PENNICHUCK

March 29, 2016

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 7, 2016 at the Courtyard Marriott, 2200 Southwood Drive, 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 28,000 customers in 11 communities which include Amherst, Bedford, Derry, Epping, Hollis, Merrimack, Milford, Nashua, Newmarket, Plaistow and Salem.

Pennichuck East Utility, Inc. provides water service to approximately 7,300 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 600 customers in Pittsfield.

Pennichuck Water Service Corporation provides service in connection with the management of water services for two 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 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 114 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, 2015 are attached to this report.

	($ Millions)			
	4th Quarter		Year-to-Date	
	2015	2014	2015	2014
Revenues	$ 8.9	$ 8.2	$ 40.8	$ 38.8
Operating Expenses	(8.1)	(7.2)	(32.0)	(29.9)
Operating Income	0.8	1.0	8.8	8.9
Interest Expense	(3.1)	(2.6)	(10.9)	(10.1)
Other Income	0.1	-	0.1	-
Pre-Tax Income (Loss)	(2.2)	(1.6)	(2.0)	(1.2)
Income Tax Expense (Benefit)	0.3	0.6	0.3	0.6
Net Income (Loss)	(2.5)	(2.2)	(2.3)	(1.8)
Dividends Paid to the Shareholder	0.1	0.1	0.3	0.3
Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)	2.7	2.6	15.4	15.2

- Consolidated revenues for the fourth quarter increased by $0.7 million from $8.2 million in 2014 to $8.9 million in 2015. The increase is primarily attributable to higher water usage for Pennichuck Water Works, Inc.

- Consolidated year-to-date revenues increased from $38.8 million in 2014 to $40.8 million in 2015. Revenues from the regulated utilities increased primarily due to increased consumption in 2015 resulting from the dry weather patterns during the summer months.

- Consolidated operating expenses increased by $0.9 million for the fourth quarter of 2015, over the same quarter in 2014. The increase is related to higher water treatment and production costs related to higher year-over-year consumption, as well as increases in property taxes and higher depreciation costs associated with ongoing capital investments.

- Consolidated operating expenses increased by $2.1 million from 2014 to 2015 mainly due to higher water treatment and production costs related to higher consumption levels, depreciation adjustments, property taxes, and pension and labor related costs.

- An increase in interest expense from 2014 to 2015 of approximately $0.8 million is primarily due to the increased financed amounts for capital projects.

- Pre-tax loss for the fourth quarter increased from $1.6 million in 2014 to $2.2 million in 2015 due to an increase in interest cost associated with the financing of capital projects, as well as the increase in operating expenses, offset by the higher year-over-year revenues.

- The pre-tax loss for the year increased from $1.2 million in 2014 to $2.0 million in 2015 due to overall increased operating and interest expenses, offset by higher revenues.

- Dividends paid to the sole shareholder in both 2014 and 2015 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 treatment for the Municipal Acquisition Regulatory Asset, which is not deductible for tax purposes. Therefore, the year-to-date results reflect a tax provision of approximately -15% of pre-tax income compared to the statutory tax rate expense of 39.6%.

- Earnings Before Interest, Taxes, Depreciation and Amortization increased in the fourth quarter from $2.6 million in 2014 to $2.7 million in 2015 due to higher revenues, offset by operating expense variations (excluding depreciation and interest).

- Earnings Before Interest, Taxes, Depreciation and Amortization for 2015 increased slightly over 2014 by approximately $0.2 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 2015 as compared to the fourth quarter of 2014, and the year-to-date 2015 versus 2014, are as follows:

	($000's)			
	Quarter Ended		Year-to-Date	
	December 31, 2015	December 31, 2014	December 31, 2015	December 31, 2014
Operating Activities:				
Net Income (Loss)	$ (2,473)	$ (2,236)	$ (2,292)	$ (1,775)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities:				
Depreciation and Amortization	2,132	1,664	6,804	6,426
Provision for Deferred Taxes	244	633	294	606
Other	9	2	(24)	2
Changes in Assets and Liabilities:				
(Increase) Decrease in Accounts Receivable	2,030	1,576	129	(195)
(Increase) Decrease in Inventory	53	29	90	18
(Increase) Decrease in Other Assets	(831)	(2,317)	550	(1,124)
Increase (Decrease) in Accounts Payable	23	(158)	(152)	557
Increase (Decrease) in Other Liabilities	1,145	3,506	1,166	2,833
Net Cash Provided by (Used in) Operating Activities	2,332	2,699	6,565	7,348
Investing Activities:				
Purchases of Property, Plant & Equipment, including the Debt Component of AFUDC	(5,215)	(3,405)	(13,866)	(8,585)
(Increase) Decrease in Restricted Cash/Investments	(5,436)	(40,301)	20,328	(40,273)
Change in Deferred Land Costs	-	-	(4)	-
Net Cash Provided by (Used in) Investing Activities	(10,651)	(43,706)	6,458	(48,858)
Financing Activities:				
Borrowings (Repayments) on Line of Credit	-	(3,166)	-	(1,966)
Payments on Long-term Debt	(16,849)	(637)	(42,485)	(3,036)
Contributions in Aid of Construction	117	37	133	78
Proceeds from Long-term Borrowings	23,730	48,695	28,098	49,935
Debt Issuance Costs	(95)	(1,018)	(232)	(1,275)
Dividends Paid	(71)	(69)	(278)	(277)
Net Cash Provided by (Used in) Financing Activities	6,832	43,842	(14,764)	43,459
Increase (Decrease) in Cash and Cash Equivalents	(1,486)	2,835	(1,741)	1,949
Cash and Cash Equivalents at Beginning of Period	2,732	152	2,987	1,038
Cash and Cash Equivalents at End of Period	$ 1,246	$ 2,987	$ 1,246	$ 2,987

Balance Sheet

	($000's)	
	As of December 31, 2015 (Audited)	As of December 31, 2014 (Audited)
Assets:		
Property, Plant & Equipment, Net	$ 183,241	$ 173,287
Current Assets:		
Cash	1,246	2,987
Restricted Cash	5,729	5,264
Investments – 2014 and 2015 Bond Project Funds	19,779	16,847
Investments – Bond Refund Escrow	-	23,725
Accounts Receivable	4,502	4,631
Inventory	712	802
Other Current Assets Note 1	2,232	1,682
Total Current Assets	34,200	55,938
Other Assets:		
Acquisition Premium Note 2	77,028	78,885
Other Assets	16,194	15,697
Total Other Assets	93,222	94,582
TOTAL ASSETS	$ 310,663	$ 323,807
Shareholders' Equity and Liabilities		
Shareholders' Equity	$ 22,041	$ 24,590
Bonds, Notes and Mortgages	206,052	198,032
Current Liabilities:		
Line of Credit	-	-
Current Portion of Long-Term Debt	4,120	26,275
Other Current Liabilities	3,490	2,948
Total Current Liabilities	7,610	29,223
Other Long-Term Liabilities:		
CIAC, net	37,929	36,532
Deferred Income Taxes	20,642	20,334
Accrued Pension Liability Note 3	8,286	8,017
Other Long-Term Liabilities	8,103	7,079
Total Other Long-Term Liabilities	74,960	71,962
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	$ 310,663	$ 323,807

Notes to Balance Sheet

Note 1 (Other Current Assets) – At December 31, 2015, approximately $1,335,000 of this balance is comprised of prepaid property taxes, which will be expensed in the first quarter of 2016, relating to taxes paid in November and December of 2015 for the second half of the property tax year ended March 31, 2016.

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 2015, approximately $936,000 was contributed into the Pension Plan, while approximately $497,000 in benefit payments were made to participants and approximately $62,000 of investment losses and appreciation was deducted from the plan.

Capital Expenditures

Capital expenditures in the fourth quarter of 2015 were $5.0 million compared to $3.3 million in the fourth quarter of 2014. For the year 2015, capital expenditures were $12.9 million as compared to $8.0 million in 2014.

The major expenditures for 2015 were as follows:

	($000's)
Merrimack River Raw Water Main	2,055
Asset Management / GIS / DPaC	1,022
Replacement of Carbon Filter Media (Nashua Water Treatment Plant)	979
Allds Street Main Replacement (Nashua)	924
Hardwood Pump Station Replacement (Derry)	598
W&E Water Main Replacement (Windham)	548
Locke Lake/Winwood Monroe Phase 2 Main Replacement (Barnstead)	524
Meter Replacements	387
Operations Facility Design / Engineering / Permitting	373
Mack Hill Road Bridge Relocation (Amherst)	317
Timberline Pump Station Upgrade (Nashua)	246
Chestnut Street Main Replacement (Nashua)	236
Richardson Station and Tank Replacement (Derry)	234
Foundry Street Water Main Replacement (Amherst)	233

Water Infrastructure and Conservation Adjustment (WICA)

On April 30, 2015, the Public Utilities Commission issued Order No. 25,784 approving a WICA surcharge of 1.81% for customers of Pennichuck Water Works, Inc. in the Nashua Core System. The surcharge is effective for service rendered on and after June 1, 2015. The order was effective May 20, 2015.

Financing

On January 20, 2015, the entire balance in the Restricted Cash Bond Refund Escrow Account, which included $23,350,000 of principal due on the Pennichuck Water Works, Inc. refinanced bonds, as well as approximately $375,000 of accrued interest due on those bonds, was paid out to holders of the debt instruments.

On March 4, 2015, Pennichuck East Utility, Inc. completed a financing transaction with CoBank, ACB in the amount of $625,000 for a term of 25 years at an interest rate of 4.9%.

On March 16, 2015, Pennichuck East Utility, Inc. completed a financing transaction with the New Hampshire Department of Environmental Services under the State Revolving Fund Program in the amount of $510,000 for a term of 20 years at an interest rate of 2.72%. The loan will fund the replacement of mains at the W&E System in Windham.

On May 15, 2015, Pennichuck Water Works, Inc., Pennichuck East Utility, Inc. and Pittsfield Aqueduct Company, Inc. completed a financing transaction with the New Hampshire Department of Environmental Services under the State Revolving Fund Program in the amount of $3,500,000, $400,000 and $165,000, for a term of 20 years at an interest rate of 3.1689%. The loans will fund main installation and/or replacements in Merrimack, Barnstead and Pittsfield, New Hampshire.

On May 29, 2015, Pennichuck Water Works, Inc. filed a financing petition for up to $25.5 million with the Public Utilities Commission relative to its Integrated Capital Finance Plan. On September 2, 2015, the Public Utilities Commission approved the financing. On October 27, 2015, the Company closed on the financing which included the refinancing of $16.2 million of existing debt and $7.0 million related to the construction of an operations center. The all-in interest rate relative to the financing is approximately 4.3%.

On September 29, 2015, the Public Utilities Commission issued an Order approving an increase in the short-term debt limit to 18% for Pennichuck East Utility, Inc. and Pittsfield Aqueduct Company, Inc., until June 30, 2019.

Succession Planning

The Company's Chief Executive Officer, John Patenaude, retired on November 6, 2015. On that date, Larry Goodhue, the Company's Chief Financial Officer, Treasurer and Controller, was promoted to Chief Executive Officer. Also on November 6, 2015, George Torres was promoted to Corporate Controller, and Carol Ann Howe was promoted to Assistant Treasurer.

Company Goals – 2016

The Company's main goals for 2016 are as follows:

- Complete the construction of the new operations facility
- Complete construction of the Merrimack River raw water main
- Continued "roll-out" of the Company's asset management system
- Evaluate and upgrade the Company's fixed asset tracking system in support of the asset management system
- Complete the reconstruction of the Harris Dam Spillway
- Review and redevelopment of the Company's IT and Safety and Security Policies and Procedures
- Procure necessary funding in support of infrastructure replacements and improvements
- Continued efforts related to ongoing training of employees and succession planning throughout the organization in support of long-term operational expertise and management.

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

Sincerely,

Larry D. Goodhue
Chief Executive Officer

Pennichuck Corporation and Subsidiaries

Audited Consolidated Financial Statements

December 31, 2015 and 2014

Contents

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INDEPENDENT AUDITORS' REPORT

Board of Directors and Stockholder
Pennichuck Corporation and Subsidiaries

We have audited the accompanying consolidated financial statements of Pennichuck Corporation and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, 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, 2015 and 2014, 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 18, 2016

PENNICHUCK CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
As of December 31, 2015 and 2014
(in thousands, except share data)

	2015	2014
ASSETS		
Property, Plant and Equipment, net	$ 183,241	$ 173,287
Current Assets:		
Cash and cash equivalents	1,246	2,987
Restricted cash - RSF	5,729	5,264
Restricted cash - Bond Project Funds	2,542	16,847
Restricted cash - Bond Refund Escrow	-	23,725
Investments - Bond Project Funds	17,237	-
Accounts receivable - billed, net	2,184	2,189
Accounts receivable - unbilled, net	2,283	2,399
Accounts receivable - other	35	43
Inventory	712	802
Prepaid expenses	667	541
Prepaid property taxes	1,334	1,047
Deferred and refundable income taxes	231	94
Total Current Assets	34,200	55,938
Other Assets:		
Deferred land costs	2,255	2,251
Deferred charges and other assets	13,835	13,342
Investment in real estate partnership	104	104
Acquisition premium, net	77,028	78,885
Total Other Assets	93,222	94,582
TOTAL ASSETS	$ 310,663	$ 323,807

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

PENNICHUCK CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS - CONTINUED
As of December 31, 2015 and 2014
(in thousands, except share data)

	2015	2014
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	(8,721)	(6,151)
Accumulated other comprehensive income	201	180
Total Stockholder's Equity	22,041	24,590
Long-Term Debt, Less Current Portion	206,052	198,032
Current Liabilities:		
Current portion of long-term debt	4,120	26,275
Accounts payable	1,492	1,577
Deferred revenue	66	65
Accrued interest payable	1,318	682
Other accrued expenses	243	215
Accrued wages and payroll withholding	220	221
Customer deposits and other	151	188
Total Current Liabilities	7,610	29,223
Other Liabilities and Deferred Credits:		
Deferred income taxes	20,642	20,334
Accrued pension liability	8,286	8,017
Unamortized debt premium	3,243	2,331
Deferred investment tax credits	570	603
Regulatory liability	781	803
Accrued post-retirement benefits	2,242	2,016
Customer advances	84	84
Contributions in aid of construction, net	37,929	36,532
Derivative instrument	548	583
Other long-term liabilities	635	659
Total Other Liabilities and Deferred Credits	74,960	71,962
TOTAL STOCKHOLDER'S EQUITY AND LIABILITIES	$ 310,663	$ 323,807

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

PENNICHUCK CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
For the Years Ended December 31, 2015 and 2014
(in thousands)

	2015	2014
Operating Revenues	$ 40,840	$ 38,815
Operating Expenses:		
Operations and maintenance	19,511	18,221
Depreciation and amortization	6,610	6,148
Taxes other than income taxes	5,928	5,541
Total Operating Expenses	32,049	29,910
Operating Income	8,791	8,905
Interest Expense	(10,775)	(10,156)
Allowance for Funds Used During Construction	70	7
Other, Net	(70)	20
Loss Before (Provision for) Benefit from Income Taxes	(1,984)	(1,224)
(Provision for) Benefit from Income Taxes	(308)	(551)
Net Loss	$ (2,292)	$ (1,775)

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

PENNICHUCK CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2015 and 2014
(in thousands)

	2015	2014
Net Loss	$ (2,292)	$ (1,775)
Other Comprehensive Income:		
Unrealized loss on derivatives	(109)	(349)
Reclassification of net loss realized in net income	144	152
Income tax expense (benefit) relating to other other comprehensive income	(14)	79
Other Comprehensive Income (Loss)	21	(118)
Comprehensive Loss	$ (2,271)	$ (1,893)

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 Capital	Retained Earnings/(Deficit)	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount				
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 loss on derivatives, net of taxes of $(44)	-	-	-	-	(65)	(65)
Reclassification of net loss 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 STATEMENT OF CHANGES IN STOCKHOLDER'S EQUITY
For the Year Ended December 31, 2014
(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, 2014	1,000	$ -	$ 30,561	$ (4,099)	$ 298	$ 26,760
Common dividends declared- $276.554 per share	-	-	-	(277)	-	(277)
Net loss	-	-	-	(1,775)	-	(1,775)
Other comprehensive income (loss):						
Unrealized gain on derivatives, net of taxes of $(140)	-	-	-	-	(209)	(209)
Reclassification of net loss realized in net income, net of taxes of $61	-	-	-	-	91	91
Balance as of December 31, 2014	1,000	$ -	$ 30,561	$ (6,151)	$ 180	$ 24,590

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, 2015 and 2014
(in thousands)

	2015	2014
Operating Activities:		
Net Loss	$ (2,292)	$ (1,775)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	6,586	6,447
Amortization of original issue discount	252	12
Equity component of AFUDC	(25)	(4)
Amortization of deferred investment tax credits	(33)	(33)
Provision for deferred income tax	294	606
Undistributed loss in real estate partnership	1	6
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable billed and unbilled	129	(195)
Decrease in inventory	90	18
(Increase) in prepaid expenses	(550)	(120)
(Increase) decrease in deferred charges and other assets	1,123	(1,004)
(Increase) decrease in refundable income taxes	(23)	1
(Increase) decrease in accounts payable and deferred revenue	(152)	557
(Increase) in accrued interest payable	636	106
(Increase) in other	530	2,726
Net cash provided by operating activities	6,566	7,348
Investing Activities:		
Purchase of property, plant and equipment including debt component of allowance for funds used during construction	(13,866)	(8,585)
(Increase) decrease in restricted cash	37,565	(40,273)
Purchase of marketable securities	(17,237)	-
Change in investment in real estate partnership and deferred land costs	(5)	-
Net cash provided (used) by investing activities	6,457	(48,858)

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, 2015 and 2014
(in thousands)

	2015	2014
Financing Activities:		
Borrowings (payments) on line of credit, net	$ -	$ (1,966)
Payments on long-term debt	(42,484)	(3,036)
Contributions in aid of construction	132	78
Proceeds from long-term borrowings	28,098	49,935
Debt issuance costs	(232)	(1,275)
Dividends paid	(278)	(277)
Net cash provided (used) by financing activities	(14,764)	43,459
Increase (Decrease) in cash and cash equivalents	(1,741)	1,949
Cash and cash equivalents, beginning of period	2,987	1,038
Cash and cash equivalents, end of period	$ 1,246	$ 2,987

Supplemental Disclosure on Cash Flow and Non-cash Items
For the Years Ended December 31, 2015 and 2014 (in thousands)

	2015	2014
Cash paid during the period for:		
Interest	$ 9,991	$ 9,809
Income taxes	233	93
Non-cash items:		
Contributions in aid of construction	2,128	2,586
Forgiveness of debt	77	75

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 (our "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.

Our Company's utility subsidiaries are engaged principally in the collection, storage, treatment and distribution of potable water to approximately 35,400 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 our 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 our 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 $5.7 million in restricted cash as of December 31, 2015 and in compliance with the rules governing the use of the RSF, approximately $729,000 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, for which that timing and occurrence is yet to be determined.

Restricted Cash – Bond Project Funds

This restricted cash balance consists of funds which resulted from the issuance of the Series 2014 and 2015 tax-exempt bonds in December of 2014 and October of 2015, respectively. The new money proceeds, as described in Note 10, from those bond issuances are maintained in a separate restricted cash account, and are subject to withdrawal as a reimbursement of eligible capital project expenditures for the years 2014 through 2016, as defined by the indenture and issuance documents associated with each offering. This fund was initially funded at a level of $19.5 million, at the time the 2014 bonds were issued in December of 2014, then increased by approximately $7.5 million to approximately $27 million, with the proceeds from the 2015 bond issuance, in October 2015. In the period beginning in December of 2014 through December 31, 2015, a total of approximately $7.3 million has been drawn from the fund for payment of closing costs and as reimbursements for qualifying capital projects completed and "used and useful" during late 2014 and throughout 2015. In late 2015, $17.2 million was drawn from these restricted cash amounts and invested in financial instruments with varying maturities throughout 2016.

Restricted Cash – Bond Refund Escrow

This restricted cash balance consists of funds that resulted from the issuance of the Series 2014A tax-exempt bonds in December of 2014, as notated and fully described in Note 10 of these audited financial statements. The refinance money proceeds, as described in Note 10, from that bond issuance are maintained in a separate restricted cash account, pending the completion of the refinance of existing tax-exempt bonds on January 20, 2015, the date at which the required 30-day notice period to bondholders has expired from the date of notification after the close of the December 15, 2014 bond closing. As of January 20, 2015, the entire balance in this account, which included $23.4 million of principal due on the bonds being refunded, as well as approximately $375,000 of accrued interest due on these bonds, was paid out to the holders of those debt instruments.

This restricted cash balance also consists of funds that resulted from the issuance of the Series 2015A tax-exempt bonds in October of 2015, as notated and fully described in Note 10 of these audited financial statements. The refinance money proceeds, as described in Note 10, from that bond issuance are maintained in a separate restricted cash account, pending the completion of the refinance of existing tax-exempt bonds on November 30, 2015, the date at which the required 30-day notice period to bondholders has expired from the date of notification after the close of the October 27, 2015 bond closing. As of November 27, 2015, the entire balance in this account, which included $16.2 million of principal due on the bonds being refunded, as well as approximately $165,000 of accrued interest due on these bonds, was paid out to the holders of these debt instruments.

Investments – Bond Project Funds

As discussed above, approximately $17.2 million of monies from the 2014 and 2015 restricted cash bond project funds were invested in instruments of varying maturities through the end of 2016. At maturity, these funds will be utilized to reimburse qualifying and eligible capital project expenditures as they go "used and useful" throughout 2016.

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 our 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, 2015 and 2014, the Company had approximately $9,200,000 and $48,700,000 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 our 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, 2015 and 2014.

Deferred Charges and Other Assets

Deferred charges include certain regulatory assets and costs of obtaining debt financing. Regulatory assets are amortized over the periods they are recovered through NHPUC-authorized water rates. Deferred financing costs are amortized over the term of the related bonds and notes. Our 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.

Contributions in Aid of Construction

Under construction contracts with real estate developers and others, our 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 our 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. Our 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 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.

Note 2 – Property, Plant and Equipment

The components of property, plant and equipment as of December 31, 2015 and 2014 were as follows:

(in thousands)	2015	2014	Useful Lives (in years)
Utility Property:			
Land and land rights	$ 3,078	$ 2,939	-
Source of supply	52,347	51,489	3 - 70
Pumping and purification	30,508	30,115	7 - 64
Transmission and distribution, including services, meters and hydrants	138,756	130,983	15 - 91
General and other equipment	13,189	11,358	7 - 75
Intangible plant	790	770	20
Construction work in progress	4,494	2,677	
Total utility property	243,162	230,331	
Total non-utility property	5	5	5 - 10
Total property, plant and equipment	243,167	230,336	
Less accumulated depreciation	(59,926)	(57,049)	
Property, plant and equipment, net	$ 183,241	$ 173,287	

The provision for depreciation is computed on the straight-line method over the estimated useful lives of the assets, which range from 3 to 91 years. The weighted average composite depreciation rate was 2.53% and 2.43% in 2015 and 2014, respectively.

Note 3 – Investments – Bond Project Funds

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

(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

At December 31, 2015, contractual maturities of held-to-maturity securities, in the carrying amount of approximately $17,237,000, were due in one year or less. Actual maturities may differ from contractual maturities because some borrowers have the right to call or prepay obligations with or without call or prepay penalties.

Note 4 – Accounts Receivable

Accounts receivable consisted of the following at December 31, 2015 and 2014:

(in thousands)	2015	2014
Accounts receivable - billed	$ 2,235	$ 2,240
Less allowance for doubtful accounts	(51)	(51)
Accounts Receivable - billed, net	$ 2,184	$ 2,189
Accounts receivable - unbilled	$ 2,283	$ 2,399
Less allowance for doubtful accounts	-	-
Accounts Receivable - unbilled, net	$ 2,283	$ 2,399

Note 5 – Deferred Charges and Other Assets

Deferred charges and other assets as of December 31, 2015 and 2014 consisted of the following:

(in thousands)	2015	2014	Recovery Period (in years)
Regulatory assets:			
Source development charges	$ 652	$ 708	5 - 25
Miscellaneous studies	862	1,080	2 - 25
Unrecovered pension and post-retirement benefits expense	6,895	6,483	(1)
Total regulatory assets	8,409	8,271	
Supplemental executive retirement plan asset	645	649	
Subtotal	9,054	8,920	
Debt issuance expenses, net	4,781	4,422	(1)
Total deferred charges and other assets	$ 13,835	$ 13,342	

(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

We have 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. Our 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.

We provide post-retirement medical benefits 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 and are 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, 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	-
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)

The following table sets forth information regarding our DB Plan and our OPEB Plans as of December 31, 2014 and for the year then ended:

(in thousands)	DB Plan	OPEB Plans
Projected benefit obligations	$ 21,512	$ 3,000
Employer contribution	986	-
Benefits paid, excluding expenses	(429)	(34)
Fair value of plan assets	13,495	962
Accumulated benefit obligation	19,374	-
Funded status	(8,017)	(2,038)
Net periodic benefit cost	893	130
Amount of the funded status recognized in the Consolidated Balance Sheet consisted of:		
Current liability	-	(22)
Non-current liability	(8,017)	(2,016)
Total	$ (8,017)	$ (2,038)

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 loss 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

Changes in plan assets and benefit obligations recognized in regulatory assets, for the year ended December 31, 2014, were as follows:

(in thousands)	DB Plan	OPEB Plans
Regulatory asset balance, beginning of period	$ 3,815	$ (473)
Net actuarial gain incurred during the period	2,986	299
Prior service cost incurred during the period	-	(51)
Recognized net actuarial (gain)/loss	(133)	40
Regulatory asset balance, end of period	$ 6,668	$ (185)

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 (gain)/loss	$ 6,658	$ 433
Prior service cost	-	(196)
Regulatory asset	$ 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, 2014:

(in thousands)	DB Plan	OPEB Plans
Net actuarial loss	$ 6,668	$ 28
Prior service cost	-	(213)
Regulatory asset	$ 6,668	$ (185)

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

	2015	2014
Discount rate for net periodic benefit cost, beginning of year	3.85%	4.84%
Discount rate for benefit obligations, end of year (a)	4.21%	3.85%
Expected return on plan assets for the period (net of investment expenses)	7.50%	7.50%
Rate of compensation increase, beginning of year	2.75%	2.75%
Healthcare cost trend rate (applicable only to OPEB Plans)	8.50%	9.00%

(a) An increase or decrease in the discount rate of 0.5% would result in a change in the funded status as of December 31, 2015, for the DB Plan and the OPEB Plans of approximately $1.7 million and $244 thousand, respectively.

The estimated net actuarial loss for our DB Plan that will be amortized in 2016 from the regulatory assets into net periodic benefit costs is $341,000. The estimated net actuarial gain and prior service cost for our OPEB Plans that will be amortized in 2016 from the regulatory assets into net periodic benefit costs is $(6,000).

In establishing its investment policy, our 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. Our Company's investment strategy applies to its OPEB Plans as well as the DB Plan. Our 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. We maintain our VEBA plan assets in directed trust accounts at a commercial bank.

The investment strategy for our DB Plan and our 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, 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%	

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, 2014, as well as the targeted allocation range:

	DB Plan		OPEB Plans	
		Asset Allocation Range		**Asset Allocation Range**
Equities	61%	30% - 100%	71%	30% - 100%
Fixed income	39%	20% - 70%	28%	0% - 50%
Cash and cash equivalents	0%	0% - 15%	1%	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.

We use a fair value hierarchy 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 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

(continued)

(continued)

(in thousands)	Totals	Level 1	Level 2	Level 3
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

The fair value of DB Plan and OPEB Plan assets by levels within the fair value hierarchy used as of December 31, 2014 was as follows:

(in thousands)	Totals	Level 1	Level 2	Level 3
DB Plan:				
Equities:				
Pooled separate accounts	$ 8,204	$ -	$ 8,204	$ -
Fixed income:				
General investment account	2,625	-	-	2,625
Pooled separate accounts	2,666	-	2,666	-
Total DB Plan	13,495	-	10,870	2,625
OPEB Plans:				
Mutual funds:				
Balanced/hybrid funds	173	173	-	-
U.S. equity securities funds	447	447	-	-
International equity funds	66	66	-	-
Fixed income funds	269	269	-	-
Cash and cash equivalents:				
Money market funds	7	-	7	-
Total OPEB Plans	962	955	7	-
Totals	$ 14,457	$ 955	$ 10,877	$ 2,625

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)	2015	2014
Balance, beginning of year	$ 2,625	$ 2,940
Plan transfers	182	(494)
Contributions	187	537
Benefits paid	(497)	(438)
Return on plan assets (net of investment expenses)	84	80
Balance, end of year	$ 2,581	$ 2,625

In order to satisfy the minimum funding requirements of the Employee Retirement Income Security Act of 1974, applicable to defined benefit pension plans, we anticipate that we will contribute approximately $1.1 million to the DB Plan in 2016.

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
2016	$ 686	$ 54
2017	756	64
2018	845	72
2019	977	91
2020	978	92
2021 - 2025	6,666	642
Total	$ 10,908	$ 1,015

Because we are subject to regulation in the state in which we operate, 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, we have a defined contribution plan covering substantially all employees. Under this plan, our 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 $217,000 and $207,000 for the years ended December 31, 2015 and 2014, respectively.

Note 7 - Commitments and Contingencies

Operating Leases

We lease our corporate office space as well as certain office equipment under operating lease agreements. Total rent expense was approximately $307,000 and $315,000 for the years ended December 31, 2015 and 2014, respectively.

Our remaining non-cancelable lease commitments for our corporate office space and leased equipment as of December 31, 2015 were as follows:

(in thousands)	Amount
2016	$ 301
2017	176
2018	9
2019 and thereafter	-
Total	$ 486

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.

We use a fair value hierarchy 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, 2015 and 2014 were as follows:

	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)	$ -

	December 31, 2014			
(in thousands)	Total	Level 1	Level 2	Level 3
Liabilities:				
Interest rate swap	$ (583)	$ -	$ (583)	$ -

The carrying value of certain financial instruments included in the accompanying Consolidated Balance Sheets, along with the related fair value, as of December 31, 2015 and 2014 was as follows:

	2015		2014	
(in thousands)	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets:				
U.S. government bonds	$ 17,237	$ 17,210	$ -	$ -
Liabilities:				
Long-term debt	(210,172)	(211,962)	(224,307)	(270,191)
Interest rate swap liability	(548)	(548)	(583)	(583)

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 our interest rate swap represents the estimated cost to terminate this agreement as of December 31, 2015 and 2014 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, 2015 and 2014 were as follows:

(in thousands)	2015	2014
Federal	$ (79)	$ 343
State	420	241
Amortization of investment tax credits	(33)	(33)
Total	$ 308	$ 551
Current	$ (1)	$ (33)
Deferred	309	584
Total	$ 308	$ 551

The following is a reconciliation between the statutory federal income tax rate and the effective income tax rate for 2015 and 2014:

	2015	2014
Statutory federal rate	34.0%	34.0%
State tax rate, net of federal benefits	5.6%	5.6%
Permanent differences	-56.8%	-87.3%
Amortization of investment tax credits	1.7%	2.7%
Effective tax rate	-15.5%	-45.0%

The temporary items that give rise to the net deferred tax liability as of December 31, 2015 and 2014 were as follows:

(in thousands)	2015	2014
Liabilities:		
Property-related, net	$ 26,890	$ 25,626
Pension deferred asset	-	2,641
Other	443	1,061
Total liabilities	27,333	29,328
Assets:		
Pension accrued liability	1,426	3,176
Net operating loss carryforward	3,884	2,399
Alternative minimum tax credit	476	476
NH Business Enterprise Tax credits	369	369
Other	905	2,574
	7,060	8,994
Less valuation allowance	(369)	-
Total assets	6,691	8,994
Net non-current deferred income tax liability	$ 20,642	$ 20,334

We had a federal net operating loss in 2015 and 2014 in the amounts of approximately $3.5 and $1.8 million, respectively. The federal tax benefit of the cumulative net operating loss is approximately $3.3 million which begins to expire in 2032, and is included in deferred income taxes in the Consolidated Balance Sheet as of December 31, 2015.

We had a New Hampshire net operating loss in 2015 and 2014 in the amounts of approximately $4.4 million and $2.9 million, respectively. The New Hampshire tax benefit of the cumulative net operating loss is approximately $500,000 which begins to expire in 2022, and is included in deferred income taxes in the Consolidated Balance Sheet as of December 31, 2015.

As of December 31, 2015 and 2014, we estimated approximately $476,000 and $476,000 of cumulative federal alternative minimum tax credits that may be carried forward indefinitely as a credit against our regular tax liability.

As of December 31, 2015 and 2014, we had New Hampshire Business Enterprise Tax ("NHBET") credits of approximately $369,000 and $369,000, respectively. NHBET credits begin to expire in 2017. We anticipate that we will not fully utilize these NHBET credits before they expire; therefore, we have recorded a valuation allowance related to these credits. The valuation allowance increased by $369,000 in the year ended December 31, 2015.

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

We had a regulatory liability related to income taxes of approximately $781,000 and $803,000 as of December 31, 2015 and 2014, 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.

We made a review of our portfolio of uncertain tax positions. In this regard, an uncertain tax position represents our 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, we determined that we had no material uncertain tax positions. We will use tax planning strategies, if required, and when possible, to avoid the expiration of any future net operating loss and/or tax credits.

We file income tax returns in the U.S. federal jurisdiction, the State of New Hampshire, and the Commonwealth of Massachusetts. Our 2011 through 2014 tax years remain subject to examination by the Internal Revenue Service. Our tax year 2009 was audited by the Internal Revenue Service and the year was closed with no changes. Our 2009 through 2014 tax years remain subject to examination by one or more state jurisdictions.

Our 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 2015 and 2014. We incurred $3,000 and $0 of penalties during the years ended December 31, 2015 and 2014, respectively.

Note 10 – Debt

Long-term debt as of December 31, 2015 and 2014 consisted of the following:

(in thousands)	2015	2014
Unsecured note payable to City of Nashua, 5.75%, due 12/25/2041	$ 112,864	$ 114,651
Unsecured senior note payable due to an insurance company 7.40%, due March 1, 2021	4,400	4,800
Unsecured Business Finance Authority:		
Revenue Bonds (Series 2015A), interest rates from 4.00% to 5.00%, due January 1, 2046	20,555	-
Revenue Bonds (Series 2015B), 5.00%, due January 1, 2046	2,035	-
Revenue Bonds (Series 2014A), interest rates from 3.00% to 4.125%, due January 1, 2045	41,885	41,885
Revenue Bonds (Series 2014B), 4.50%, due January 1, 2045	5,300	5,300
Revenue Bonds (2005 Series BC-4), 5.375%, due October 1, 2035	-	12,125
Revenue Bonds (2005 Series BC-3), 5.00%, due April 1, 2018	-	7,475
Revenue Bonds (2005 Series A), 4.70%, due October 1, 2035	-	12,100
Revenue Bonds (Series 2005A), 4.70%, due January 1, 2035	-	1,765
Revenue Bonds (Series 2005B), 4.60%, due January 1, 2030	-	2,310
Revenue Bonds (Series 2005C), 4.50%, due January 1, 2025	-	1,175
Revenue Bonds, 1997, 6.30%, due May 1, 2022	-	2,600
Unsecured notes payable to bank, floating-rate, due March 1, 2030	3,523	3,708
Unsecured notes payable to bank, 3.62%, due June 20, 2023	1,570	1,633
Unsecured notes payable to bank, 4.25%, due June 20, 2033	848	880
Unsecured notes payable to bank, 4.90%, due March 6, 2040	616	-
Unsecured New Hampshire State Revolving Fund ("SRF") notes (1)	16,576	12,152
Total long-term debt	210,172	224,559
Less current portion	(4,120)	(26,275)
Less original issue discount	-	(252)
Total long-term debt, net of current portion	$ 206,052	$ 198,032

(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, 2015 are as follows:

(in thousands)	Amount
2016	$ 4,120
2017	4,952
2018	5,180
2019	5,416
2020	5,680
2021 and thereafter	184,824
Total	$ 210,172

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, 2015 and 2014, Pennichuck Water's net worth was $124.6 and $127.8 million, respectively.

On December 15, 2014, Pennichuck Water issued tax-exempt Series 2014A (AMT) bonds and taxable Series 2014B bonds, in the amounts of $41,885,000 and $5,300,000, respectively. The Series 2014A bonds, which were issued at a premium of approximately $1.9 million, include money raised to finance capital projects for the years 2014 through 2016 in the amount of $19.5 million, the refinance and refunding of the Series 2005C, Series BC-3, Series BC-4 and 1997 bonds (collectively the "refinanced bonds") included in the table above in the amount of $23.375 million, and the cost of issuance associated with this new series of debt obligations. The refinanced bonds are offset in total by the amount of cash held in the Restricted Cash – Bond Refund Escrow account, as fully described in Note 1 to these financial statements. The associated bond premium for the Series 2014A bonds is being amortized over the lives of the underlying bond obligations. The Series 2014 bonds, which were issued at par, includes $5.1 million to reimburse Pennichuck Water for capital projects completed in calendar year 2013 and January 2014, and originally funded from working capital or line of credit borrowings from the Company's bank, as well as the associated cost of issuance for this series of bonds. The cost of issuance associated with both the Series 2014A and Series 2014B bonds is being amortized over the 30-year life of the debt obligations.

On October 27, 2015, Pennichuck Water issued tax-exempt Series 2015A (AMT) bonds and taxable Series 2015B bonds, in the amounts of $20,555,000 and $2,035,000, respectively. The Series 2015A bonds, which were issued at a premium of approximately $1.3 million, include money raised to finance capital projects for the years 2015 through 2017 in the amount of $7.5 million, the refinance and refunding of the Series 2005A, Series 2005B, and Series A bonds (collectively the "refinanced bonds") included in the table above in the amount of $16.2 million, and the cost of issuance associated with this new series of debt obligations. The refinanced bonds are offset in total by the amount of cash held in the Restricted Cash – Bonds Refund Escrow account, as fully described in Note 1 to these financial statements. The associated bond premium for the Series 2015A bonds is being amortized over the lives of the underlying bond obligations. The Series 2015A bonds, which were issued at a premium, include $5.1 million to construct a new operations facility in 2016. The $222,000 cost of issuance associated with both the Series 2015A and Series 2015B bonds is being amortized over the 30-year and 15-year life of the debt obligations.

These bonds were issued under a new bond indenture and loan and trust agreement, 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, 2015 and 2014, Pennichuck Water Works has a Debt to Capital Coverage ratio of 0.4 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, 2015 and 2014, this coverage ratio was 0.4 and 0.5, respectively. Also, the ratio of EBITDA to the Max Amount Due must be equal to or greater than 1.1; as of December 31, 2015 and 2014, this ratio was 1.6 and 4.0, 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, 2015 and 2014, the Rate Covenant coverage ratio was 2.10 and 3.52, respectively.

Pennichuck East's loan agreement for its unsecured notes payable to a bank of $6.5 million and $6.2 million at December 31, 2015 and 2014, respectively, contains a minimum debt service coverage ratio requirement of 1.25. At December 31, 2015 and 2014, this ratio was 1.64 and 1.83, respectively. Also, Pennichuck East is required to maintain a maximum ratio of total debt to total capitalization of 65%; at December 31, 2015 and 2014, this ratio was 50% and 44%, 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, 2015 and 2014, the fixed charge coverage ratio was 1.07 and 1.12, respectively. The Company is also required to maintain an equity capitalization ratio of not less than 35%; at December 31, 2015 and 2014, the equity capitalization ratio was 37% and 41%, 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 2015 or 2014.

Our short-term borrowing activity under this revolving credit loan facility for the years ended December 31, 2015 and 2014 was:

(in thousands)	2015	2014
Established line as of December 31,	$ 10,000	$ 10,000
Maximum amount outstanding during period	229	5,446
Average amount outstanding during period	1	2,833
Amount outstanding as of December 31,	-	-
Weighted average interest rate during period	2.01%	0.10%
Interest rate as of December 31,	1.981%	1.981%

As of December 31, 2015 and 2014, we had a $3.5 million and $3.7 million, respectively, interest rate swap which qualifies as a derivative. This financial derivative is designated as a cash flow hedge. This financial instrument is used to mitigate interest rate risk associated with our outstanding $3.5 million loan which has a floating interest rate based on the three-month London Interbank Offered Rate ("LIBOR") plus 1.75% as of December 31, 2015. 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, 2015 and 2014, included in our Consolidated Balance Sheets under "Other Liabilities and Deferred Credits" as "Derivative instrument" was $548,000 and $583,000, 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 with the hedged item as interest expense. During the years ended December 31, 2015 and 2014, $144,000 and $152,000, respectively, was reclassified pre-tax from accumulated other comprehensive income (loss) to interest expense as a result of swap settlements. We expect to reclassify approximately $134,000, 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, 2015 and 2014:

	Interest Rate Contract	
(in thousands)	2015	2014
Beginning balance	$ 180	$ 298
Other comprehensive income before reclassifications	(65)	(209)
Amounts reclassified from accumulated other comprehensive income	86	91
Net current period other comprehensive income	21	(118)
Ending balance	$ 201	$ 180

The following table presents reclassifications out of accumulated other comprehensive income for the years ended December 31, 2015 and 2014:

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)	2015	2014	
Gain (loss) on cash flow hedges			
Interest rate contracts	$ 144	$ 152	Interest expense
	(58)	(61)	Tax expense
Amounts reclassified from accumulated other comprehensive income	$ 86	$ 91	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, 2015 and 2014 was approximately $112.9 million and $114.7 million, respectively, as disclosed in Note 10 to these consolidated financial statements. During 2015 and 2014, dividends of approximately $278,000 and $277,000, respectively, were declared and paid to the City. 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. The dividends paid to the City during 2014 comprised approximately $277,000 of regular quarterly dividends declared and paid, and no special dividend was declared or paid in 2014.

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, 2015 and 2014, respectively, approximately $3.1 million and $3.3 million were paid to the Company by the City for municipal water consumption, fire protection charges, and sewer billing support services. Conversely, the Company paid property taxes to the City of Nashua of approximately

$2.7 million for the year ended December 31, 2015, and approximately $2.5 million for the year ended December 31, 2014.

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, 2015 was approximately $81.5 million, reduced by the non-regulated credit of approximately $4.5 million.

Aggregate amortization expense for the years ended December 31, 2015 and 2014 totaled approximately $1,857,000 and $1,835,000, respectively.

The following table represents the total estimated amortization of MARA:

(in thousands)	**Estimated Amortization Expense**
2016	$ 1,884
2017	1,917
2018	1,958
2019	2,006
2020	2,061
2021 and thereafter	67,202

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, 2015 and 2014, and as of those dates, the following financial results were generated by the segments of the Company:

(in thousands)		2015		2014
Operating Revenues:				
Pennichuck Water Works, Inc.	$	29,677	$	28,193
Pennichuck East Utility, Inc.		7,229		6,992
Pittsfield Aqueduct Company, Inc.		761		766
Subtotal Regulated Segment		37,667		35,951
Water Management Services		3,171		2,854
Other		2		10
Total Operating Revenues	$	40,840	$	38,815
Depreciation and Amortization Expense:				
Pennichuck Water Works, Inc.	$	5,629	$	5,210
Pennichuck East Utility, Inc.		979		928
Pittsfield Aqueduct Company, Inc.		110		117
Subtotal Regulated Segment		6,718		6,255
Water Management Services		-		-
Other		(108)		(107)
Total Depreciation and Amortization Expense	$	6,610	$	6,148
Operating Income:				
Pennichuck Water Works, Inc.	$	7,541	$	7,410
Pennichuck East Utility, Inc.		882		1,081
Pittsfield Aqueduct Company, Inc.		166		178
Subtotal Regulated Segment		8,589		8,669
Water Management Services		160		189
Other		42		47
Total Operating Income	$	8,791	$	8,905

(in thousands)	2015	2014
Interest Expense:		
Pennichuck Water Works, Inc.	$ 3,495	$ 2,814
Pennichuck East Utility, Inc.	558	502
Pittsfield Aqueduct Company, Inc.	57	57
Subtotal Regulated Segment	4,110	3,373
Water Management Services	-	-
Other	6,665	6,783
Total Interest Expense	$ 10,775	$ 10,156
Income Taxes Provision (Benefit):		
Pennichuck Water Works, Inc.	$ 2,254	$ 2,474
Pennichuck East Utility, Inc.	214	309
Pittsfield Aqueduct Company, Inc.	55	60
Subtotal Regulated Segment	2,523	2,843
Water Management Services	63	79
Other	(2,278)	(2,371)
Total Income Taxes Provision (Benefit)	$ 308	$ 551
Net Income (Loss):		
Pennichuck Water Works, Inc.	$ 1,783	$ 2,139
Pennichuck East Utility, Inc.	129	277
Pittsfield Aqueduct Company, Inc.	52	60
Subtotal Regulated Segment	1,964	2,476
Water Management Services	96	119
Other	(4,352)	(4,370)
Total Net Income (Loss)	$ (2,292)	$ (1,775)
Total Net Assets:		
Pennichuck Water Works, Inc.	$ 273,912	$ 288,349
Pennichuck East Utility, Inc.	46,338	42,521
Pittsfield Aqueduct Company, Inc.	4,376	4,418
Subtotal Regulated Segment	324,626	335,288
Water Management Services	257	286
Other	(14,220)	(11,767)
Total Net Assets	$ 310,663	$ 323,807

(in thousands)		2015		2014
Total Liabilities:				
Pennichuck Water Works, Inc.	$	149,306	$	160,535
Pennichuck East Utility, Inc.		29,415		28,391
Pittsfield Aqueduct Company, Inc.		1,322		2,107
Subtotal Regulated Segment		180,043		191,033
Water Management Services		51		56
Other		108,528		108,128
Total Liabilities	$	288,622	$	299,217
Total Long-Term Debt (including current portion):				
Pennichuck Water Works, Inc.	$	83,771	$	97,895
Pennichuck East Utility, Inc.		13,537		11,761
Pittsfield Aqueduct Company, Inc.		-		-
Subtotal Regulated Segment		97,308		109,656
Water Management Services		-		-
Other		112,864		114,651
Total Long-Term Debt	$	210,172	$	224,307

Note 14 – Subsequent Events

The Company has evaluated the events and transactions that have occurred through March 18, 2016, the date that these consolidated financial statements were available for issuance.

On March 17, 2016, the Company sold its holdings in one investment included in "Investments – Bond Project Funds" on the Consolidated Balance Sheet as of December 31, 2015. This investment was classified as a "held to maturity" investment on that balance sheet, but was sold prior to its maturity date in November of 2016. The value of this investment at the time of sale was approximately $6,990,000. All of the proceeds from this transaction were transferred into "Restricted Cash – Bond Project Funds," which are now available for usage to reimburse project funds during 2016, as further disclosed in Note 1 to these consolidated financial statements. The investment was sold prior to its original maturity date due to modifications in the drawdown schedule of funding for the underlying project identified to these funds, as well as compliance with the manner in which these funds must be drawdown throughout the construction period for the project, per the Loan and Trust Agreement under which these funds were originally procured.