility was sold for $1.01 million. The Company continued to occupy this facility until December 2016 as a $0 triple-net tenant, pending the completion and occupancy of the new Operations building on DW Highway in Merrimack, immediately adjacent to the Pennichuck Water Works Water Treatment Plant. A net gain of $529,000 from this transaction was recognized in other income, after recognition of the payment of direct selling expenses and the write-off of net book value carrying costs for the property. The net cash proceeds from this sale were used in the payment of certain costs related to the completion of the new Operations building, which was occupied on December 19, 2016.

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 one set 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 now 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 will be 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, the Company has been asked by NHDES to contract for similar design services with SGPP for expansion of its public water system in southern Bedford as well as an additional 38 residences in Litchfield, due to this contamination site.

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, has also begun at the request of the NHDES, with the initial design phase yet to begin as of March 2017.

Company Goals – 2017

The Company's main goals for 2017 are as follows:

- Completion of the Pennichuck Water Works, Inc. rate case with the New Hampshire Public Utilities Commission
- Filing of rate cases for the Company's Pennichuck East Utility, Inc. and Pittsfield Aqueduct Company, Inc. subsidiaries
- Successfully negotiate a new collective bargaining agreement in the fourth quarter, to replace the current contract which expires on October 31, 2017
- Continue the roll-out and implementation of the Company's comprehensive Asset Management System
- Complete a round of bond financing for Pennichuck Water Works, Inc. for 2017-2019 capital expenditure needs
- Secure other financing needs for ongoing infrastructure replacement for Pennichuck East Utility, Inc. and Pittsfield Aqueduct Company, Inc.
- Completion of a Safe Yield Analysis of the watershed
- Complete the build-out of the expansion of the distribution system in response to the PFOA contamination issues, all funded by the identified Potential Responsible Parties (PRP) in cooperation with the New Hampshire Department of Environmental Services.

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

Audited Consolidated Financial Statements

December 31, 2016 and 2015

Contents

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ACCOUNTANTS • AUDITORS
40 years

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INDEPENDENT AUDITORS' REPORT

Board of Directors and Stockholder
Pennichuck Corporation and Subsidiaries

We have audited the accompanying consolidated financial statements of Pennichuck Corporation and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2016 and 2015, 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, 2016 and 2015, 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 22, 2017

PENNICHUCK CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
As of December 31, 2016 and 2015
(in thousands, except share data)

	2016	2015
ASSETS		
Property, Plant and Equipment, net	$ 201,698	$ 183,241
Current Assets:		
Cash and cash equivalents	2,446	1,246
Restricted cash - RSF	6,530	5,729
Restricted cash - Bond Project Funds	7,568	2,542
Investments - Bond Project Funds	-	17,237
Accounts receivable - billed, net	4,137	2,184
Accounts receivable - unbilled, net	1,921	2,283
Accounts receivable - other	28	35
Inventory	666	712
Prepaid expenses	532	667
Prepaid property taxes	1,163	1,334
Deferred and refundable income taxes	352	231
Total Current Assets	25,343	34,200
Other Assets:		
Deferred land costs	2,248	2,255
Deferred charges and other assets	10,058	9,066
Investment in real estate partnership	104	104
Acquisition premium, net	75,144	77,028
Total Other Assets	87,554	88,453
TOTAL ASSETS	$ 314,595	$ 305,894

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

PENNICHUCK CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS - CONTINUED
As of December 31, 2016 and 2015
(in thousands, except share data)

	2016	2015
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	(10,241)	(8,721)
Accumulated other comprehensive income	258	201
Total Stockholder's Equity	20,578	22,041
Long-Term Debt, Less Current Portion and Unamortized Debt Issuance Costs	200,758	201,283
Current Liabilities:		
Current portion of long-term debt	5,162	4,120
Accounts payable	5,975	1,492
Deferred revenue	63	66
Accrued interest payable	1,704	1,318
Other accrued expenses	980	243
Accrued wages and payroll withholding	271	220
Customer deposits and other	805	151
Total Current Liabilities	14,960	7,610
Other Liabilities and Deferred Credits:		
Deferred income taxes	20,869	20,642
Accrued pension liability	9,010	8,286
Unamortized debt premium	3,082	3,243
Deferred investment tax credits	537	570
Regulatory liability	760	781
Accrued post-retirement benefits	2,578	2,242
Customer advances	84	84
Contributions in aid of construction, net	40,364	37,929
Derivative instrument	453	548
Other long-term liabilities	562	635
Total Other Liabilities and Deferred Credits	78,299	74,960
TOTAL STOCKHOLDER'S EQUITY AND LIABILITIES	$ 314,595	$ 305,894

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, 2016 and 2015
(in thousands)

	2016	2015
Operating Revenues	$ 42,697	$ 40,840
Operating Expenses:		
Operations and maintenance	20,820	19,511
Depreciation and amortization	6,942	6,610
Taxes other than income taxes	6,159	5,928
Total Operating Expenses	33,921	32,049
Operating Income	8,776	8,791
Interest Expense	(10,784)	(10,775)
Allowance for Funds Used During Construction	358	70
Other, Net	545	(70)
Loss Before (Provision for) Benefit from Income Taxes	(1,105)	(1,984)
(Provision for) Benefit from Income Taxes	(135)	(308)
Net Loss	$ (1,240)	$ (2,292)

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, 2016 and 2015
(in thousands)

	2016	2015
Net Loss	$ (1,240)	$ (2,292)
Other Comprehensive Income (Loss):		
Unrealized loss on derivatives	(28)	(109)
Reclassification of net income realized in net income	123	144
Income tax expense (benefit) relating to other comprehensive income	(38)	(14)
Other Comprehensive Income	57	21
Comprehensive Loss	$ (1,183)	$ (2,271)

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, 2016
(in thousands, except per share data)

	Common Stock		Additional Paid in	Retained	Accumulated Other Comprehensive	
	Shares	Amount	Capital	Earnings/(Deficit)	Income (Loss)	Total
Balance as of January 1, 2016	1,000	$ -	$ 30,561	$ (8,721)	$ 201	$ 22,041
Common dividends declared- $279.91 per share	-	-	-	(280)	-	(280)
Net loss	-	-	-	(1,240)	-	(1,240)
Other comprehensive income (loss):						
Unrealized loss on derivatives, net of taxes of $(11)	-	-	-	-	(17)	(17)
Reclassification of net income realized in net income, net of taxes of $49	-	-	-	-	74	74
Balance as of December 31, 2016	1,000	$ -	$ 30,561	$ (10,241)	$ 258	$ 20,578

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, 2015
(in thousands, except per share data)

	Common Stock		Additional Paid in	Retained	Accumulated Other Comprehensive	
	Shares	Amount	Capital	Earnings/(Deficit)	Income (Loss)	Total
Balance as of January 1, 2015	1,000	$ -	$ 30,561	$ (6,151)	$ 180	$ 24,590
Common dividends declared-$277.85 per share	-	-	-	(278)	-	(278)
Net loss	-	-	-	(2,292)	-	(2,292)
Other comprehensive income (loss):						
Unrealized gain on derivatives, net of taxes of $(44)	-	-	-	-	(65)	(65)
Reclassification of net income realized in net income, net of taxes of $58	-	-	-	-	86	86
Balance as of December 31, 2015	1,000	$ -	$ 30,561	$ (8,721)	$ 201	$ 22,041

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, 2016 and 2015
(in thousands)

	2016	2015
Operating Activities:		
Net Loss	$ (1,240)	$ (2,292)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	7,019	6,586
Amortization of original issue discount	-	252
Equity component of AFUDC	(137)	(25)
Amortization of deferred investment tax credits	(33)	(33)
Provision for deferred income tax	189	294
Undistributed loss in real estate partnership	-	1
Gain on disposition of property	(529)	-
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable billed and unbilled	(1,584)	129
Decrease in inventory	46	90
(Increase) decrease in prepaid expenses	185	(550)
(Increase) decrease in deferred charges and other assets	(456)	1,123
(Increase) in refundable income taxes	(2)	(23)
Increase (decrease) in accounts payable and deferred revenue	4,480	(152)
Increase in accrued interest payable	386	636
Increase in other	2,409	530
Net cash provided by operating activities	10,733	6,566
Investing Activities:		
Purchase of property, plant and equipment including debt component of allowance for funds used during construction	(21,886)	(13,866)
(Increase) decrease in restricted cash	(5,826)	37,565
Purchase of marketable securities	-	(17,237)
Proceeds from sale of marketable securities	17,236	
Proceeds from sale of property	946	-
Change in investment in real estate partnership and deferred land costs	7	(5)
Net cash provided (used) by investing activities	(9,523)	6,457

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, 2016 and 2015
(in thousands)

	2016	2015
Financing Activities:		
Borrowings (payments) on line of credit, net	$ -	$ -
Payments on long-term debt	(4,227)	(42,484)
Contributions in aid of construction	58	132
Proceeds from long-term borrowings	4,498	28,098
Debt issuance costs	(59)	(232)
Dividends paid	(280)	(278)
Net cash used by financing activities	(10)	(14,764)
Increase (Decrease) in cash and cash equivalents	1,200	(1,741)
Cash and cash equivalents, beginning of period	1,246	2,987
Cash and cash equivalents, end of period	$ 2,446	$ 1,246

Supplemental Disclosure on Cash Flow and Non-cash Items
For the Years Ended December 31, 2016 and 2015 (in thousands)

	2016	2015
Cash paid during the period for:		
Interest	$ 10,263	$ 9,991
Income taxes	123	233
Non-cash items:		
Contributions in aid of construction	3,309	2,128
Forgiveness of debt	77	77

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 our 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 owns several parcels of undeveloped land.

The Company's utility subsidiaries are engaged principally in the collection, storage, treatment and distribution of potable water to approximately 36,047 customers throughout the State of New Hampshire. The utility subsidiaries, which are regulated by the New Hampshire Public Utilities Commission (the "NHPUC"), are subject to the provisions of Accounting Standards Codification ("ASC") Topic 980 "*Regulated Operations.*"

Summary of Significant Accounting Policies:

Basis of Presentation

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

Use of Estimates in the Preparation of Consolidated Financial Statements

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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 25,292, as explained more fully in Note 12 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. Of the approximately $6.5 million in restricted cash as of December 31, 2016 and in compliance with the rules governing the use of the RSF, approximately $1.5 million is reserved as a potential return to rate payers as a component of the new water rates set as a result of the next promulgated rate case before the NHPUC, which is in process at this time and a final order is anticipated for late 2017.

Restricted Cash – Bond Project Funds

This restricted cash balance consists of funds remaining from the issuance of the Series 2014 and 2015 tax-exempt bonds (the "Bonds") in December of 2014 and October of 2015, 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, 2015, the funds in these restricted cash accounts totaled approximately $2.5 million. An additional amount of approximately $17.2 million of these bond funds were held in investment accounts as of December 31, 2015; all of which were sold and transferred to the restricted cash accounts during 2016. During 2016, approximately $1.5 million was transferred into the restricted cash accounts from working capital and approximately $3.8 million was withdrawn from the restricted cash accounts to make the principal and interest payments for the Bonds, on January 1 and July 1. Also during 2016, approximately $13.1 million was withdrawn from the restricted cash accounts, and transferred to the Company's operating cash accounts, for reimbursements of qualifying capital projects completed and "used and useful" during 2016, which were initially funded from working capital. In December 2016, approximately $3.3 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, 2017 for the Bonds. As of December 31, 2016, the funds in these restricted cash accounts totaled approximately $7.6 million.

Investments – Bond Project Funds

As discussed above, the approximately $17.2 million of these bond funds, which were held in investment accounts as of December 31, 2015, were sold and transferred to the restricted cash accounts during 2016. These funds were then used to reimburse the Company for eligible capital project expenditures for the years 2014 through 2016, which were initially funded from working capital. The funds, now held in the restricted cash accounts, were also used to make the principal and interest payments for the bonds, on January and July 1st.

The Company determines the appropriate classification of its investments in debt and equity securities at the time of purchase and reevaluates such determinations at each balance-sheet date. Debt securities are classified as held-to-maturity when the Company has the positive intent and ability to hold the securities to maturity. Held-to-maturity securities are recorded as either short-term or long-term on the consolidated balance sheet, based on contractual maturity date and are stated at amortized cost.

The fair value of all securities is determined by quoted market prices. The estimated fair value of securities for which there are no quoted market prices is based on similar types of securities that are traded in the market.

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, 2016 and 2015, the Company had approximately $16,950,000 and $9,200,000 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

Accounts receivable are recorded at the invoiced amounts. 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, using the average cost method, or market.

Deferred Land Costs

Included in deferred land costs is the Company's original basis in its undeveloped land-holdings 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, 2016 and 2015.

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 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 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.

Revenues

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.

Non-regulated water management services include contract operations and maintenance, and water testing and billing services to municipalities and small, privately owned community water systems. Contract revenues are billed and recognized on a monthly recurring basis in accordance with agreed-upon contract rates. 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 our regulated utilities are comprised primarily of undeveloped land.

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.

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.

Change in Accounting Principle

In 2016, the Company adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2015-03, *Interest – Imputation of Interest (Subtopic 835-30)*. The effect of this change in 2016 was to reclassify debt issuance expenses in the amount of $4.5 million from other assets to a reduction in long-term debt. The consolidated financial statements for 2015 have been retroactively restated for the change, which resulted in a decrease to deferred charges and other assets and a corresponding decrease to long-term debt of $4.8 million. There is no effect on net income for either year.

Note 2 – Property, Plant and Equipment

The components of property, plant and equipment as of December 31, 2016 and 2015 were as follows:

(in thousands)	2016	2015	Useful Lives (in years)
Utility Property:			
Land and land rights	$ 3,079	$ 3,078	-
Source of supply	61,450	52,347	3 - 70
Pumping and purification	30,851	30,508	7 - 64
Transmission and distribution, including services, meters and hydrants	145,202	138,756	15 - 91
General and other equipment	15,000	13,189	7 - 75
Intangible plant	790	790	20
Construction work in progress	10,022	4,494	
Total utility property	266,394	243,162	
Total non-utility property	5	5	5 - 10
Total property, plant and equipment	266,399	243,167	
Less accumulated depreciation	(64,701)	(59,926)	
Property, plant and equipment, net	$ 201,698	$ 183,241	

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 2.54% and 2.53% in 2016 and 2015, respectively.

Note 3 – Investments – Bond Project Funds

All investments were sold during 2016 and transferred to the Restricted Cash - Bond Project Funds account.

At December 31, 2015, the Company held investments in marketable securities that were classified as held-to-maturity and consisted of the following:

December 31, 2015 (in thousands)	Amortized Cost	Unrecognized Holding Losses	Estimated Fair Value
U.S. government bonds	$ 17,237	$ (27)	$ 17,210
Investments - Bond Project Funds	$ 17,237	$ (27)	$ 17,210

Note 4 – Accounts Receivable

Accounts receivable consisted of the following at December 31, 2016 and 2015:

(in thousands)	2016	2015
Accounts receivable - billed	$ 4,188	$ 2,235
Less allowance for doubtful accounts	(51)	(51)
Accounts Receivable - billed, net	$ 4,137	$ 2,184
Accounts receivable - unbilled	$ 1,921	$ 2,283
Less allowance for doubtful accounts	-	-
Accounts Receivable - unbilled, net	$ 1,921	$ 2,283

Note 5 – Deferred Charges and Other Assets

Deferred charges and other assets as of December 31, 2016 and 2015 consisted of the following:

(in thousands)	2016	2015	Recovery Period (in years)
Regulatory assets:			
Source development charges	$ 1,041	$ 652	5 - 25
Miscellaneous studies	854	862	2 - 25
Unrecovered pension and post-retirement benefits expense	7,457	6,895	(1)
Total regulatory assets	9,352	8,409	
Supplemental executive retirement plan asset	706	645	
Subtotal	10,058	9,054	
Line of credit debt issuance expenses, net	-	12	(1)
Total deferred charges and other assets	$ 10,058	$ 9,066	

(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 $330 based on years of service.

The following table sets forth information regarding our DB Plan and our OPEB Plans as of December 31, 2016 and for the year then ended:

(in thousands)	DB Plan	OPEB Plans
Projected benefit obligations	$ 23,899	$ 3,165
Employer contribution	970	10
Benefits paid, excluding expenses	(1,056)	(47)
Fair value of plan assets	14,889	586
Accumulated benefit obligation	21,547	N/A
Funded status	(9,010)	(2,578)
Net periodic benefit cost	1,284	194
Amount of the funded status recognized in the Consolidated Balance Sheet consisted of:		
Current liability	-	-
Non-current liability	(9,010)	(2,578)
Total	$ (9,010)	$ (2,578)

The following table sets forth information regarding our DB Plan and our OPEB Plans as of December 31, 2015 and for the year then ended:

(in thousands)	DB Plan	OPEB Plans
Projected benefit obligations	$ 22,158	$ 2,861
Employer contribution	936	298
Benefits paid, excluding expenses	(497)	(37)
Fair value of plan assets	13,872	619
Accumulated benefit obligation	19,911	N/A
Funded status	(8,286)	(2,242)
Net periodic benefit cost	1,215	158
Amount of the funded status recognized in the Consolidated Balance Sheet consisted of:		
Current liability	-	-
Non-current liability	(8,286)	(2,242)
Total	$ (8,286)	$ (2,242)

Changes in plan assets and benefit obligations recognized in regulatory assets, for the year ended December 31, 2016, were as follows:

(in thousands)	DB Plan	OPEB Plans
Regulatory asset balance, beginning of period	$ 6,658	$ 237
Net actuarial loss incurred during the period	737	145
Prior service cost incurred during the period	-	17
Recognized net actuarial (gain)/loss	(328)	(9)
Regulatory asset balance, end of period	$ 7,067	$ 390

Changes in plan assets and benefit obligations recognized in regulatory assets, for the year ended December 31, 2015, were as follows:

(in thousands)	DB Plan	OPEB Plans
Regulatory asset balance, beginning of period	$ 6,668	$ (185)
Net actuarial gain incurred during the period	347	332
Prior service cost incurred during the period	-	16
Recognized net actuarial (gain)/loss	(357)	74
Regulatory asset balance, end of period	$ 6,658	$ 237

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, 2016:

(in thousands)	DB Plan	OPEB Plans
Net actuarial loss	$ 7,067	$ 570
Prior service cost	-	(180)
Regulatory asset	$ 7,067	$ 390

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, 2015:

(in thousands)	DB Plan	OPEB Plans
Net actuarial loss	$ 6,658	$ 433
Prior service cost	-	(196)
Regulatory asset	$ 6,658	$ 237

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

	2016	2015
Discount rate for net periodic benefit cost, beginning of year	4.21%	3.85%
Discount rate for benefit obligations, end of year [(a)]	4.02%	4.21%
Expected return on plan assets for the period (net of investment expenses)	7.00%	7.50%
Rate of compensation increase, beginning of year	3.00%	2.75%
Healthcare cost trend rate (applicable only to OPEB Plans)	8.00%	8.50%

[(a)] An increase or decrease in the discount rate of 0.5% would result in a change in the funded status as of December 31, 2016, for the DB Plan and the OPEB Plans of approximately $2 million and $288,000, respectively.

The estimated net actuarial loss for our DB Plan that will be amortized in 2017 from the regulatory assets into net periodic benefit costs is $346,000. The estimated net actuarial gain and prior service cost for our OPEB Plans that will be amortized in 2017 from the regulatory assets into net periodic benefit costs is $0.

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, 2016, as well as the targeted allocation range:

	DB Plan		**OPEB Plans**	
		Asset Allocation Range		**Asset Allocation Range**
Equities	64%	30% - 100%	68%	30% - 100%
Fixed income	36%	20% - 70%	30%	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, 2015, as well as the targeted allocation range:

	DB Plan		**OPEB Plans**	
		Asset Allocation Range		**Asset Allocation Range**
Equities	62%	30% - 100%	66%	30% - 100%
Fixed income	38%	20% - 70%	31%	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 per unit of participation in the fund and 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, 2016 was as follows:

(in thousands)	Totals	Level 1	Level 2	Level 3
DB Plan:				
Equities:				
Pooled separate accounts	$ 9,561	$ -	$ 9,561	$ -
Fixed income:				
General investment account	2,264	-	-	2,264
Pooled separate accounts	3,064	-	3,064	-
Total DB Plan	14,889	-	12,625	2,264

(continued)

(continued)

(in thousands)	Totals	Level 1	Level 2	Level 3
OPEB Plans:				
Common stocks	268	268	-	-
Mutual funds	131	131		
Fixed income funds	173	173	-	-
Cash and cash equivalents:				
Money market funds	13	-	13	-
Total OPEB Plans	585	572	13	-
Totals	$ 15,474	$ 572	$ 12,638	$ 2,264

The fair value of DB Plan and OPEB Plan assets by levels within the fair value hierarchy used as of December 31, 2015 was as follows:

(in thousands)	Totals	Level 1	Level 2	Level 3
DB Plan:				
Equities:				
Pooled separate accounts	$ 8,569	$ -	$ 8,569	$ -
Fixed income:				
General investment account	2,581	-	-	2,581
Pooled separate accounts	2,722	-	2,722	-
Total DB Plan	13,872	-	11,291	2,581
OPEB Plans:				
Common stocks	287	287	-	-
Mutual funds	104	104	-	-
Fixed income funds	185	185	-	-
Cash and cash equivalents:				
Money market funds	43	-	43	-
Total OPEB Plans	619	576	43	-
Totals	$ 14,491	$ 576	$ 11,334	$ 2,581

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 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)	2016	2015
Balance, beginning of year	$ 2,581	$ 2,625
Plan transfers	493	182
Contributions	196	187
Benefits paid	(1,068)	(497)
Return on plan assets (net of investment expenses)	62	84
Balance, end of year	$ 2,264	$ 2,581

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 million to the DB Plan in 2017.

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
2017	$ 752	$ 63
2018	823	71
2019	956	89
2020	961	92
2021	1,096	109
2022 - 2026	7,113	698
Total	$ 11,701	$ 1,122

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 $215,000 and $217,000 for the years ended December 31, 2016 and 2015, 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 $344,800 and $307,000 for the years ended December 31, 2016 and 2015, respectively.

The remaining non-cancelable lease commitments for the corporate office space and leased equipment as of December 31, 2016 were as follows:

(in thousands)	Amount
2017	$ 326
2018	352
2019	348
2020	333
2021	338
Thereafter	199
Total	$ 1,896

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, 2016 and 2015 were as follows:

	December 31, 2016			
(in thousands)	Total	Level 1	Level 2	Level 3
Liabilities:				
Interest rate swap	$ (453)	$ -	$ (453)	$ -

	December 31, 2015			
(in thousands)	Total	Level 1	Level 2	Level 3
Assets:				
U.S. government bonds	$ 17,210	$ 17,210	$ -	$ -
Liabilities:				
Interest rate swap	$ (548)	$ -	$ (548)	$ -

The carrying value of certain financial instruments included in the accompanying Consolidated Balance Sheets, along with the related fair value, as of December 31, 2016 and 2015 was as follows:

	2016		2015	
(in thousands)	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets:				
U.S. government bonds	$ -	$ -	$ 17,237	$ 17,210
Liabilities:				
Long-term debt	(210,443)	(264,700)	(210,172)	(211,962)
Interest rate swap liability	(453)	(453)	(548)	(548)

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, 2016 and 2015 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 – Income Taxes

The components of the federal and state income tax provision (benefit) as of December 31, 2016 and 2015 were as follows:

(in thousands)	2016	2015
Federal	$ 284	$ (79)
State	(116)	420
Amortization of investment tax credits	(33)	(33)
Total	$ 135	$ 308
Current	$ -	$ (1)
Deferred	135	309
Total	$ 135	$ 308

The following is a reconciliation between the statutory federal income tax rate and the effective income tax rate for 2016 and 2015:

	2016	2015
Statutory federal rate	34.0%	34.0%
State tax rate, net of federal benefits	5.4%	5.6%
Permanent differences	-54.8%	-56.8%
Amortization of investment tax credits	3.0%	1.7%
Effective tax rate	-12.4%	-15.5%

The temporary items that give rise to the net deferred tax liability as of December 31, 2016 and 2015 were as follows:

(in thousands)	2016	2015
Liabilities:		
Property-related, net	$ 27,599	$ 26,890
Other	563	443
Total liabilities	28,162	27,333
Assets:		
Pension accrued liability	1,555	1,426
Net operating loss carryforward	4,480	3,884
Alternative minimum tax credit	476	476
NH Business Enterprise Tax credits	727	369
Other	782	905
	8,020	7,060
Less valuation allowance	(727)	(369)
Total assets	7,293	6,691
Net non-current deferred income tax liability	$ 20,869	$ 20,642

The Company had a federal net operating loss in 2016 and 2015 in the amounts of approximately $1.6 million and $3.5 million, respectively. The federal tax benefit of the cumulative net operating loss is approximately $3.8 million which begins to expire in 2032, and is included in deferred income taxes in the Consolidated Balance Sheet as of December 31, 2016.

The Company also had a New Hampshire net operating loss in 2016 and 2015 in the amounts of approximately $2.5 million and $4.4 million, respectively. The New Hampshire tax benefit of the cumulative net operating loss is approximately $637,000 which begins to expire in 2022, and is included in deferred income taxes in the Consolidated Balance Sheet as of December 31, 2016.

As of December 31, 2016 and 2015, 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, 2016 and 2015, the Company had New Hampshire Business Enterprise Tax ("NHBET") credits of approximately $727,000 and $369,000, respectively. NHBET credits begin to expire in 2017. 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 $358,000 and $369,000 in the years ended December 31, 2016 and 2015, 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 $760,000 and $781,000 as of December 31, 2016 and 2015, 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 2016 and 2015. We incurred $0 and $3,000 of penalties during the years ended December 31, 2016 and 2015, respectively.

Note 10 – Debt

Long-term debt as of December 31, 2016 and 2015 consisted of the following:

	2016	
(in thousands)	Principal	Unamortized Debt Issuance Costs
Unsecured note payable to City of Nashua, 5.75%, due 12/25/2041	$ 110,970	$ -
Unsecured senior note payable due to an insurance company 7.40%, due March 1, 2021	4,000	36
Unsecured Business Finance Authority:		
Revenue Bonds (Series 2015A), interest rates from 4.00% to 5.00%, due January 1, 2046	20,555	1,614
Revenue Bonds (Series 2015B), 5.00%, due January 1, 2046	2,035	272
Revenue Bonds (Series 2014A), interest rates from 3.00% to 4.125%, due January 1, 2045	40,930	2,114
Revenue Bonds (Series 2014B), 4.50%, due January 1, 2045	5,215	123
Unsecured notes payable to bank, floating-rate, due March 1, 2030	3,332	17
Unsecured notes payable to bank, 3.62%, due June 20, 2023	1,505	11
Unsecured notes payable to bank, 4.20%, due December 20, 2041	1,250	7
Unsecured notes payable to bank, 4.83%, due December 20, 2041	950	5
Unsecured notes payable to bank, 4.25%, due June 20, 2033	815	7
Unsecured notes payable to bank, 4.90%, due March 6, 2040	602	38
Unsecured New Hampshire State Revolving Fund ("SRF") notes (1)	18,284	168
Unamortized debt issuance costs for defeased obligations, allowed by regulation	-	111
Total	210,443	$ 4,523
Less current portion	(5,162)	
Less unamortized debt issuance costs	(4,523)	
Total long-term debt, net of current portion and unamortized debt issuance costs	$ 200,758	

(1) SRF notes are due through 2035 at interest rates ranging from 1% to 4.488%. 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.

(in thousands)	2015 Principal	2015 Unamortized Debt Issuance Costs
Unsecured note payable to City of Nashua, 5.75%, due 12/25/2041	$ 112,864	$ -
Unsecured senior note payable due to an insurance company 7.40%, due March 1, 2021	4,400	44
Unsecured Business Finance Authority:		
Revenue Bonds (Series 2015A), interest rates from 4.00% to 5.00%, due January 1, 2046	20,555	1,682
Revenue Bonds (Series 2015B), 5.00%, due January 1, 2046	2,035	292
Revenue Bonds (Series 2014A), interest rates from 3.00% to 4.125%, due January 1, 2045	41,885	2,277
Revenue Bonds (Series 2014B), 4.50%, due January 1, 2045	5,300	127
Unsecured notes payable to bank, floating-rate, due March 1, 2030	3,523	19
Unsecured notes payable to bank, 3.62%, due June 20, 2023	1,570	12
Unsecured notes payable to bank, 4.25%, due June 20, 2033	848	8
Unsecured notes payable to bank, 4.90%, due March 6, 2040	616	40
Unsecured New Hampshire State Revolving Fund ("SRF") notes (1)	16,576	138
Unamortized debt issuance costs for defeased obligations, allowed by regulation	-	130
Total	210,172	$ 4,769
Less current portion	(4,120)	
Less unamortized debt issuance costs	(4,769)	
Total long-term debt, net of current portion and unamortized debt issuance costs	$ 201,283	

(1) SRF notes are due through 2035 at interest rates ranging from 1% to 4.488%. 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, 2016 are as follows:

(in thousands)	Amount
2017	$ 5,162
2018	5,422
2019	5,663
2020	5,932
2021	8,208
2022 and thereafter	180,056
Total	$ 210,443

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, 2016 and 2015, Pennichuck Water's net worth was $122.1 and $124.6 million, respectively.

The 2014A, 2014B, 2015A and 2015B 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, 2016 and 2015, Pennichuck Water Works has a Debt to Capital Coverage ratio of 0.5 and 0.4, 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 12 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, 2016 and 2015, this coverage ratio was 0.4 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, 2016 and 2015, this ratio was 1.8 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 NH Public Utilities Commission, 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, 2016 and 2015, the Rate Covenant coverage ratio was 1.93 and 2.10, respectively.

Pennichuck East's loan agreement for its unsecured notes payable to a bank of $8.5 million and $6.5 million at December 31, 2016 and 2015, respectively, contains a minimum debt service coverage ratio requirement of 1.25. At December 31, 2016 and 2015, this ratio was 1.29 and 1.64, respectively. Also, Pennichuck East is required to maintain a maximum ratio of total debt to total capitalization of 65%; at December 31, 2016 and 2015, this ratio was 56% and 50%, respectively.

The Company's revolving credit loan facility with TD Bank contains a covenant that requires the Company to maintain a minimum fixed charge coverage ratio of at least 1.0; at December 31, 2016 and 2015, the fixed charge coverage ratio was 1.05 and 1.07, respectively. The Company is also required to maintain an equity capitalization ratio of not less than 35%; at December 31, 2016 and 2015, the equity capitalization ratio was 36% and 37%, respectively.

Under this agreement, the Company is also precluded from declaring or paying dividends, or making any other payment or distribution of its equity without the bank's prior written consent, except for: (1) its obligations under Rate Order No. 25,292 as it pertains to the Company's specific obligations under the City Bond Fixed Revenue Requirement ("CBFRR") which provides for payments of approximately $707,000 per month of the note payable to the City of Nashua (the "City"), and quarterly dividends to the City for the remainder of this annual obligation, as defined by the order; and (2) a specific allowance, under Rate Order No. 25,292, whereby the Company is allowed to make distributions to the City from current earnings and profits in excess of the CBFRR, to provide funds to allow the City to reimburse itself for the costs incurred by the City relating to its efforts in pursuing the eminent domain proceedings from January 2002 through August 2009; provided, however, that such amount shall not exceed $500,000 in any fiscal year, or $5,000,000 in the aggregate, of all such distributions. No special dividend was declared or paid in 2016 or 2015.

Short-term borrowing activity under this revolving credit loan facility for the years ended December 31, 2016 and 2015 was:

(in thousands)	2016	2015
Established line as of December 31,	$ 10,000	$ 10,000
Maximum amount outstanding during period	1,118	229
Average amount outstanding during period	73	1
Amount outstanding as of December 31,	-	-
Weighted average interest rate during period	2.22%	2.01%
Interest rate as of December 31,	2.251%	1.981%

As of December 31, 2016 and 2015, the Company had a $3.3 million and $3.5 million, respectively, interest rate swap which qualifies as a derivative. This financial derivative is designated as a cash flow hedge. This financial instrument is used to mitigate interest rate risk associated with our outstanding $3.3 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, 2016. 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, 2016 and 2015, included in our Consolidated Balance Sheets under "Other Liabilities and Deferred Credits" as "Derivative instrument" was $453,000 and $548,000, respectively. Changes in the fair value of this derivative were deferred in accumulated other comprehensive income (loss).

Swap settlements are recorded in the statement of income (loss) with the hedged item as interest expense. During the years ended December 31, 2016 and 2015, $123,000 and $144,000, respectively, was reclassified pre-tax from accumulated other comprehensive income (loss) to interest expense as a result of swap settlements. The Company expects to reclassify approximately $109,000, pre-tax, from accumulated other comprehensive income (loss) to interest expense as a result of swap settlements, over the next twelve months.

Note 11 – Accumulated Other Comprehensive Income

The following table presents changes in accumulated other comprehensive income by component for the years ended December 31, 2016 and 2015:

	Interest Rate Contract	
(in thousands)	**2016**	**2015**
Beginning balance	$ 201	$ 180
Other comprehensive income before reclassifications	(17)	(65)
Amounts reclassified from accumulated other comprehensive income	74	86
Net current period other comprehensive income	57	21
Ending balance	$ 258	$ 201

The following table presents reclassifications out of accumulated other comprehensive income for the years ended December 31, 2016 and 2015:

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)	2016	2015	
Gain (loss) on cash flow hedges			
Interest rate contracts	$ 123	$ 144	Interest expense
	(49)	(58)	Tax expense
Amounts reclassified from accumulated other comprehensive income	$ 74	$ 86	Net of tax

Note 12 – 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 New Hampshire Public Utilities Commission ("NHPUC"), the City acquired all of the outstanding shares of Pennichuck Corporation ("Pennichuck") 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. Pennichuck is not a party to the Bonds and has not guaranteed nor is obligated in any manner for the repayment of the Bonds. Pennichuck remains an independent corporation with an independent Board of Directors, with the City of Nashua as its sole shareholder.

Pennichuck Water Works, Inc. ("PWW"), Pennichuck East Utility, Inc. ("PEU"), Pittsfield Aqueduct Company, Inc. ("PAC"), Pennichuck Water Service Corporation, and The Southwood Corporation will continue as subsidiaries of Pennichuck Corporation and PWW, PEU and PAC will continue as regulated companies under the jurisdiction of the New Hampshire Public Utilities Commission. The terms of the merger and the requisite accounting and rate-setting mechanisms were agreed to in the NHPUC Order 25,292 ("PUC Order") dated November 23, 2011.

Transactions with Related Party – City of Nashua

Pennichuck 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%. Pennichuck 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, 2016 and 2015 was approximately $111.0 million and $112.9 million, respectively, as disclosed in Note 10 to these consolidated financial statements. During 2016 and 2015, dividends of approximately $280,000 and $278,000, respectively, were declared and paid to the City. The dividends paid to the City during 2016 comprised approximately $280,000 of regular quarterly dividends declared and paid; and no special dividend was declared or paid in 2016. The dividends paid to the City during 2015 comprised approximately $278,000 of regular quarterly dividends declared and paid; and no special dividend was declared or paid in 2015.

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, 2016 and 2015, respectively, approximately $3.1 million and $3.1 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 $2.8 million for the year ended December 31, 2016, and approximately $2.7 million for the year ended December 31, 2015.

Rate Stabilization Fund – Restricted Cash

As a part of the acquisition, Pennichuck agreed to contribute $5,000,000 of the proceeds from the settlement transaction to PWW, which was used to establish a Rate Stabilization Fund ("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 PUC Order, as discussed in Note 1 of these financial statements.

Municipal Acquisition Regulatory Asset ("MARA")

Pursuant to the PUC Order, Pennichuck established a new Regulatory asset (MARA) which represents the amount that the Acquisition Price exceeded the net book assets of Pennichuck's regulated subsidiaries (PWW, PEU, 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, 2016 was approximately $79.5 million, reduced by the non-regulated credit of approximately $4.4 million.

Aggregate amortization expense for the years ended December 31, 2016 and 2015 totaled approximately $1,884,000 and $1,857,000, respectively.

The following table represents the total estimated amortization of MARA:

(in thousands)		Estimated Amortization Expense
2017	$	1,917
2018		1,958
2019		2,006
2020		2,061
2021		2,119
2022 and thereafter		65,083
Total	$	75,144

Note 13 – Segment Reporting

The Company is comprised of Pennichuck Corporation and its five wholly-owned subsidiaries, as described in Note 1 to these consolidated financial statements. For the years ended December 31, 2016 and 2015, and as of those dates, the following financial results were generated by the segments of the Company:

(in thousands)		2016		2015
Operating Revenues:				
Pennichuck Water Works, Inc.	$	30,923	$	29,677
Pennichuck East Utility, Inc.		7,411		7,229
Pittsfield Aqueduct Company, Inc.		789		761
Subtotal Regulated Segment		39,123		37,667
Water Management Services		3,574		3,171
Other		-		2
Total Operating Revenues	$	42,697	$	40,840
Depreciation and Amortization Expense:				
Pennichuck Water Works, Inc.	$	5,931	$	5,629
Pennichuck East Utility, Inc.		1,009		979
Pittsfield Aqueduct Company, Inc.		112		110
Subtotal Regulated Segment		7,052		6,718
Water Management Services		-		-
Other		(110)		(108)
Total Depreciation and Amortization Expense	$	6,942	$	6,610

(in thousands)		2016		2015
Operating Income:				
Pennichuck Water Works, Inc.	$	8,168	$	7,541
Pennichuck East Utility, Inc.		591		882
Pittsfield Aqueduct Company, Inc.		87		166
Subtotal Regulated Segment		8,846		8,589
Water Management Services		(122)		160
Other		52		42
Total Operating Income	$	8,776	$	8,791
Interest Expense:				
Pennichuck Water Works, Inc.	$	3,494	$	3,495
Pennichuck East Utility, Inc.		672		558
Pittsfield Aqueduct Company, Inc.		61		57
Subtotal Regulated Segment		4,227		4,110
Water Management Services		2		-
Other		6,555		6,665
Total Interest Expense	$	10,784	$	10,775
Income Taxes Provision (Benefit):				
Pennichuck Water Works, Inc.	$	2,876	$	2,254
Pennichuck East Utility, Inc.		47		214
Pittsfield Aqueduct Company, Inc.		23		55
Subtotal Regulated Segment		2,946		2,523
Water Management Services		(49)		63
Other		(2,762)		(2,278)
Total Income Taxes Provision (Benefit)	$	135	$	308
Net Income (Loss):				
Pennichuck Water Works, Inc.	$	2,705	$	1,783
Pennichuck East Utility, Inc.		(128)		129
Pittsfield Aqueduct Company, Inc.		3		52
Subtotal Regulated Segment		2,580		1,964
Water Management Services		(75)		96
Other		(3,745)		(4,352)
Total Net Income (Loss)	$	(1,240)	$	(2,292)
Total Net Assets:				
Pennichuck Water Works, Inc.	$	272,447	$	269,376
Pennichuck East Utility, Inc.		49,164		46,114
Pittsfield Aqueduct Company, Inc.		3,548		4,367
Subtotal Regulated Segment		325,159		319,857
Water Management Services		78		257
Other		(10,642)		(14,220)
Total Net Assets	$	314,595	$	305,894

(in thousands)		2016		2015
Total Liabilities:				
Pennichuck Water Works, Inc.	$	150,348	$	144,769
Pennichuck East Utility, Inc.		36,231		29,191
Pittsfield Aqueduct Company, Inc.		1,360		1,313
Subtotal Regulated Segment		187,939		175,273
Water Management Services		43		51
Other		106,035		108,529
Total Liabilities	$	294,017	$	283,853
Total Long-Term Debt (including current portion):				
Pennichuck Water Works, Inc.	$	78,488	$	79,234
Pennichuck East Utility, Inc.		16,425		13,314
Pittsfield Aqueduct Company, Inc.		38		(9)
Subtotal Regulated Segment		94,951		92,539
Water Management Services		-		-
Other		110,969		112,864
Total Long-Term Debt	$	205,920	$	205,403

Note 14 – Subsequent Events

The Company has evaluated the events and transactions that have occurred through March 22, 2017, the date that these consolidated financial statements were available for issuance, for which no reportable events were discovered.