



MANAGE

WATER

MANAGEMENT DISCUSSION
& FINANCIAL REPORT 2016

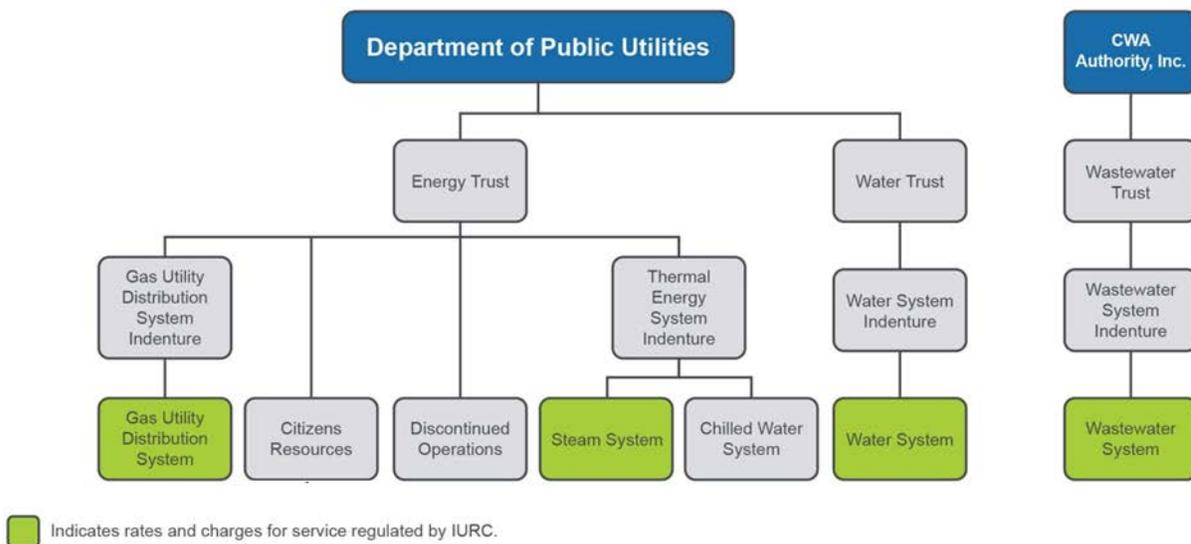
MANAGEMENT DISCUSSION AND ANALYSIS

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 inter-local 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.

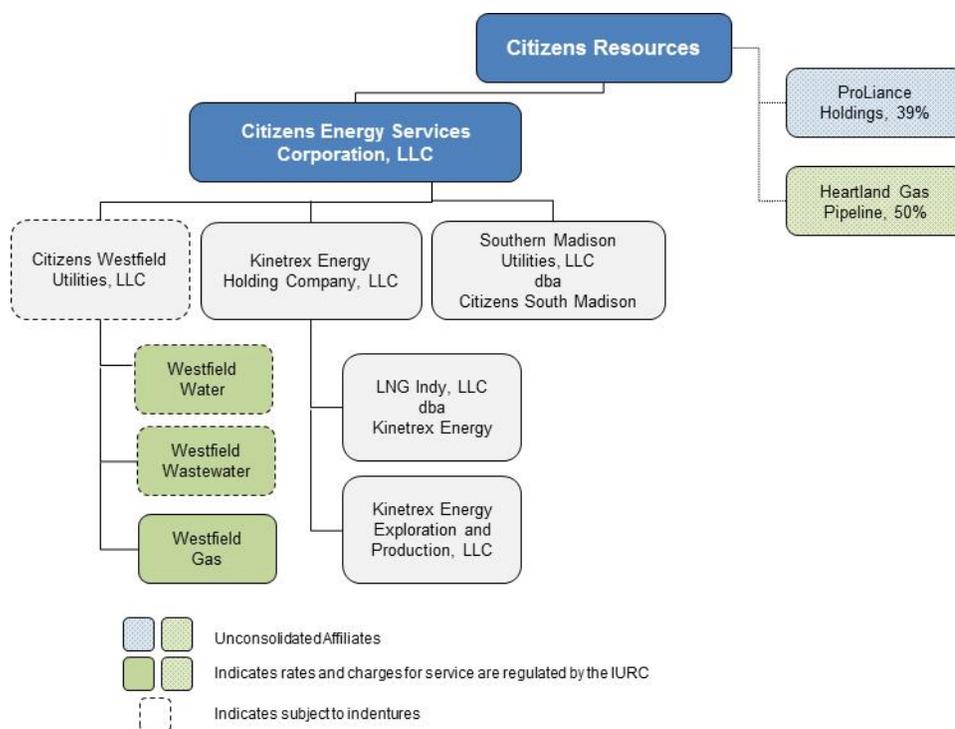
The result of the foregoing is that Citizens and CWA have five distinct cash flow sources in which debt is isolated: (1) the Gas Utility Distribution System and the Gas Utility System;¹ (2) the Thermal Energy System; (3) the Water System; (4) the Wastewater System; (collectively, the four Systems) and (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 subsidiary². 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 affiliates³. 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.

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.

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.



FINANCIAL RESULTS

Segment Results

The tables below summarize the financial results for each segment (in millions) for the twelve months ended September 30, 2016 and 2015. For a more detailed understanding of these summarized results, see Note 8 of the combined financial statements.

SHARED SERVICES

	2016	2015	Change
Shared Service Expenses	\$ 106.9	\$ 107.0	\$ (0.1)

Shared administrative and field services expenses decreased \$0.1 million for 2016, due primarily to lower labor and contracted services costs which were largely offset by higher post-employment benefit expenses and depreciation. These costs have been allocated to the appropriate business units and are reflected in the explanations that follow.

GAS

	2016	2015	Change
Operating revenues	\$ 227.4	\$ 294.6	\$ (67.2)
Cost of goods sold	88.2	151.8	(63.6)
Margin	139.2	142.8	(3.6)
Other operating expenses	113.7	105.2	8.5
Operating income	25.5	37.6	(12.1)
Other income (expense), net	(0.5)	(1.1)	0.6
Interest charges	14.5	15.1	(0.6)
Segment income	\$ 10.5	\$ 21.4	\$ (10.9)
Volume sales, million Dth			
Retail	24.7	31.1	(6.4)
Transportation and power generation	40.9	26.1	14.8
Cost of gas sold, per Dth	\$ 3.57	\$ 4.88	\$ (1.31)
Heating degree days	4,444	5,866	(1,422)

Fiscal Year 2016 Compared with 2015

Margin – Gas margin was \$3.6 million lower than prior year driven by decreases in the following:

- \$1.5 million which is estimated to be the ongoing impact of the discontinuation of the decoupling mechanism compared with 2015;
- \$3.0 million which is estimated to be the one-time impact in 2016 of the discontinuation of the decoupling mechanism;
- \$1.3 million lower retail customer margin, net of Normal Temperature Adjustment mechanism; and
- \$0.6 million of decreased late payment fees.

These decreases were offset by \$2.7 million of increased margin from power generation and transportation.

Other operating expenses – \$8.5 million higher than prior year, driven by:

- \$9.4 million of environmental remediation expense recorded for the Langsdale facility (see Note 12); and
- \$1.2 million of higher employee healthcare and post-employment benefit expenses.

These increases were partially offset by:

- \$1.7 million lower shared service expense allocations and administrative expenses.

Other income (expense), net – \$0.6 million improvement from prior year, driven by a decrease in expenditures for low income assistance programs.

Interest charges – The change was driven by lower outstanding debt as a result of principal payments.

STEAM

	2016	2015	Change
Operating revenues	\$ 65.7	\$ 85.6	\$ (19.9)
Cost of goods sold	34.2	49.0	(14.8)
Margin	31.5	36.6	(5.1)
Other operating expenses	26.4	26.3	0.1
Operating income	5.1	10.3	(5.2)
Other income (expense), net	-	-	-
Interest charges	4.1	4.3	(0.2)
Segment income	\$ 1.0	\$ 6.0	\$ (5.0)
Volume sales, million therms	59.7	64.4	(4.7)
Heating degree days	4,444	5,866	(1,422)

Fiscal Year 2016 Compared with 2015

Margin – Steam margin is \$5.1 million lower than prior year resulting from the following:

- \$3.7 million from lower sales volume due primarily to warmer winter weather in fiscal 2016 as reflected in heating degree days; and
- \$1.5 million of additional credits passing through the Operating Expense Rate Adjustment (OPERA) mechanism in 2016 compared to 2015 (See Note 11 – Citizens Thermal Steam).

CHILLED WATER

	2016		2015	Change
Operating revenues	\$ 37.5	\$	35.5	\$ 2.0
Cost of goods sold	11.7		10.9	0.8
Margin	25.8		24.6	1.2
Other operating expenses	16.7		16.4	0.3
Operating income	9.1		8.2	0.9
Other income (expense), net	-		-	-
Interest charges	2.3		2.4	(0.1)
Segment income	\$ 6.8	\$	5.8	\$ 1.0
Volume sales, million ton hours	143.9		133.9	10.0
Cooling degree days	1,411		1,155	256

Fiscal Year 2016 Compared with 2015

Margin – Higher margin of \$1.2 million is largely attributed to higher volume sold due to warmer weather compared with the prior year.

WATER

	2016		2015	Change
Operating revenues	\$ 187.4	\$	172.5	\$ 14.9
Other operating expenses	133.4		134.9	(1.5)
Operating income	54.0		37.6	16.4
Other income (expense), net	2.0		2.5	(0.5)
Interest charges	49.4		50.1	(0.7)
Segment income	\$ 6.6	\$	(10.0)	\$ 16.6
Volume sales, billion gallons	38.0		37.4	0.6

Fiscal Year 2016 Compared with 2015

Operating revenues – Increased revenues of \$14.9 million are primarily attributed to the rate increase which became effective in April 2016 (see Note 11 – Water).

Operating expenses – The \$1.5 million decrease was largely driven by:

- \$2.6 million in lower shared service expense allocations; and
- \$0.6 million in reduced pension and post-employment benefit expenses.

These decreases were offset by increases of:

- \$0.9 million in property taxes; and
- \$0.5 million in depreciation expense due to an increase in depreciable assets.

Other income (expenses), net – The \$0.5 million decrease was attributable to lower lease income and the impact of non-recoverable expenses for regulatory proceedings.

Interest charges – The \$0.7 million decrease was attributable to lower levels of debt outstanding due to principal payments.

WASTEWATER

	2016		2015	Change
Operating revenues	\$ 221.3	\$	212.7	\$ 8.6
Other operating expenses	158.5		147.1	11.4
Operating income	62.8		65.6	(2.8)
Other income (expense), net	0.8		0.2	0.6
Interest charges	52.6		54.3	(1.7)
Segment income	\$ 11.0	\$	11.5	\$ (0.5)
Volume treatment sales, billion gallons	33.8		33.0	0.8
Strength surcharges, million pounds	40.2		48.6	(8.4)

Fiscal Year 2016 Compared with 2015

Operating revenues – Increased revenues of \$8.6 million were primarily driven by the rate increase which became effective in July 2016 (See Note 11 – Wastewater) and partially offset by lower industrial strength surcharge revenues of \$2.6 million.

Operating expenses – The \$11.4 million increase was primarily driven by the following:

- \$3.7 million in increased shared administrative and field services expense allocations;
- \$1.8 million of payments in lieu of property taxes (PILOT) per the established PILOT schedule;
- \$1.2 million contract fees;
- \$3.1 million in depreciation due to an increase in depreciable assets;
- \$0.8 million in additional electric power expense; and
- \$0.7 million in higher contract services expense.

Other income (expense), net – The \$0.6 million increase is due to nonrecurring incremental rental income related to the commercial operation of a solar energy plant at the Belmont facility, offset by non-recoverable expenses for regulatory proceedings.

Interest charges – The \$1.7 million decrease was primarily driven by an increase in capitalized interest.

RESOURCES

	2016		2015	Change
Operating revenues	\$ 53.1	\$	55.9	\$ (2.8)
Cost of goods sold	16.4		17.9	(1.5)
Margin	36.7		38.0	(1.3)
Other operating expenses	28.0		23.8	4.2
Operating income	8.7		14.2	(5.5)
Other income (expense), net	(2.3)		0.4	(2.7)
Equity in earnings of affiliates	0.3		0.2	0.1
Interest charges	3.2		4.5	(1.3)
Segment income	\$ 3.5	\$	10.3	\$ (6.8)

Fiscal Year 2016 Compared with 2015

Margin – Margin declined \$1.3 million compared with prior year as decreased volume and oil prices attributable to subsidiaries of Kinetrex Energy Holding Company (\$2.7 million) were offset by additional revenues from Citizens Westfield Utilities (\$1.3 million).

Operating expenses – \$4.2 million increase from prior year primarily due to:

- \$2.6 million of additional expenses at subsidiaries of Kinetrex Energy Holding Company;
- \$1.8 million of higher expenses at Citizens Westfield Utilities; and
- \$0.4 million of additional expenses at Citizens of South Madison.

Partially offset by a \$0.4 million decrease in expenses at Citizens Resources Parent.

Other Income (expense), net – \$2.7 million lower than prior year due to losses on asset disposals at subsidiaries of Kinetrex Energy Holding Company.

Interest charges—\$1.3 million lower than prior year primarily due to fair value mark-to-market adjustments recorded for interest rate swaps.

OTHER

	2016		2015		Change
Operating revenues	\$	-	\$	-	\$ -
Other operating expenses		0.1		0.1	-
Operating income		(0.1)		(0.1)	-
Other income (expense), net		(1.5)		(2.8)	1.3
Interest charges		-		-	
Loss from DiscOps		(3.6)		(36.6)	33.0
Segment income	\$	(5.2)	\$	(39.5)	\$ 34.3

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.

Fiscal Year 2016 Compared with 2015

Other income (expense), net—\$1.3 million lower than prior year, driven by decreases in the following:

- \$0.9M – Energy assistance, community investments and volunteer activities; and
- \$0.2M –Advertising costs.

Loss from discontinued operations – \$33.0 million lower than prior year, primarily driven by a \$35.7 million re-measurement of the Asset Retirement Obligation in 2015, partially offset by \$2.5 million higher accretion expense in 2016.

LIQUIDITY AND CAPITAL RESOURCES

Debt and Liquidity

Please see Notes 4 and 5 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, 2016, capital expenditures, on an accrual basis, decreased by \$53.0 million to \$287.0 million from \$340.0 million during the same period last year. This decrease is summarized in the table below (in millions). Certain accrued expenditures, including all capitalized interest, as well as shared services capital expenditures 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
2016	\$ 24.4	\$ 4.7	\$ 2.8	\$ 28.8	\$ 190.1	\$ 10.4	\$ 25.8	\$ 287.0
2015	23.6	2.8	2.4	54.1	215.8	15.8	25.5	340.0
	\$ 0.8	\$ 1.9	\$ 0.4	\$ (25.3)	\$ (25.7)	\$ (5.4)	\$ 0.3	\$ (53.0)

Citizens' and CWA's projected capital spending requirement of \$339.9 million for 2017 is summarized as follows (in millions):

	Gas	Steam	Chilled Water	Water	Wastewater	Resources	Other	Total
2017 Projection	\$ 46.8	\$ 3.5	\$ 2.4	\$ 45.9	\$ 193.3	\$ 12.8	\$ 35.2	\$ 339.9

Gas continues to invest in mains and services to maintain its commitment to the safety and modernization of its underground gas distribution system. Gas had cash and cash equivalents of \$90.1 million at September 30, 2016. Gas expects to meet its capital spending requirements in 2017 through cash flows from operations and the temporary seasonal use of its credit lines (see Note 5 of the combined financial statements).

Citizens Thermal's Steam business segment continues to invest in distribution assets and production equipment. Chilled Water's capital spending plans similarly include investments in distribution assets and production equipment. At September 30, 2016, cash and cash equivalents of Steam and Chilled Water amounted to \$11.9 million and \$34.6 million, respectively. Steam expects to meet its capital spending requirements in 2017 through cash flows from operations and temporary seasonal use of its credit line (see Note 5 of the combined financial statements) while Chilled Water expects to meet its 2017 capital spending requirements through cash flows from operations.

The Water business segment has a capital improvement plan to address system reliability, maintain compliance with regulations, and implement various distribution system and treatment plant improvements. Water had cash and cash equivalents of \$22.4 million at September 30, 2016, including \$0.4 million in the construction fund. Water expects to meet its capital spending requirements in 2017 through cash flows from operations, proceeds from issuance of the Series 2016A bonds (see Note 4 of the combined financial statements), and use of its line of credit (see Note 5 of the combined financial statements). See Note 11 – Water for a discussion of the Order received on April 20, 2016 in 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 12 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 \$247.1 million at September 30, 2016, including \$200.1 million in the construction fund. \$80 million of the September 30, 2016 construction fund balance was used in October 2016 to pay off the entire balance of the line of credit outstanding at September 30, 2016. Wastewater expects to meet its capital spending requirements in 2017 through a combination of cash flows from operations, drawing down the balance in the construction fund that remains from issuance of the Series 2016A and Series 2016C State Revolving Fund (SRF) bonds (see Note 4 of the combined financial statements), its line of credit (see Note 5 of the combined financial statements) and a new issuance of long term debt. See Note 11 – Wastewater for a discussion of the Order received on July 18, 2016 in the Wastewater rate case filed on September 25, 2015.

Resources' capital spending projection for 2017 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 2017 through a combination of cash flows from operations and its lines of credit. See Note 5 of the combined financial statements for additional information on the Westfield Gas, Westfield Water, Westfield Wastewater, and LNG Indy lines of credit.

Derivatives and Hedging

Citizens has entered into certain derivative and economic hedging transactions in 2016 and 2015. 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 10 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 10 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,	
	2016	2015
Operating revenues	\$ 771,156	\$ 841,706
Operating expenses		
Cost of goods sold	132,647	217,753
Operations and maintenance	275,350	261,581
Depreciation and amortization	150,056	144,281
Taxes	48,140	44,971
Total operating expenses	606,193	668,586
Operating income	164,963	173,120
Other income (expense), net		
Interest income	2,383	2,293
Other	(3,833)	(3,124)
Total other income (expense), net	(1,450)	(831)
Income before equity in earnings of affiliates and interest charges	163,513	172,289
Equity in earnings of affiliates	281	166
Interest charges		
Interest on long-term debt	147,242	149,910
Other interest including net premium amortization	(21,178)	(19,193)
Total interest charges	126,064	130,717
Income from continuing operations	37,730	41,738
Loss from discontinued operations	(3,573)	(36,561)
Net income	\$ 34,157	\$ 5,177

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,	
	2016	2015
Net Income	\$ 34,157	\$ 5,177
Other comprehensive income		
Comprehensive income of unconsolidated investment	-	4
Retirement benefit liability changes:		
Net loss arising during period	(38,201)	(20,292)
Less: amortization of prior service credit	(612)	(536)
Less: amortization of loss	9,566	8,513
Total retirement benefit liability changes	(29,247)	(12,315)
Unrealized loss on available for sale investments	(142)	-
Total other comprehensive loss	(29,389)	(12,311)
Total Comprehensive Income (Loss)	<u>\$ 4,768</u>	<u>\$ (7,134)</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, 2016	At September 30, 2015
ASSETS		
Property, plant and equipment		
Plant in service	\$ 5,914,282	\$ 5,631,736
Accumulated depreciation	3,133,130	3,007,369
	2,781,152	2,624,367
Construction work in progress	582,061	572,325
Property held for future use	-	1,443
Total property, plant and equipment	3,363,213	3,198,135
Intangible assets, net	69,004	72,707
Investments		
Bond restricted funds	281,920	261,626
Investment in affiliates	15,835	15,535
Other	33,546	32,797
Total investments	331,301	309,958
Current assets		
Cash and cash equivalents	436,242	272,148
Accounts receivable, less allowance for doubtful accounts of \$2,741 and \$3,473, respectively	79,022	75,588
Accrued utility revenue	18,836	20,077
Natural gas in storage	42,595	46,781
Materials and supplies	10,969	10,769
Recoverable gas and fuel costs	1,338	1,367
Prepayments and deposits	3,098	3,069
Current assets held for sale and discontinued operations	294	276
Total current assets	592,394	430,075
Deferred charges and other non-current assets		
Bond issuance cost, net	23,632	25,217
Other deferred charges	17,756	21,666
Non-current assets held for sale and discontinued operations	314	316
Total deferred charges and other non-current assets	41,702	47,199
TOTAL ASSETS	\$ 4,397,614	\$ 4,058,074
CAPITALIZATION AND LIABILITIES		
Capitalization and non-current liabilities		
Retained earnings	\$ 238,029	\$ 204,282
Accumulated other comprehensive loss	(181,063)	(151,674)
Long-term debt (excluding current maturities)	3,337,728	3,093,150
Retirement benefits	232,791	203,115
Contributions in aid of construction	181,341	149,656
Other long-term liabilities	30,036	24,492
Non-current liabilities directly related to assets held for sale and discontinued operations	84,150	88,805
Total capitalization and non-current liabilities	3,923,012	3,611,826
Current liabilities		
Current maturities of long-term debt	77,649	82,400
Short-term borrowings	138,100	116,000
Accounts payable and accrued expenses	177,968	175,433
Accrued taxes	52,380	50,251
Refundable gas and fuel costs	2,656	-
Customer deposits and advance payments	19,749	18,938
Other current liabilities	4,893	2,276
Current liabilities directly related to assets held for sale and discontinued operations	1,207	950
Total current liabilities	474,602	446,248
Commitments and contingencies (see note 12)		
TOTAL CAPITALIZATION AND LIABILITIES	\$ 4,397,614	\$ 4,058,074

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,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 34,157	\$ 5,177
Depreciation and amortization	147,590	142,265
Loss (gain) on sale or impairment of assets	2,683	(40)
Equity in loss of affiliates, net of distributions	(281)	(166)
Allowance for doubtful accounts	4,413	5,941
Changes in operating assets and liabilities:		
Accounts receivable and accrued utility revenue	(6,608)	(2,148)
Natural gas in storage	3,820	11,472
Recoverable/refundable gas and fuel costs	2,684	4,620
Accounts payable and accrued expenses	3,275	5,421
Retirement benefits	1,083	2,950
Other operating activities	(685)	(1,146)
Change in net liabilities of discontinued operations	4,486	37,296
Net cash provided by operating activities	<u>196,617</u>	<u>211,642</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Construction expenditures	(283,881)	(362,847)
Purchase of investment securities	(239,448)	(219,634)
Sale and maturity of investment securities	219,153	193,491
Proceeds from sale of assets	-	6,500
Other investing activities	(524)	1,139
Net cash used in investing activities	<u>(304,700)</u>	<u>(381,351)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from bank line of credit	112,000	59,000
Repayment of bank line of credit	(89,900)	(25,500)
Proceeds from long-term debt	375,542	188,564
Principal payments of long-term debt and bond refunding	(128,790)	(66,026)
Bond issuance costs	(1,707)	(1,049)
Customer benefits arising from nonregulated operations distributable to gas customers	(207)	(281)
Contributions in aid of construction	5,239	11,849
Net cash provided by financing activities	<u>272,177</u>	<u>166,557</u>
Net change in cash and cash equivalents	164,094	(3,152)
Cash and cash equivalents at beginning of fiscal year	272,148	275,300
Cash and cash equivalents at end of fiscal year	<u>\$ 436,242</u>	<u>\$ 272,148</u>
Supplemental Cash Flows Information - Interest paid	<u>\$ 131,670</u>	<u>\$ 125,492</u>
Non-cash Investing and Operating Activities		
Construction work-in-progress accrued at period end	<u>\$ 51,483</u>	<u>\$ 48,447</u>
Comprehensive gain on investment in affiliates	<u>\$ -</u>	<u>\$ 4</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, 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	<u>\$ 204,282</u>	<u>\$ (151,674)</u>	<u>\$ 52,608</u>
Comprehensive income			
Net income	34,157	-	34,157
Unrealized loss on available-for-sale investments	-	(142)	(142)
Retirement benefit liability changes	-	(29,247)	(29,247)
Total comprehensive income	34,157	(29,389)	4,768
Customer benefit distributions	(410)	-	(410)
Balance at September 30, 2016	<u>\$ 238,029</u>	<u>\$ (181,063)</u>	<u>\$ 56,966</u>

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 includes Westfield Gas, LLC (Westfield Gas), Citizens Water of Westfield, LLC (Westfield Water), and Citizens Wastewater of Westfield, LLC (Westfield Wastewater), all of which operate as regulated investor-owned utilities.

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.

Certain reclassifications have been made to the presentation of prior period operating assets and liabilities in the Combined Statements of Cash Flows to conform with the current presentation. Specifically, the previously separate line items for prepayments and deposits, other current assets, other long-term liabilities, and net change in deferred charges have been combined with and are presented in the line item labeled, "Other operating activities" in the Combined Statements of Cash Flows.

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 3), asset retirement obligation (Discontinued Operations, see Note 9), the fair value of assets and liabilities acquired as part of acquisitions, and assumptions underlying the actuarial calculations for pension and post-employment 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. In the non-rate regulated entities of Resources, the cost of existing assets retired or otherwise disposed of and the related accumulated depreciation are removed in the year of disposal with the resulting gain or loss reflected in earnings.

Plant in service at September 30 (in thousands):

	<u>2016</u>	<u>2015</u>	<u>Useful Lives</u>
Distribution	\$ 1,996,523	\$ 1,941,690	15 - 65 years
Treatment	1,670,706	1,529,940	40 - 50 years
Collection	1,408,275	1,353,464	40 years
Source of supply	237,824	226,677	50 years
Pumping	153,081	151,121	40 - 50 years
Production	124,658	121,694	5 - 75 years
General plant	150,780	141,169	3 - 50 years
Gas Storage	111,373	110,518	33 - 60 years
Transmission	61,062	55,463	22 - 60 years
	<u>\$ 5,914,282</u>	<u>\$ 5,631,736</u>	

Depreciation expense was \$145.7 million and \$139.9 million for the twelve months ended September 30, 2016 and 2015, 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 \$18.9 million and \$17.2 million for the twelve months ended September 30, 2016 and 2015, respectively.

C. Revenue Recognition

Revenue is recorded when earned, either when the product is delivered or when services are performed. Gas, Water and Wastewater customer billings are rendered on a cycle basis on each working day throughout the month. Westfield Gas, Westfield Water, and Westfield Wastewater customer billings for all rate classes are billed near the end 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 or natural gas 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 3), 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. The note was also reviewed for collectability in September of 2015 and 2016. No additional allowance was recorded in 2015 or 2016. Interest received on the ProLiance note was \$0.2 million in 2016 and 2015, 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, 2016 and 2015 (in thousands):

<u>Notes Receivable at September 30, 2016</u>			
<u>Description</u>	<u>Balance</u>	<u>Related Allowance</u>	<u>Receivable Net of Allowance</u>
Note Receivable from City of Carmel	\$ 13,554	\$ -	\$ 13,554
Note Receivable from ProLiance	6,474	3,431	3,043
	<u>\$ 20,028</u>	<u>\$ 3,431</u>	<u>\$ 16,597</u>
<u>Notes Receivable at September 30, 2015</u>			
<u>Description</u>	<u>Balance</u>	<u>Related Allowance</u>	<u>Receivable Net of Allowance</u>
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>

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 2016 and 2015.

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 10), and the amounts of gas costs recovered by Gas and Westfield Gas through rates is deferred and recovered (or refunded) through gas cost adjustments (GCA) permitted by the IURC. Gas is authorized to change its GCA factors quarterly as a result of changes in market prices. 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 \$222.7 million and \$89.1 million at September 30, 2016 and 2015, respectively. Approximately \$200.5 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

Financial Accounting Standards Board (FASB) guidance requires additional disclosures about Citizens' and CWA's financial assets and liabilities that are measured at fair value. Assets and liabilities recorded at fair value in the Combined 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 which are presented in the combined financial statements measured at fair value on a recurring basis, based on the hierarchy, as of September 30, 2016 and September 30, 2015 (in thousands):

Description	2016 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)
Financial Assets:			
Cash equivalents	\$ 222,670	\$ -	\$ -
Bond restricted funds	268,908	-	-
Grantor Trust investments	14,391	-	-
Derivative assets	511	-	-
Total financial assets measured at fair value	<u>\$ 506,480</u>	<u>\$ -</u>	<u>\$ -</u>
Financial Liabilities:			
Total financial liabilities measured at fair value	<u>\$ -</u>	<u>\$ 960</u>	<u>\$ -</u>

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)
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:			
Total financial liabilities measured at fair value	<u>\$ -</u>	<u>\$ 1,460</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. 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 \$281.9 million and \$261.6 million at September 30, 2016 and September 30, 2015, respectively. Included in bond restricted funds are approximately \$12.4 million of proceeds from CWA's First Lien Wastewater Revenue Bonds, Series 2016C, which are held by the Indiana Finance Authority (IFA) until certain conditions for disbursement are met. Such funds are invested in money market funds together with additional amounts committed to other participants in the IFA's Wastewater Revolving Loan Program due to the rapid disbursement of such proceeds by the IFA to such participants. In addition, for fair value disclosure purposes, \$13.0 million of investments in a guaranteed investment contract are excluded in determining the fair value of bond restricted funds pursuant to ASC 825-10-50-8c (Financial Instruments - Disclosure). Gross deposits to the bond restricted fund investments during 2016 and 2015 were \$235.2 million and \$218.6 million, respectively.

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. These 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. Using this method, the estimated fair value of the debt is \$3.6 billion and \$3.3 billion at September 30, 2016 and September 30, 2015, respectively, versus carrying value of \$3.4 billion at September 30, 2016 and \$3.2 billion September 30, 2015.

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. 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. No asset impairments were recorded for 2015 and 2016.

L. Intangible Assets

Intangible assets at September 30, 2016 and September 30, 2015 consist of \$69.0 million and \$72.7 million, respectively, 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, 2016 and 2015, respectively. Accumulated amortization for all intangible customer contracts was \$35.5 million and \$31.8 million at September 30, 2016 and 2015, respectively. Amortization expense of such assets was \$3.7 million in each of the years ended September 30, 2016 and 2015. Estimated aggregate amortization expenses for each of the five succeeding fiscal years are as follows (in thousands):

2017	\$	3,703
2018		3,703
2019		3,703
2020		3,703
2021		3,703

M. 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 \$6.6 million and \$12.5 million in 2016 and 2015, 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.

N. 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) (AOCI) include the impact of pension and other post-employment benefits and its share of ProLiance Holdings, LLC (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. In addition, certain investments are classified as available-for-sale securities, with corresponding unrealized gains and losses deferred and recognized in accumulated other comprehensive income. The following table presents changes in accumulated other comprehensive income (loss) by component for the twelve months ended September 30, 2016 (in thousands):

	Pension Plan	Other Postemployment Benefits	Other	Total
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)	<u>(24,264)</u>	<u>12,114</u>	<u>(161)</u>	<u>(12,311)</u>
Accumulated other comprehensive income (loss) as of September 30, 2015	<u>(138,507)</u>	<u>(13,346)</u>	<u>179</u>	<u>(151,674)</u>
Other comprehensive income (loss) before reclassifications	(33,551)	(4,471)	(321)	(38,343)
Amounts reclassified from accumulated other comprehensive income (loss)	8,852	102	-	8,954
Net current-period other comprehensive income (loss)	<u>(24,699)</u>	<u>(4,369)</u>	<u>(321)</u>	<u>(29,389)</u>
Accumulated other comprehensive income (loss) as of September 30, 2016	<u>\$ (163,206)</u>	<u>\$ (17,715)</u>	<u>\$ (142)</u>	<u>\$ (181,063)</u>

O. 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, 2016 for Water, Wastewater, and Resources are \$13.4 million, \$0.8 million, and \$4.8 million, respectively, versus the values at September 30, 2015 for Water, Wastewater, and Resources of \$14.0 million, \$0.2 million, and \$0.5 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, 2016 for Water, Wastewater, and Resources are \$79.1 million, \$57.6 million, and \$44.7 million, respectively, versus the values at September 30, 2015 for Water, Wastewater, and Resources of \$67.9 million, \$50.1 million, and \$31.6 million, respectively.

P. Environmental Remediation and Related Contingencies

For operating facilities, accruals for environmental commitments and contingencies are recorded when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated based on current law and existing technologies. Such accruals are adjusted as further information develops or circumstances change. Costs of future expenditures for environmental remediation obligations are not discounted to their present value.

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. 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.

In February 2016, the FASB issued ASU 2016-02 which will replace existing accounting guidance for leases. The new standard requires lessees to recognize a right-of-use asset and a lease liability on the balance sheet for all leases with terms longer than twelve months. ASU 2016-02 also requires qualitative and specific quantitative disclosures to supplement amounts recorded in the financial statements so that users can understand more about the nature of an entity's leasing activities. This ASU is effective for reporting periods beginning after December 15, 2018. Adoption of these changes is not expected to have a material impact to the Company's combined financial statements.

3. 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, an affiliation of equal ownership between Resources and ProLiance; and Remittance Processing Services, LLC (RPS), an affiliation of equal ownership between Resources and IPALCO Enterprises, Inc. which was divested on May 16, 2016. A Condensed Statement of Operations of unconsolidated affiliates is presented below for the twelve months ended September 30, 2016 and 2015. A Condensed Statement of Financial Position for unconsolidated affiliates as of September 30, 2016 and 2015 follows. Both statements are presented in thousands.

<u>Condensed Statements of Operations:</u>	Twelve Months Ended September 30,	
	<u>2016</u>	<u>2015</u>
Revenues	\$ 4,008	\$ 4,707
Operating income	1,453	1,473
Net income (loss) from continuing operations	465	(380)
Discontinued operations	10	386
Net income	<u>\$ 475</u>	<u>\$ 6</u>
	As of September 30,	As of September 30,
<u>Condensed Statements of Financial Position:</u>	<u>2016</u>	<u>2015</u>
Current assets	\$ 7,725	\$ 10,809
Non-current assets	61,349	58,856
Total assets	<u>69,074</u>	<u>69,665</u>
Current liabilities	976	1,283
Non-current liabilities	19,481	20,183
Equity	48,617	48,199
Total capitalization and liabilities	<u>\$ 69,074</u>	<u>\$ 69,665</u>

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. Operating services for Heartland are provided by Citizens. Citizens received storage rental fees from Heartland of \$0.6 million in 2016 and 2015. Heartland is accounted for under the equity method.

Impairment Analysis - Investment in ProLiance and Note Receivable

Resources' investment in ProLiance is reviewed for other than temporary impairment 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. An impairment of \$5.7 million was recorded at September 30, 2014, reflecting the amount by which the total carrying value of the investment and note receivable exceeded its estimated fair value.

As part of the sale of certain assets of ProLiance in 2013, 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, 2016 and September 30, 2015, was \$0.2 million and \$0.2 million respectively.

In fiscal year 2014, 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 2016 or 2015.

Divestiture of RPS

On May 16, 2016, Resources and IPALCO Enterprises, Inc. sold their interest in RPS to an unaffiliated third party for approximately \$0.2 million in cash. As a condition of the sale, Citizens has committed to using the bill remittance services provided by RPS for a period of three years. Citizens realized a net loss on sale of the RPS investment which was insignificant to the Combined Statements of Operations for the twelve months ended September 30, 2016.

The activity for fiscal years 2016 and 2015 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, 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	7,587	7,866	82	15,535
Fiscal year 2016 activity	<u>(322)</u>	<u>704</u>	<u>(82)</u>	<u>300</u>
Investment in affiliates as of September 30, 2016	<u>\$ 7,265</u>	<u>\$ 8,570</u>	<u>\$ -</u>	<u>\$ 15,835</u>

4. LONG-TERM DEBT

Long-term debt consisted of the following (due dates are presented on a calendar-year basis):

	(In Thousands)			
	<u>September 30, 2016</u>		<u>September 30, 2015</u>	
	<u>Long-term debt excl. current maturities</u>	<u>Current maturities</u>	<u>Long-term debt excl. current maturities</u>	<u>Current maturities</u>
<u>Gas</u>				
Gas Utility System Series 1986B, Revenue Refunding Bonds, 3.50%, due 2017 to 2018	\$11,065	\$ 10,690	\$ 21,755	\$ 10,280
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 2017 to 2021	45,365	3,175	48,540	3,020
Gas Utility Distribution System Series 2009A, Second Lien Revenue Refunding Bonds, 4.00% to 5.00%, due 2017 to 2018	11,665	205	11,870	200
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	5,747	-	6,121	-
Subtotal Gas Long-Term Debt	<u>244,137</u>	<u>14,070</u>	<u>258,581</u>	<u>13,500</u>
<u>Thermal</u>				
Thermal Energy System Series 2008, Multi-Mode Revenue Bonds, 5.00%, due 2021 to 2025 *	50,070	-	50,070	-
Thermal Energy System Revenue Refunding Bonds Series 2010A, 3.00% to 5.00%, due 2016 to 2029 *	8,130	455	8,585	435
Thermal Energy System Revenue Refunding Bonds Series 2010B, 5.00%, due 2016 to 2021	38,265	7,250	45,515	6,905
Thermal Energy System Revenue Bonds Series 2013A, 3.00% to 5.00% due 2016 to 2033	7,725	310	8,035	300
Thermal Energy System Revenue Bonds Series 2014A, 3.00% to 5.00%, due 2016 to 2034	33,255	1,170	34,425	840

	(In Thousands)			
	September 30, 2016		September 30, 2015	
	Long-term debt excl. current maturities	Current maturities	Long-term debt excl. current maturities	Current maturities
Net Unamortized Bond Premiums and Discounts	6,224	-	7,512	-
Subtotal Thermal Long-Term Debt	143,669	9,185	154,142	8,480
<u>Water</u>				
Water Utility Net Revenue Bonds Series 2011B, 4.125% to 5.00%, due 2018 to 2029 *	54,285	-	54,285	2,725
Water Utility Net Revenue Bonds Series 2011C, 5.50%, due 2018 to 2022 *	60,460	6,515	66,975	10,855
Water Utility Net Revenue Bonds Series 2011D, 5.25%, due 2022 to 2025	70,410	-	70,410	-
Water Utility Net Revenue Bonds Series 2011E, 4.6250% to 5.25%, due 2018 to 2038 *	89,065	-	89,065	2,750
Water Utility Net Revenue Bonds Series 2011F, 4.00% to 5.75%, due 2018 to 2038 *	520,855	6,005	526,860	6,340
Water Utility Net Revenue Bonds Series 2011G, 3.25% to 5.125%, due 2017 to 2041	52,745	1,170	53,915	1,125
Water Utility Net Revenue Bonds Series 2014A, 3.00% to 5.00%, due 2016 to 2044	26,230	475	26,705	465
Water Utility Net Revenue Bonds Series 2014B, Second Lien, 2.95%, due 2022	43,595	-	43,595	-
Water Utility Net Revenue Bonds Series 2016A, First Lien, 3.00% to 5.00%, due 2017 to 2046	69,015	-	-	-
Net Unamortized Bond Premiums	15,588	-	1,850	-
Subtotal Water Long-Term Debt	1,002,248	14,165	933,660	24,260
<u>Wastewater</u>				
CWA Wastewater Utility Revenue Bonds Series 2011A, 2.50% to 5.25%, due 2016 to 2041	627,335	12,650	639,985	12,280
CWA Wastewater Utility Revenue Bonds Series 2011B, Second Lien, 5.00% to 5.25%, due 2016 to 2041	253,755	4,985	258,740	4,750
CWA Wastewater Utility Revenue Bonds Series 2011C, Second Lien, 3.00%, due 2016	-	-	45,990	-
CWA Wastewater Utility Revenue Bonds Series 2012A, 2.75% to 5.00%, due 2016 to 2042	181,995	3,510	185,505	3,375
CWA Wastewater Utility Revenue Bonds Series 2014A, 4.00% to 5.00%, due 2016 to 2044	229,530	3,785	233,315	3,675
CWA Wastewater Utility Revenue Bonds Series 2015A, 3.00% to 5.00%, due 2016 to 2045	156,295	2,480	158,775	-
CWA Wastewater Utility Revenue Bonds Series 2016A, 2.00% to 5.00%, due 2017 to 2046	193,270	-	-	-
CWA Wastewater Utility Revenue Bonds Series 2016B, Second Lien, 3.00% to 5.00%, due 2017 to 2046	43,545	-	-	-

	(In Thousands)			
	September 30, 2016		September 30, 2015	
	Long-term debt excl. current maturities	Current maturities	Long-term debt excl. current maturities	Current maturities
CWA Wastewater Series 2016C SRF Bonds, 2.00% due, 2017 to 2036.	12,105	395	-	-
Obligation to reimburse City for debt service on Sanitary District General Obligation Bonds, see table below	7,483	7,121	14,604	6,777
Net Unamortized Bond Premiums	147,369	-	109,158	-
Subtotal Wastewater Long-Term Debt	1,852,682	34,926	1,646,072	30,857
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 10); due 2017 to 2019	62,757	2,303	65,060	2,303
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 10); 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 10); due 2019	15,270	-	15,270	-
LNG Indy Loan Variable rate based on funded debt to EBITDA ratio; due 2020	8,600	3,000	12,000	3,000
Subtotal Resources Long-Term Debt	94,992	5,303	100,695	5,303
Total Long-Term Bonds Outstanding	\$3,337,728	\$ 77,649	\$3,093,150	\$ 82,400

*All or a portion of this debt issue has been refunded subsequent to the balance sheet date. See business unit debt narratives below for additional details.

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

	(In Thousands)
2017	\$ 77,649
2018	115,051
2019	173,149
2020	92,865
2021	96,905
Thereafter	2,684,830
Total principal maturities	\$ 3,240,449

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 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.

On July 23, 2014, the Thermal Energy System issued \$35.3 million of First Lien Revenue Refunding Bonds, Series 2014A. The bonds were issued to refund the Series 2013B Put Bonds.

On November 22, 2016, Citizens Thermal issued \$50.4 million of First Lien Revenue Refunding Bonds, Series 2016A. The bond issue refunded the Thermal Series 2008 bonds and a portion of the Series 2010A bonds. The Series 2016 bonds were issued at a premium of \$10.1 million and have principal maturities due from 2021 through 2029 with 5% coupons.

Water

The first lien Water Utility Net Revenue bonds, Series 2011B, 2011C, 2011D, 2011E, 2011F, 2011G, 2014A, and 2016A 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 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%.

On June 23, 2016, Citizens Water issued \$69.0 million of First Lien Water Utility Revenue Bonds, Series 2016A. The Series 2016A bonds were issued at a premium of \$13.9 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 capital expenditures for the 24 months ending April 30, 2018, to repay \$63.9 million of the PNC/Huntington Bank line of credit, provide for a debt service reserve fund, and pay the costs of issuance.

On November 17, 2016, Citizens Water issued \$219.9 million of First Lien Refunding Revenue Bonds, Series 2016B. The bonds refunded the Series 2011B and Series 2011E bonds in entirety and a portion of the Series 2011C and Series 2011F bonds. The 2016B bonds were issued at a premium of \$39.7 million and have principal maturities due from 2018 through 2038 with coupons ranging from 4.25% to 4.50%.

Wastewater

The first lien CWA Wastewater Utility Revenue Bonds, Series 2011A, 2012A, 2014A, 2015A, 2016A, and 2016C 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, 2011C, and 2016B 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 to fund capital expenditures for the Wastewater System.

On July 16, 2014, CWA issued the Series 2014A bonds to fund a portion of 2013 and 2014 capital expenditures including repaying \$100 million on the 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 2016 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.

On September 21, 2016, CWA issued \$193.3 million of First Lien Wastewater Utility Revenue Bonds, Series 2016A. The Series 2016A bonds were issued at a premium of \$40.6 million and have principal maturities due between 2017 and 2046 with coupons ranging from 2.0% to 5.0%. The bonds were issued to fund capital improvements to the Wastewater system including repaying \$105 million on the JP Morgan Wells Fargo line of credit.

On September 21, 2016, CWA issued \$43.5 million of Second Lien Wastewater Utility Refunding Revenue Bonds, Series 2016B. The Series 2016B bonds were issued at a premium of \$2.7 million and have principal maturities due between 2017 and 2036 with coupons ranging from 3.0% to 5.0%. The bonds were issued to refund the Second Lien Wastewater Revenue Bonds, Series 2011C.

On September 29, 2016, CWA issued \$12.5 million of First Lien Wastewater Utility Revenue Bonds through the Indiana Finance Authority's State Revolving Fund, Series 2016C. The Series 2016C bonds were issued at par and have principal maturities between 2017 and 2036. The bonds were issued to fund specified projects for the Wastewater system.

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):

	<u>2016</u>	<u>2015</u>
Wastewater General Obligation Bonds Series 2007C, 5.00%, due 2016 to 2018	\$ 12,270	\$ 17,970
Wastewater General Obligation Bonds Series 2013A, 5.25%, due 2016 to 2018	<u>2,334</u>	<u>3,411</u>
Total Wastewater General Obligation Bond Debt	<u>\$ 14,604</u>	<u>\$ 21,381</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 10).

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, 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 10).

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, 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 10).

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 and secured by substantially all assets of LNG Indy. The current interest rate on the loan is LIBOR plus 1.5 percent, with quarterly principal payments. As of September 30, 2016, the balance on the loan is \$11.6 million versus \$15.0 million as of September 30, 2015.

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 2016:

	<u>Coverage Requirement</u>	<u>2016 Actual</u>
GUS Revenue Refunding Bonds Series 1986B	1.4	4.17
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	1.88
Thermal Energy System Revenue Bonds Series 2008, Series 2010A and 2010 B, Series 2013A, and Series 2014A	1.0	1.54
Water Utility Net Revenue Bonds Series 2011B - 2011G, Series 2014A, Series 2016A	1.2	1.43
Water Utility Net Revenue Second Lien Bonds Series 2014B	1.1	1.41
CWA Wastewater Utility Revenue Bonds Series 2011A, Series 2012A, Series 2014A, Series 2015A, Series 2016A and 2016C	1.2	1.87
CWA Wastewater Utility Revenue Second Lien Bonds Series 2011B, 2011C and 2016B	1.1	1.51

As of September 30, 2016, the Water System maintains \$6.9 million in the Rate Stabilization Fund, which is recorded as cash and cash equivalents on the Combined Statement of Financial Position. 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.

5. SHORT-TERM AND OTHER BORROWINGS

Gas

Gas had \$50.0 million in commercial paper outstanding at September 30, 2016 and September 30, 2015. The commercial paper has a maximum maturity of 270 days. The commercial paper last remarketed in December 2016 and will remarket in January 2017. 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. Gas has two working capital lines of credit amounting to \$50.0 million available on an annual basis. On August 3, 2016, Gas executed a three year \$25.0 million line

of credit agreement with BMO Harris Bank NA, with an interest rate of LIBOR plus 1.25 percent. 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. As of September 30, 2016, Gas had no amount outstanding under such lines of credit.

Thermal

The Thermal Energy System has a line of credit with JP Morgan Chase in the amount of \$20.0 million with 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, 2016, no amounts were outstanding.

Water

Water has a capital expenditure line of credit in the amount of \$100.0 million with a termination of December 9, 2017. The line of credit is provided by a syndicate led by PNC. Interest rates are based on the Standard & Poor's and Fitch ratings of the 2014B Second Lien Water Utility Net Revenue Bonds; the interest rate is 68.50 percent of LIBOR plus 0.80 percent with a commitment fee of 0.20 percent. As of September 30, 2016 and September 30, 2015, \$3.1 million and \$64.0 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 2016 or 2015.

Wastewater

CWA has a \$145.0 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, 2016, \$80.0 million was outstanding on the line.

Resources

Westfield Gas, Westfield Water, Westfield Wastewater, and LNG Indy have established lines of credit with terms and conditions as outlined in the table below:

<u>Entity</u>	<u>Credit Capacity</u>	<u>Interest Rate</u>	<u>Commitment Fee</u>	<u>Amount Outstanding as of September 30 (in millions)</u>	
				<u>2016</u>	<u>2015</u>
Westfield Gas	\$4.0 million	LIBOR + 2.15%	0.150%	\$ -	\$ -
Westfield Water	\$10.3 million	LIBOR + 2.40%	0.175%	1.0	1.0
Westfield Wastewater	\$11.0 million	LIBOR + 2.40%	0.175%	3.0	1.0
LNG Indy	\$3.0 million	LIBOR + 1.50%	0.000%	1.0	-

6. 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>2016</u>	<u>2015</u>
Accounts payable	\$ 81,000	\$ 83,834
Accrued interest	57,521	59,646
Customer credit balances	19,911	10,158
Salaries and employee benefits	14,628	16,270
Post-employment benefits	4,809	4,156
Other	99	1,369
Total accounts payable and accrued expenses	<u>\$ 177,968</u>	<u>\$ 175,433</u>

7. 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 in each of the years ended September 30, 2016 and 2015. Citizens provides post-employment 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-employment 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-employment benefit plans are unfunded. Citizens accrues the expected cost of post-employment 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, 2016 is \$14.4 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, 2016 and 2015 (in thousands):

	Defined Benefit Plan		Other Benefits	
	2016	2015	2016	2015
Projected Benefit Obligation (PBO)	\$ 426,330	\$ 377,912	\$ 100,052	\$ 92,686
Plan assets at fair value	280,393	256,779	-	-
Funded status	<u>\$ (145,937)</u>	<u>\$ (121,133)</u>	<u>\$ (100,052)</u>	<u>\$ (92,686)</u>
<i>Amounts recognized in the Consolidated Statements of Financial Position consist of:</i>				
Current liability	\$ -	\$ -	\$ (5,391)	\$ (4,321)
Non-current liability	<u>(145,937)</u>	<u>(121,133)</u>	<u>(94,661)</u>	<u>(88,365)</u>
Net amounts recognized	<u>\$ (145,937)</u>	<u>\$ (121,133)</u>	<u>\$ (100,052)</u>	<u>\$ (92,686)</u>
<i>Amounts in Accumulated Other Comprehensive Income (AOCI), not in costs: *</i>				
Unrecognized prior service cost	\$ 1,102	\$ 1,363	\$ (7,108)	\$ (7,979)
Unrecognized actuarial loss	<u>162,104</u>	<u>137,144</u>	<u>24,823</u>	<u>21,325</u>
Total amounts in AOCI	<u>\$ 163,206</u>	<u>\$ 138,507</u>	<u>\$ 17,715</u>	<u>\$ 13,346</u>
Accumulated Benefit Obligation (ABO)	\$ 381,743	\$ 344,092		

* The amounts expected to be recognized in 2017 out of AOCI are \$10.7 million for the defined benefit pension plan and \$0.3 million for the other benefits.

In accordance with the Mortality Improvement Scale RP-2014 using MP-2015, Citizens applied the new mortality assumptions which were used in the determination of the projected benefit obligation as of September 30, 2016. The net periodic benefit cost for these plans included the following components (in thousands):

	Defined Benefit Plan		Other Benefits	
	2016	2015	2016	2015
Service cost-benefits attributed to service during the period	\$ 11,116	\$ 11,075	\$ 4,635	\$ 4,996
Interest cost	15,156	14,509	3,541	3,828
Actual (gain) loss on assets	(18,536)	8,121	-	-
Amortization of prior service cost	261	361	(871)	(897)
Amortization of loss	8,603	6,554	972	1,959
Deferred actuarial gain (loss)	2,473	(24,558)	-	-
Net periodic benefit cost	<u>\$ 19,073</u>	<u>\$ 16,062</u>	<u>\$ 8,277</u>	<u>\$ 9,886</u>

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

	Citizens Defined Benefit Pension		Water Defined Benefit Pension		Citizens Other Benefits	
	2016	2015	2016	2015	2016	2015
Average discount rate	3.39%	4.14%	2.78%	3.51%	3.12%	3.92%
Rate of increase in future compensation levels	3.50%	3.50%	-	-	-	-

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

	Citizens Defined Benefit Pension		Water Defined Benefit Pension		Citizens Other Benefits	
	2016	2015	2016	2015	2016	2015
Average discount rate	4.14%	4.15%	3.51%	3.63%	3.92%	3.96%
Rate of increase in future compensation levels	3.50%	3.50%	-	-	-	-
Expected long-term rate of return on assets	6.24%	6.24%	6.24%	6.24%	-	-

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

	2016	2015
Health care cost trend rate assumed for next year	8.00%	8.50%
Rate to which the cost trend rate is assumed to decline	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	2023	2022

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 2016 and 2015.

The following table presents the pension assets measured at fair value on a recurring basis, based on the hierarchy as of September 30, 2016 and 2015 (in thousands):

Description	2016 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	\$ 7,249	\$ -	\$ -
Equities	167,082	-	-
Fixed income	106,062	-	-
Total pension assets measured at fair value	<u>\$ 280,393</u>	<u>\$ -</u>	<u>\$ -</u>

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

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

Citizens' pension plan weighted-average asset allocation as of September 30, 2016 and 2015, by asset category is as follows:

	<u>2016</u>	<u>2015</u>
Equity securities	59%	58%
Debt securities	38%	40%
Cash and cash equivalents	3%	2%
	<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 Plan		Other Benefits	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Employer contributions (net of participant contributions)	\$ 18,966	\$ 17,502	\$ 5,281	\$ 4,445
Benefits paid	14,944	13,976	5,281	4,445

Citizens expects to contribute, at a minimum, \$19.1 million to the pension plans for 2017. The following retirement benefit payments, which reflect future service, as appropriate, are expected to be paid (in thousands):

	<u>Defined Benefit Plan</u>	<u>Other Benefits</u>
2017	\$ 16,938	\$ 5,391
2018	17,445	5,818
2019	18,124	6,226
2020	18,652	6,555
2021	19,655	6,774
Years 2022 - 2026	109,419	36,138

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):

	<u>2016</u>	<u>2015</u>
Effect on total of service and interest cost	\$ 928	\$ 1,008
Effect on post-employment benefit obligation	8,955	8,442

8. 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 \$15.8 million and \$15.5 million at September 30, 2016 and September 30, 2015, 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 and a natural gas marketer; KEEP, an oil producer; and CSM, a small unregulated water utility. On February 1, 2015 the Oil business segment was transferred to KEEP.

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, 2016 and 2015 is summarized as follows:

Segment Footnote - Combined Statement of Operations*Citizens Energy Group and Subsidiary and CWA Authority, Inc.**(In Thousands)**For the Twelve Months Ended September 30, 2016*

	Gas	Steam	Chilled Water	Water	Waste- water	Resources	Other	Elimin- ations	Total
Operating revenues									
Customer revenues	\$218,556	\$61,963	\$37,519	\$186,396	\$220,389	\$46,333	\$ -	\$ -	\$ 771,156
Intercompany revenues	8,871	3,720	-	1,023	928	6,725	-	(21,267)	-
Gross operating revenues	227,427	65,683	37,519	187,419	221,317	53,058	-	(21,267)	771,156
Operating expenses:									
Cost of goods sold	88,175	34,193	11,749	-	-	16,392	-	(17,862)	132,647
Operations and maintenance	79,924	19,825	8,109	77,905	74,614	18,623	(277)	(3,373)	275,350
Depreciation and amortization	25,226	5,011	6,163	41,775	64,924	6,957	-	-	150,056
Taxes	8,592	1,629	2,470	13,745	18,949	2,385	370	-	48,140
Total operating expenses	201,917	60,658	28,491	133,425	158,487	44,357	93	(21,235)	606,193
Operating income (loss)	25,510	5,025	9,028	53,994	62,830	8,701	(93)	(32)	164,963
Other income (expense), net:									
Interest income	30	25	11	1,919	166	231	52	(51)	2,383
Other	(561)	-	-	130	641	(2,534)	(1,509)	-	(3,833)
Total other income (expense), net	(531)	25	11	2,049	807	(2,303)	(1,457)	(51)	(1,450)
Income (loss) before equity in earnings of affiliates and interest charges									
	24,979	5,050	9,039	56,043	63,637	6,398	(1,550)	(83)	163,513
Equity in earnings of affiliates	-	-	-	-	-	281	-	-	281
Interest charges:									
Interest on long-term debt	12,985	4,484	2,704	49,300	75,077	2,692	51	(51)	147,242
Other interest including net premium (discount) amortization	1,496	(398)	(449)	142	(22,464)	477	18	-	(21,178)
Total interest charges	14,481	4,086	2,255	49,442	52,613	3,169	69	(51)	126,064
Income (loss) from continuing operations	10,498	964	6,784	6,601	11,024	3,510	(1,619)	(32)	37,730
Loss from discontinued operations	-	-	-	-	-	-	(3,605)	32	(3,573)
Net income (loss)	\$ 10,498	\$ 964	\$ 6,784	\$ 6,601	\$ 11,024	\$ 3,510	\$ (5,224)	\$ -	\$ 34,157

Segment Footnote - Combined Statement of Operations*Citizens Energy Group and Subsidiary and CWA Authority, Inc.**(In Thousands)**For the 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
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)	(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)	\$ 21,377	\$ 5,974	\$ 5,772	\$ (10,047)	\$ 11,462	\$ 10,199	\$ (39,560)	\$ -	\$ 5,177

Segment Footnote - Combined Statement of Financial Position*Citizens Energy Group and Subsidiary and CWA Authority, Inc.**(In Thousands)**At September 30, 2016*

	Gas	Steam	Chilled Water	Water	Waste- Water	Resources	Other	Total
Assets								
Property, plant, and equipment	\$307,839	\$ 73,557	\$ 64,410	\$ 1,071,101	\$ 1,625,112	\$ 197,516	\$ 23,678	\$ 3,363,213
Intangibles	-	18,137	50,867	-	-	-	-	69,004
Investments	18,503	11,698	5,467	95,835	179,570	19,711	517	331,301
Cash and cash equivalents	90,056	11,857	34,648	22,407	247,062	9,885	20,327	436,242
Other current assets	61,452	11,597	8,549	37,604	45,845	10,030	(18,925)	156,152
Deferred charges and other non-current assets	11,075	1,897	462	7,934	15,344	2,232	2,758	41,702
Total assets	\$488,925	\$128,743	\$164,403	\$1,234,881	\$2,112,933	\$239,374	\$ 28,355	\$ 4,397,614
Capitalization and Liabilities								
Retained earnings and accumulated OCI	\$ 58,720	\$ 8,749	\$100,081	\$ 17,030	\$ (25,809)	\$ 67,196	\$ (169,001)	\$ 56,966
Long-term debt	244,137	92,344	51,325	1,002,248	1,852,682	94,992	-	3,337,728
Retirement benefit and Other long-term liabilities	61,193	10,205	3,585	152,368	59,973	57,216	183,778	528,318
Current maturities of long-term debt	14,070	5,082	4,103	14,165	34,926	5,303	-	77,649
Short-term borrowings	50,000	-	-	3,100	80,000	5,000	-	138,100
Current liabilities	60,805	12,363	5,309	45,970	111,161	9,667	13,578	258,853
Total capitalization and liabilities	\$488,925	\$128,743	\$164,403	\$1,234,881	\$2,112,933	\$239,374	\$ 28,355	\$ 4,397,614

Segment Footnote - Combined Statement of Financial Position*Citizens Energy Group and Subsidiary and CWA Authority, Inc.**(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 Cash Flows*Citizens Energy Group and Subsidiary and CWA Authority, Inc.**(In Thousands)**For Twelve Months Ended September 30, 2016*

	Gas	Steam	Chilled Water	Water	Waste- Water	Resources	Other	Total
Net cash provided by operating activities	\$ 51,694	\$ 2,238	\$ 13,126	\$ 43,122	\$ 67,667	\$ 15,202	\$ 3,568	\$ 196,617
Investing Activities:								
Construction expenditures	(23,645)	(3,401)	(2,924)	(27,722)	(207,884)	(11,560)	(6,745)	(283,881)
Purchase of investment securities	(26,411)	(9,590)	(6,816)	(78,496)	(118,135)	-	-	(239,448)
Sale and maturity of investment securities	26,643	9,152	6,710	73,502	103,146	-	-	219,153
Other investing activities	71	-	-	673	(1,442)	119	55	(524)
Net cash used in investing activities	(23,342)	(3,839)	(3,030)	(32,043)	(224,315)	(11,441)	(6,690)	(304,700)
Financing Activities:								
Proceeds from bank line of credit	-	-	-	3,000	105,000	4,000	-	112,000
Repayment of bank line of credit	-	-	-	(63,900)	(25,000)	(1,000)	-	(89,900)
Proceeds from long-term debt	-	-	-	82,942	292,600	-	-	375,542
Principal payments of long-term debt and bond refunding	(13,500)	(4,572)	(3,908)	(24,260)	(76,847)	(5,703)	-	(128,790)
Bond issuance costs	-	-	-	(529)	(1,178)	-	-	(1,707)
Contributions in aid of construction	-	-	-	3,089	6,960	(4,810)	-	5,239
Other financing activities	(207)	-	-	-	-	-	-	(207)
Net cash provided by (used in) financing activities	(13,707)	(4,572)	(3,908)	342	301,535	(7,513)	-	272,177
Net change in cash and cash equivalents	14,645	(6,173)	6,188	11,421	144,887	(3,752)	(3,122)	164,094
Cash and cash equivalents at beginning of period	75,411	18,031	28,461	10,984	102,175	13,636	23,450	272,148
Cash and cash equivalents at end of period	\$ 90,056	\$ 11,858	\$ 34,649	\$ 22,405	\$ 247,062	\$ 9,884	\$ 20,328	\$ 436,242

Segment Footnote - Combined Statement of Cash Flows*Citizens Energy Group and Subsidiary and CWA Authority, Inc.**(In Thousands)**For Twelve Months Ended 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)
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 in 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)
Bond issuance costs	-	(10)	-	(2)	(1,037)	-	-	(1,049)
Contributions in aid of construction	-	-	-	3,417	8,422	10	-	11,849
Other financing activities	(281)	-	-	-	-	-	-	(281)
Net cash provided by (used in) 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	(6,056)	(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

Additional Thermal Financial Information

Additional Thermal financial information for the years ended September 30, 2016 and 2015 is summarized as follows (in thousands):

	<u>2016</u>	<u>2015</u>
Net Income	\$ 7,748	\$ 11,746
Total Liabilities	183,981	190,268
Equity	109,165	103,913
Interest Charges on Long-Term Debt	7,188	7,576
<i>Cash Flow Information:</i>		
Cash and Cash Equivalents, Beginning of Fiscal Year	\$ 46,492	\$ 30,109
Cash Provided by Operating Activities	15,363	29,783
Cash Used In Investing Activities	(6,870)	(6,080)
Cash Used in Financing Activities	(8,480)	(7,320)
Cash and Cash Equivalents, End of Fiscal Year	<u>\$ 46,505</u>	<u>\$ 46,492</u>

9. DISCONTINUATION OF MANUFACTURING 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, 2016 and September 30, 2015, 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 (ARO) 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, 2016 and September 30, 2015 are as follows:

	(In Thousands)	
	<u>September 30, 2016</u>	<u>September 30, 2015</u>
Current assets	\$ 294	\$ 276
Deferred charges and other non-current assets	314	316
Total assets	<u>\$ 608</u>	<u>\$ 592</u>
Retained earnings and AOCI	\$ (97,701)	\$ (93,231)
Retirement benefit and other long-term liabilities	84,150	88,805
Intercompany liability	12,925	4,025
Current liabilities	1,234	993
Total capitalization and liabilities	<u>\$ 608</u>	<u>\$ 592</u>

For the fiscal years ended September 30, 2016 and 2015, Discontinued Operations operating expenses were \$3.6 million and \$36.6 million, respectively.

Activity for the twelve months ended September 30, 2016 and 2015 for the asset retirement obligation liability is as follows:

	<u>(In Thousands)</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	\$ 80,869
Accretion expense	2,943
Demolition liabilities settled	(5,334)
Remediation liabilities settled	<u>(3,040)</u>
Asset retirement obligation as of September 30, 2016	<u>\$ 75,438</u>

10. 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 \$52.0 million and \$53.9 million as of September 30, 2016 and September 30, 2015, 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 \$0.6 million and \$1.0 million as of September 30, 2016 and September 30, 2015, 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, 2016. 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 \$0.3 million and \$0.5 million as of September 30, 2016 and September 30, 2015, 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, 2016 and September 30, 2015, while the latter table provides a breakdown of the related impact on the results of operations for the twelve months ended September 30, 2016 and 2015. Citizens recovers derivative costs related to commodity contracts through its regulatory mechanism for gas cost adjustments.

Fair Value of Derivative Instruments (in Thousands)

Derivative Instrument	Derivative Designation	Statement of Financial Position Location	September 30, 2016		September 30, 2015	
			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	\$511	(\$0)	\$216	(\$0)
Interest rate swaps	Not accounted for as a hedge (3)	Non-Current Liabilities	\$0	(\$960)	\$0	(\$1,460)

- (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 6.8 million and 7.5 million dekatherms at September 30, 2016 and September 30, 2015, 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 gain included in recoverable gas costs was \$0.1 million at September 30, 2016 and the amount of realized loss included in recoverable gas costs was \$1.4 million at September 30, 2015. The margin deficit was less than \$0.1 million at September 30, 2016 and \$0.1 million at September 30, 2015.

Derivative Impact on Statement of Operations (in Thousands)

Derivative Instrument	Derivative Designation	Statement of Operations Location	September 30, 2016	September 30, 2015
Commodity contracts	Not accounted for as a hedge	Gain (Loss) in Cost of Goods Sold	\$2,146	\$2,148
Interest rate swaps	Not accounted for as a hedge	Interest Expense	\$260	\$1,889

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, 2016 and 2015 was an increase of \$1.1 million and a decrease of \$0.6 million, respectively. The impact of the interest rate swaps on the statements of cash flows was \$0.8 million and \$0.9 million for the twelve months ended September 30, 2016 and 2015, respectively.

11. RATE AND REGULATORY MATTERS**A. Regulatory Developments**Gas

Gas' most recent rate order became effective in September 2011. In an order issued in April 2013, the Indiana Utility Regulatory Commission (IURC) approved a continuation through calendar year 2015 of Gas' decoupling mechanism, which generally supports 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 Gas wished to extend the decoupling mechanism beyond December 30, 2015, it needed to file a base rate case by that date. On January 4, 2016, Citizens filed a notice with the IURC stating it did not intend to file a base rate case on or before December 30, 2015, and immediately began winding down the decoupling mechanism and related energy efficiency programs.

Citizens Thermal Steam

Citizens Thermal Steam's most recent rate order (the "2014 Steam Rate Case") became effective May 2014.

Under the terms of a settlement agreement in IURC Cause No. 44149 (the "44149 Settlement"), Citizens agreed to implement an Operating Expense Rate Adjustment (OPERA) mechanism to track savings related to implementation of the plan to convert the Perry K plant to natural gas (the "Natural Gas Conversion Plan") and pass those savings back to customers. 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. As of

September 30, 2016, \$5.6 million of savings has been accumulated (\$2.1 million in 2015 and \$3.5 million in 2016) and \$2.7 million has been returned to customers by the OPERA mechanism. Citizens also agreed in the 44149 Settlement to file a base rate case with a test year ending 12 to 16 months following completion of the Natural Gas Conversion Plan.

Pursuant to the 44149 Settlement, on April 22, 2016, Citizens filed a petition requesting approval to decrease its authorized revenue requirement to reflect in base rates the operating cost savings achieved as a result of the Natural Gas Conversion Plan and wind down the OPERA mechanism. Citizens' petition also requested approval of a Normal Temperature Adjustment (NTA) for the steam utility's heat sensitive customers to mitigate the impacts of abnormal temperatures on the steam utility and its customers. On September 2, 2016, Citizens and the OUCC filed a settlement agreement with the IURC recommending approval of a decrease to annual operating revenues of \$2.44 million or 3.09 percent. The settlement agreement also recommended approval of Citizens' proposed NTA; however, under the settlement agreement, the NTA would only be applicable to Citizens' smaller, General Steam Service customers. On November 22, 2016, the IURC approved the settlement agreement without any material modification. Revised rates and charges for steam utility service in compliance with the settlement agreement and order were placed in effect December 1, 2016.

Water

Prior to the April 20, 2016 rate order described below, Water's most recent rate order became effective in March 2014.

In June 2015, Citizens filed a petition with the IURC requesting, among other things, an increase in Water base rate revenues of \$37.7 million. On December 23, 2015, the parties filed a settlement agreement with the IURC reflecting a proposed revenue increase of \$27.8 million. On April 20, 2016, the IURC issued an Order (the 2016 Water Order) authorizing an annual revenue increase of \$27.7 million or 16.01%. Recovery of debt service on all outstanding long-term debt of the Water System plus new long-term debt to be issued in 2016 (the Water 2016A bonds) was included in the Order (see Note 4 to the financial statements for a description of the Water 2016A bonds). The new schedule of rates and charges was implemented effective April 22, 2016, and was reduced by \$0.9 million annually effective July 27, 2016, since the actual debt service on the Water 2016A bonds was \$0.9 million less than the amount assumed in the 2016 Water Order.

Wastewater

Prior to the July 18, 2016 rate order described below, Wastewater's most recent rate order became effective in October 2014.

In September 2015, CWA filed a petition with the IURC requesting, among other things, a two-step increase in base rate revenues. On March 8, 2016, the parties filed a settlement agreement with the IURC reflecting a two-step increase of \$47.8 million for the first step and of \$13.5 million for the second step. On July 18, 2016, the IURC issued an Order (the 2016 Wastewater Order) authorizing a step 1 rate increase amounting to \$47.7 million of additional revenue or 21.5% and a step 2 rate increase amounting to \$13.5 million of additional revenue or 5.0%. Recovery of debt service on all outstanding debt of the Wastewater System plus the CWA bonds expected to be issued in 2016 was included in the step 1 increase and debt service on the CWA bonds expected to be issued in fiscal year 2017 was included in the step 2 increase in the 2016 Wastewater Order. The step 1 rate increase was implemented effective July 20, 2016 and was reduced by \$2.7 million effective November 4, 2016 since the actual debt service on the CWA bonds issued in 2016 was \$2.7 million less than the amount assumed in the 2016 Wastewater Order. The step 2 increase will be implemented upon the release of the Official Statement for the planned CWA 2017 bond issuance which is expected to be approximately one year from the implementation of the step 1 rate increase.

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 wished to extend the decoupling mechanism beyond December 30, 2015, it needed to file a base rate case by that date. Westfield Gas filed a base rate case petition on December 30, 2015. On June 17, 2016, Westfield Gas filed its case in chief testimony in support of a proposed increase to total revenues of \$0.4 million or 9.2%. Westfield Gas is also seeking approval to make progress toward a straight-fixed variable rate design and to extend its energy efficiency program portfolio as well to continue its decoupling mechanism, to the extent not addressed through the movement toward a straight-fixed variable rate design. On September 28, 2016, the OUCC filed testimony recommending a decrease to Westfield Gas' annual revenue requirement of \$.03 million or 0.9 percent. The OUCC's testimony also recommended Westfield Gas' decoupling mechanism be discontinued. On November 23, 2016, Westfield Gas and the OUCC reached an agreement in principle. The agreement in principle would result in an increase to total revenues of \$0.1 million or 2.9%. The agreement in principle would also allow Westfield Gas to extend its energy efficiency program portfolio and decoupling mechanism. The agreement in principle must be finalized, filed with the IURC, and approved by the IURC for it to become effective.

Resources - Westfield Water

Westfield Water's most recent rate order became effective March 21, 2014, and included rate increases of 5%, 3%, and 5% on January 1, 2014, 2015 and 2016, respectively.

Resources – Westfield Wastewater

Westfield Wastewater's most recent rate order also became effective March 21, 2014, and included rate increases of 4%, 3%, and 2% on January 1, 2014, 2015, and 2016, respectively. On August 12, 2016, Westfield Wastewater filed with the IURC a base rate case petition and case in chief testimony in support thereof seeking approval of an increase to total revenues of \$2.4 million or 25.29%. On December 5, 2016, the OUCG filed testimony recommending a decrease to Westfield Wastewater's annual revenue requirement of \$0.9 million or 8.90 percent. Westfield Wastewater's rebuttal testimony is scheduled to be filed on January 4, 2017. An evidentiary hearing is scheduled to commence on January 23, 2017.

B. 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. Accordingly, the carrying value of Deferred Remediation Costs and the Regulatory Credit for Remediation were assessed and adjusted in 2016.

Regulatory assets were comprised of the following at September 30, 2016 and 2015 (in thousands):

	2016	2015	Recovery Period	Statement of Financial Position Location
Deferred Acquisition Transaction Costs	\$ 8,747	\$ 9,418	25 - 26 years	Other deferred charges
Decoupled Sales Component	4,066	2,075	1 - 15 months	Other deferred charges
Deferred Regulatory Proceeding Costs	1,512	1,440	1 - 9 years	Other deferred charges
Price Volatility Mitigation Program	-	1,367	1 - 13 months	Recoverable gas and fuel costs
Deferred Remediation Costs	-	4,332	Adjusted in 2016	Other deferred charges
Deferred Fuel Tracking Adjustments	1,241	-	1 - 18 months	Recoverable gas and fuel costs
Total Regulatory Assets	<u>\$ 15,566</u>	<u>\$ 18,632</u>		

Regulatory liabilities were comprised of the following at September 30, 2016 and 2015 (in thousands):

	2016	2015	Refund Period	Statement of Financial Position Location
Contributions in Aid of Construction	\$ 181,341	\$ 149,656	40 - 50 years	Contributions in aid of construction
Regulatory Credit for Remediation	-	5,858	Adjusted in 2016	Other long-term liabilities
Deferred Water Rights	529	663	6 - 7 years	Other long-term liabilities
Price Volatility Mitigation Program	77	-	1 - 13 months	Refundable gas and fuel costs
Deferred Fuel Tracking Adjustments	5,417	6,310	1 - 18 months	Accounts payable and accrued expenses
Other	697	1,887	Various	Accounts payable and accrued expenses
Total Regulatory Liabilities	<u>\$ 188,061</u>	<u>\$ 164,374</u>		

12. COMMITMENTS AND CONTINGENCIES**A. Environmental Commitments and Contingencies**

Citizens and CWA are subject to various environmental laws and regulations and believe they are in 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 9 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 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 (IDEM) Voluntary Remediation Program (VRP) in 2005 to address historical environmental impacts associated with these operations.

Upon completion of a remediation work plan (RWP) in the fourth quarter of 2016, Citizens recorded a \$9.4 million liability for estimated remediation and restoration costs at the Langsdale Facility. These costs are expected to be incurred over a ten year period. Citizens filed the RWP with IDEM in November 2016. The obligation is included in "Other current liabilities" and "Other long-term liabilities" in the Combined Statements of Financial Position and represents management's best estimate of the costs for remediation and restoration of the site. Due to a number of uncertainties, including uncertainty of timing, the scope of remediation, future technology, regulatory changes, and other factors, the ultimate remediation costs may exceed the amounts estimated.

Potential National Priorities List Site, Indianapolis

The United States Environmental Protection Agency (EPA) has proposed that an area near downtown Indianapolis be added to the National Priorities List (NPL) under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), commonly known as "Superfund," due to the presence of certain chlorinated solvents in groundwater. The area is expected to include two well fields operated by Water. In addition, Gas owns property within the evaluation area. It is probable that the company will incur costs related to the EPA's investigation, should the EPA add the proposed site to the NPL. While those amounts are not reasonably estimable at this time due to the early stages of this process, management does not anticipate they will have a material effect on its financial position, operations, equity, or cash flows at this time.

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 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 Consent Decree

As was the common engineering practice during the late 1800's through the early 1900's, the older portion of the Wastewater System (System) was designed to carry both stormwater and sanitary waste (also referred to as a "combined sewer system"). 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 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 capturing or eliminating these overflows. 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 system. The plan established a twenty year schedule for the required Wastewater System improvements.

Upon acquisition of the Wastewater System, CWA assumed the obligations under the 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 DigIndy program, 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 feet 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 Advanced Wastewater 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 were mined for the Eagle Creek tunnel extension in fiscal year 2015. Currently the White River tunnel is under construction and mining began in September 2016. When

expressed in 2016 dollars, CWA estimates that the projected cost of the Consent Decree, including capital and operation and maintenance costs, is approximately \$2.0 billion. In the third quarter of 2016 Citizens announced that Shea-Kiewit Joint Venture, the current tunnel contractor, was awarded a contract of \$533 million to complete the remaining eighteen miles of tunnel and drop shafts, which will be constructed over a period of approximately seven years.

B. 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 and a co-defendant were 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 they have incurred over \$4.3 million in medical bills as a result of their injuries. In addition, the plaintiffs are seeking payment for estimated future medical expenses, lost earning potential and related damages. Citizens maintains excess liability insurance coverage from highly-rated insurers to mitigate financial exposure for these types of matters and believes that this coverage will be sufficient to cover any significant liability to Citizens that may result from this incident. While management cannot predict the outcome of this litigation, Citizens intends to vigorously defend the allegations against Citizens.

The insurer of the apartment complex also filed a complaint alleging property damage and loss of rental income of approximately \$0.4 million. Citizens and the insurer of the apartment complex entered into a confidential settlement agreement that resulted in the insurer's complaint being dismissed. The settlement had no significant impact on the Combined Statements of Operations for the twelve months ended September 30, 2016.

C. Commitments

Suez North America 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 (now known as Suez North America, "Suez"), pursuant to which Suez manages the Wastewater System and the stormwater system for the City of Indianapolis. Management and incentive fees with Suez were \$42.6 million and \$41.1 million for the twelve months ending September 30, 2016 and 2015 respectively. This included \$5.1 million for stormwater management in 2016 and \$5.0 million in 2015. The contract is currently set to expire on January 1, 2017. Citizens has notified Suez that Citizens does not intend to renew or extend the current agreement beyond the January 1, 2017 contract expiration date. As a result, Citizens will begin operating and maintaining the wastewater system on that date.

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 Suez, 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 Suez. The City compensates CWA approximately \$5.6 million annually, including up to \$0.5 million in reimbursable expenses as defined in the agreement, of which approximately \$5.1 million is the amount CWA is obligated to compensate Suez 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. In connection with the decision not to renew or extend the current agreement with Suez (as noted above), Citizens indicated to the City its willingness to continue to perform certain stormwater management functions for the City of Indianapolis through December 31, 2017, pending agreement on basic terms.

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 \$10.6 million and \$10.4 million for the years ended September 30, 2016 and 2015, respectively. Future minimum lease payments under non-cancelable operating leases as of September 30, 2016 are as follows (in thousands):

2017	\$	9,211
2018		4,535
2019		445
2020		243
2021		243
Thereafter		-
Total minimum lease payments	\$	<u>14,677</u>

13. SUBSEQUENT EVENTS

Management has considered the impact of subsequent events through December 14, 2016, the date at which these combined financial statements were issued.

On November 16, 2016, the Resources Board of Directors approved in principle the sale of the ownership units of LNG Indy. In conjunction with that sale, the Citizens Board of Directors approved the sale of the LNG North Facility owned by Citizens (collectively, the "Kinetrex Transaction"). Closing of the Kinetrex Transaction is subject to a number of conditions for which satisfaction is reasonably anticipated but is outside of Citizens' control, and there can be no assurance as to the timing or certainty of consummation of the transaction.

INDEPENDENT AUDITORS' REPORT

To the Board 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, both of which are under common ownership and common management, which comprise the combined statements of financial position as of September 30, 2016 and 2015, 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

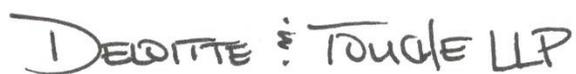
Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from 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 as of September 30, 2016 and 2015, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Indianapolis, Indiana
December 14, 2016

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 flourish extending from the bottom left.

John R. Brehm
Senior Vice President & Chief Financial Officer