Middletown Water Joint Venture, LLC

Financial statements

December 31, 2023

Report of independent auditors

To the Board of Managers of
Middletown Water Joint Venture, LLC

Opinion

We have audited the financial statements of **Middletown Water Joint Venture, LLC** [the "Company"], which comprise the statements of financial position as of December 31, 2023 and 2022, and the related statements of net income and comprehensive income, changes in Members' capital and cash flows for the years then ended, and the related notes [collectively referred to as the "financial statements"].

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America [GAAS]. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of management for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

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

Ernst + Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
March 28, 2024

MIDDLETOWN WATER JOINT VENTURE, LLC
(A Delaware Limited Liability Company)

Statement of Financial Position

As of December 31, 2023 and 2022

	2023	2022
Assets		
Current Assets:		
Cash and cash equivalents	$ 2,235,630	$ 1,570,806
Accounts receivable, net (Note 2h)	1,200,804	1,076,571
Prepaid expenses (Note 4)	-	2,881
Total current assets	3,436,434	2,650,258
Other Assets:		
Restricted cash (Note 2e)	946,375	946,375
Concession agreement, net (Note 2j)	96,396,218	96,653,573
Total other assets	97,342,593	97,599,948
Total assets	$ 100,779,027	$ 100,250,206
Liabilities and Member's Capital		
Current Liabilities:		
Accrued expenses (Note 5)	$ 370,184	$ 156,028
Due to United Water (Note 9b)	216,617	976,253
Current portion of notes payable (Note 7)	335,000	-
Total current liabilities	921,801	1,132,281
Long-Term Liabilities		
Note payable (Note 7)	36,934,326	37,437,448
Total long-term liabilities	36,934,326	37,437,448
Total liabilities	37,856,127	38,569,729
Member's Capital:	62,922,900	61,680,477
Total liabilities and member's capital	$ 100,779,027	$ 100,250,206

MIDDLETOWN WATER JOINT VENTURE, LLC
(A Delaware Limited Liability Company)

Statement of Net Income and Comprehensive Income

For the years ended December 31, 2023 and 2022

	2023	2022
Revenue:		
Water and waste revenue	$ 9,491,827	$ 8,542,675
Costs of Sales:		
Operation and maintenance fee (Note 9)	2,481,627	2,399,004
Operating Expenses:		
Amortization and depreciation (Note 2j)	2,339,144	2,301,723
Current expected credit losses	4,079	(13,884)
Borough fee (Note 11a)	722,736	678,313
Other expenses	77,115	68,499
Professional fees	900,074	429,573
Total operating expenses	4,043,148	3,464,224
Operating income	2,967,052	2,679,447
Other Expenses:		
Interest expense (Note 7)	1,724,629	1,732,117
Total other expenses	1,724,629	1,732,117
Net income and comprehensive income	$ 1,242,423	$ 947,330

MIDDLETOWN WATER JOINT VENTURE, LLC
(A Delaware Limited Liability Company)

Statement of Cash Flows

For the years ended December 31, 2023 and 2022

	2023	2022
Cash flows from operating activities:		
Net income	$ 1,242,423	$ 947,330
Adjustments		
Amortization and depreciation (Note 2j, Note 7)	2,171,022	2,141,095
Changes in assets and liabilities:		
Accounts receivable, net of expected credit losses	(124,233)	(73,144)
Prepaid expenses	2,881	6,524
Accrued expenses	214,156	(18,641)
Due to United Water	(759,636)	(54,955)
Net cash provided by operating activities	2,746,613	2,948,209
Cash flows from investing activities:		
Capital improvements	(2,081,789)	(3,504,549)
Net cash used in investing activities	(2,081,789)	(3,504,549)
Net change in cash and cash equivalents during the year	664,824	(556,340)
Cash, cash equivalents, and restricted cash, at beginning of year	2,517,181	3,073,521
Cash, cash equivalents, and restricted cash, at end of year	$ 3,182,005	$ 2,517,181
Reconciliation of cash, cash equivalents and restricted cash:		
Cash and cash equivalents	$ 2,235,630	$ 1,570,806
Restricted cash	946,375	946,375
	$ 3,182,005	$ 2,517,181
Supplemental Disclosures - Cash paid during the year for:		
Interest	$ 1,892,750	$ 1,892,750

MIDDLETOWN WATER JOINT VENTURE, LLC
(A Delaware Limited Liability Company)

Statement of Changes in Member's Capital

For the years ended December 31, 2023 and 2022

	Member's Capital
Member's Capital, as of January 1, 2022	$ 60,733,147
Net income	947,330
Member's Capital, as of December 31, 2022	$ 61,680,477
Net income	1,242,423
Member's Capital, as of December 31, 2023	$ 62,922,900

MIDDLETOWN WATER JOINT VENTURE, LLC
(A Delaware Limited Liability Company)
Notes to the Financial Statements
As of December 31, 2023 and 2022
For the years ended December 31, 2023 and 2022

(1) Organization and Nature of Business

Middletown Water Joint Venture, LLC (the Company) was formed as a limited liability company pursuant to the Delaware Limited Liability Company Act, 6 *Del. C.* §18-101 et. seq. on November 19, 2014. On June 9, 2017, AIA Middletown, LLC acquired 100% of KKR Middle Investors L.P.'s ownership units (the "Acquisition") and 90% of United Water's ownership units of the Company, for a total ownership interest of 99% of the Company. Subsequent to acquisition, United Water's interest in the Company was 1%.

The Company entered into a 50-year Concession Agreement with the Middletown Borough Authority (the Authority) on September 30, 2014 with an effective date of December 29, 2014 (inception date) to operate, maintain and finance the water system and wastewater, storm water and combined sewer overflow systems for the Borough of Middletown, Pennsylvania. See Note 2j for further discussion.

The Company entered into a 50-year Operations and Maintenance Agreement with United Water on December 29, 2014, pursuant to which United Water will handle all operations and maintenance of the water system and wastewater, storm water and combined sewer overflow systems for the Borough of Middletown, Pennsylvania. See Note 9a for further discussion.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying financial statements are prepared in accordance with United States generally accepted accounting principles (U.S. GAAP). The financial statements have been prepared on the basis of historical cost, unless otherwise noted. Cost is recorded based on the fair value of the consideration given in exchange for the assets.

(b) Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

(c) Fair Value of Financial Instruments

All financial instruments are classified into one of the following categories: assets and liabilities at fair value through profit or loss ("FVPL"), cash, loans and receivables, financial instruments used for hedging, and other financial liabilities. All financial instruments are recorded at fair value at recognition. Subsequent to initial recognition, financial assets classified as loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method. Financial assets and financial liabilities classified as financial instruments used for cash flow hedging continue to be recognized at fair value with the effective portion of the hedge recognized in other comprehensive income ("OCI"). Other financial assets and financial liabilities and non-hedging financial instruments are recorded at FVPL.

An instrument is classified as FVPL if it is held for trading or is designated as such upon initial recognition. Upon initial recognition, financial instruments at FVPL are measured at fair value, and changes therein are recognized in profit or loss. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets and financial liabilities at FVPL are recognized immediately in profit or loss.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash receipts or payments through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Fair value is defined as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact and considers assumptions that market participants would use when pricing the asset or liability, such as inherent risk, transfer restrictions, and risk of nonperformance.

Accounting guidance establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. An instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. This fair value hierarchy consists of three levels of inputs that may be used to measure fair value:

Level 1: quoted prices in active markets for identical assets or liabilities;

Level 2: inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; or

Level 3: unobservable inputs that are supported by little or no market activity.

Assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurements. The Company reviews the fair value hierarchy classification of its notes payable on a quarterly basis. Changes in the observability of valuation inputs may result in transfers within the fair value measurement hierarchy.

(d) Cash and Cash Equivalents

Cash and cash equivalents represent amounts maintained in checking accounts and highly liquid investments with an original maturity of approximately three months or less.

(e) Restricted Cash

Restricted cash refers to the Capex Reserve Account ("Capex") Amount and the Debt Service Reserve Account. The Capex, which has been exhausted as of December 31, 2023 and 2022, was restricted to pay expenses not eligible for capital cost recovery charge or withdrawal from the Capex or an amount necessary to pay or reimburse United Water for amounts expended in connection with such Major Capital Improvements in accordance with the terms of the Operating and Maintenance Agreement. The Debt Reserve Amount, which was $946,375 as of December 31, 2023 and 2022, is equal to the upcoming six months of scheduled interest in respect of the notes. The Debt Reserve Amount is required to be maintained in the Debt Service Reserve Account until the end of the Concession Agreement.

(f) Income Taxes

No provision for federal, state and local income taxes has been made in the accompanying financial statements, as AIA Middletown, LLC and United Water Environmental Services, Inc. (the Members) are individually liable for their own tax payments. The Company will be responsible for state filing fees.

Financial Accounting Standards Board ("FASB") Accounting Standard Codification ("ASC") 740, Income Taxes ("FASB ASC 740") provides guidance for how uncertain tax positions should be recognized, measured, presented and disclosed in the financial statements. FASB ASC 740 requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Company's financial statements to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. Tax positions with respect to tax at the company level not deemed to meet the "more-likely-than-not" threshold would be recorded as a tax benefit or expense in the current year. The Company has concluded that no provision for income tax is required in the Company's financial statements. However, the Company's conclusions regarding FASB ASC 740 will be subject to review and may be adjusted at a later date based on factors including, but not limited to, on-going analyses of tax laws, regulations and interpretations thereof.

The Company does not expect any liability associated with its uncertain tax positions through the next 12 months.

The following is the major tax jurisdiction for the Company and the earliest tax year subject to examination: United States – 2017.

(g) Evaluation of Long-Lived Assets for Impairment

Long-lived assets include the Concession Agreement.

The Concession Agreement is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If any indicators are present, the Concession Agreement is tested for impairment by comparing the carrying amount with the fair value, being the sum of the undiscounted future cash flows. If the carrying amount of the Concession Agreement is higher than the fair value, it is considered to be impaired. An impairment expense is recognized for the difference between the carrying amount and the fair value of the Concession Agreement. The Company has not identified any indicators of impairment related to the long-lived assets as of December 31, 2023 and 2022.

(h) Accounts Receivable

Accounts receivable include billing to clients at their invoiced amounts and unbilled receivables representing revenues earned for the period from the date of the last billing to the statement of financial position date. Accounts receivable are reported on the balance sheets and are adjusted for the allowance for credit loss and any write-offs. The Company establishes an allowance for credit loss to adjust its receivables to amounts considered to be ultimately collectible and charges to the allowance are recorded within other operating expenses in the statements of net loss. The Company's allowance for credit loss is based on a variety of factors, including the length of time receivables are past due, significant one-time events, the financial health of its customers and historical experience. Accounts receivable are written off in the period in which the receivable is deemed uncollectible and collection efforts have been exhausted.

The Company has reviewed the guidelines for ASC 326 and has determined to continue using historical data and the length of time receivables are past due, in addition to considering significant macro economic factors. At this time, there are no significant macro economic factors to consider, however in the event one occurs, the Company will reevaluate the impact of such event.

The following is a summary of accounts receivable as of December 31:

	2023	2022
Billed contract receivable	$ 1,079,193	$ 1,007,144
Unbilled contract receivable	129,974	100,158
Current expected credit losses	(34,809)	(30,731)
Due from Veolia Water NA	26,446	-
Accounts receivable, net	$ 1,200,804	$ 1,076,571

(i) Revenue Recognition

The Company recognizes as operating revenues (i) billings to customers and (ii) unbilled revenues, which include a charge for estimated consumption for the period from the effective date of the last billing to the period end. The estimated unbilled amounts are determined by reviewing the number of days unbilled, average consumption per day, and rate. Revenues are recognized when the services are rendered. The revenue must be considered collectible. The obligations are satisfied over time as the customer simultaneously receives and consumes benefits as the Company delivers services Revenue is recorded based upon the output delivered.

(j) Concession Agreement

The Company entered into a Concession Agreement for approximately $43.2M with the Authority. The Concession Agreement provides a pre-determined fixed rate through December 31, 2018 for service charges. For years beginning January 1, 2019 the rate for service charges shall be determined at the discretion of the Concessionaire. At the time of closing, the Company has demand short fall mechanisms to compensate for short fall in demand. The Concession Agreement also provides for recovery of capital expenditures above a baseline through adjustments to future tariffs, based on a contractual formula. The Company incurred legal fees and closing costs of $2.7M in connection with the Concession Agreement, which were capitalized. With the transfer of ownership on June 9, 2017 (Note 1) and the application of pushdown accounting in accordance with ASC 805, Business Combinations, the Concession Agreement was revalued at $100.7M. The Company will amortize this amount using the straight-line method over the remaining life of the Concession Agreement. The Company's total amortization expense related to the Concession Agreement was approximately $2.07M for the years ended December 31, 2023 and 2022. The Company obtained the rights to operate and use the system operations and the Concession Agreement is treated as a finance lease under ASC 842, Leases. No lease obligation was recognized as the Company paid for the rights to operate upfront.

The Concession Agreement consists of the following as of December 31:

	2023	2022
Concession agreement	$ 45,902,434	$ 45,902,434
Revaluation gain	54,752,283	54,752,283
Capital improvements	7,683,302	6,696,057
Capital improvements work-in-progress (Note 3)	5,045,037	3,950,493
Concession agreement, gross	113,383,056	111,301,267
Accumulated amortization of concession agreement	(15,817,369)	(13,747,745)
Accumulated depreciation of capital improvements	(1,169,469)	(899,949)
Total accumulated amortization and depreciation	(16,986,838)	(14,647,694)
Concession agreement, net	$ 96,396,218	$ 96,653,573

Amortization of the Concession Agreement will be $2,069,624 in each of the following five years.

(k) Leases

Leases are classified as finance or operating at the outset of the lease arrangement based on whether the terms of the agreement transfer substantially all the risks and rewards incidental to ownership to the Company.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred, less any lease incentives received.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following: fixed payments, including in-substance fixed payments; variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date; amounts expected to be payable under a residual value guarantee; and the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewable period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a lease modification, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Variable lease payments not included in the lease liability are recognized as an expense in the period in which the obligation for those payments is incurred. As at December 31, 2023 and 2022, the Company has no operating leases.

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term operating leases, defined as a term of twelve months or less, from the commencement date.

The Company elected the transition package of practical expedients permitted within the new standard which, among other things, allowed it to carry forward the historical lease identification, classification and initial direct costs. In addition, the Company elected certain practical expedients and accounting policies, including an accounting policy election not to recognize right-of-use assets and liabilities for leases with less than twelve months of lease term.

Finance leases

The Company recognizes a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in the balance sheets. The Company recognizes interest on the lease liability separately from the amortization of the right-of-use asset in the statement of comprehensive income. Right of use assets under finance leases are included in property, plant and equipment and are depreciated over the shorter of the lease term or the useful life of the leased asset. Depreciation on assets under finance leases is included in depreciation expense. The Company classifies repayments of the principal portion of the lease liability within financing activities and payments of interest on the lease liability and variable lease payments within operating activities in the statements of cash flows.

(l) Recent Accounting Pronouncements

Changes to U.S. GAAP are established by the FASB in the form of an Accounting Standards Update (ASU) to the FASB's ASC.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments – Credit Losses (Topic 326), and subsequently issued ASU 2018-19 and 2019-11 Codification Improvements to Topic 326, to provide financial statement users with more useful information about the current expected credit losses ("CECL"). These ASUs change how entities measure credit losses on financial instruments and the timing of when such losses are recognized by utilizing a lifetime expected credit losses measurement. Financial instruments impacted include accounts receivable, trade receivables, other financial assets measured at amortized cost and other off-balance sheet credit exposures. The guidance is effective for fiscal years and interim periods within those years beginning after January 1, 2023. The adoption did not have a significant impact on the Company's financial statements.

(3) Capital Improvements Work-in-Progress

The Company is responsible for all capital improvements with respect to the Water System required to be completed during the term in accordance with the terms of the Concession Agreement, including as required by the Operating Standards, outlined in the Operating and Maintenance Agreement, and by change of law, which capital improvements include, without limitation, the major capital improvements, as defined in the Concession Agreement.

The Company, at the closing date, delivered a preliminary asset management plan for the Water System for the period from the closing date until the first anniversary of the agreement. Additionally, sixty days after each anniversary of the closing date the Company shall deliver a copy of the five-year Capex Plan. Each Capex Plan shall be subject to approval by the Authority.

(4) Prepaid Expenses and Other Current Assets

The following is a list of all prepaid expenses as of December 31:

	2023	2022
Insurance	$ -	$ 2,881
Total prepaid expenses	$ -	$ 2,881

(5) Accrued Expenses

The following is a list of all accrued expenses as of December 31:

	2023	2022
Professional fees	$ 370,184	$ 156,028
Total accrued expenses	$ 370,184	$ 156,028

(6) Fair Value Measurement

As of December 31, 2023 and 2022, the carrying amounts of cash and cash equivalents, accounts receivable, accrued expenses, and Due to United Water approximate fair value, due to the short-term nature of these instruments.

The Accounting Standard Update No. 2016-01, Financial Instruments–Overall: Recognition and Measurement of Financial Assets and Financial Liabilities ("ASU 2016-01"). ASU 2016-01 exempts all entities that are not public business entities from disclosing fair value information for financial instruments measured at amortized cost.

(7) Debt

The Company has $33.5M in an outstanding senior note issued on December 29, 2014 with a maturity date of December 31, 2049 (the Note Payable). This note carries a 5.65% interest rate. Interest payments are due semi-annually on June 30 and December 31. As of December 31, 2023 and 2022, the Company was in compliance with the financial covenants of the agreement governing the note purchase agreement.

Principal payments on the senior notes commence on June 30, 2024.

The note payable consists of the following as of December 31:

	2023	2022
Note payable	$ 33,500,000	$ 33,500,000
Plus premium from Acquisition	4,800,000	4,800,000
Less accumulated amortization of premium	1,030,674	862,552
Less current portion	335,000	-
Long-term portion of note payable	$ 36,934,326	$ 37,437,448

As a result of the Acquisition and application of pushdown accounting in accordance with ASC 805, Business Combinations, the note was marked up to reflect a fair value of $38.3M. The $4.8M premium created will amortize using the effective interest rate method through the note's maturity date of December 31, 2049.

(8) Financial Risk Management

The Company's activities expose it to a variety of financial risks including liquidity risks.

Liquidity risk is the risk that the Company cannot meet a demand for cash or fund an obligation when due. The Company's asset and liability management allows it to maintain its financial position by providing sufficient liquid assets available to cover its potential funding requirements. With senior management oversight, this group manages liquidity through regular monitoring of cash and covenant requirements.

As at December 31, 2023 and 2022, accounts payable and accrued liabilities are expected to be settled within 12 months.

The table below classifies the cash obligations related to the Company's liabilities into relevant maturity groupings based on the remaining periods from the balance sheet date to the contractual maturity date.

	<1 year	**1-5 years**	**>5 years**	**Total**
Principal repayment	$ 335,000	$ 2,680,000	$ 30,485,000	$ 33,500,000
Interest payable	1,888,018	9,113,591	19,717,723	30,719,332
Total	$ 2,223,018	$ 11,793,591	$ 50,202,723	$ 64,219,332

Management believes that the future cash flows from the Company's operating activities will continue to provide sufficient liquidity for the Company to satisfy debt service obligations.

The Company is exposed to credit risk to the extent that its customers become unable to meet their payment obligations. The Company's exposure to concentrations of credit risk is limited.

Trade receivables aging was as follows:

	December 31, 2023	**December 31, 2022**
0-30 days	$ 828,699	$ 791,042
31-60 days	118,030	109,033
61-90 days	43,716	33,687
Over 90 days	88,748	73,382
Total	$ 1,079,193	$ 1,007,144

An impairment analysis is performed at each reporting date and the expected credit loss rates are based on days past due. The calculation reflects the probability-weighted outcome, historical credit losses and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions as part of the Company's impairment analysis as at December 31, 2023 and 2022.

The movement in the provision for current expected credit losses against trade receivables was as follows:

	December 31, 2023	**December 31, 2022**
Provision, beginning of year	$ 30,731	$ 46,425
Current expected credit loss	4,078	(15,694)
Provision, end of year	$ 34,809	$ 30,731

(9) Related Party Transactions

(a) Service Fee

The annual service fee due to United Water for the operations and maintenance of the water system and wastewater, storm water, and combined sewer overflow systems for the Borough of Middletown, Pennsylvania was $2.48M for the year ended December 31, 2023 and $2.40M for the year ended December 31, 2022. The annual service fee is calculated on a calendar year basis. At the end of each calendar year, the annual service fee for the succeeding year shall be adjusted relative to the base year of 2014 using the weighted average of the following three component indices:

(i) 34% at the Consumer Price Index, U.S. City Averages for all Urban Consumers, All Items Index, Northeast Region, (not seasonally adjusted) as published by the U.S. Department of Labor, Bureau of Labor Statistics;

(ii) 38% at the Employment Cost Index, Series Id: CIU2014400000000IA(B), Not Seasonally Adjusted, Total compensation, Private Industry, 12-month percent change, Utilities, as published by the U.S. Department of Labor, Bureau of Labor Statistics; and

(iii) 28% based on the changes to the published rates for electricity of the local electric utility or future energy supplier. The energy adjustment shall be reviewed at the end of each Concession Year and shall be effective retroactively beginning with the effective date of the published rate increase.

(b) Due to United Water

As of December 31, 2023, the Company owed United Water approximately $0.21M. This amount consists $0.04M for Major Capex and approximately $0.17M for excess maintenance and repair.

As of December 31, 2022, the Company owed United Water approximately $0.97M. This amount consists $0.80M for Major Capex and approximately $0.17M for excess maintenance and repair.

(10) Distributions

The Company may make distributions to its Members on or within thirty (30) days after June 30 or December 31, assuming that all of the following criteria have been met:

(a) The distribution would not result in a default event.

(b) The balance of the debt reserve account is at least equal to the debt service reserve requirement.

(c) The debt service coverage ratio is not lower than 1.25 to 1.00 for the preceding 12 months.

(d) The Company must, between 10 and 30 days prior to making the distribution, provide the noteholders with a certificate from a responsible officer certifying to the satisfaction of the foregoing requirements (including detailed calculations of the average debt service coverage ratio establishing that the Company was in compliance with all requirements).

The Company made no distributions for the years ended December 31, 2023 and 2022.

(11) Commitments and Contingencies

(a) Annual Borough Payment

The Company is obligated to pay the Authority an Annual Borough Payment beginning on January 1, 2016. The annual fee is as follows and is expressed in 2016 dollars. The fee is adjusted annually according to the Consumer Price Index United States City Averages for all Urban Consumers, All Items. In accordance with the Fifth Amendment of the Concession Agreement, effective January 1, 2019 the Company shall receive a $0.05M annual reduction as a reimbursement for the 2015-2016 expenditures. The fee is payable in two installments on April 1 and October 1. The fee was paid in full for the year ended December 31, 2023 and 2022.

Fiscal Year	Annual Payment
2023-2024	$ 630,000
2025 and thereafter	$ 590,000

(b) Service Fee

The Company is obligated to pay United Water an annual service fee. See Note 9a for more information on this commitment.

(12) Litigation

The Company submitted a five-year capital plan to the Borough of Middletown (the "Borough") on March 1, 2022 pursuant to the Municipal Water and Wastewater Utility System Concession and Lease Agreement dated September 30, 2014 (the "Concession Agreement") between the JV and the Borough.

On March 16, 2022, the Borough approved the proposed capital plan subject to its objection regarding the inclusion of a 15% fee reflecting management costs as part of a Capital Cost Recovery Charge.

In that communication, as well as subsequent ones, the Borough has argued that the above-mentioned costs and projects are not subject to Capital Cost Recovery under the Concession Agreement. The Company has responded by contesting the Borough's arguments, and informing the Borough that any refusal to accept Capital Cost Recovery for the above-mentioned costs and projects would breach the Concession Agreement as well as the May 5, 2020 order issued by Chief Judge Conner of the Middle District of Pennsylvania confirming the arbitration award issued in the JV's favor.

On June 24, 2022, the JV filed a Complaint against the Borough in the United States District Court for the Middle District of Pennsylvania for breach of contract under the Concession Agreement seeking: (i) damages in an amount to be determined at trial, not less than $264,808.43, plus interest, reflecting management costs that would have been included in a Capital Cost Recovery Charge but for the Borough's wrongful objection, and (ii) a declaratory judgment that the JV is entitled to impose Capital Cost Recovery Charges with respect to the costs incurred, and to be incurred prospectively, for management costs for each Reporting Year of the Concession Agreement.

On August 26, 2022, the Borough filed its Answer to the Complaint. On October 27, 2022, the Court issued its Case Management Order setting forth the initial deadlines for the litigation.

The parties completed fact discovery on March 6, 2024, which included the production of documents and depositions, including the depositions of the JV and the Borough. Affirmative expert reports are due on April 3, 2024, with responsive expert reports due on May 1, 2024 and supplemental expert reports due on May 15, 2024. Dispositive motions are due on June 5, 2024.

The Company is not involved in any other litigation besides the above, and management is not aware of any other pending litigation as of March 28, 2024, the date that the financial statements were available to be issued and approved.

(13) Subsequent Events

Management has evaluated subsequent events of the Company's financial statements. There were no material subsequent events requiring additional disclosure in these financial statements through March 28, 2024, the date that the financial statements were available to be issued.