

CITIZENS ENERGY GROUP



MANAGEMENT DISCUSSION
& FINANCIAL REPORT 2015

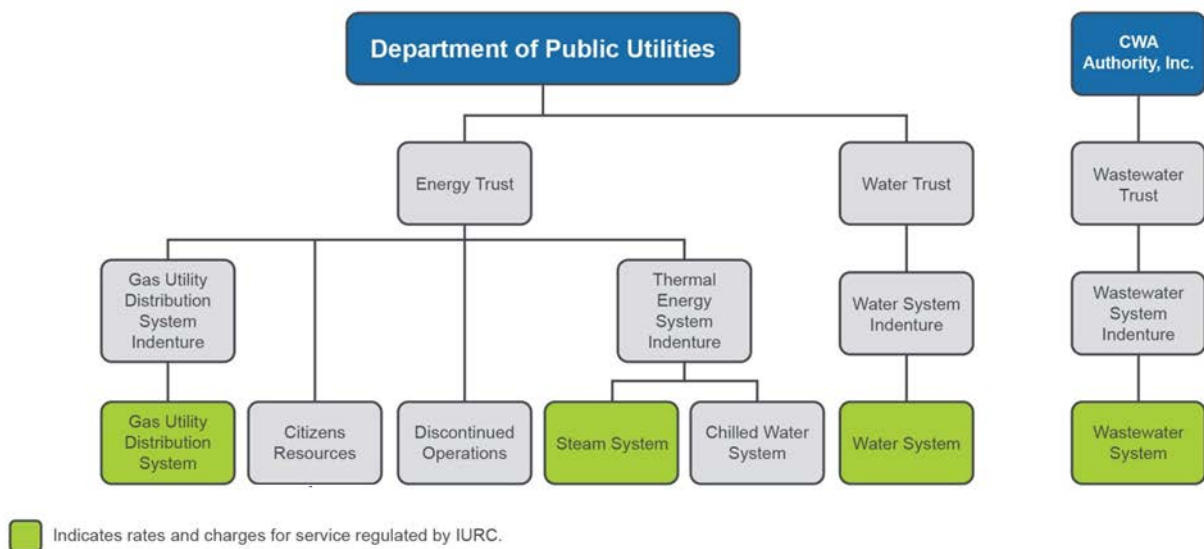
MANAGEMENT DISCUSSION AND ANALYSIS

Forward-looking Statements

Certain matters discussed in this report, except historical information, include forward-looking statements. The forward-looking statements herein are necessarily based on various assumptions and estimates, are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial and other governmental authorities and officials. Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and, therefore, there can be no assurance that the forward-looking statements contained in this Management Discussion and Analysis would prove to be accurate. We do not undertake to update or revise any forward-looking statement as a result of future events, new information, or otherwise.

Organization Structure

The chart below provides a diagram of the organization structure of Citizens Energy Group and CWA Authority, Inc. (CWA). The organization structure is further described and explained below the chart.



Citizens Energy Group (Citizens) is the trade name in which the Department of Public Utilities of the City of Indianapolis, Indiana (the Department) acting by and through its Board of Directors (the Board) for Utilities functions. The Department was formed in 1929 pursuant to a state statute (now IC 8-1-11.1, the Act) adopted by the Indiana legislature to provide the governance structure for the City of Indianapolis to act as a successor trustee of a public charitable trust (the Energy Trust) providing natural gas utility services in the City of Indianapolis and to own and operate other utility systems serving areas within and outside the City of Indianapolis. The Department is the governmental entity that owns the Energy Trust and Water Trust assets described below. Each trust is not an entity, but rather defines the nature in which the assets are held by the Department and the obligation imposed upon the Department to manage and operate those assets in accordance with the trust purposes which include the obligations to operate the facilities in public trust for the benefit of the inhabitants of Marion County, free from the influences of partisan political control or private interests. To preserve freedom from partisan political control, the Act creates the Board of Trustees (the Trustees) as a self-perpetuating body entrusted with the power to appoint the members of the Board annually. This two-board structure provides for oversight of the Board by the Trustees. Further, the Act intentionally insulates the Department from political control by isolating the two boards from the Mayor of Indianapolis or the City's legislative bodies.

The Gas Utility Distribution System, the Thermal Energy System, Citizens Resources and certain other properties are subject to the Energy Trust. Recent asset transfers related to the Energy Trust are discussed in footnote 1 below. The Water System is subject to a separate public charitable trust (the Water Trust) that operates in substantially the same manner as the Energy Trust.

The Wastewater System is owned by CWA, a separate nonprofit corporation, which, through an interlocal agreement entered into between Citizens and the City of Indianapolis pursuant to Indiana Code 36-1-7, has the power to exercise all rights and powers of the City, except the City's taxing power, and Citizens in connection with the provision of wastewater utility services. CWA's board of directors comprises the same individuals who serve on the Board. The Wastewater

System is managed by employees of Citizens under an operating agreement between Citizens and CWA. CWA is subject to a separate public charitable trust (the Wastewater Trust) that operates in substantially the same manner as the Energy Trust and the Water Trust.

Separate indentures exist to issue debt obligations for the Gas Utility Distribution System, the Thermal Energy System, the Water System and the Wastewater System. Each indenture captures only the revenues from the respective System, pays the operating expenses of that System and then debt service on revenue bonds of that System. This structure is designed to achieve the desired separation of each System from other Systems or business segments owned or operated by Citizens and CWA. Each indenture permits Citizens or CWA, as applicable, authority to use residual revenues for other purposes permitted by the language of the respective indenture. Citizens' water indenture and CWA's wastewater indentures, however, permit only the use of the excess revenues for the water and wastewater systems, respectively.

In addition as described above, each trust (i.e., the Energy Trust, the Water Trust and the Wastewater Trust) exists separately from the other trusts. Thus, there are three separate public charitable trusts, each with a governmental entity serving as the trustee (the Energy Trust and the Water Trust assets being owned by the Department and the Wastewater Trust assets being owned by CWA). These separate trusts are designed to insulate one trust from liability for obligations of another trust, based on basic trust principles that two separate trusts do not become jointly liable solely because the same entity is the trustee of both.

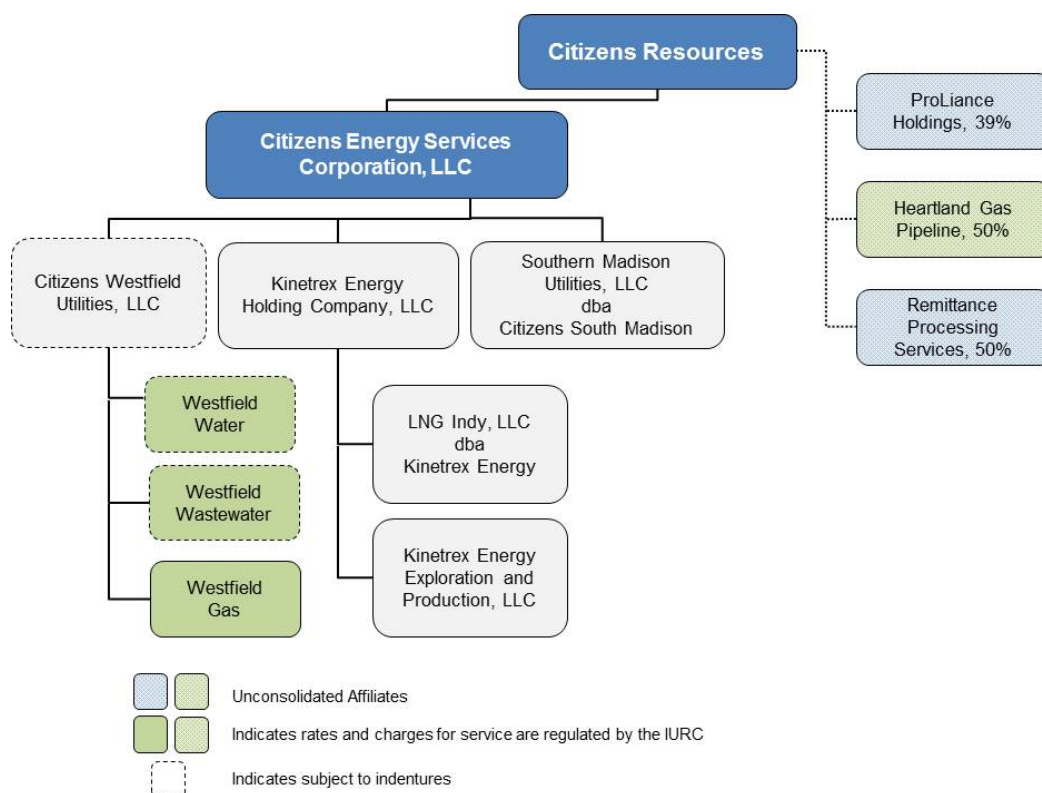
The result of the foregoing is that Citizens and CWA have five distinct cash flow sources in which debt is isolated: (1) the Gas Utility Distribution System and the Gas Utility System; ¹ (2) the Thermal Energy System; (3) the Water System; (4) the Wastewater System; (collectively, the four Systems) and (5) Citizens Resources. The cash flow for the four Systems is governed by the respective indentures for each System, which restricts the use of income and revenues of a respective System to the payment of operating expenses and debt service of the respective System before allowing any other use of funds by the System. The fifth source, Citizens Resources is a separate corporation whose stock is owned by the Department in its capacity as trustee of the Energy Trust. The preservation of the corporate organization form of Citizens Resources and its ability to operate for-profit businesses in furtherance of the Energy Trust purposes was specifically authorized by the Act. The assets, liabilities and operations of Citizens Resources are by design isolated within the separate corporate structure of Citizens Resources, as a subsidiary corporation of Citizens, and each of the direct and indirect subsidiaries of Citizens Resources is a limited liability company or corporation designed to limit the liability of the immediate parent to its investment in the subsidiary ². Those structures do not insulate the parent from liability for an express assumed contractual liability or guaranty or for the parent's own acts or omissions. In addition to the separate trusts for the Water System and the Wastewater System, those structures along with certain provisions of the Operating Agreements of such subsidiaries of Citizens Resources are the primary protection of Citizens' cash flow from any financial losses in Citizens Resources or its subsidiaries and affiliates ³. Profits of Citizens Resources may roll up to Citizens through dividends declared by the board of Citizens Resources, but Citizens' exposure to liabilities of Citizens Resources should be limited by its corporate structure (and by that of its subsidiaries) and thus not imposed as a burden on the cash flows available in any System. See below for a diagram of Citizens Resources' organizational structure.

¹ The 1986 Gas Utility System (GUS) bonds are debt of the Gas Utility Distribution System (GUDS). Debt service on the GUS bonds is included in the revenue requirements for determining the rates and charges of the GUDS by the IURC. The GUS Indenture is not used for issuance of new debt. The bonds issued under the GUS Indenture are senior to the bonds issued under the GUDS Indenture. Bondholder security for the GUS bonds includes the net revenues after payment of operating expenses of the GUDS and Discontinued Operations as well as any dividends paid by Citizens Resources for so long as bonds are outstanding under that Indenture. The assets comprising the Oil Operations are no longer a part of GUS but are held by Citizens Resources effective February 1, 2015. However, as explained below the corporate structure of Citizens Resources should limit the GUS exposure to liabilities of Citizens Resources and its subsidiaries. The final principal payment on the 1986 GUS bonds will occur in 2018 at which point no Indenture of the four Systems will include Discontinued Operations or Citizens Resources.

² Under public policy reflected in state law governing corporations and limited liability companies ("LLCs"), the parent stockholder of a subsidiary corporation or the parent member of a subsidiary LLC is given substantial protection against liability for the acts or debts of the subsidiary, subject to the established inherent limitations of these structures under such applicable state law.

³ Since Citizens includes the results of operations of Citizens Resources and its subsidiaries and affiliates in its combined financial statements, an accounting loss within Citizens Resources will be reflected in Citizens' combined financial statements. This accounting result, though, does not create the basis upon which the liabilities of Citizens Resources or its subsidiaries or affiliates can be imposed upon Citizens or the cash flows held under any Indentures.

On January 10, 2014, Citizens Westfield Utilities, LLC (CWU) was formed to serve as an intermediate holding company for Westfield Gas (which was transferred to CWU in March, 2014) and for Westfield Water and Westfield Wastewater upon their acquisition, which took place on March 21, 2014 (see Note 4 of the combined financial statements).



FINANCIAL RESULTS

Segment Results

The tables below summarize the financial results (in millions) for each segment for the twelve months ended September 30, 2015 and 2014. For a more detailed understanding of these summarized results, see Note 10 of the combined financial statements.

SHARED SERVICES

	2015	2014	Change
Corporate Support Services	\$ 83.9	\$ 78.5	\$ 5.4
Shared Field Services	23.1	22.9	0.2
Shared Services Expenses	\$ 107.0	\$ 101.4	\$ 5.6

Shared Services Expenses increased \$5.6 million in 2015 primarily due to increases in the following expense categories:

- \$2.4 million - Contracted services costs;
- \$1.2 million - Depreciation expense; and
- \$1.8 million - Net of pension and post-retirement health accrual increases offset by labor cost decreases.

All Shared Services Expenses have been allocated to the appropriate business units and are reflected in the explanations that follow.

GAS

	2015	2014	Change
Operating revenues	\$ 294.6	\$ 319.7	\$ (25.1)
Cost of goods sold	151.8	177.8	(26.0)
Margin	142.8	141.9	0.9
Other operating expenses	105.2	102.9	2.3
Operating income	37.6	39.0	(1.4)
Other income (expense), net	(1.1)	(0.8)	(0.3)
Interest charges	15.1	15.7	(0.6)
Segment income	\$ 21.4	\$ 22.5	\$ (1.1)
Volume sales, million Dth	57.2	55.3	1.9
Cost of gas sold, per Dth	\$ 4.88	\$ 5.42	\$ (0.54)
Heating Degree Days	5,866	6,251	(385)

Twelve Months Ended September 30, 2015 as Compared with 2014

Margin – Gas margin increased \$0.9 million largely due to the following:

- \$1.5 million from sales attributable to the high load customer class; and
- \$0.3 million of miscellaneous revenues, including increased power generation sales and late fees.

These increases were partially offset by a \$1.2 million decrease in revenue components related to gas costs such as the Indiana Utility Receipts Tax (IURT) which in turn are largely offset in Other operating expenses.

Other operating expenses – Increased \$2.3 million in 2015, driven by increases in the following expenses:

- \$2.2 million in shared administrative and field services costs; and
- \$1.0 million of depreciation expense due to an increase in depreciable assets.

These increases were partially offset by a \$0.8 million decrease in property tax and IURT.

Other income (expense), net – Consistent with prior year.

Interest charges – The decrease is due to lower outstanding debt resulting from principal payments.

STEAM

	2015	2014	Change
Operating revenues	\$ 85.6	\$ 81.7	\$ 3.9
Cost of goods sold	49.0	47.3	1.7
Margin	36.6	34.4	2.2
Other operating expenses	26.3	27.7	(1.4)
Operating income	10.3	6.7	3.6
Other income (expense), net	-	-	-
Interest charges	4.3	3.2	1.1
Segment income	\$ 6.0	\$ 3.5	\$ 2.5
Volume sales, million therms	64.4	67.7	(3.3)
Heating Degree Days	5,866	6,251	(385)

Twelve Months Ended September 30, 2015 as Compared with 2014

Margin – The \$2.2 million improvement was primarily due to the following:

- An increase in Operating revenues due to a rate increase effective May 30, 2014 (see Note 2M.1 – Citizens Thermal Steam).

This increase was partially offset by:

- A \$2.1 million decrease due to the Operating Expense Rate Adjustment (OPERA) mechanism (see Note 2M.1 – Citizens Thermal Steam); and
- A \$1.3 million decrease resulting from lower sales volume.

Other operating expenses - The decrease of \$1.4 million was principally driven by:

- \$1.2 million of decreased plant maintenance expenses as the prior period included write-off of obsolete spare part inventory caused by the Natural Gas Conversion (see Note 2M.1 – Citizens Thermal Steam for more information on the conversion of the Perry K plant to natural gas); and
- \$0.8 million lower operating and plant maintenance costs resulting from the Natural Gas Conversion.

These decreases were partially offset by \$0.5 million of payments made to a third party under an agreement to supply supplemental steam during periods of high demand.

Interest charges – The increase was largely due to a full year of interest on the Series 2014A bonds.

CHILLED WATER

	2015	2014	Change
Operating revenues	\$ 35.5	\$ 38.1	\$ (2.6)
Cost of goods sold	10.9	12.1	(1.2)
Margin	24.6	26.0	(1.4)
Other operating expenses	16.4	19.6	(3.2)
Operating income	8.2	6.4	1.8
Other income (expense), net	-	-	-
Interest charges	2.4	2.5	(0.1)
Segment income	\$ 5.8	\$ 3.9	\$ 1.9
Volume sales, million ton hours	133.9	143.2	(9.3)

Twelve Months Ended September 30, 2015 as Compared with 2014

Margin – The \$1.4 million decrease was primarily driven by lower sales volumes as a result of the sale of the Indianapolis Campus Energy (ICE) plant in the prior year (see Note 2L of the combined financial statements).

Other Operating expenses – Favorable operating expenses of \$3.2 million largely resulted from the following:

- A \$2.8 million net loss incurred in the prior year on the sale of the ICE plant, of which \$2.5 million was non-cash; and
- A \$0.4 million decrease in operating expenses resulting from the sale of the ICE plant.

Interest charges - Consistent with prior year.

WATER

Year-to-Date vs Prior Year Ended Sep-30			
	2015	2014	Change
Operating revenues	\$ 172.5	\$ 169.2	\$ 3.3
Operating expenses	134.9	129.2	5.7
Operating income	37.6	40.0	(2.4)
Other income (expense), net	2.5	2.0	0.5
Interest charges	50.1	50.7	(0.6)
Segment loss	\$ (10.0)	\$ (8.7)	\$ (1.3)
Volume sales, billion gallons	37.4	38.0	(0.6)

Twelve Months Ended September 30, 2015 as Compared with 2014

Operating revenues – Increased revenues of \$3.3 million in 2015 were largely the result of a rate increase effective March 24, 2014 (see Note 2M.1 – Water), offset by lower volume sales.

Operating expenses – The \$5.7 million increase in 2015 was predominantly driven by the following:

- \$2.4 million of pension and post-retirement health accrual increases;
- \$2.0 million of contract services expense; and
- \$1.4 million of depreciation and amortization.

Other income (expense), net - The improvement was primarily driven by non-recoverable expenses for regulatory proceedings recorded in the prior year.

Interest charges – Decreased interest expense of \$0.6 million was principally driven by capitalized interest, partially offset by increased line of credit interest due to increased short-term borrowings in 2015.

WASTEWATER

	2015	2014	Change
Operating revenues	\$ 212.7	\$ 187.6	\$ 25.1
Operating expenses	147.1	142.2	4.9
Operating income	65.6	45.4	20.2
Other income (expense), net	0.2	0.3	(0.1)
Interest charges	54.3	49.8	4.5
Segment income (loss)	\$ 11.5	\$ (4.1)	\$ 15.6
Volume treatment sales, billion gallons	33.0	34.1	(1.1)
Strength surchg., million pounds	48.6	44.2	4.4

Twelve Months Ended September 30, 2015 as Compared with 2014

Operating revenues – Additional revenues of \$25.1 million in 2015 are primarily driven by:

- \$31.8 million of incremental revenue from rate increases effective May 1, 2014 and October 1, 2014 (see Note 2M.1 – Wastewater);
- \$1.4 million resulting from higher strength surcharge volumes; and
- \$0.8 million due to an increase in the number of customers.

These increases were partially offset by:

- \$7.3 million of reduced treated volumes; and
- \$1.5 million lower revenue from contract customers in surrounding counties.

Operating expenses – Increased operating expenses of \$4.9 million in 2015 resulted from the following:

- \$4.3 million increased depreciation expense;
- \$2.7 million additional payments-in-lieu-of-taxes (PILOT) per the established PILOT schedule; and
- \$1.4 million incremental sludge processing costs.

These increases were partially offset by decreases in the following:

- \$1.9 million in material costs; and
- \$1.4 million of vehicle and equipment rental expenses.

Other income (expense), net - Consistent with prior year.

Interest charges – The increase is largely attributable to additional borrowings of long-term debt to support capital projects, partially offset by increased capitalized interest.

RESOURCES

	2015	2014	Change
Operating revenues	\$ 55.9	\$ 40.6	\$ 15.3
Cost of goods sold	17.9	15.2	2.7
Margin	38.0	25.4	12.6
Other operating expenses	23.8	19.5	4.3
Operating income	14.2	5.9	8.3
Other income (expense), net	0.4	0.2	0.2
Equity in earnings (loss) of affiliates	0.2	(2.0)	2.2
Interest charges	4.5	2.4	2.1
Segment income	\$ 10.3	\$ 1.7	\$ 8.6

Twelve Months Ended September 30, 2015 as Compared with 2014

Margin - Margin improved by \$12.6 million in 2015 primarily due to:

- \$8.1 million from full-year operating revenues for Westfield Water and Westfield Wastewater which were acquired on March 21, 2014 (see Note 4 – Acquisitions); and
- \$4.2 million attributed to subsidiaries of Kinetrex Energy Holding Company.

Operating expenses – Operating expenses increased \$4.3 million in the current year principally due to the following:

- \$5.1 million from full-year operating expenses for Westfield Water and Westfield Wastewater which were acquired on March 21, 2014; and
- \$5.0 million of higher expenses at subsidiaries of Kinetrex Energy Holding Company.

These increases were partially offset by acquisition costs and impairment charges recorded in 2014.

Equity in affiliates – Improvement due to impairment charges recorded in the prior year (see Note 5).

Interest charges – The increase is primarily driven by a full year of interest on debt issuances related to the acquisition of Westfield Water and Wastewater in 2014 (See Note 4 – Acquisition of Westfield Water and Wastewater and Note 6).

OTHER

	2015	2014	Change
Operating revenues	\$ -	\$ -	\$ -
Operating expenses	0.1	0.7	(0.6)
Operating income	(0.1)	(0.7)	0.6
Other income (expense), net	(2.8)	(2.5)	(0.3)
Interest charges	-	(0.6)	0.6
Loss from DiscOps	(36.6)	(5.9)	(30.7)
Segment loss	\$ (39.5)	\$ (8.5)	\$ (31.0)

In the table above, Other includes advertising and philanthropic costs that are not recoverable through rates and are funded by contributions from non-regulated segments. The former Manufacturing business segment has been reported as Discontinued Operations and is also included in Other.

Twelve Months Ended September 30, 2015 as Compared with 2014

Other income (expense), net – The variance was primarily driven by increased brand advertising expenses.

Loss from discontinued operations – The increased loss in 2015 is primarily due to a \$35.7 million re-measurement of the asset retirement obligation (ARO), partially offset by \$5.6 million lower accretion expense for previous ARO measurements (see Note 11).

LIQUIDITY AND CAPITAL RESOURCES

Debt and Liquidity

Please see Notes 6 and 7 of the combined financial statements for information regarding the changes to Citizens' and CWA's outstanding debt obligations and liquidity facilities, respectively.

Capital Spending

For the twelve months ended September 30, 2015, capital expenditures, on an accrual basis, increased by \$7.4 million to \$340.0 million from \$332.6 million during the same period last year. This increase is summarized in the table below (in millions). Certain accrued capital expenditures, including all capitalized interest, have been included in Other for segment presentation of Capitalized Expenditures, while the capitalized amounts on the segmented statements of financial position are reflected as Property, Plant and Equipment in their respective segments.

	Gas	Steam	Chilled Water	Water	Wastewater	Resources	Other	Total
2015	\$ 23.6	\$ 2.8	\$ 2.4	\$ 54.1	\$ 215.8	\$ 15.8	\$ 25.5	\$ 340.0
2014	21.3	6.8	2.2	54.9	187.1	28.0	32.3	332.6
	\$ 2.3	\$ (4.0)	\$ 0.2	\$ (0.8)	\$ 28.7	\$ (12.2)	\$ (6.8)	\$ 7.4

Citizens' and CWA's projected capital spending requirement of \$311.0 million for 2016 is summarized as follows (in millions):

	Gas	Steam	Chilled Water	Water	Wastewater	Resources	Other	Total
2016 Projection	\$ 22.8	\$ 3.5	\$ 3.1	\$ 32.2	\$ 204.0	\$ 11.4	\$ 34.0	\$ 311.0

Citizens Gas continues to invest in mains and services to maintain its commitment to modernization of its underground gas distribution system. Citizens Gas had cash and cash equivalents of \$75.4 million at September 30, 2015. Citizens Gas expects to meet its capital spending requirements in 2016 through cash flows from operations and the temporary seasonal use of its credit lines.

Citizens Thermal's Steam business segment continues to invest in distribution assets and production equipment. Chilled Water capital spending plans include investments to increase production capacity. At September 30, 2015, cash and cash equivalents of Steam and Chilled Water amounted to \$18.0 million and \$28.5 million, respectively. Steam expects to meet its capital spending requirements in 2016 through cash flows from operations and the temporary seasonal use of its credit line while Chilled Water expects to meet its 2016 capital spending requirements through cash flows from operations. See Note 2M.1 – Citizens Thermal Steam of the combined financial statements for a discussion of the Steam rate case Order received on May 21, 2014.

The Water business segment has a capital improvement plan to address system reliability, specific regulatory requirements, and various distribution system and treatment plant upgrades. Water had cash and cash equivalents of \$11.0 million at September 30, 2015, including \$0.4 million in the construction fund. Water expects to meet its capital spending requirements in 2016 through cash flows from operations, use of its line of credit and a new issuance of long-term debt (see Note 7 of the combined financial statements). See Note 2M.1 – Water for a discussion of the Water rate case Order received on March 19, 2014 and the Water rate case filed on June 26, 2015.

The Wastewater business segment has a capital improvement plan to meet guidelines of the Combined Sewer Overflows and Long-Term Control Plan and the overall needs of the Wastewater System. See Note 13 of the combined financial statements for additional information regarding the Combined Sewer Overflows and Long-Term Control Plan. The capital improvement plan also includes septic tank elimination projects and other improvements to and expansion of the Wastewater System including normal renewals and replacements. Wastewater had cash and cash equivalents of \$102.2 million at September 30, 2015, including \$58.4 million in the construction fund. Wastewater expects to meet its capital spending requirements in 2016 through a combination of cash flows from operations, drawing down the balance in the construction fund that remains from issuance of the Series 2015A bonds, its line of credit (see Note 7 of the combined financial statements), and a new issuance of long-term debt. See Note 2M.1 – Wastewater for a discussion of the Wastewater rate case Order received on April 23, 2014 and the Wastewater rate case filed on September 25, 2015.

Resources' capital spending projection for 2016 includes activities at LNG Indy, Kinetrex Energy, Exploration, and Production (KEEP), Citizens South Madison, Westfield Gas, Westfield Water, and Westfield Wastewater. Resources expects to meet its capital spending requirements in 2016 through a combination of cash flows from operations and its lines of credit. See Note 6 of the combined financial statements for additional information regarding LNG Indy's construction note and Note 7 of the combined financial statements for additional information on the Westfield Water and Westfield Wastewater lines of credit.

DERIVATIVES AND HEDGING

Citizens has entered into certain derivative and hedging transactions in 2015 and 2014. These transactions are used by Gas to hedge natural gas prices. Through a combination of fixed-price purchases, caps, collars and storage, Gas hedges approximately 80 percent of its anticipated system supply gas purchases. See Note 12 of the combined financial statements.

Concurrent with the issuance of CWU, Westfield Water and Westfield Wastewater revenue bonds in March 2014, the entities entered into fixed rate pay interest rate swap agreements with PNC Bank, National Association as the counterparty to effectively fix the interest rates through October 1, 2018. See Note 12 of the combined financial statements for additional information about the interest rate swaps.

Citizens Energy Group and Subsidiary and CWA Authority Inc.

Combined Statements of Operations
(In Thousands)

	Fiscal Year Ended September 30,	
	2015	2014
Operating revenues	\$ 841,706	\$ 819,226
Operating expenses		
Cost of goods sold	217,753	237,815
Operations and maintenance	261,581	261,174
Depreciation and amortization	144,281	135,101
Taxes	44,971	42,452
Total operating expenses	668,586	676,542
Operating Income	173,120	142,684
Other income (expense), net		
Interest income	2,293	2,178
Other	(3,124)	(3,032)
Total other income (expense), net	(831)	(854)
Income before equity in earnings of affiliates and interest charges	172,289	141,830
Equity in earnings (loss) of affiliates	166	(2,070)
Interest charges		
Interest on long-term debt	149,910	134,548
Other interest including net premium amortization	(19,193)	(10,744)
Total interest charges	130,717	123,804
Income from continuing operations	41,738	15,956
Loss from discontinued operations	(36,561)	(5,853)
Net income	\$ <u>5,177</u>	\$ <u>10,103</u>

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

Citizens Energy Group and Subsidiary and CWA Authority Inc.

Combined Statements of Comprehensive Income (Loss)

(In Thousands)

	Fiscal Year Ended September 30,	
	2015	2014
Net Income	\$ 5,177	\$ 10,103
Other comprehensive income		
Comprehensive income of unconsolidated investment	4	74
Retirement benefit liability changes:		
Net loss arising during period	(20,292)	(60,403)
Less: amortization of prior service credit	(536)	(455)
Less: amortization of loss	8,513	4,513
Less: amortization of transition obligation	-	16
Total retirement benefit liability changes	(12,315)	(56,329)
Total other comprehensive loss	(12,311)	(56,255)
Total Comprehensive Income (Loss)	\$ <u>(7,134)</u>	\$ <u>(46,152)</u>

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

Citizens Energy Group and Subsidiary and CWA Authority Inc.

Combined Statements of Financial Position
(In Thousands)

	At September 30, 2015	At September 30, 2014
ASSETS		
Property, plant and equipment		
Plant in service	\$ 5,631,736	\$ 5,311,034
Accumulated depreciation	3,007,369	2,887,421
	<u>2,624,367</u>	<u>2,423,613</u>
Construction work in progress	572,325	577,063
Property held for future use	1,443	1,443
Total property, plant and equipment	3,198,135	3,002,119
Intangible assets, net	72,707	76,410
Investments		
Bond restricted funds	261,626	235,482
Investment in affiliates	15,535	15,364
Other	32,797	33,951
Total investments	309,958	284,797
Current assets		
Cash and cash equivalents	272,148	275,300
Accounts receivable, less allowance for doubtful accounts of \$3,473 and \$4,023, respectively	75,588	78,144
Accrued utility revenue	20,077	21,314
Natural gas in storage	46,781	58,253
Materials and supplies	10,769	10,861
Recoverable gas and fuel costs	1,367	5,987
Prepayments and deposits	3,069	3,394
Current assets held for sale and discontinued operations	276	337
Total current assets	430,075	453,590
Deferred charges and other non-current assets		
Bond issuance cost, net	25,217	28,054
Other deferred charges	21,666	23,768
Non-current assets held for sale and discontinued operations	316	894
Total deferred charges and other non-current assets	47,199	52,716
TOTAL ASSETS	\$ 4,058,074	\$ 3,869,632
CAPITALIZATION AND LIABILITIES		
Capitalization and non-current liabilities		
Retained earnings	\$ 204,282	\$ 199,515
Accumulated other comprehensive loss	(151,674)	(139,363)
Long-term debt (excluding current maturities)	3,093,150	3,001,925
Retirement benefits	203,115	187,134
Contributions in aid of construction	149,656	135,831
Other long-term liabilities	24,492	25,645
Non-current liabilities directly related to assets held for sale and discontinued operation	88,805	56,533
Total capitalization and non-current liabilities	3,611,826	3,467,220
Current liabilities		
Current maturities of long-term debt	82,400	66,026
Short-term borrowings	116,000	73,500
Accounts payable and accrued expenses	175,433	198,941
Accrued taxes	50,251	46,104
Customer deposits and advance payments	18,938	16,668
Other	2,276	583
Current liabilities directly related to assets held for sale and discontinued operations	950	590
Total current liabilities	446,248	402,412
Commitments and contingencies (see note 13)		
TOTAL CAPITALIZATION AND LIABILITIES	\$ 4,058,074	\$ 3,869,632

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

Citizens Energy Group and Subsidiary and CWA Authority Inc.

Combined Statements of Cash Flows

(In Thousands)

	Fiscal Year Ended September 30,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 5,177	\$ 10,103
Depreciation and amortization	142,265	134,276
Loss (gain) on sale or impairment of assets	(40)	6,058
Equity in loss (earnings) of affiliates, net of distributions	(166)	2,970
Allowance for doubtful accounts	5,941	6,503
Changes in operating assets and liabilities:		
Accounts receivable and accrued utility revenue	(2,148)	(12,613)
Natural gas in storage	11,472	(1,586)
Recoverable/refundable gas and fuel costs	4,620	1,936
Prepayments and deposits	325	1,202
Other current assets	92	2,204
Accounts payable and accrued expenses	5,421	4,176
Retirement benefits	2,950	(6,986)
Other long-term liabilities	(5,595)	1,529
Net change in deferred charges	1,400	(377)
Other operating activities	2,632	1,891
Change in net liabilities of discontinued operations	37,296	6,026
Net cash provided by operating activities	<u>211,642</u>	<u>157,312</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Construction expenditures	(362,847)	(304,824)
Purchase of investment securities	(219,634)	(212,367)
Sale and maturity of investment securities	193,491	181,319
Proceeds from sale of assets	6,500	12,000
Acquisition of business, net of cash acquired	-	(89,177)
Other investing activities	1,139	1,912
Net cash used in investing activities	<u>(381,351)</u>	<u>(411,137)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from bank line of credit	59,000	95,023
Repayment of bank line of credit	(25,500)	(116,613)
Proceeds from long-term debt	188,564	485,071
Principal payments of long-term debt and bond refunding	(66,026)	(136,500)
Bond issuance costs	(1,049)	(4,261)
Customer benefits arising from nonregulated operations distributable to gas customers	(281)	(1,363)
Contributions in aid of construction	11,849	12,943
Net cash provided by financing activities	<u>166,557</u>	<u>334,300</u>
Net change in cash and cash equivalents	(3,152)	80,475
Cash and cash equivalents at beginning of fiscal year	275,300	194,825
Cash and cash equivalents at end of fiscal year	<u>\$ 272,148</u>	<u>\$ 275,300</u>
Supplemental Cash Flows Information - Interest paid	<u>\$ 125,492</u>	<u>\$ 120,949</u>
Non-cash Investing and Operating Activities		
Construction work-in-progress accrued at period end	<u>\$ 48,447</u>	<u>\$ 71,120</u>
Comprehensive gain on investment in affiliates	<u>\$ 4</u>	<u>\$ 74</u>

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

Citizens Energy Group and Subsidiary and CWA Authority Inc.

Combined Statements of Equity
(In Thousands)

	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Loss</u>	<u>Total</u>
Balance at September 30, 2013	\$ 190,682	\$ (83,108)	\$ 107,574
Comprehensive income			
Net income	10,103		10,103
Comprehensive income of unconsolidated investment		74	74
Retirement benefit liability changes		(56,329)	(56,329)
Total comprehensive income	10,103	(56,255)	(46,152)
Customer benefit distributions	(1,270)		(1,270)
Balance at September 30, 2014	\$ 199,515	\$ (139,363)	\$ 60,152
Comprehensive income			
Net income	5,177		5,177
Comprehensive income of unconsolidated investment		4	4
Retirement benefit liability changes		(12,315)	(12,315)
Total comprehensive income	5,177	(12,311)	(7,134)
Customer benefit distributions	(410)		(410)
Balance at September 30, 2015	\$ 204,282	\$ (151,674)	\$ 52,608

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

NOTES TO COMBINED FINANCIAL STATEMENTS

Citizens Energy Group and Subsidiary and CWA Authority, Inc.

1. NATURE OF OPERATIONS AND PRESENTATION

A. Nature of Operations

Operations of Citizens Energy Group and Subsidiary (Citizens) include activities in five business segments: Gas, Steam, Chilled Water, Water and Resources. Steam and Chilled Water comprise the Thermal Energy System (Citizens Thermal or Thermal). Operations of CWA Authority, Inc. (CWA) include activities for the Wastewater business segment. Resources includes affiliate joint venture interests as well as several wholly owned subsidiaries, the most significant of which is Citizens Energy Services Corporation LLC (CESCO) which serves as a holding company for several subsidiaries, including Citizens Westfield Utilities, LLC (CWU) and Kinetrex Energy Holding Company, LLC.

CWU serves as a holding company for the gas, water, and wastewater utilities for the Westfield service area which include Westfield Gas, LLC (Westfield Gas) which is operated as a regulated investor-owned natural gas distribution utility, Citizens Water of Westfield, LLC (Westfield Water) which is operated as a regulated investor-owned water utility, and Citizens Wastewater of Westfield, LLC (Westfield Wastewater) which is operated as a regulated investor-owned wastewater utility. The rates and charges for gas, steam, water and wastewater services are regulated by the Indiana Utility Regulatory Commission (IURC).

Kinetrex Energy Holding Company, LLC serves as a holding company for LNG Indy, LLC, d/b/a Kinetrex Energy, LLC (LNG Indy) which operates as a provider of liquefied natural gas (LNG) for use as a transportation and industrial fuel, and Kinetrex Energy Exploration and Production, LLC (KEEP) which operates as an oil producer.

B. Basis of Presentation

The accompanying financial statements reflect the combined operations of commonly controlled entities, including Citizens, CWA and certain non-profit instrumentalities. The accounting records conform to the accounting standards prescribed by the Federal Energy Regulatory Commission, National Association of Regulatory Utility Commissioners and accounting principles generally accepted in the United States of America (GAAP). The effects of all intercompany transactions have been eliminated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Use of Estimates

The presentation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenue and expenses. Actual results could differ from those estimates. The most significant of such estimates include accrued utility revenue, Thermal contract useful lives, allowance for doubtful accounts, allowance for ProLiance Note Receivable (See Note 2D), impairment charges (See Note 5), asset retirement obligation (Discontinued Operations, see Note 11), the fair value of assets and liabilities acquired as part of the Westfield Water and Wastewater acquisitions, and assumptions underlying the actuarial calculations for pension and post-retirement liabilities.

B. Property, Plant and Equipment, Depreciation and Maintenance

Construction costs include costs directly incurred plus overhead allocation relating to payroll, administrative and general costs, and, for certain utility plant, capitalized interest. Depreciation on plant for regulated utilities is computed on a straight-line basis using rates approved by the IURC. Depreciation on Chilled Water and LNG Indy plant is computed on a straight-line basis over the estimated remaining useful lives of the various classes of depreciable plant in service. Depreciation on KEEP plant is computed on a straight-line basis over the projected productive lives of the oil wells. Periodic depreciation rate studies include a review of depreciable plant remaining useful lives. Maintenance and repairs of property units are charged to expense as incurred. Citizens and CWA utilize the composite method of depreciation. Accordingly, the original cost of depreciable property and equipment retired or replaced and the cost of removal, less salvage, are charged to accumulated depreciation.

Plant in service at September 30 (in thousands):

	2015	2014	Useful Lives
Distribution	\$ 1,941,690	\$ 1,891,421	15 – 65 years
Treatment	1,529,940	1,438,937	40 – 50 years
Collection	1,353,464	1,253,777	40 years
Source of supply	226,677	226,043	50 years
Pumping	151,121	136,728	40 – 50 years
Production	121,694	123,655	5 – 75 years
General plant	141,169	98,512	3 – 50 years
Gas storage	110,518	87,429	33 – 60 years
Transmission	55,463	54,532	22 – 60 years
	<u>\$ 5,631,736</u>	<u>\$ 5,311,034</u>	

Depreciation expense was \$139.9 million and \$130.6 million for the twelve months ended September 30, 2015 and 2014, respectively.

Interest capitalized represents the cost of borrowed funds used for construction purposes and is charged to major construction projects during the construction period with a corresponding credit to Other Interest Charges. The total amount of interest capitalized was \$17.2 million and \$10.2 million for the twelve months ended September 30, 2015 and 2014, respectively.

As part of the original Water asset purchase agreement with the City of Indianapolis, an option was included that allowed for the future re-purchase by the City of the former Water headquarters building and certain property located in Indianapolis, Indiana. The City exercised this option on July 28, 2015. The negotiated purchase price specified in the option agreement was \$6.5 million. Citizens Water used the proceeds to repay a portion of the balance outstanding on its line of credit (see also Note 7).

C. Revenue Recognition

Revenue is recorded when earned, either when the product is delivered or when services are performed. Citizens Gas, Water and Wastewater customer billings are rendered on a cycle basis on each working day throughout the month. Westfield Gas customer billings for all rate classes are billed near the end of the calendar month. Westfield Water and Westfield Wastewater customer billings are rendered near the middle of the calendar month. The estimated revenue for gas, water delivered, and wastewater service since the last customer billing dates to month-end is accrued based on actual demand data for the calendar month. The accrual for unbilled revenues is reversed in the subsequent accounting period when meters are actually read and customers are billed. Meter readings are taken as of month-end for Steam and Chilled Water customers, with billings rendered as of month-end for all such customers. Revenue at LNG Indy is recognized in the period LNG is delivered to the customer.

D. Credit Quality and Allowance for Credit Losses of Notes Receivable

Citizens and CWA monitor credit quality and associated risks of notes receivable on an individual basis based on criteria such as financial stability of the party, strength of Citizens' and CWA's contractual position, value and existence of collateral, and collection experience in conjunction with general economic and market conditions. The note receivable from ProLiance, an unconsolidated subsidiary (see Note 5), was reviewed for collectability in September of 2015 and 2014. The note was found to be partially recoverable and a loss allowance of \$3.4 million was recorded for the estimated uncollectible amount of the note in 2014. No additional allowance was recorded in 2015. Interest received on the ProLiance note was \$0.2 million in 2015 and 2014, respectively. The note receivable relating to the City of Carmel was acquired as part of the water system acquisition on August 26, 2011. The original principal was \$22.2 million and is to be paid back by December 30, 2025. The City of Carmel makes semi-annual payments on this note at an imputed interest rate of 4.88% annually. The following table presents Citizens' notes receivable, which are recorded in Other Investments on the statements of financial position, whose carrying value approximates fair value, as of September 30, 2015 and 2014 (in thousands):

<u>Notes Receivable at September 30, 2015</u>			
Description	Unpaid Balance	Related Allowance	Receivable Net of Allowance
Note Receivable from City of Carmel	\$ 14,653	\$ -	\$ 14,653
Note Receivable from ProLiance	6,474	3,431	3,043
	<u>\$ 21,127</u>	<u>\$ 3,431</u>	<u>\$ 17,696</u>

Notes Receivable at September 30, 2014			
Description	Unpaid Balance	Related Allowance	Receivable Net of Allowance
Note Receivable from City of Carmel	\$ 15,699	\$ -	\$ 15,699
Note Receivable from ProLiance	6,474	3,431	3,043
	<u>\$ 22,173</u>	<u>\$ 3,431</u>	<u>\$ 18,742</u>

E. Inventory

Material and supplies, maintained at average cost, are recorded as inventory when received and subsequently charged to expense or capitalized to plant when installed. Natural gas in storage is recoverable through gas cost adjustments (see note 2G) and maintained at the weighted average cost of gas. LNG in storage for LNG Indy is maintained at the lower of weighted average cost of gas or market. There were no lower of cost or market adjustments in 2015 and 2014.

F. Taxes

Citizens and CWA are generally subject to payroll, property (in the case of Citizens and its affiliates), payment in lieu of taxes (PILOT) (in the case of CWA), utility receipts (in the case of Citizens), and other miscellaneous taxes. In general, Citizens and CWA are exempt from federal, state and local income taxes as either political subdivisions of the State of Indiana or pursuant to Internal Revenue Code section 115 as applicable. Utility receipts taxes are included in rates charged to customers in all rate regulated business units except Wastewater, which is exempt from utility receipts taxes pursuant to Indiana law.

G. Recoverable (Refundable) Gas and Fuel Costs

The difference between actual gas costs, including unrealized gains and losses and settled amounts associated with Citizens' Price Volatility Mitigation Policy (see Note 12), and the amounts of gas costs recovered by Citizens Gas and Westfield Gas through rates is deferred and recovered (or refunded) through gas cost adjustments (GCA) permitted by the IURC. Citizens Gas is authorized to change its GCA factors quarterly as a result of changes in market prices. Citizens Gas is authorized to utilize a flex mechanism in its quarterly filings to change its GCA factors within a fixed, known and measurable range, on a monthly basis, through a Monthly Price Update as a result of changes in market prices. Westfield Gas is authorized to change its GCA factors quarterly as a result of changes in market prices. The difference between actual fuel costs and the amounts of fuel costs recovered by Steam through rates is deferred and recovered (or refunded) through the fuel adjustment clause (FAC) permitted by the IURC. Steam is authorized to change its FAC factors each quarter as a result of changes in market prices.

H. Bond Issuance Costs

Bond premiums and discounts, debt issuance costs, and retirement gains and losses are amortized over the lives of the respective issues through the effective interest method. For regulated business segments, the unamortized portion of bond issuance costs of the refunded bonds is amortized over the life of the refunding bond issue.

I. Cash and Cash Equivalents

For purposes of the Combined Statements of Financial Position and Cash Flows, Citizens and CWA consider investments purchased with a maturity of three months or less to be cash equivalents. The carrying value equals fair value for these financial instruments. Included in cash and cash equivalents on the Combined Statements of Financial Position are money market funds of \$89.1 million and \$141.4 million at September 30, 2015 and 2014, respectively. Approximately \$58.8 million of cash and cash equivalents have been designated by management as construction funds and will be used to fund capital expenditures.

J. Fair Value Measurements

FASB guidance requires additional disclosures about Citizen's and CWA's financial assets and liabilities that are measured at fair value. Assets and liabilities recorded at fair value in the statements of financial position are categorized based upon the level of judgment associated with the inputs used to measure their value. Hierarchical levels, as defined in FASB guidance and explained in the following paragraphs, are directly related to the amount of subjectivity associated with the inputs to fair valuations of these assets and liabilities:

Level 1—Inputs are unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date. The types of assets carried at Level 1 fair value generally are financial derivatives, investments and equity securities listed in active markets.

Level 2—Inputs, other than quoted prices included in Level 1, are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar instruments in active markets, and inputs other than quoted prices that are observable for the asset or liability. Fair value assets and liabilities that are generally included in this category are derivatives with fair values based on inputs from actively quoted markets. The fair value of the interest rate swap is determined by calculating the net present value of the forecasted cash flow difference between the fixed and variable rates of the swap. The interest rate swap is classified as Level 2.

Level 3—Inputs are unobservable for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. In certain cases, the inputs used to measure fair value may fall into different levels of the

fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety.

The following table presents the financial assets and liabilities measured at fair value on a recurring basis, based on the hierarchy, as of September 30, 2015 and September 30, 2014 (in thousands):

2015 Fair Value Measurements Using			
Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets:			
Cash equivalents	\$ 89,069	\$ -	\$ -
Bond restricted funds	248,614	-	-
Grantor Trust investments	13,561	-	-
Derivative assets	216	-	-
Total financial assets measured at fair value	<u>\$ 351,460</u>	<u>\$ -</u>	<u>\$ -</u>
Financial Liabilities:			
Derivative liabilities	<u>\$ -</u>	<u>\$ 1,460</u>	<u>\$ -</u>
2014 Fair Value Measurements Using			
Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets:			
Cash equivalents	\$ 141,409	\$ -	\$ -
Bond restricted funds	235,482	-	-
Derivative assets	760	-	-
Total financial assets measured at fair value	<u>\$ 377,651</u>	<u>\$ -</u>	<u>\$ -</u>
Financial Liabilities:			
Derivative liabilities	<u>\$ -</u>	<u>\$ 518</u>	<u>\$ -</u>

The fair values of the bond restricted funds, Grantor Trust investments, and commodity contracts have been determined using quoted prices in an active market. The fair value of the interest rate swaps are determined by significant other observable inputs. Under the terms of various trust indentures, Citizens and CWA are required to maintain bond restricted funds. See Note 3 for additional information including composition of investments held in bond restricted funds. The Grantor Trust investments are a variety of debt and equity mutual funds invested per the investment policy of the Grantor Trust. Gains/losses and fees associated with the commodity based derivatives, when realized, are recoverable through the Gas Cost Adjustment tracker. There were no transfers between levels during the year.

Management has estimated the fair value of the outstanding debt securities based on the coupons of the outstanding bonds and the current market yields, which are level 2 fair value measurements. Management established the corresponding price to the call date as well as the price to maturity. The fair value was determined based on the lower of these two prices. In the case of the Resources debt, the carrying value approximates fair value. Using these methods, the estimated fair value of the Citizens and CWA debt is \$3.3 billion at September 30, 2015 and 2014, versus the carrying value of \$3.2 billion and \$3.1 billion at September 30, 2015 and September 30, 2014, respectively.

The following table presents financial assets measured at fair value on a nonrecurring basis, using Level 3 inputs, as of September 30, 2014 (in thousands). No such measurements were necessary in 2015.

Quantitative Information about Level 3 Fair Value Measurements			
	Fair Value at September 30, 2014	Valuation Technique	Unobservable Inputs
Resources' Investment in ProLiance	\$ 11,202	Discounted Cash Flow	Discount Rates Terminal Values

The nonrecurring fair value measurement of Resources' investment in ProLiance has been calculated using an income approach, which requires the use of subjective assumptions that are considered level 3 inputs. Fair value has been estimated by discounting the cash flows expected to be received from ProLiance's investments in natural gas midstream assets, using a discount rate based on observable market data for companies that participate in the natural gas

midstream sector, adjusted for size discrepancy between ProLiance and the guideline companies. The discount rate used was 7.2%. Critical assumptions used in the fair value measurement primarily include the amount and timing of cash inflows, including a terminal amount (perpetuity), the discount rate and the amount of future investment necessary to achieve the projected results. A change in these assumptions could result in a significantly higher or lower fair value measurement, which could result in additional loss during the period in which the assumption changes. A 100 basis point change in the discount rate used would have changed the fair value of Resources' share of its investment in ProLiance by approximately \$4.5 million as of September 30, 2015. Similarly, a change in the projected gas storage rates for the underlying operating assets or project configuration would have a significant impact on the projected cash flows and the resulting valuation. As a result of this evaluation, Resources recorded a \$2.3 million reduction to its investment in ProLiance in 2014 (see Note 5).

K. Asset Impairment

Long-lived assets and certain amortizing intangible assets held and used by Citizens and CWA are reviewed for impairment using undiscounted cash flows, whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. Resources' investment in ProLiance is also reviewed for impairment annually using accounting guidance for equity method investments, which requires use of discounted cash flows. Measurement of an impairment loss is based on the discounted value cash flows related to these specific assets or asset group. See additional disclosure in Note 2L. An impairment of Resources' investment in ProLiance was recorded in 2014 (See Note 5).

L. Intangible Assets

Intangible assets at September 30, 2015 consist of \$72.7 million of Thermal customer contracts. The customer contracts intangible assets are finite lived and amortized on a straight-line basis over their expected useful lives which range from 20 to 30 years. Gross carrying values of intangible customer contracts were \$104.5 million as of September 30, 2015 and 2014, respectively. Accumulated amortization for all intangible customer contracts was \$31.8 million and \$28.1 million at September 30, 2015 and 2014, respectively. Amortization expense of such assets was \$3.7 million and \$3.8 million in the years ended September 30, 2015 and 2014, respectively. Estimated aggregate amortization expenses for each of the five succeeding fiscal years are as follows (in thousands):

2016	\$	3,703
2017		3,703
2017		3,703
2019		3,703
2020		3,703

Disposal of Indianapolis Campus Energy

On December 12, 2013, the Chilled Water business unit sold its Indianapolis Campus Energy plant (ICE) to the company being exclusively served by that plant for \$12.0 million in cash. As part of this transaction, Citizens Thermal recorded a write-off of the remaining ICE customer contract intangible asset balance of \$12.4 million in December 2013. This transaction resulted in a \$2.8 million loss, which is recorded in Operations and Maintenance Expense.

M. Regulatory Developments

M.1 Regulatory Developments

Gas

Citizens Gas' most recent rate order became effective in September 2011. In an order issued in April 2013, the IURC approved a continuation through calendar year 2015 of Citizens Gas' decoupling mechanism, which generally supports Citizens Gas' ability to recover its non-gas costs as authorized in its most recent rate case order despite changes in customer usage. Under the April 2013 order, if Citizens Gas wishes to extend the decoupling mechanism beyond December 30, 2015, it must file a base rate case by that date. If a rate case is not filed by December 30, 2015, the decoupling mechanism will terminate.

In October 2014, Citizens filed a petition with the IURC seeking approval of an amended and restated gas transportation agreement (the "IPL Agreement") with Indianapolis Power & Light Company (IPL). In a separate petition filed with the IURC, IPL has requested certain approvals in connection with its planned conversion of its Harding Street Unit No. 7 electric generating facility from coal-fueled to natural gas-fueled. It is anticipated the conversion will result in a significant increase in the amount of natural gas Citizens will transport to the Harding Street Unit No. 7 facility. The IPL Agreement is necessary to address the rights and obligations of the parties after the conversion and refueling of the Harding Street Unit No. 7 facility is complete. On April 29, 2015, the IURC approved the IPL Agreement. On July 29, 2015, the Commission granted approvals necessary for IPL to complete the conversion of Harding Street Unit No. 7 to natural gas-fueled.

Citizens Thermal Steam

The schedule of rates and charges in effect for Citizens Thermal Steam prior to May 2014 became effective May 2010.

In its May 21, 2014 order in Cause No 44349 (the "2014 Steam Rate Case") the IURC approved an 11.43% overall increase in rates, representing an increase in revenues of approximately \$7.6 million. The new schedule of rates and charges was implemented effective May 30, 2014. Under the terms of a settlement agreement in IURC Cause No. 44149, Citizens agreed to implement an Operating Expense Rate Adjustment (OPERA) mechanism to track savings related to the conversion of the Perry K plant to natural gas as a reduction to customer rates. In the 2014 Steam Rate Case, Citizens was required to propose a baseline for operations and maintenance (O&M) expenses in order to administer the OPERA mechanism. Citizens' proposed baseline was approved. For the twelve months ended September 30, 2015, \$2.1 million in savings had been accumulated, which the OPERA mechanism began returning to customers in August 2015.

Water

In the IURC's July 2011 Order approving Citizens' acquisition of the water utility, the IURC authorized Citizens to adopt the rates and charges the prior owner of the utility had in effect at the time of closing, which had been previously approved by the IURC. Those rates became effective for Citizens from the date of closing (August 26, 2011) and remained in effect through March 2014.

On March 19, 2014, in Cause No. 44306, the IURC authorized an annual revenue increase of \$15.7 million or 8.98%. The new schedule of rates and charges was implemented effective March 24, 2014.

In June 2015, Citizens filed a petition with the Indiana Utility Regulatory Commission (IURC) requesting, among other things, an increase in Water base rate revenues of \$37.7 million in order to provide it an opportunity to earn an operating income of \$86.0 million. The Indiana Office of Utility Consumer Counselor (OUCC), certain large industrial customers and other intervenors filed testimony on October 15, 2015. The OUCC recommended an increase of \$20.5 million, and a group of large industrial customers recommended an increase of \$23.6 million. Other intervenors in the case primarily addressed cost of service issues and did not make recommendations on a revenue increase. Citizens filed its rebuttal testimony on November 12, 2015, and reduced its requested revenue increase to \$36.7 million. The parties are engaged in settlement discussions and a settlement hearing has been scheduled for January 12, 2016.

Wastewater

The wastewater rates in effect through April 2014 were approved pursuant to the IURC July 2011 Order approving the wastewater utility acquisition that authorized CWA to adopt the rates and charges approved by the City-County Council of Indianapolis and Marion County in effect at the time of closing the acquisition which included implementation of rate increases of 10.75% on each of January 1, 2012 and 2013.

On April 23, 2014 the IURC issued its order in Cause No. 44305 (the 2014 Wastewater Order) approving a rate increase in two steps. The IURC authorized the step 1 rate increase of 21.08% or \$38.3 million annual revenue increase and authorized the step 2 rate increase of 5.61% or \$12.3 million annual revenue increase. The phase 1 rate increase was implemented effective May 1, 2014 and was reduced by \$1.5 million annually effective October 1, 2014 since the actual debt service on the CWA 2014A First Lien Bonds was \$1.5 million less than the amount assumed in the 2014 Wastewater Order. The phase 2 increase went into effect on October 1, 2014 and was reduced by \$2.0 million effective April 8, 2015 since the actual debt service on the CWA 2015A First Lien Bonds was \$2.0 million less than the amount assumed in the 2014 Wastewater Order.

In September 2015, CWA filed a petition with the IURC requesting, among other things, a two-step increase in base rate revenues. The first step would increase base rate revenues by \$76.3 million to produce operating income of \$119.7 million, and the second step would increase base rate revenues by an additional \$10.7 million to produce operating income of \$130.4 million. A procedural schedule has been established for the case that provides for hearings in March 2016.

Investigation Proceeding

In March 2014, the IURC initiated an investigation, including an investigation of billing practices for the gas, water, and wastewater utilities owned and operated by Citizens and CWA (for this note, collectively referred to as "Citizens"), and their compliance with IURC approved rules, regulations, and tariffs. The investigation also addressed Citizens' allocation of Low Income Heating and Energy Assistance Program ("LIHEAP") funds and Universal Service Program ("USP") funds, which are intended to reduce the bills for certain gas customers, to charges for water and wastewater utility services as well as certain non-utility services as a result of Citizens' implementation of combined billing. On March 4, 2015, the IURC issued its final order in the investigation proceeding. The IURC directed Citizens to make a number of compliance filings related to customer service, billing, meter reading and compensation. The IURC found that Citizens had remedied the situation that caused the misallocation of LIHEAP and USP funds such that those funds would only be applied to gas utility charges going forward. The IURC directed Citizens to provide additional funding for the USP in the amount of \$0.5 million over the next two years as a result of the misallocation of funds to non-gas charges.

Resources- Westfield Gas

Westfield Gas' most recent rate order became effective in 2010. In an order issued in April 2013, the IURC approved a continuation through 2015 of Westfield Gas' decoupling mechanism, which generally supports Westfield Gas' ability to recover its non-gas costs as authorized in its most recent rate case order despite changes in customer usage. Under the

April 2013 order, if Westfield Gas wishes to extend the decoupling mechanism beyond December 30, 2015, it must file a base rate case by that date. If a rate case is not filed by December 30, 2015, the decoupling mechanism will terminate.

Resources - Acquisition of Westfield Water and Wastewater

In November 2012, Westfield Water and Westfield Wastewater, two indirect subsidiaries of Resources, entered into separate asset purchase agreements with the City of Westfield for the purchase of Westfield's water and wastewater utility assets. The aggregate purchase price under the agreements was \$91 million for the purchase of both the water utility assets and the wastewater utility assets. In November 2012, the City of Westfield, Westfield Water and Westfield Wastewater filed a joint petition with the IURC seeking approval of the proposed acquisitions. The Commission held hearings on the acquisition proposal in June 2013. A settlement agreement among the two Resources indirect subsidiaries, the City of Westfield, and the OUCC was reached and filed with the IURC in October 2013 that addressed, among other matters, certain limited matters regarding the rate base to be used for ratemaking in future rate cases of the two Resources indirect subsidiaries. The IURC issued an Order approving the acquisitions and the settlement agreement in November 2013. The acquisitions closed in March 2014. After purchase price adjustments, the combined actual purchase price for both utilities was \$89.4 million. See also Note 4.

M.2 Regulatory Assets and Liabilities

Citizens' and CWA's rates are designed to recover the costs of providing service, thus certain items that would normally be reflected in the Combined Statements of Operations are deferred on the Combined Statements of Financial Position. Regulatory assets represent probable future revenues associated with certain incurred costs, which will be recovered from customers through the rate-making process. Regulatory assets are charged to earnings as collection of the cost in rates is recognized or when future recovery is no longer probable. Conversely, regulatory liabilities represent future reductions in revenues associated with amounts that are to be credited to expense through the rate-making process. Citizens and CWA continuously monitor changes in market and regulatory conditions and consider the effects of any changes in assessing the continual applicability of the FASB guidance related to regulated entities.

Regulatory assets were comprised of the following at September 30, 2015 and 2014 (in thousands):

	2015	2014	Recovery Period	Statement of Financial Position Location
Deferred Acquisition Transaction Costs	\$ 9,418	\$ 10,105	25 – 26 years	Other deferred charges
Decoupled Sales Component	2,075	2,119	1 – 15 months	Other deferred charges
Deferred Regulatory Proceeding Costs	1,440	1,458	1 – 9 years	Other deferred charges
Price Volatility Mitigation Program	1,367	255	1 – 13 months	Recoverable gas and fuel costs
Deferred Remediation Costs	4,332	3,628	Not yet recovered	Other deferred charges
Deferred Fuel Tracking Adjustments	-	5,732	1 – 18 months	Recoverable gas and fuel costs
Total Regulatory Assets	<u>\$ 18,632</u>	<u>\$ 23,297</u>		

Regulatory liabilities were comprised of the following at September 30, 2015 and 2014 (in thousands):

	2015	2014	Refund Period	Statement of Financial Position Location
Contributions in Aid of Construction	\$ 149,656	\$ 121,831	40 – 50 years	Contributions in aid of construction
Regulatory Credit for Remediation	5,858	5,819	Not yet refunded	Other long-term liabilities
Deferred Water Rights	663	694	6 – 7 years	Other long-term liabilities
Deferred Fuel Tracking Adjustments	6,310	-	1 – 18 months	Accounts payable and accrued expenses
Other	1,887	3,699	Various	Accounts payable and accrued expenses
Total Regulatory Liabilities	<u>\$ 164,374</u>	<u>\$ 132,043</u>		

N. Software Developed for Internal Use

Internal and external costs incurred during the preliminary project stage associated with the development of internal use software are expensed as incurred. External direct costs of materials and services, internal direct payroll and payroll-related costs, and interest costs for the use of funds incurred during the application development stage associated with developing or obtaining internal use software are capitalized. Capitalized software costs were \$12.5 million and \$2.3 million in 2015 and 2014, respectively. Internal and external training and maintenance costs incurred during the post-implementation stage associated with the development of internal use software are expensed as incurred.

O. Comprehensive Income (Loss)

Comprehensive income (loss) is primarily a measure of all changes in equity of an enterprise which result from the transactions or other economic events during the period. This information is reported in the Combined Statements of Comprehensive Income. Citizens' components of accumulated other comprehensive income (loss) include the impact of pension and other post-retirement benefits and its share of ProLiance and Heartland Gas Pipeline, LLC (Heartland) other

comprehensive income. Citizens records its portion of ProLiance's and Heartland's other comprehensive income as increases or decreases to the investment account with a corresponding adjustment to other comprehensive income.

The following table presents changes in accumulated other comprehensive income (loss) (AOCI) by component for the twelve months ended September 30, 2015 (in thousands):

	Pension Plan	Other Postretirement Benefits	Other	Total
Accumulated other comprehensive (loss) as of September 30, 2013	\$ (83,589)	\$ 391	\$ 90	\$ (83,108)
Other comprehensive income before reclassifications	(35,337)	(25,242)	250	(60,329)
Amounts reclassified from accumulated other comprehensive income	4,683	(609)	-	4,074
Net current-period other comprehensive income	(30,654)	(25,851)	250	(56,255)
Accumulated other comprehensive income (loss) as of September 30, 2014	\$ (114,243)	\$ (25,460)	\$ 340	\$ (139,363)
Other comprehensive income (loss) before reclassifications	(31,179)	11,048	(161)	(20,292)
Amounts reclassified from accumulated other comprehensive income (loss)	6,915	1,066	-	7,981
Net current-period other comprehensive income (loss)	(24,264)	12,114	(161)	(12,311)
Accumulated other comprehensive income (loss) as of September 30, 2015	\$ (138,507)	\$ (13,346)	\$ 179	\$ (151,674)

P. Advances and Contributions in Aid of Construction (CIAC)

The Company may receive advances and contributions from customers, home builders and real estate developers to fund construction necessary to extend service to new areas. Water, Wastewater, and Resources advances for construction are refundable for up to ten years as new customers begin to receive service or other contractual obligations are fulfilled. Advances not refunded within 10 years are transferred to CIAC. The balances of advances for construction are reported in the Statement of Financial Position in Other long-term liabilities, and at September 30, 2015 for Water, Wastewater, and Resources are \$14.0 million, \$0.2 million, and \$0.5 million, respectively, versus the values at September 30, 2014 for Water, Wastewater, and Resources of \$15.4 million, \$0 million, and \$0 million, respectively.

Contributions in aid of construction are permanent collections of plant assets or cash for a particular construction project. The IURC requires the water and wastewater utilities of Citizens and Resources to record CIAC as a deferred credit. Utility plant funded by contributions is depreciated and contribution balances are amortized as a reduction to depreciation expense. The values of CIAC, net of amortization, recorded at September 30, 2015 for Water, Wastewater, and Resources are \$67.9 million, \$50.1 million, and \$31.6 million, respectively, versus the values at September 30, 2014 for Water, Wastewater, and Resources of \$62.7 million, \$41.8 million, and \$31.3 million, respectively.

Q. New Accounting Guidance

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09 providing guidance regarding the principles and standards for revenue recognition. The standard creates a framework for recognizing revenue to improve comparability of revenue recognition practices across entities and industries. This guidance per ASU 2014-09 becomes effective for Citizens' and CWA's quarterly report ending December 31, 2017; however in August 2015, the FASB issued ASU 2015-14 which deferred the effective date of this revenue recognition guidance by one year. The Company does not anticipate a material impact to the combined financial statements upon adoption.

In April 2015, the FASB issued ASU 2015-03 which contains new guidance on accounting for debt issuance costs which changes the presentation of debt issuance costs in financial statements. This ASU requires an entity to present such costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs will continue to be reported as interest expense. This ASU is effective for annual reporting periods beginning after December 15, 2015. Early adoption is permitted. The new guidance will be applied retrospectively to each prior period presented. Adoption of these changes is not expected to have a material impact to the Company's combined financial statements.

In July 2015 the FASB issued ASU 2015-11 containing guidance with the objective of simplifying the measurement of inventory valuation at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. It is effective for annual reporting periods beginning after December 15, 2016 and interim periods within fiscal years beginning after December 15, 2017. Adoption of these changes is not expected to have a material impact to the Company's combined financial statements.

3. BOND RESTRICTED FUNDS

Under the terms of various trust indentures, Citizens and CWA are required to maintain bond restricted funds. These bond restricted funds are invested in short-term securities, commercial paper, a guaranteed investment contract, and cash equivalents. Due to the nature of these investments, cost approximates fair market value of \$261.6 and \$235.5 million at September 30, 2015 and 2014, respectively. Gross deposits to the bond restricted fund investments during 2015 and 2014 were \$218.6 and \$179.9 million, respectively.

4. ACQUISITIONS

Westfield Water and Westfield Wastewater

On March 21, 2014, Westfield Water and Westfield Wastewater, subsidiaries of CWU, closed on Asset Purchase Agreements with the City of Westfield to purchase the water and wastewater system assets and operating rights to the water and wastewater utilities of the City of Westfield, Indiana, respectively. Major assets acquired included underground mains and services, treatment and production plant, wells, and the accounts receivable. Significant excluded assets include the City of Westfield's stormwater system assets (unless the assets are used jointly by the wastewater system), and the Westfield Public Works building.

The benefits to Citizens include opportunities for growth in sales and revenues; improved access to water supply; improved water transmission in the northern part of the existing Citizens Water service territory; and opportunities to improve regional water quality through management of the Westfield wastewater treatment plant.

Consideration Transferred

Westfield Water and Westfield Wastewater acquired the water and wastewater system assets for a cash purchase price of \$29.5 million and \$59.9 million, respectively. The acquisition was approved by the IURC on November 25, 2013. Rates and charges will be regulated by the IURC. The utilities are operated as investor-owned utilities. Westfield Water and Westfield Wastewater assumed the rate schedules in place for the systems' customers at the acquisition date which include rate increases of 5%, 3%, and 5% on January 1, 2014, 2015 and 2016, respectively, for Westfield Water and 4%, 3%, and 2% on January 1, 2014, 2015, and 2016, respectively, for Westfield Wastewater. Westfield Water and Westfield Wastewater agreed that such rates shall remain in effect through December 31, 2016 (subject to unforeseen emergency rate relief needs). The acquisitions have been accounted for as business combinations. The purchase price allocation disclosed in the September 30, 2014 financial statements was preliminary. During 2015, an appraisal of the systems was conducted which found that the fair value of the systems was equal to the consideration transferred. As a result of the finalized appraisal of the assets during the measurement period, intangibles decreased by \$16.2 million, plant in service increased by \$16.9 million, and depreciation increased \$0.2 million. In accordance with guidance for Business Combinations at Accounting Standards Codification (ASC) 805, these adjustments have been reflected in the September 30, 2014 consolidated financial statements.

The following table (in thousands) summarizes the purchase price allocation to assets acquired and liabilities assumed:

<u>Water</u>	Preliminary allocation as of September 30, 2014	Adjustments to finalize purchase price allocation	Final allocation as of March 31, 2015
Property, Plant, Equipment	\$ 33,022	\$ 9,195	\$ 42,217
Intangible Assets	8,375	(8,375)	-
Current Assets	575	-	575
Total Assets Acquired	41,972	820	42,792
Current Liabilities	42	41	83
Contributions in Aid of Construction	12,428	779	13,207
Total Liabilities Assumed	12,470	820	13,290
Net Assets Acquired	\$ 29,502	\$ -	\$ 29,502

<u>Wastewater</u>	Preliminary allocation as of September 30, 2014	Adjustments to finalize purchase price allocation	Final allocation as of March 31, 2015
Property, Plant, Equipment	\$ 69,239	\$ 7,749	\$ 76,988
Intangible Assets	7,805	(7,805)	-
Current Assets	1,015	-	1,015
Total Assets Acquired	78,059	(56)	78,003
Current Liabilities	163	225	388
Contributions in Aid of Construction	18,033	(281)	17,752
Total Liabilities Assumed	18,196	(56)	18,140
Net Assets Acquired	\$ 59,863	\$ -	\$ 59,863

Regulatory accounting standards require that utility plant acquired be recorded at its original cost. The difference between original cost and the estimated fair market value is the acquisition adjustment, and is reflected in Property, Plant and Equipment for financial reporting purposes. The final acquisition adjustment amounts are \$4.8 million for Westfield Water and \$8.4 million for Westfield Wastewater.

5. INVESTMENT IN UNCONSOLIDATED AFFILIATES

Unconsolidated affiliates include ProLiance, a jointly-owned affiliate of Resources (39%) and Vectren Energy Marketing & Services, Inc., (61%); Heartland Gas Pipeline, LLC (Heartland), an affiliation of equal ownership between Resources and ProLiance; and RPS, an affiliation of equal ownership between Resources and IPALCO Enterprises, Inc. A Condensed Statement of Operations of unconsolidated affiliates is presented below for the twelve months ended September 30, 2015 and 2014. A Condensed Statement of Financial Position for unconsolidated affiliates as of September 30, 2015 and 2014 follows. Both statements are presented in thousands.

	For the twelve months ended September 30,	
	2015	2014
Condensed Statements of Operations:		
Revenues	\$ 4,707	\$ 4,794
Operating income	1,473	1,597
Net income (loss) from continuing operations	(380)	882
Discontinued operations	386	(685)
Net income (loss)	\$ 6	\$ 197
	As of September 30, 2015	As of September 30, 2014
Condensed Statements of Financial Position:		
Current assets	\$ 10,809	\$ 10,654
Non-current assets	58,856	59,953
Total Assets	69,665	70,607
Current Liabilities	1,283	1,523
Non-current Liabilities	20,183	20,903
Equity	48,199	48,181
Total Capitalization and Liabilities	\$ 69,665	\$ 70,607

ProLiance is accounted for under the equity method. ProLiance's assets include investments in physical storage, pipeline assets, and a non-controlling interest in LA Storage, LLC (LA Storage), a development project in Louisiana for a salt-cavern natural gas storage facility. Certain of the remaining assets of ProLiance are owned through its investment in Heartland. Heartland, a joint venture between Resources and ProLiance, owns and operates an intrastate natural gas pipeline regulated by the IURC and is an affiliation of equal ownership between Resources and ProLiance. Operating services for Heartland are provided by Citizens. Citizens received storage rental fees from Heartland of \$0.6 million in 2015 and 2014. Heartland is accounted for under the equity method.

Impairment Analysis - Investment in ProLiance and Note Receivable

Investments in unconsolidated affiliates are reviewed for impairment whenever events or circumstances indicate that a loss in the value of the investment may have occurred which is other than temporary. Evidence of a loss in value might include, but is not limited to, the absence of an ability to recover the carrying amount of the investment or inability of the investee to sustain an earnings capacity that would justify the carrying amount of the investment.

Resources conducted an impairment review of its investment in ProLiance in September 2015 and 2014. The fair value was estimated by discounting the cash flows expected to be received from ProLiance's investments in natural gas midstream assets, plus available cash. Resources determined the fair value of its investment in ProLiance exceeded its

carrying value at September 30, 2015. The carrying value of Resources' investment in ProLiance at September 30, 2015 is \$14.0 million, which includes both the investment in ProLiance and a Note Receivable due from ProLiance (see below). An impairment of \$5.7 million was recorded at September 30, 2014, reflecting the amount by which the total carrying value of the investment exceeded its estimated fair value.

As part of the sale of ProLiance Energy, Resources provided a loan to ProLiance of \$6.5 million. The loan is interest bearing and matures on June 24, 2018. The loan is secured by the remaining assets of ProLiance, which has been making interest payments on the note since inception. Interest income received through September 30, 2015 and September 30, 2014, was \$0.2 million and \$0.2 million respectively.

As part of the impairment analysis described above, the loan was tested for recoverability, using estimated cash available at ProLiance to repay the loan on its maturity date. This analysis indicated that ProLiance will not have sufficient resources to repay the loan at the maturity date. Accordingly, an allowance for the value of the uncollectible portion of the note principal (\$3.4 million) was recorded in September 2014. The remaining amount of the total impairment (\$2.3 million) was recorded to Resources' investment in ProLiance also in September 2014. No additional impairments or adjustments to the allowances were recorded in 2015.

The activity for fiscal years 2015 and 2014 for the investment in affiliates is as follows (in thousands):

	<u>ProLiance</u>	<u>Heartland</u>	<u>RPS</u>	<u>Total</u>
Investment in affiliates as of September 30, 2013	\$ 10,912	\$ 7,285	\$ 63	\$ 18,260
Fiscal year 2014 activity	<u>(2,754)</u>	<u>(137)</u>	<u>(5)</u>	<u>(2,896)</u>
Investment in affiliates as of September 30, 2014	8,158	7,148	58	15,364
Fiscal year 2015 activity	<u>(571)</u>	<u>718</u>	<u>24</u>	<u>171</u>
Investment in affiliates as of September 30, 2015	<u>\$ 7,587</u>	<u>\$ 7,866</u>	<u>\$ 82</u>	<u>\$ 15,535</u>

6. LONG-TERM DEBT

Long-term debt (in thousands) consisted of the following with bond due dates expressed in calendar year convention:

	September 30, 2015	September 30, 2014
<u>Gas</u>		
Gas Utility System Series 1986B, Revenue Refunding Bonds, 3.50% to 4.00%, due 2016 to 2018	\$ 32,035	\$ 41,920
Gas Utility Distribution System Series 2008B, Second Lien Multi-Mode Revenue Bonds, 5.25%, due 2025 to 2027	55,855	55,855
Gas Utility Distribution System Series 2008C, Second Lien Multi-Mode Revenue Bonds, 5.00% to 5.25%, due 2016 to 2021	51,560	54,435
Gas Utility Distribution System Series 2009A, Second Lien Revenue Refunding Bonds, 4.0% to 5.00%, due 2016 to 2018	12,070	12,265
Gas Utility Distribution System Series 2010A, Second Lien Revenue Refunding Bonds, 4.00% to 5.00%, due 2019 to 2024	59,975	59,975
Gas Utility Distribution System Series 2013A, Second Lien Revenue Refunding Bonds, 4.125% to 5.250%, due 2027 to 2030	54,465	54,465
Net Unamortized Bond Premiums and Discounts	6,121	6,296
Current Maturities	<u>(13,500)</u>	<u>(12,955)</u>
Subtotal Gas Long-Term Debt	<u>258,581</u>	<u>272,256</u>
<u>Thermal</u>		
Thermal Energy System Series 2008, Multi-Mode Revenue Bonds, 5.00%, due 2021 to 2025	50,070	50,070

	September 30, 2015	September 30, 2014
Thermal Energy System Revenue Refunding Bonds Series 2010A, 3.00% to 5.00%, due 2015 to 2029	9,020	9,440
Thermal Energy System Revenue Refunding Bonds Series 2010B, 4.00% to 5.00%, due 2015 to 2021	52,420	59,060
Thermal Energy System Revenue Bonds Series 2013A, 3.00% to 5.00% due 2015 to 2033	8,335	8,585
Thermal Energy System Revenue Bonds Series 2014A, 2.00% to 5.00%, due 2015 to 2034	35,265	35,265
Net Unamortized Bond Premiums and Discounts	7,512	8,915
Current Maturities	(8,480)	(7,310)
Subtotal Thermal Long-Term Debt	<u>154,142</u>	<u>164,025</u>
<u>Water</u>		
Water Utility Net Revenue Bonds Series 2011B, 4.00% to 5.00%, due 2016 to 2029	57,010	64,690
Water Utility Net Revenue Bonds Series 2011C, 5.50%, due 2016 to 2022	77,830	77,830
Water Utility Net Revenue Bonds Series 2011D, 5.25%, due 2022 to 2025	70,410	70,410
Water Utility Net Revenue Bonds Series 2011E, 4.50% to 5.25%, due 2016 to 2038	91,815	94,440
Water Utility Net Revenue Bonds Series 2011F, 3.50% to 5.75%, due 2016 to 2038	533,200	539,310
Water Utility Net Revenue Bonds Series 2011G, 3.25% to 5.125%, due 2016 to 2041	55,040	56,120
Water Utility Net Revenue Bonds Series 2014A, 2.00% to 5.00%, due 2015 to 2044	27,170	27,170
Water Utility Net Revenue Bonds Series 2014B, Second Lien, 2.95%, due 2022	43,595	43,595
Net Unamortized Bond Premiums	1,850	1,887
Current Maturities	(24,260)	(17,495)
Subtotal Water Long-Term Debt	<u>933,660</u>	<u>957,957</u>
<u>Wastewater</u>		
CWA Wastewater Utility Revenue Bonds Series 2011A, 2.50% to 5.25%, due 2015 to 2041	652,265	664,070
CWA Wastewater Utility Revenue Bonds Series 2011B, Second Lien, 5.00% to 5.25%, due 2015 to 2041	263,490	268,015
CWA Wastewater Utility Revenue Bonds Series 2011C, Second Lien, 3.00%, due 2016	45,990	45,990
CWA Wastewater Utility Revenue Bonds Series 2012A, 2.75% to 5.00%, due 2015 to 2042	188,880	192,125
CWA Wastewater Utility Revenue Bonds Series 2014A, 3.00% to 5.00%, due 2015 to 2044	236,990	236,990
CWA Wastewater Utility Revenue Bonds Series 2015A, 3.00% to 5.00%, due 2016 to 2045	158,775	-
Obligation to reimburse City for debt service on Sanitary District General Obligation Bonds, see table below	21,381	28,345
Net Unamortized Bond Premiums	109,158	88,433
Current Maturities	(30,857)	(26,539)
Subtotal Wastewater Long-Term Debt	<u>1,646,072</u>	<u>1,497,429</u>

	September 30, 2015	September 30, 2014
Resources		
Citizens Westfield Utilities Revenue Bonds Series 2014A, 74% of 3-month LIBOR +2.20% with a swap to effectively fix 80% of bonds at 3.56% (see below and note 11); due 2015 to 2019	67,363	69,090
Citizens Westfield Water Revenue Bonds Series 2014A, 74% of 1-month LIBOR + 1.60% with a swap to effectively fix the rate at 2.89% (see below and note 11); due 2019	8,365	8,365
Citizens Westfield Wastewater Revenue Bonds Series 2014A, 74% of 1-month LIBOR + 1.60% with a swap to effectively fix the rate at 2.89% (see below and note 11); due 2019	15,270	15,270
LNG Indy Loan Variable rate based on funded debt to EBITDA ratio; due 2020	15,000	19,260
Current Maturities	<u>(5,303)</u>	<u>(1,727)</u>
Subtotal Resources Long-Term Debt	<u>100,695</u>	<u>110,258</u>
Total Long-Term Bonds Outstanding	<u>\$3,093,150</u>	<u>\$3,001,925</u>

Principal maturities of long-term debt for the next five fiscal years and thereafter are as follows:

	(In Thousands)
2016	\$ 82,400
2017	132,014
2018	100,921
2019	167,644
2020	87,565
Thereafter	<u>2,480,365</u>
Total principal maturities	<u><u>\$3,050,909</u></u>

Citizens Gas

The Gas Utility System (GUS) revenue refunding bonds were issued pursuant to a trust indenture dated as of July 1, 1986. These bonds are secured by and payable from the income and revenues of the Citizens Gas, Discontinued Operations and Citizens Resources segments. The Gas Utility Distribution System (GUDS) Second Lien Revenue Refunding Bonds, Series 2008B, Series 2008C, Series 2009A, Series 2010A and Series 2013A are secured by and payable from the income and revenues of the GUDS as provided for in the respective trust indentures. The GUDS Second Lien Multi-Mode Revenue Bonds, Series 2008B and Series 2008C were issued on April 10, 2008 and June 10, 2008, respectively, in conjunction with the refunding of the Series 2001 and Series 2003A bonds. The Series 2009A bonds were issued on February 17, 2009 in conjunction with a partial refunding of the Series 1998A bonds. The Series 2010A bonds were issued on March 12, 2010 in conjunction with the refunding of the remaining Series 1998A bonds. The Series 2013A bonds were issued on July 16, 2013 in conjunction with the refunding of the series 2008A bonds. All of the Second Lien bonds are subordinate to the bonds issued under the 1986 trust indenture.

Thermal

The Thermal Energy System Revenue Bonds, Series 2008, 2010A, 2010B, 2013A, and 2014B are secured by and payable from all income and revenues of the Thermal Energy System as provided for in the respective Thermal Energy System trust indentures. The Thermal Energy System Revenue Bonds, Series 2008 and Series 2010B were issued on April 10, 2008 (Series 2008) and October 28, 2010 (Series 2010B) in conjunction with the refunding of the Series 2001B and Series 2001A bonds, respectively. The Series 2010A bonds were issued on March 12, 2010 in order to refund approximately \$10.0 million of interim indebtedness incurred by the Steam business segment. The Series 2010B bonds were issued on October 28, 2010 to refund the remaining Thermal Energy System Revenue Bonds, Series 2001A. The Series 2013A bonds were issued on August 10, 2013 to pay back the Steam portion of a construction loan. The Series 2013B bonds were issued on August 20, 2013 to repay a \$20 million line of credit (see Note 7), provide funding for the Steam system conversion to natural gas boilers (see Note 2M.1 – Citizens Thermal Steam), and funding for other capital needs. The Series 2013B bonds were issued at par, were subject to a mandatory tender for purchase (put) on August 1, 2014, and were subsequently refunded as discussed below.

On July 23, 2014 the Thermal Energy System issued \$35.3 million of First Lien Revenue Refunding Bonds, Series 2014A. The Series 2014A bonds were issued at a premium of \$4.1 million and have principal maturities due between 2015 and 2034 with coupons ranging from 2.0% to 5.0%. The bonds were issued to refund the Series 2013B Put Bonds.

Water

The first lien Water Utility Net Revenue bonds, Series 2011B, 2011C, 2011D, 2011E, 2011F, 2011G and 2014A are secured by and payable from the net revenues of the Water System as provided for in the respective Water System trust indentures. The second lien Water Utility Net Revenue bonds, Series 2014B are subordinate to the first lien bonds and are secured by and payable from the net revenues of the Water System as provided for in the second lien trust indenture dated July 1, 2014. Upon acquisition of the Water System on August 26, 2011, Citizens succeeded to the obligations of the Indianapolis Waterworks Department (DOW) with respect to the Indianapolis Local Public Improvement Bond Bank (Bond Bank) bonds supported by the net revenues of the Water System. The Bond Bank agreed to exchange its DOW Bonds for identical bonds of Citizens. The Series 2011B, Series 2011C, Series 2011D, Series 2011E, Series 2011F, and Series 2011G bonds are the bonds remaining that were exchanged for the DOW bonds.

On July 16, 2014 Citizens Water issued \$27.2 million of First Lien Water Utility Revenue Bonds, Series 2014A and \$43.6 million of Second Lien Water Utility Revenue Bonds, Series 2014B. The Series 2014A first lien bonds were issued at a premium of \$1.9 million and have principal maturities due between 2015 and 2044 with coupons ranging from 2.0% to 5.0%. The bonds were issued to fund a portion of 2013 and 2014 capital expenditures including repaying \$15 million on the PNC line of credit. The Series 2014B second lien bonds were issued to refund the Series 2011B second lien bonds and have a principal maturity date of October 1, 2022 with a coupon of 2.95%.

Wastewater

The first lien CWA Wastewater Utility Revenue Bonds, Series 2011A, 2012A, 2014A, and 2015A are secured by and payable from the net revenues of the Wastewater System as provided for in the respective trust indentures. The second lien Wastewater Utility Revenue Bonds, Series 2011B and 2011C are subordinate to the first lien bonds and are secured by and payable from the net revenues of the Wastewater System as provided for in the respective trust indentures. On August 26, 2011, CWA issued the 2011A Series Wastewater Utility Revenue Bonds to fund a portion of the acquisition of the Wastewater System, to fund the debt service reserve fund for the 2011A Series and to fund capital improvements for the Wastewater System. On August 26, 2011 the Second Lien Series 2011B bonds were issued to fund a portion of the acquisition of the Wastewater System. On August 26, 2011 the Second Lien Series 2011C bonds were issued to fund capital improvements, working capital and the initial start-up costs related to the acquisition and operation of the Wastewater System. On September 19, 2012, CWA issued the Series 2012A bonds were to fund capital expenditures for the Wastewater System.

On July 16, 2014 CWA issued \$237.0 million of First Lien Wastewater Utility Revenue Bonds, Series 2014A. The Series 2014A bonds were issued at a premium of \$24.2 million and have principal maturities due between 2015 and 2044 with coupons ranging from 3.0% to 5.0%. The bonds were issued to fund a portion of 2013 and 2014 capital expenditures including repaying \$100 million on the Wells Fargo line of credit.

On February 18, 2015 CWA issued \$158.8 million of First Lien Wastewater Utility Revenue Bonds, Series 2015A. The Series 2015A bonds were issued at a premium of \$25.0 million and have principal maturities due between 2017 and 2046 with coupons ranging from 3.0% to 5.0%. The bonds were issued to fund a portion of 2015 capital expenditures including repaying \$10 million on the JP Morgan-Wells Fargo line of credit.

Upon acquisition, CWA also agreed to make payments to the City in order to satisfy the annual debt service payments on the outstanding principal amount of the General Obligation Sanitary District Bonds listed below. The principal amounts outstanding at September 30 are as follows (in thousands):

	2015	2014
Wastewater General Obligation Bonds Series 2007C, 5.00%, due 2016 to 2018	\$ 17,970	\$ 23,395
Wastewater General Obligation Bonds Series 2009A, 2.75% to 4.00%, due 2015	-	515
Wastewater General Obligation Bonds Series 2013A, 5.25%, due 2016 to 2018	3,411	4,435
Total Wastewater General Obligation Bond Debt	<u>\$ 21,381</u>	<u>\$ 28,345</u>

Resources

The CWU revenue bonds were issued to provide capital for investment in subsidiaries pursuant to a CWU indenture dated March 1, 2014. The bonds are secured by an assignment of certain interests in the ownership rights of the CWU subsidiaries and payable with funds from dividends of the CWU subsidiaries. The bonds were purchased by a syndicate of banks (the Lenders) under a Continuing Covenant Agreement dated March 21, 2014. PNC Bank, National Association served as administrative agent for the Lenders. The bonds amortize on a 30-year level principal amortization schedule beginning December 31, 2014 and are subject to a mandatory tender by the Lenders on March 20, 2019. Interest on the

bonds is at a floating rate of 74 percent of 3-month LIBOR plus 2.2 percent; however, the interest on 80 percent of the bonds was effectively fixed at a rate of approximately 3.56% through October 1, 2018 by means of an interest rate swap with PNC Bank, National Association as the counterparty (see Note 12).

The Westfield Water revenue bonds were issued pursuant to a Westfield Water indenture dated March 1, 2014 to fund a portion of the \$29.5 million acquisition price of the assets and operating rights to the water utility of the City of Westfield, Indiana (see also Note 4), as well as to provide \$1.1 million to fund a portion of future capital expenditures for the water utility. The Westfield Water bonds are secured by and payable from the net revenues of Westfield Water. Secondly, the bonds are collateralized by certain non-operating assets of the utility. The bonds were purchased by a syndicate of banks (the Lenders) under a Continuing Covenant Agreement dated March 21, 2014. PNC Bank, National Association served as administrative agent for the Lenders. The bonds are subject to a mandatory tender by the Lenders on March 20, 2019. Interest on the bonds is a floating rate of 74 percent of 1-month LIBOR plus 1.6 percent effectively fixed at a rate of approximately 2.89% through October 1, 2018 by means of an interest rate swap with PNC Bank, National Association as the counterparty (see Note 12).

The Westfield Wastewater revenue bonds were issued pursuant to a Westfield Wastewater indenture dated March 1, 2014 to fund a portion of the \$59.9 million acquisition price of the assets and operating rights to the water utility of the City of Westfield, Indiana (see also Note 4), as well as to provide \$0.5 million to fund a portion of future capital expenditures for the wastewater utility. The Westfield Wastewater bonds are secured by and payable from the net revenues of Westfield Wastewater. Secondly, the bonds are collateralized by certain non-operating assets of the utility. The bonds were purchased by a syndicate of banks (the Lenders) under a Continuing Covenant Agreement dated March 21, 2014. PNC Bank, National Association served as administrative agent for the Lenders. The bonds are subject to a mandatory tender by the Lenders on March 20, 2019. Interest on the bonds is a floating rate of 74 percent of 1-month LIBOR plus 1.6 percent effectively fixed at a rate of approximately 2.89% through October 1, 2018 by means of an interest rate swap with PNC Bank, National Association as the counterparty (see Note 12).

On August 28, 2013, LNG Indy closed on a construction note of \$14.0 million. On January 15, 2014, the capacity of the note was increased to \$24 million. Upon completion of construction, on August 28, 2015 a payment of \$9 million was made to the construction note and the remaining balance was converted to a \$15.0 million, five-year term loan with a variable interest rate based on the funded debt to EBITDA ratio. The current interest rate on the loan is LIBOR plus 1.5 percent, with quarterly principal payments beginning November 28, 2015. As of September 30, 2015, the balance on the loan is \$15.0 million versus \$19.3 million drawn on the construction note as of September 30, 2014.

Rate Covenants

Citizens and CWA are obligated to satisfy certain covenants, including meeting certain minimum debt service coverage requirements for each bond issue, which are generally calculated as earnings before interest, taxes, depreciation and amortization, including certain adjustments, divided by the relevant debt service.

In addition, Citizens and CWA have covenants specifying in the event that debt service covenants cannot be met, Citizens and CWA shall take any appropriate action under the law and within its power, to generate income and revenues of the GUS, GUDS, Water System, Wastewater System and Thermal Energy System, respectively, in the amounts required to satisfy the covenants for subsequent fiscal years. These actions include, but are not limited to, the filing of a proceeding seeking additional revenues or other relief before the IURC.

Citizens' and CWA's rate covenant debt service coverage ratios, as defined by each indenture, are summarized as follows for 2015:

	Minimum Covenant Requirement	2015 Actual
GUS Revenue Refunding Bonds Series 1986B	1.4	5.02
GUDS Revenue Refunding Bonds Series 2008B, Series 2008C, Series 2009A, Series 2010A, and Series 2013A Second Lien Multi-Mode Revenue and Revenue Refunding Bonds	1.0	2.28
Thermal Energy System Revenue Bonds Series 2008, Series 2010A and 2010B, and Series 2013A and Series 2014A	1.0	1.85
Water Utility Net Revenue Bonds Series 2011B - 2011G, Series 2014A	1.2	1.26
Water Utility Net Revenue Second Lien Bonds Series 2014B	1.1	1.24

	Minimum Covenant Requirement	2015 Actual
CWA Wastewater Utility Revenue Bonds Series 2011A, Series 2012A, Series 2014A, and Series 2015A	1.2	1.96
CWA Wastewater Utility Revenue Second Lien Bonds Series 2011B and 2011C	1.1	1.57
Westfield Wastewater Utility Revenue Bonds Series 2014A	3.5	11.13
Westfield Water Utility Revenue Bonds Series 2014A	3.5	16.92
Citizens Westfield Utility LLC Revenue Bonds Series 2014A	2.25	3.53

As of September 30, 2015, the Water System maintains \$6.9 million in the Rate Stabilization Fund. For purposes of satisfying its rate covenant, per the Water System indenture, Citizens may transfer funds from the Rate Stabilization Fund to revenues in any fiscal year, so long as the funds were not transferred to the Rate Stabilization Fund during such fiscal year. These funds were transferred to the Rate Stabilization Fund in fiscal 2012 and continue to be available to support net revenues of the Water System in future years.

7. SHORT-TERM AND OTHER BORROWINGS

Gas

Citizens Gas had \$50.0 million in commercial paper outstanding at September 30, 2015 and September 30, 2014. The commercial paper has a maximum maturity of 270 days. It was last remarketed in November 2015 and will next remarket in January 2016. Commercial paper is backed by a letter of credit issued by J.P. Morgan Chase which was renewed on July 8, 2015, to extend the expiration date to July 16, 2018. Citizens Gas has two working capital lines of credit amounting to \$50.0 million available on an annual basis. As of September 30, 2015, Citizens Gas had no amount outstanding under such lines of credit. One of the \$25.0 million lines of credit was renewed for a three year term in July 2013 with an interest rate of LIBOR plus 1.125 percent. This line of credit is with PNC Bank, N.A (PNC). The other \$25.0 million line of credit, with J.P. Morgan Chase, was renewed for a three year term on August 10, 2015 with an interest rate of LIBOR plus 1.25 percent.

Thermal

On June 10, 2014, the Thermal Energy System closed on the second supplemental credit agreement with JP Morgan Chase extending a \$20.0 million line of credit to a June 21, 2017 maturity date. The proceeds can be used for both operating expenses and capital expenditures. The commitment fee on the line is 0.25 percent and the applicable interest rate is LIBOR plus 1.25 percent. As of September 30, 2015, no amounts were outstanding.

Water

On December 9, 2014, Citizens closed on an expansion of the capital expenditure line of credit from \$50 million to \$100 million and extended the termination date from August 17, 2015 to December 9, 2017 with a syndicate led by PNC. Interest rates are based on the S&P and Fitch ratings of the 2014B Second Lien Water Utility Net Revenue Bonds; at the time of close the interest rate is 68.50 percent of LIBOR plus 0.80 percent with a commitment fee of 0.20 percent.

As part of the original Water asset purchase agreement with the City of Indianapolis, the City exercised an option to purchase the former Water headquarters building and certain property on July 28, 2015 at the negotiated purchase price of \$6.5 million. Citizens Water used the proceeds to repay a portion of the balance outstanding on the PNC line of credit. As of September 30, 2015 and September 30, 2014, \$64.0 million and \$21.5 million were outstanding on the line, respectively.

In April 2015, Citizens amended the \$30.0 million working capital line of credit with BMO Harris Bank NA to mature in April 2017; it has an interest rate of LIBOR plus 0.92 percent. There were no draws on the facility during 2015 or 2014.

Wastewater

On September 30, 2014, CWA executed a \$145 million line of credit with a syndicate of JP Morgan Chase and Wells Fargo, each with equal participation and with JP Morgan Chase acting as Administrative Agent, at an interest rate of 72 percent of LIBOR plus 0.84 percent and a commitment fee of 0.22 percent. This line will mature on September 30, 2017. As of September 30, 2015, no amounts were outstanding on the line.

Resources

Concurrent with the acquisition of Westfield Water and Wastewater on March 21, 2014, both utilities established lines of credit. The Westfield Water line of credit has a capacity of \$10.3 million and is intended to fund working capital and capital expenditures. As of September 30, 2015 \$1.0 million was outstanding on the line. The Westfield Wastewater line of credit has a capacity of \$11.0 million and is intended to fund working capital and capital expenditures. As of September 30, 2015, \$1.0 million was outstanding on the line. The interest rate on these lines is LIBOR plus 2.40 percent with a commitment fee of 0.175 percent.

8. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses as shown in the accompanying Combined Statements of Financial Position are comprised of the following components at September 30 (in thousands):

	<u>2015</u>	<u>2014</u>
Accounts payable	\$ 83,834	\$ 109,947
Accrued interest	59,646	51,818
Customer credit balances	10,158	12,325
Salaries and employee benefits	16,270	15,512
Post-retirement benefits	4,156	4,873
Other	1,369	4,466
Total accounts payable and accrued expenses	\$ <u>175,433</u>	\$ <u>198,941</u>

9. RETIREMENT PLANS

Citizens has a non-contributory defined benefit pension plan covering substantially all full-time employees. The policy of Citizens is to fund amounts necessary to maintain the plan on an actuarially sound basis. Contributions are intended to provide not only benefits attributed to service-to-date but also for benefits expected to be earned in the future. Citizens also has a defined-benefit pension plan for certain Water bargaining employees. Citizens elected to freeze the plan as of September 30, 2011, and the participants are no longer accruing benefits.

In addition to providing defined benefit pension plan benefits, Citizens offers other retirement benefits to eligible employees including a pension restoration plan, a supplemental benefits plan, thrift savings plans and post-retirement health care and life insurance benefits. The pension restoration plan provides retirement benefits for employees whose retirement benefit exceeds the maximum allowable benefit under the Internal Revenue Code for qualified pension plans and thrift plans. The supplemental benefit plan covers certain former employees of Indianapolis Water Company.

The thrift savings plans are defined contribution plans covering most employees. Citizens matches a portion of the contributions made by the employees to the savings plans. The cost to Citizens for its matching portion was \$1.9 million and \$1.6 million in 2015 and 2014, respectively.

Citizens provides post-retirement health and dental benefits to eligible retirees, which includes payment of up to 80 percent of single and dependent coverage premiums until age 65. Certain active non-bargaining employees, previously on the legacy Water post-retirement health plan, will receive benefits for life upon retirement. The percentage of premiums paid by Citizens is dependent upon the age and years of service at the date the employee retires. The post-retirement benefit plans are unfunded. Citizens accrues the expected cost of post-retirement health benefits during the years in which employees render service.

Citizens also assumed responsibility for benefits of the legacy Water plan with respect to employees that were retired (as well as eligible dependents) as of the date of acquisition of the water utility. These benefits continue for the life of the participants. A restricted funds trust (Grantor Trust) had been established by previous owners of the Water operations to fund retiree medical benefit obligations of the legacy Water plan. Contributions to the trust had been made periodically by the previous owners. Citizens acquired the Grantor Trust as part of the acquisition and continues to make contributions to the trust from operating revenues of the Water System as authorized by the IURC. Benefits are paid from the Grantor Trust. Assets of the Grantor Trust are recorded as Other Investments on the Company's balance sheet. Fair value of the Grantor Trust assets at September 30, 2015 is \$13.6 million.

The following table sets forth the funded status of the defined benefit pension and other post-retirement benefit plans as of the measurement date, reconciled with the amount reported in Citizens' and CWA's Combined Statements of Financial Position at September 30, 2015 and 2014 (in thousands):

	Defined Benefit Pension		Other Benefits	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Projected Benefit Obligation (PBO)	\$ 377,912	\$ 360,209	\$ 92,686	\$ 99,359
Plan assets at fair value	<u>256,779</u>	<u>261,899</u>	<u>-</u>	<u>-</u>
Funded status	\$ <u>(121,133)</u>	\$ <u>(98,310)</u>	\$ <u>(92,686)</u>	\$ <u>(99,359)</u>

	Defined Benefit Pension		Other Benefits	
Amounts recognized in the Consolidated Statements of Financial Position consist of:				
Current liability	\$ —	\$ —	\$ (4,321)	\$ (4,873)
Non-current liability	<u>(121,133)</u>	<u>(98,310)</u>	<u>(88,365)</u>	<u>(94,486)</u>
Net amounts recognized	\$ <u>(121,133)</u>	\$ <u>(98,310)</u>	\$ <u>(92,686)</u>	\$ <u>(99,359)</u>
Amounts in Accumulated Other Comprehensive Income (AOCI) not in costs*:				
Unrecognized prior service cost	1,363	1,724	(7,979)	(8,876)
Unrecognized actuarial loss	<u>137,144</u>	<u>112,519</u>	<u>21,325</u>	<u>34,494</u>
Total Amounts in AOCI	\$ <u>138,507</u>	\$ <u>114,243</u>	\$ <u>13,346</u>	\$ <u>25,618</u>
Accumulated Benefit Obligation (ABO)	\$ 344,092	\$ 324,838		

* The amounts expected to be recognized in 2016 out of AOCI, are \$8.9 million for the defined benefit pension plan and \$(0.1) million for the other benefits.

In accordance with the Mortality Improvement Scale MP-2014, released by the Society of Actuaries in October 2014, Citizens applied the new mortality assumptions which were used in the determination of the projected benefit obligation as of September 30, 2015.

The net periodic benefit cost for these plans included the following components (in thousands):

	Defined Benefit Pension		Other Benefits	
	2015	2014	2015	2014
Service cost-benefits attributed to service during the period	\$ 11,075	\$ 8,904	\$ 4,996	\$ 3,957
Interest cost	14,509	14,003	3,828	3,043
Actual (gain) on assets	8,121	(18,494)	—	—
Amortization of transition obligation	—	—	—	16
Amortization of prior service cost	361	361	(897)	(816)
Amortization of loss	6,554	4,322	1,959	191
Deferred actuarial (loss) gain	<u>(24,558)</u>	<u>3,959</u>	<u>—</u>	<u>—</u>
Net periodic benefit cost	16,062	13,055	9,886	6,391
Settlement expense (gain) loss	—	—	—	—
Total expense for the year	\$ <u>16,062</u>	\$ <u>13,055</u>	\$ <u>9,886</u>	\$ <u>6,391</u>

Assumptions used to determine benefit obligations at September 30 were as follows:

	Citizens Defined Benefit Pension		Citizens Other Benefits	
	2015	2014	2015	2014
Average discount rate	4.14%	4.15%	3.92%	3.96%
Rate of increase in future compensation levels	3.50%	3.50%	—	—
	Water Defined Benefit Pension			
	2015	2014		
Average discount rate	3.51%	3.63%		
Rate of increase in future compensation levels	—	—		

Assumptions used to determine net periodic benefit cost at September 30 were as follows:

	Citizens Defined Benefit Pension		Citizens Other Benefits	
	2015	2014	2015	2014
Average discount rate	4.15%	4.65%	3.96%	4.32%
Rate of increase in future compensation levels	3.50%	3.50%	—	—
Expected long-term rate of return on assets	6.24%	6.04%	—	—
	Water Defined Benefit Pension			
	2015	2014		
Average discount rate	3.63%	4.00%		
Rate of increase in future compensation levels	—	—		
Expected long-term rate of return on assets	6.24%	6.04%		

Assumed health care cost trend rates at September 30 were as follows:

	Citizens Other Benefits	
	2015	2014
Health care cost trend rate assumed for next year	8.5%	8.0%
Rate to which the cost trend rate is assumed to decline	5.0%	5.0%
Year that the rate reaches the ultimate trend rate	2022	2021

To calculate the expected long-term rate of return on assets, Citizens used the plan assets fair market value and an expected long-term rate of return, based on a targeted 60 percent equity and 40 percent debt allocation for the plan.

Assets of the defined benefit pension plan consist principally of investments in long-term and intermediate-term fixed income securities and common stocks. The measurement date of September 30 was used to determine the pension cost for the years 2015 and 2014.

The following table presents the pension assets measured at fair value on a recurring basis, based on the hierarchy as of September 30, 2015 and 2014 (in thousands):

Description	2015 Fair Value Measurements Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Pension Assets:			
Cash equivalents	\$ 6,696	\$ -	\$ -
Equities	149,559	-	-
Fixed income	<u>100,524</u>	<u>-</u>	<u>-</u>
Total pension assets measured at fair value	\$ 256,779	\$ -	\$ -

Description	2014 Fair Value Measurements Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Pension Assets:			
Cash equivalents	\$ 8,008	\$ -	\$ -
Equities	163,816	-	-
Fixed income	<u>90,075</u>	<u>-</u>	<u>-</u>
Total pension assets measured at fair value	\$ 261,899	\$ -	\$ -

See Note 2J for additional guidance on fair value measurement.

Citizens' pension plan weighted-average asset allocation as of September 30, 2015 and 2014, by asset category is as follows:

	2015	2014
Equity securities	58%	62%
Debt securities	40%	35%
Cash & cash equivalents	<u>2%</u>	<u>3%</u>
Total	<u>100%</u>	<u>100%</u>

The primary investment objective of the retirement funds is to earn a reasonable rate of return over a market cycle within a prudent level of risk. These investment objectives are long-term in nature.

Employer contribution, participant contributions and benefits paid during the year (in thousands):

	Defined Benefit Pension		Other Benefits	
	2015	2014	2015	2014
Employer contributions (net of participant contributions)	\$ 17,502	\$ 17,804	\$ 4,445	\$ 5,232
Benefits paid	13,976	13,065	4,445	5,232

Citizens expects to contribute, at a minimum, \$17.4 million to the pension plans for 2016. The following retirement benefit payments, which reflect future service, as appropriate, are expected to be paid (in thousands):

	Defined Benefit Pension	Other Benefits
2016	\$ 16,418	\$ 4,545
2017	17,179	5,028
2018	17,362	5,483
2019	18,064	5,961
2020	18,679	6,409
Years 2021-2025	106,251	35,630

Assumed health care cost trend rates have a significant effect on the amounts reported for health care plans. A one-percentage increase in assumed health care cost trend rates would have the following effects (in thousands):

	2015	2014
Effect on total of service and interest cost	\$ 1,008	\$ 949
Effect on post-retirement benefit obligation	8,442	8,591

10. FINANCIAL SEGMENT INFORMATION

Operations of Citizens include activities in five reportable segments: Gas, Steam, Chilled Water, Water and Resources. In addition to these business segments, Other is utilized to capture non-revenue generating segment costs (see discussion below). Operations of CWA include activities for the Wastewater business segment. The Chief Executive Officer is the chief operating decision maker for Citizens and CWA.

Gas activities include purchasing natural gas; operating underground natural gas storage and liquefied natural gas storage facilities in Indiana; and distributing natural gas to residential, commercial and industrial customers located in Marion County, Indiana.

Steam activities include the production, purchase and distribution of steam for use in industrial processes and heating buildings in the downtown Indianapolis area.

Chilled Water activities include the production and distribution of chilled water for use in cooling buildings in the central downtown area.

Water activities include the treatment and distribution of drinking water to residential, commercial and industrial customers located in and around Marion County, Indiana.

Wastewater activities include wastewater collection and treatment services for residential, commercial and industrial customers located in and around Marion County, Indiana.

Resources conducts for-profit business activities in order to ultimately provide enhanced benefits to Citizens' beneficiaries. Resources includes affiliate joint venture interests of \$15.5 million and \$15.4 million at September 30, 2015 and 2014 respectively, including ProLiance and Heartland. Resources also includes several wholly owned subsidiaries under CESCO which serves as a holding company for several LLC subsidiaries. CESCO subsidiaries include: Citizens Westfield Utilities, which is the holding company for the three utilities serving Westfield (Westfield Gas, Westfield Water, and Westfield Wastewater); Kinetrex Energy, LLC, which is the holding company for LNG Indy, a provider of LNG for use as transportation and industrial fuel; KEEP, an oil producer; and CSM, a small unregulated water utility. On February 1, 2015 the Oil business segment was transferred to the Resources KEEP business unit. Prior period segmentation has been recast to reflect this transfer. See also Note 4 regarding the acquisitions of Westfield Water and Westfield Wastewater.

In the table below, Other includes certain non-profit instrumentalities, as well as advertising and philanthropic costs that are not recoverable through rates and are funded by contributions from non-regulated segments. Other also includes shared services comprised of various administrative and operational departments that provide support services to each of Citizens and CWA business segments, certain affiliates and the combined enterprise as a whole, and allocates the associated cost of the services to the appropriate segment. Management reviews the allocation methodology for shared services on a regular basis and refines the methodology as necessary. The former Manufacturing business segment has been reported as Discontinued Operations and is also included in Other. To the extent certain business segments purchase services from one another, these amounts have been eliminated on the face of the combined financial statements. Such transactions are reported gross for segment presentation, with eliminating entries reported as Eliminations.

Operating revenues and operating expenses are set forth in the Combined Statements of Operations. Operating income represents operating revenues less operating expenses directly attributable to the segments and an allocation of certain operating expenses benefiting each.

Segment information as of and for the years ended September 30, 2015 and 2014 is summarized as follows:

Segment Footnote - Combined Statement of Operations
Citizens Energy Group and Subsidiary and CWA Authority, Inc., Indianapolis, Indiana
(In Thousands)
For Twelve Months Ended September 30, 2015

	Gas	Steam	Chilled Water	Water	Waste- water	Resources	Other	Elimin- ations	Total
Operating revenues									
Customer revenues	\$288,109	\$81,607	\$33,724	\$171,517	\$211,898	\$ 54,851	\$ -	\$ -	\$841,706
Intercompany revenues	6,468	4,034	1,819	971	800	1,082	-	(15,174)	-
Gross operating revenues	294,577	85,641	35,543	172,488	212,698	55,933	-	(15,174)	841,706
Operating expenses:									
Cost of goods sold	151,815	48,966	10,920	-	-	17,926	-	(11,874)	217,753
Operations and maintenance	71,597	19,729	8,164	80,705	68,001	16,801	(160)	(3,256)	261,581
Depreciation and amortization	24,285	5,007	6,002	41,287	61,900	5,800	-	-	144,281
Taxes	9,359	1,639	2,303	12,943	17,168	1,246	313	-	44,971
Total operating expenses	257,056	75,341	27,389	134,935	147,069	41,773	153	(15,130)	668,586
Total operating income (loss)	37,521	10,300	8,154	37,553	65,629	14,160	(153)	(44)	173,120
Other income (expense)-net:									
Interest income	27	5	6	1,963	72	220	7	(7)	2,293
Other	(1,092)	-	-	570	81	161	(2,844)	-	(3,124)
Total other income (expense)-net	(1,065)	5	6	2,533	153	381	(2,837)	(7)	(831)
Income (loss) before equity in earnings of affiliates and interest charges	36,456	10,305	8,160	40,086	65,782	14,541	(2,990)	(51)	172,289
Equity in earnings of affiliates	-	-	-	-	-	166	-	-	166
Interest charges:									
Interest on long-term debt	13,506	4,676	2,900	50,119	74,203	4,506	7	(7)	149,910
Other interest including net premium (discount) amortization	1,573	(345)	(512)	14	(19,883)	2	(42)	-	(19,193)
Total interest charges	15,079	4,331	2,388	50,133	54,320	4,508	(35)	(7)	130,717
Income (loss) from continuing operations	21,377	5,974	5,772	(10,047)	11,462	10,199	(2,955)	(44)	41,738
Loss from discontinued operations	-	-	-	-	-	-	(36,605)	44	(36,561)
Net income (loss)	<u>\$ 21,377</u>	<u>\$ 5,974</u>	<u>\$ 5,772</u>	<u>\$ (10,047)</u>	<u>\$ 11,462</u>	<u>\$ 10,199</u>	<u>\$ (39,560)</u>	<u>\$ -</u>	<u>\$ 5,177</u>

Segment Footnote - Combined Statement of Operations

Citizens Energy Group and Subsidiary and CWA Authority, Inc., Indianapolis, Indiana

(In Thousands)

For the Twelve Months Ended September 30, 2014

	Gas	Steam	Chilled Water	Water	Waste- water	Resources	Other	Elimin- ations	Total
Operating revenues									
Customer revenues	\$313,562	\$78,138	\$38,077	\$168,157	\$ 186,576	\$ 34,716	\$ -	\$ -	\$819,226
Intercompany revenues	6,124	3,581	-	1,077	1,012	5,849	-	(17,643)	-
Gross operating revenues	319,686	81,719	38,077	169,234	187,588	40,565	-	(17,643)	819,226
Operating expenses:									
Cost of goods sold	177,827	47,334	12,078	-	-	15,182	-	(14,606)	237,815
Operations and maintenance	69,519	21,352	10,876	76,246	70,072	15,586	519	(2,996)	261,174
Depreciation and amortization	23,271	4,763	6,496	39,883	57,596	3,092	-	-	135,101
Taxes	10,150	1,547	2,257	13,065	14,491	784	158	-	42,452
Total operating expenses	280,767	74,996	31,707	129,194	142,159	34,644	677	(17,602)	676,542
Total operating income (loss)	38,919	6,723	6,370	40,040	45,429	5,921	(677)	(41)	142,684
Other income (expense)-net:									
Interest income	24	4	12	1,749	111	278	3	(3)	2,178
Other	(761)	-	-	230	108	(58)	(2,551)	-	(3,032)
Total other income (expense)-net	(737)	4	12	1,979	219	220	(2,548)	(3)	(854)
Income (loss) before equity in earnings of affiliates and interest charges	38,182	6,727	6,382	42,019	45,648	6,141	(3,225)	(44)	141,830
Equity in loss of affiliates	-	-	-	-	-	(2,070)	-	-	(2,070)
Interest charges:									
Interest on long-term debt	13,869	3,677	3,050	50,282	61,335	2,335	3	(3)	134,548
Other interest including net premium (discount) amortization	1,855	(426)	(536)	408	(11,511)	75	(609)	-	(10,744)
Total interest charges	15,724	3,251	2,514	50,690	49,824	2,410	(606)	(3)	123,804
Income (loss) from continuing operations	22,458	3,476	3,868	(8,671)	(4,176)	1,661	(2,619)	(41)	15,956
Loss from discontinued operations	-	-	-	-	-	-	(5,894)	41	(5,853)
Net income (loss)	\$ 22,458	\$ 3,476	\$ 3,868	\$ (8,671)	\$ (4,176)	\$ 1,661	\$ (8,513)	\$ -	\$ 10,103

Segment Footnote - Combined Statement of Financial Position

Citizens Energy Group and Subsidiary and CWA Authority, Inc., Indianapolis, Indiana

(In Thousands)

At September 30, 2015

	Gas	Steam	Chilled Water	Water	Waste- Water	Resources	Other	Total
Assets								
Property, Plant and Equipment	\$ 305,967	\$ 72,445	\$ 64,808	\$ 1,074,476	\$ 1,479,518	\$ 177,197	\$ 23,724	\$ 3,198,135
Intangibles	-	19,120	53,587	-	-	-	-	72,707
Investments	18,441	11,260	5,360	91,652	163,143	19,530	572	309,958
Cash and Cash Equivalents	75,410	18,030	28,460	10,986	102,175	13,637	23,450	272,148
Other Current Assets	73,836	9,235	9,057	34,801	41,049	8,997	(19,048)	157,927
Deferred Charges and Other Non-Current Assets	15,965	2,239	580	7,745	15,286	1,875	3,509	47,199
Total Assets	\$ 489,619	\$ 132,329	\$ 161,852	\$ 1,219,660	\$ 1,801,171	\$ 221,236	\$ 32,207	\$ 4,058,074
Capitalization and Liabilities								
Retained Earnings and Accumulated OCI	\$ 55,700	\$ 9,976	\$ 93,937	\$ 14,019	\$ (36,833)	\$ 63,686	\$(147,877)	\$ 52,608
Long-Term Debt	258,581	98,157	55,985	933,660	1,646,072	100,695	-	3,093,150
Retirement Benefit and Other Long-Term Liabilities	52,034	7,924	2,822	138,505	51,948	40,782	172,053	466,068
Current Maturities of Long-Term Debt	13,500	4,572	3,908	24,260	30,857	5,303	-	82,400
Short-Term Borrowings	50,000	-	-	64,000	-	2,000	-	116,000
Current Liabilities	59,804	11,700	5,200	45,216	109,127	8,770	8,031	247,848
Total Capitalization and Liabilities	\$ 489,619	\$ 132,329	\$ 161,852	\$ 1,219,660	\$ 1,801,171	\$ 221,236	\$ 32,207	\$ 4,058,074

Segment Footnote - Combined Statement of Financial Position

Citizens Energy Group and Subsidiary and CWA Authority, Inc., Indianapolis, Indiana

(In Thousands)

At September 30, 2014

	Gas	Steam	Chilled Water	Water	Waste- Water	Resources	Other	Total
Assets								
Property, Plant and Equipment	\$ 304,749	\$ 73,038	\$ 65,265	\$ 1,062,422	\$ 1,307,680	\$ 164,948	\$ 24,017	\$ 3,002,119
Intangibles	-	20,104	56,306	-	-	-	-	76,410
Investments	18,936	9,968	5,284	88,895	141,866	19,500	348	284,797
Cash and Cash Equivalents	53,531	5,569	24,538	17,042	123,882	21,033	29,705	275,300
Other Current Assets	91,030	15,257	8,046	34,859	37,667	10,131	(18,700)	178,290
Deferred Charges and Other Non-Current Assets	18,566	2,822	790	8,160	15,829	2,490	4,059	52,716
Total Assets	\$ 486,812	\$ 126,758	\$ 160,229	\$ 1,211,378	\$ 1,626,924	\$ 218,102	\$ 39,429	\$ 3,869,632
Capitalization and Liabilities								
Retained Earnings and Accumulated OCI	\$ 38,626	\$ 3,962	\$ 88,437	\$ 21,168	\$ (48,296)	\$ 55,122	\$(98,868)	\$ 60,151
Long-Term Debt	272,256	103,498	60,528	957,956	1,497,429	110,258	-	3,001,925
Retirement Benefit and Other Long-Term Liabilities	46,638	7,632	2,442	136,691	43,550	39,009	129,181	405,143
Current Maturities of Long-Term Debt	12,955	3,553	3,757	17,495	26,539	1,727	-	66,026
Short-Term Borrowings	50,000	-	-	21,500	-	2,000	-	73,500
Current Liabilities	66,337	8,113	5,065	56,568	107,702	9,986	9,116	262,887
Total Capitalization and Liabilities	\$ 486,812	\$ 126,758	\$ 160,229	\$ 1,211,378	\$ 1,626,924	\$ 218,102	\$ 39,429	\$ 3,869,632

Segment Footnote - Combined Statement of Cash Flows

Citizens Energy Group and Subsidiary and CWA Authority, Inc., Indianapolis, Indiana

(In Thousands)

At September 30, 2015

	Gas	Steam	Chilled Water	Water	Waste- Water	Resources	Other	Total
Net cash provided by operating activities	\$ 58,459	\$ 19,754	\$ 10,029	\$ 25,479	\$ 75,691	\$ 16,932	\$ 5,298	\$ 211,642
Investing Activities:								
Construction expenditures	(24,660)	(2,439)	(2,273)	(63,696)	(240,793)	(18,476)	(10,510)	(362,847)
Restricted funds (Purchase of investment securities)	(26,693)	(9,161)	(6,809)	(69,866)	(107,105)	-	-	(219,634)
Sale and maturity of investment securities	26,644	7,869	6,733	66,685	85,560	-	-	193,491
Other investing activities	1,365	-	-	6,922	270	125	(1,043)	7,639
Net cash used by investing activities	(23,344)	(3,731)	(2,349)	(59,955)	(262,068)	(18,351)	(11,553)	(381,351)
Financing Activities:								
Proceeds from bank line of credit	-	-	-	49,000	10,000	-	-	59,000
Repayment of bank line of credit	-	-	-	(6,500)	(10,000)	(9,000)	-	(25,500)
Proceeds from long-term debt	-	-	-	-	183,824	4,740	-	188,564
Principal payments of long-term debt and bond refunding	(12,955)	(3,552)	(3,758)	(17,495)	(26,539)	(1,727)	-	(66,026)
Advances & contributions in aid of construction	-	-	-	3,417	8,422	10	-	11,849
Other financing activities	(281)	(10)	-	(2)	(1,037)	-	-	(1,330)
Net cash provided (used) by financing activities	(13,236)	(3,562)	(3,758)	28,420	164,670	(5,977)	-	166,557
Net change in cash and cash equivalents	21,879	12,461	3,922	(6,054)	(21,707)	(7,396)	(6,255)	(3,152)
Cash and cash equivalents at beginning of period	53,532	5,570	24,539	17,040	123,882	21,032	29,705	275,300
Cash and cash equivalents at end of period	\$ 75,411	\$ 18,031	\$ 28,461	\$ 10,984	\$ 102,175	\$ 13,636	\$ 23,450	\$ 272,148

Segment Footnote - Combined Statement of Cash Flows

Citizens Energy Group and Subsidiary and CWA Authority, Inc., Indianapolis, Indiana

(In Thousands)

At September 30, 2014

	Gas	Steam	Chilled Water	Water	Waste- Water	Resources	Other	Total
Net cash provided by operating activities	\$ 33,203	\$ 8,762	\$ 15,624	\$ 25,981	\$ 47,708	\$ 11,572	\$ 14,462	\$ 157,312
Investing Activities:								
Construction expenditures	(22,049)	(7,963)	(2,283)	(48,933)	(178,447)	(23,036)	(22,113)	(304,824)
Restricted funds (Purchase of investment securities)	(31,896)	(7,422)	(6,809)	(71,691)	(94,549)	-	-	(212,367)
Sale and maturity of investment securities	31,920	6,433	6,752	69,362	65,851	-	1,001	181,319
Other investing activities	1,345	353	12,000	1,096	230	(91,917)	1,628	(75,265)
Net cash used by investing activities	(20,681)	(8,599)	9,660	(50,166)	(206,914)	(114,953)	(19,484)	(411,137)
Financing Activities:								
Proceeds from bank line of credit	-	-	-	21,500	70,000	3,523	-	95,023
Repayment of bank line of credit	-	-	-	(15,000)	(100,000)	(1,613)	-	(116,613)
Proceeds from long-term debt	-	39,390	-	72,659	261,232	111,790	-	485,071
Principal payments of long-term debt and bond refunding	(12,430)	(42,443)	(3,647)	(62,430)	(15,550)	-	-	(136,500)
Bond issuance costs	-	(409)	-	(786)	(1,714)	(1,352)	-	(4,261)
Advances & contributions in aid of construction	-	-	-	3,273	9,670	(0)	-	12,943
Other financing activities	(953)	-	-	-	-	(2,191)	1,781	(1,363)
Net cash provided (used) by financing activities	(13,383)	(3,462)	(3,647)	19,216	223,638	110,157	1,781	334,300
Net change in cash and cash equivalents	(860)	(3,298)	21,638	(4,969)	64,431	6,776	(3,241)	80,475
Cash and cash equivalents at beginning of period	54,392	8,868	2,901	22,011	59,451	14,256	32,946	194,825
Cash and cash equivalents at end of period	\$ 53,532	\$ 5,570	\$ 24,539	\$ 17,042	\$ 123,882	\$ 21,032	\$ 29,705	\$ 275,300

Additional Thermal Financial Information

Additional Thermal financial information for the years ended September 30, 2015 and 2014 is summarized as follows (in thousands):

	<u>2015</u>	<u>2014</u>
Net Income	\$ 11,746	\$ 7,344
Total Liabilities	190,268	194,588
Equity	103,913	92,399
Interest Charges on Long-Term Debt	7,576	6,727
Cash Flow Information:		
Cash and Cash Equivalents, Beginning of Fiscal Year	\$ 30,109	\$ 11,771
Cash Provided by Operating Activities	29,783	24,386
Cash Provided by Investing Activities	(6,080)	1,061
Cash Used in Financing Activities	(7,320)	(7,109)
Cash and Cash Equivalents, End of Fiscal Year	<u>\$ 46,492</u>	<u>\$ 30,109</u>

11. MANUFACTURING DISCONTINUATION OF PRODUCTION AND RELATED ASSET RETIREMENT OBLIGATIONS

The Manufacturing segment, d/b/a Indianapolis Coke, ceased operations on July 13, 2007. Manufacturing (reported as Discontinued Operations) plant assets were \$0.3 million at September 30, 2015 and \$0.9 million at September 30, 2014, respectively, representing the estimated remaining salvage value of the plant.

Estimated costs relating to the closure, including liquidation of inventories, plant demolition and environmental remediation are reflected in the accompanying combined financial statements in accordance with FASB guidance related to asset retirement obligations (ASC 410-20) and exit or disposal cost obligations (ASC 450). Citizens enrolled this facility in the Indiana Department of Environmental Management Voluntary Remediation Program to address historical environmental impacts associated with these operations. The costs of demolition and remediation will continue for several years. As the full nature and extent of the environmental impacts can be difficult to determine with certainty, Citizens, in conjunction with internal and external environmental consultants, has estimated and accrued costs associated with environmental remediation of this site based on currently available information. Estimates of these costs are included in the combined financial statements as part of the asset retirement obligation. Citizens revised these estimates in both the timing and amount of the estimated cash flows in September 2015. The net result of this adjustment was a \$35.7 million increase to the asset retirement obligation liability in September 2015, primarily relating to increased estimates for future environmental remediation. The major classes of assets and liabilities of the Manufacturing segment (reported as Discontinued Operations in Other) as of September 30, 2015 and September 30, 2014 are as follows (in thousands):

	<u>September 30, 2015</u>	<u>September 30, 2014</u>
Current Assets	\$ 276	\$ 337
Deferred Charges and Other Non-Current Assets	316	894
Total Assets	<u>\$ 592</u>	<u>\$ 1,231</u>
Retained earnings and AOCI	\$ (93,231)	\$ (55,836)
Retirement Benefit and Other Long-Term Liabilities	88,805	56,533
Intercompany liability	4,025	-
Current Liabilities	993	534
Total Capitalization and Liabilities	<u>\$ 592</u>	<u>\$ 1,231</u>

For the fiscal years ended September 30, 2015 and 2014, Discontinued Operations operating expenses were \$36.6 million and \$5.9 million, respectively.

Activity for the twelve months ended September 30, 2015 and 2014 for the asset retirement obligation liability is as follows (in thousands):

Asset retirement obligation as of September 30, 2013	\$45,209
Accretion expense	6,189
Demolition liabilities settled	(527)
Remediation liabilities settled	<u>(1,802)</u>
Asset retirement obligation as of September 30, 2014	\$49,069
Accretion expense	488
Demolition liabilities settled	(2,822)
Remediation liabilities settled	(1,567)
Change in cash flows (September 2015)	<u>35,701</u>
Asset retirement obligation as of September 30, 2015	<u>\$80,869</u>

12. DERIVATIVES AND HEDGING

Commodity Contracts

Citizens' Price Volatility Mitigation Policy sets guidelines for using selected financial derivative products to support prudent risk management strategies within designated parameters. Citizens' objectives for using derivatives are to decrease the volatility associated with fluctuating natural gas prices. Citizens enters into natural gas options purchased and sold on the New York Mercantile Exchange. These instruments, in conjunction with physical gas supply contracts, are designated to cover estimated gas customer requirements. Such energy contracts, to the extent they are not considered "normal" as defined by FASB guidance, are recognized at fair value as derivative assets or liabilities on the Combined Statements of Financial Position. Gains/losses and fees associated with these derivatives, when realized, are recoverable through the Gas Cost Adjustment tracker. Accordingly, the offset to the change in fair value of these derivatives is recorded as a regulatory asset or liability.

Interest Rate Swaps

Concurrent with the CWU revenue bonds issued in March 2014, CWU entered into a fixed rate pay interest rate swap agreement with PNC Bank, National Association as the counterparty through October 1, 2018. The notional value of the swap was \$53.9 million and \$55.3 million as of September 30, 2015 and September 30, 2014, respectively, representing 80 percent of the bond issuance. Under the terms of the swap agreement CWU pays a quarterly fixed rate of approximately 1.36 percent of the notional amount to the swap provider and receives a quarterly variable rate payment equal to 74 percent of the average three month LIBOR rate for each quarterly period. The variable rate received from the counterparty approximates the variable rate paid to the bondholders on the CWU bonds. The market value of the interest rate swap derivative liability for CWU was \$1.0 million and \$0.4 million as of September 30, 2015 and September 30, 2014, respectively.

Concurrent with the Westfield Water and Westfield Wastewater revenue bonds issued in March 2014, the utilities entered into fixed rate pay interest rate swap agreements with PNC Bank, National Association as the counterparty through October 1, 2018. The notional values of the swaps were \$8.4 million and \$15.3 million, respectively, as of September 30, 2015. Under the terms of the swap agreement, Westfield Water and Westfield Wastewater pay a monthly fixed rate of approximately 1.29 percent of the notional amount to the swap provider and receive a monthly variable rate payment equal to 74 percent of the average one month LIBOR rate for each period. The variable rate received from the counterparty approximates the variable rate paid to the bondholders on the Westfield Water and Westfield Wastewater bonds. The market value of the interest rate swap derivative liabilities for Westfield Water and Westfield Wastewater was \$0.5 million and \$0.2 million as of September 30, 2015 and 2014, respectively.

The following tables present information about Citizens' derivative instruments and hedge activities. The first table provides a financial position overview of Citizens' Derivative Assets and Liabilities as of September 30, 2015 and 2014, while the latter table provides a breakdown of the related impact on the results of operations for the twelve months ended September 30, 2015 and 2014. Citizens recovers derivative costs related to commodity contracts through its regulatory mechanism for gas cost adjustments. Both tables are in thousands.

Fair Value of Derivative Instruments

Derivative Instrument	Derivative Designation	Statement of Financial Position Location	<u>September 30, 2015</u>		<u>September 30, 2014</u>	
			Derivative Assets Fair Value	Derivative Liabilities Fair Value	Derivative Assets Fair Value	Derivative Liabilities Fair Value
Commodity contracts	Not accounted for as a hedge (1)(2)	Other Investments	\$216	(\$0)	\$760	(\$0)
Interest rate swaps	Not accounted for as a hedge (3)	Non-Current Liabilities	\$0	(\$1,460)	\$0	(\$518)

- (1) Commodity contracts represent exchange-traded options. These contracts qualify for net presentation on the Combined Statements of Financial Position.
- (2) The fair value shown for the commodity contracts is comprised of derivative volumes totaling 7.5 million and 4.6 million dekatherms at September 30, 2015 and September 30, 2014, respectively. These volumes are disclosed in absolute terms, not net.
- (3) The fair value shown for the fixed rate interest swap agreements with the bank effective March 21, 2014 to fix the interest rate through October 1, 2018 is determined by using the contractual fixed rate less the LIBOR rate at the time of the interest payment times a multiplier of 0.74. The result is the settlement rate. The outstanding loan balance is multiplied by the settlement rate less a discount factor as provided by the bank.

Unrealized gains and losses and settled amounts related to commodity contracts are initially recognized on the Combined Statements of Financial Position as a deferred recoverable cost, a regulatory asset or liability, and ultimately

recognized on the Combined Statements of Operations as Cost of Goods Sold when those costs are recovered through gas rate adjustments. The amount of realized loss included in recoverable gas costs was \$1.4 million and \$0.3 million at September 30, 2015 and 2014, respectively. The margin asset was \$0.1 million and \$0.8 million at September 30, 2015 and 2014, respectively.

<u>Derivative Impact on Statement of Operations</u>			September 30,	September 30,
Derivative instrument	Derivative Designation	Statement of Operations Location	2015	2014
Commodity contracts	Not accounted for as a hedge	Gain(Loss) in Cost of Goods Sold	\$2,148	\$256
Interest rate swaps	Not accounted for as a hedge	Interest Expense	\$1,889	\$518

The derivative impact in cost of goods sold is recovered through regulatory gas rate adjustments in subsequent months, which is reflected in operating revenue. The impact of the commodity contracts on the statements of cash flows for the twelve months ended September 30, 2015 and 2014 was a decrease of \$0.6 million and an increase of \$0.3 million, respectively. The impact of the interest rate swaps on the statements of cash flows was \$0.9 million and less than \$0.1 million for the twelve months ended September 30, 2015 and 2014, respectively.

13. COMMITMENTS AND CONTINGENCIES

A. Environmental Commitments and Contingencies

Citizens and CWA are subject to various environmental laws and regulations and believe they are in material compliance with existing federal, state and local statutes, ordinances, rules and regulations governing environmental matters. Citizens and CWA have no way of estimating the enactment or promulgation of future environmental laws and regulations. See Note 11 for additional information regarding demolition and environmental remediation of the former Indianapolis Coke Manufacturing facility.

Langsdale Environmental Remediation

Citizens operated a gas manufacturing plant (the Langsdale Facility) at Citizens' Langsdale property from 1931 until 1952. Available records indicate the plant was out of service from 1931 until 1943, at which time the U.S. Department of Defense ordered that the plant be recommissioned to support domestic production associated with World War II. Over the course of its operation, the Langsdale Facility produced manufactured gas which was distributed to gas customers through the Citizens gas utility distribution system. The Langsdale Facility also produced metallurgical coke and other by-products. Citizens enrolled this facility in the Indiana Department of Environmental Management Voluntary Remediation Program in 2005 to address historical environmental impacts associated with these operations. However, because the full nature and extent of the environmental impacts has not yet been determined, Citizens cannot estimate the costs associated with environmental remediation of this site.

Water System

The Water System is currently in compliance with the requirements of the Clean Water Act, the Safe Drinking Water Act, the Disinfectants and Disinfection Byproducts Rule, the Enhanced Surface Water Treatment Rule, the Radon Rule and other applicable laws, except to the extent that such non-compliance would not have a material adverse effect on the Water System.

Wastewater System

The Wastewater System is subject to wastewater collection and treatment requirements under both federal and state law. Those requirements are contained in a National Pollutant Discharge Elimination System (NPDES) permit. Both United States Environmental Protection Agency (EPA) and Indiana Department of Environmental Management have jurisdiction over the Wastewater System. As authorized by the Clean Water Act, the NPDES permit program controls water pollution by regulating point sources that discharge pollutants into water of the United States.

Combined Sewer Overflows and Long-Term Control Plan

As was the common engineering practice during the early 1900's, the older portion of the Wastewater System was designed to carry both stormwater and sanitary waste. In times of wet weather, the capacity of the combined portion of the System can be overloaded. Combined sewer overflow (CSO) outfalls that discharge to various Indianapolis waterways were constructed as relief points to prevent combined stormwater and sewage from backing up into homes, businesses and streets. The EPA requires communities to implement specific minimum controls and to develop and implement long-term control plans (LTCPs) to reduce CSOs by separating sewers and maximizing the capacity to treat stormwater and wastewater. The City, EPA, and the U.S. District Court entered into a Consent Decree in 2006 that established a long-term control plan to address the system's overloaded combined sewer overflows. The plan established a twenty year schedule for the required Wastewater System improvements, including the Deep Rock Tunnel Project. Upon acquisition of the Wastewater System, CWA assumed the obligations under the Consent Decree. When expressed in 2012 dollars, CWA estimates that the projected cost of the Consent Decree, including capital and operation and maintenance costs, is approximately \$1.9 billion.

B. Legal Contingencies

B.1 Legal Contingencies

Citizens and CWA are party to litigation in the normal course of business in which the payments for damages may be substantial but cannot be determined. Management regularly analyzes current information and, as necessary, provides accruals for probable liabilities on the eventual disposition of these matters. Management believes that these matters ultimately will be resolved in a manner which will not materially adversely affect the financial position, operations, equity or cash flows of Citizens and CWA.

Berkshire Square Apartment Fire

In January 2015, a complaint was filed by two individuals alleging Citizens was negligent and caused them to suffer personal injuries as a result of a fire that occurred in an apartment complex in October 2014. The plaintiffs allege that as of the date the complaint was filed, they had incurred over \$4.3 million in medical bills as a result of their injuries. The insurer of the apartment complex has also filed a complaint alleging property damage and loss of rental income of \$0.5 million. While management cannot predict the outcome of this litigation, Citizens intends to vigorously defend the allegations against Citizens.

Deep Rock Tunnel Incident

On June 13, 2014, an employee of Shea-Kiewit Joint Venture, a contractor engaged by the wastewater utility as part of the Deep Rock Tunnel project being completed in compliance with a federal consent decree to address combined sewer overflows, died while inside the tunnel. A partial safety inspection was subsequently conducted by the Indiana Occupational Safety and Health Administration. On August 21, 2014, the Indiana Department of Labor notified Shea-Kiewit that this inspection resulted in no violations being noted and no safety order was issued. While Citizens cannot predict the possibility of other claim(s), no material adverse effect to CWA Authority, Inc. or Citizens Energy Group is anticipated as a result of the incident.

B.2 Contractual Commitments

Consent Decree

In connection with the Wastewater System acquisition transaction in August 2011, CWA assumed the City's obligations under the order of the United States District Court for the Southern District of Indiana (the Court) dated December 19, 2006, among the EPA, Indiana Department of Environmental Management (IDEM), and the City, as amended (the Consent Decree). CWA has a Capital Improvement Plan to meet guidelines of the Consent Decree and the overall needs of the Wastewater System. The improvements related to the Consent Decree and the Long Term Control Plan (LTCP) have been planned and scheduled out through 2025. The Deep Rock Tunnel system, the most significant element of the Consent Decree, is the largest sewer infrastructure project in the City's history. The Deep Rock Tunnel Connector (DRTC) is the first segment of a 250' deep, 25 mile underground tunnel system designed to store 250 million gallons of raw sewage during a rain event to prevent overflows from entering area rivers and streams. The stored flows will eventually be pumped to the Southport Treatment plant which is also undergoing significant expansion as a part of this Consent Decree. During fiscal year 2014, mining of the 7.8 mile Deep Rock Tunnel Connector was completed. As part of the DRTC project, approximately 1.9 miles of additional deep tunnel was mined for the Eagle Creek tunnel extension in fiscal year 2015.

United Water Management Contract

In connection with the Wastewater System acquisition, CWA entered into an Assignment and Assumption Agreement with the City whereby CWA assumed all of the rights and obligations of the City under the Management Agreement between the City and United Water Services Indiana LLC, as assignee from White River Environmental Partnership, an Indiana general partnership, d/b/a United Water Services Indiana (United Water), dated as of October 11, 2007 (Management Agreement), pursuant to which United Water manages the Wastewater System and the stormwater system for the City of Indianapolis. Management and incentive fees with United Water were \$41.1 million and \$40.2 million for the twelve months ending September 30, 2015 and 2014 respectively. This included \$5.0 million for stormwater management in 2015 and \$4.9 million in 2014. It is anticipated that management and incentive fees for fiscal year 2016 will be \$42.7 million, including \$5.1 million for stormwater management. The contract is currently set to expire on January 1, 2017.

Stormwater Management Agreement

Also in connection with the Wastewater System acquisition, the City retained ownership of its stormwater system; however, the stormwater system was managed and operated under the Management Agreement between the City and United Water, which agreement CWA assumed at the closing of that transaction. CWA and the City entered into a Stormwater Management Agreement and Plan of Cooperation whereby CWA manages and operates the stormwater system through United Water. The City compensates CWA approximately \$5.5 million annually, including up to \$0.5 million in reimbursable expenses as defined in the agreement, of which approximately \$5.0 million is the amount CWA is obligated to compensate United for services rendered for the stormwater system under the Management Agreement. The remainder is for miscellaneous stormwater system-related services CWA provides to the City.

C. Lease Contractual Commitments

Citizens and CWA have entered into operating leases for storage of natural gas at various sites and for miscellaneous equipment. Lease expenses were \$10.4 million and \$11.7 million for the years ended September 30, 2015 and 2014, respectively. Future minimum lease payments under noncancelable operating leases as of September 30, 2015 are as follows (in thousands):

2016	\$5,673
2017	345
2018	233
2019	233
2020	233
Thereafter	-
Total minimum lease payments	<u>\$6,717</u>

14. SUBSEQUENT EVENTS

Management has considered the impact of subsequent events through December 16, 2015, the date at which these combined financial statements were available to be issued.

INDEPENDENT AUDITORS' REPORT

To the Boards of Directors for
Citizens Energy Group and Subsidiary and CWA Authority, Inc.

We have audited the accompanying combined financial statements of Citizens Energy Group and Subsidiary and CWA Authority, Inc., both of which are under common ownership and common management, which comprise the combined statements of financial position as of September 30, 2015 and 2014, and the related combined statements of operations, comprehensive income (loss), equity and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined 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 combined financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the companies' preparation and fair presentation of the combined 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 companies' 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 combined 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 combined financial statements referred to above present fairly, in all material respects, the financial position of Citizens Energy Group and Subsidiary and CWA Authority, Inc. as of September 30, 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.

DELOITTE & TOUCHE LLP

Indianapolis, Indiana
December 16, 2015

REPORT OF MANAGEMENT

Citizens and CWA have prepared the financial statements and related financial information included in this report. Management has the primary responsibility for the integrity of the financial statements and other financial information included therein, and for ascertaining that the data accurately reflect the financial position and results of operations of Citizens and CWA. The financial statements were prepared in accordance with generally accepted accounting principles and necessarily included estimates and judgments with appropriate consideration to materiality. Financial information included elsewhere in this annual report is consistent with the financial statements.

Citizens and CWA maintain a system of internal accounting controls to provide reasonable assurance that assets are safe-guarded and that the books and records reflect the authorized transactions of Citizens and CWA. Limitations exist in any system of internal control based upon the recognition that the cost of the system should not exceed the benefits derived. Management believes its system of internal accounting controls, augmented by its internal auditing function, appropriately balances the cost/benefit relationship.

The Audit and Risk Committee of the Board of Directors is comprised of four Directors, none of whom is an employee of Citizens and CWA. The committee meets periodically with management, the internal auditors and the independent auditors in connection with its review of matters pertaining to Citizens' and CWA's combined financial statements, the internal audit program, and the services of the independent auditors.

We believe that these policies and procedures provide reasonable assurance that our operations are conducted in conformity with appropriate statutory requirements and with a high standard of business conduct.

A handwritten signature in black ink, appearing to read 'JRB', with a large, stylized loop at the end.

John R. Brehm
Senior Vice President & Chief Financial Officer