



Annual Financial Report 2019
Management Discussion & Financial Report

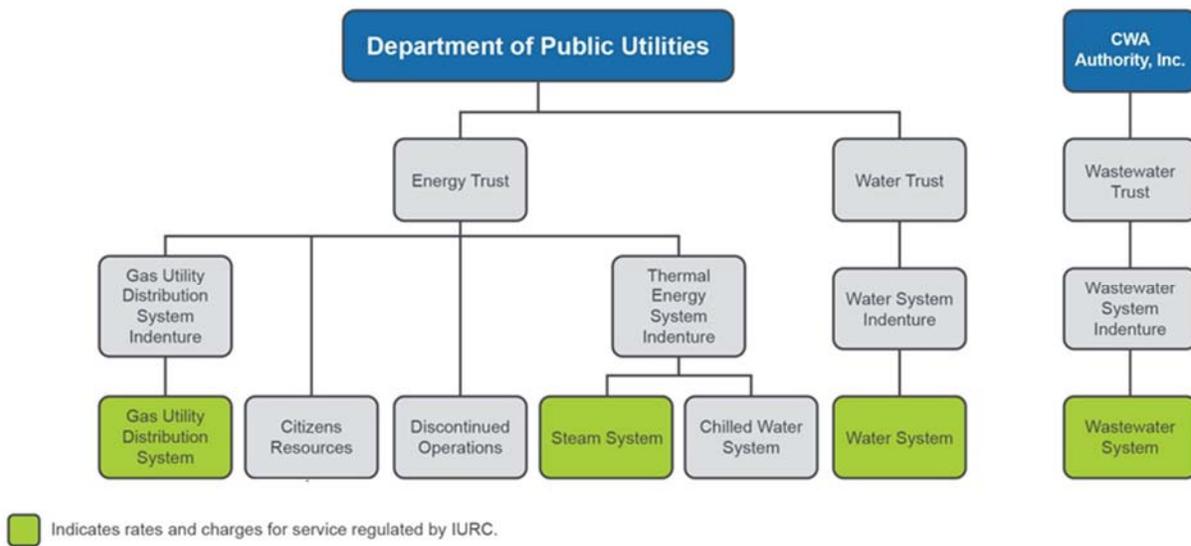
MANAGEMENT DISCUSSION AND ANALYSIS

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. The Water System is subject to a separate public charitable trust (the Water Trust) that operates in substantially the same manner as the Energy Trust.

The Wastewater System is owned by CWA, a separate nonprofit corporation, which through an interlocal agreement entered into by and among Citizens, the City of Indianapolis, and the Sanitary District of the City (the "District"), acting by and through its Board of Public Works, pursuant to Indiana Code 36-1-7, has the power to exercise all rights and powers of Citizens, the City, and the District in connection with the provision of wastewater utility services, excluding in the case of the City and the District, taxing power and taxing authority. 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.

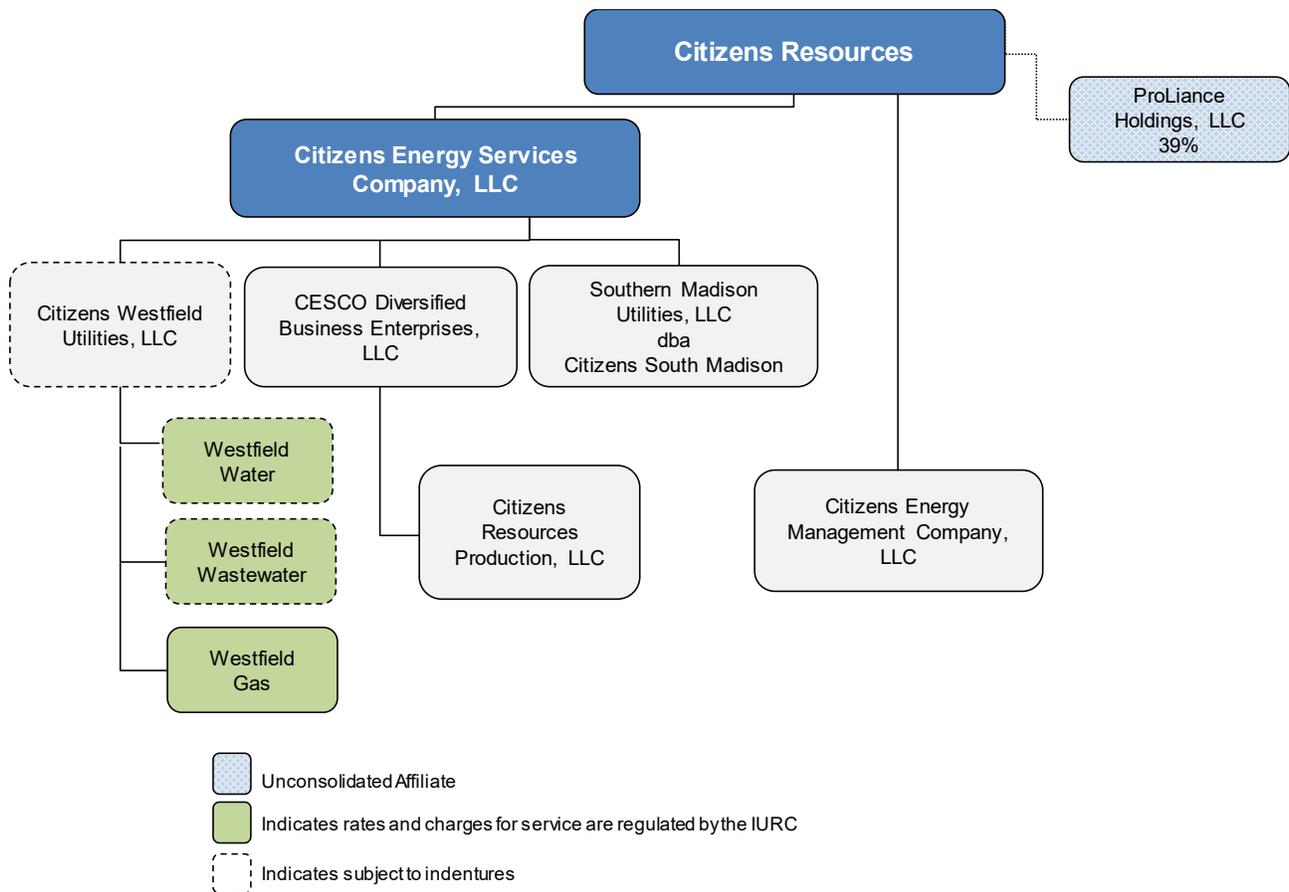
Separate indentures exist to issue debt obligations for the Gas Utility Distribution System, the Thermal Energy System, the Water System, and the Wastewater System. Each indenture captures only the revenues from the respective System, pays the operating expenses of that System and then debt service on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

¹ 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.

² 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

The tables and discussion below summarize the financial results for each segment (in millions) and present an analysis of the results of our operations for the twelve months ended September 30, 2019 and 2018. For a more detailed understanding of these results, see the following notes to the combined financial statements:

- Note 2K – Investment in Unconsolidated Affiliates
- Note 2M – Taxes
- Note 2Q – Change in Accounting Estimate
- Note 3 – Long-Term Debt
- Note 8 – Financial Segment Information
- Note 10 – Discontinued Operations and Related Asset Retirement Obligations
- Note 11 – Rate and Regulatory Matters – Wastewater
- Note 13 – Divestitures

SHARED SERVICES

Shared services is 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.

	2019	2018	Change
Shared Services Expenses	\$ 96.3	\$ 104.1	\$ (7.8)

These costs have been allocated to the appropriate business units and are reflected in the explanations that follow.

Fiscal Year 2019 as Compared with 2018

Shared services expenses decreased \$7.8 million primarily due to:

- \$3.7 million lower depreciation expense due to lower depreciation rates enacted on January 1, 2019, as approved by the IURC;
- \$3.7 million lower employee benefits costs; and
- \$1.1 million lower contracted services; **offset by**
- \$0.7 million higher labor and employer payroll taxes

GAS

	2019	2018	Change
Operating revenues	\$ 258.2	\$ 259.9	\$ (1.7)
Cost of goods sold	111.3	112.7	(1.4)
Margin	146.9	147.2	(0.3)
Other operating expenses	92.0	97.0	(5.0)
Operating income (loss)	54.9	50.2	4.7
Other income (expense), net	0.3	(1.1)	1.4
Interest charges	10.6	12.2	(1.6)
Segment income (loss)	\$ 44.6	\$ 36.9	\$ 7.7

Volume sales, million Dth			
Retail	30.1	30.0	0.1
Transportation	19.2	20.7	(1.5)
Power generation and other	18.4	22.6	(4.2)
Cost of gas sold, per Dth	\$ 3.70	\$ 3.75	\$ (0.05)
Heating degree days	5,352	5,314	38

Fiscal Year 2019 as Compared with 2018

The increase in earnings of \$7.7 million was primarily due to:

- \$4.9 million lower depreciation expense due to lower depreciation rates enacted on January 1, 2019, as approved by the IURC;
- \$1.9 million lower shared services expense allocations; and
- \$1.6 million lower interest expense driven by a lower amount of debt outstanding.

STEAM

	2019	2018	Change
Operating revenues	\$ 64.9	\$ 69.5	\$ (4.6)
Cost of goods sold	31.3	35.5	(4.2)
Margin	33.6	34.0	(0.4)
Other operating expenses	26.8	24.7	2.1
Operating income (loss)	6.8	9.3	(2.5)
Other income (expense), net	(0.2)	(0.1)	(0.1)
Interest charges	2.9	3.2	(0.3)
Segment income (loss)	\$ 3.7	\$ 6.0	\$ (2.3)
Volume sales, million therms	60.4	64.3	(3.9)
Heating degree days	5,352	5,314	38

Fiscal Year 2019 as Compared with 2018

The decrease in earnings of \$2.3 million was primarily due to:

- \$0.8 million higher employee benefit costs;
- \$0.8 million higher plant maintenance expense; and
- \$0.5 million lower volume sales during a warmer shoulder season in the third quarter.

CHILLED WATER

	2019	2018	Change
Operating revenues	\$ 34.9	\$ 37.9	\$ (3.0)
Cost of goods sold	10.9	12.4	(1.5)
Margin	24.0	25.5	(1.5)
Other operating expenses	15.7	16.1	(0.4)
Operating income (loss)	8.3	9.4	(1.1)
Other income (expense), net	0.3	0.1	0.2
Interest charges	1.0	1.2	(0.2)
Segment income (loss)	\$ 7.6	\$ 8.3	\$ (0.7)
Volume sales, million ton hours	132.4	144.9	(12.5)
Cooling degree days	1,393	1,586	(193)

Fiscal Year 2019 as Compared with 2018

The decrease in earnings of \$0.7 million was primarily due to lower volume sales attributable to cooler weather compared with the prior year, partially offset by lower depreciation and plant maintenance expense.

WATER

	2019	2018	Change
Operating revenues	\$ 203.4	\$ 207.2	\$ (3.8)
Other operating expenses	123.6	135.0	(11.4)
Operating income (loss)	79.8	72.2	7.6
Other income (expense), net	2.1	1.8	0.3
Interest charges	37.9	46.4	(8.5)
Segment income (loss)	\$ 44.0	\$ 27.6	\$ 16.4
Volume sales, billion gallons	37.9	39.0	(1.1)
Precipitation, inches	46.8	42.3	4.5

Fiscal Year 2019 as Compared with 2018

The increase in earnings of \$16.4 million was primarily due to:

- \$11.5 million lower depreciation expense resulting from lower depreciation rates enacted on January 1, 2019, as approved by the IURC; and
- \$8.5 million lower interest expense principally resulting from the refunding of Water Series 2011F bonds in October 2018; **offset by**
- \$3.8 million lower revenues in residential and commercial customer classes, principally due to higher levels of precipitation.

WASTEWATER

	2019	2018	Change
Operating revenues	\$ 274.8	\$ 279.2	\$ (4.4)
Other operating expenses	170.3	179.5	(9.2)
Operating income (loss)	104.5	99.7	4.8
Other income (expense), net	3.6	2.9	0.7
Interest charges	69.2	71.2	(2.0)
Segment income (loss)	\$ 38.9	\$ 31.4	\$ 7.5
Treatment volume sales, billion gallons	35.1	33.2	1.9
Strength surcharge, million pounds	65.8	46.5	19.3

Fiscal Year 2019 as Compared with 2018

The increase in earnings of \$7.5 million was primarily due to:

- \$14.0 million lower depreciation expense resulting from lower depreciation rates enacted on January 1, 2019, as approved by the IURC;
- \$6.2 million higher revenues attributable primarily to higher treatment volume sales and strength surcharges in the industrial and wholesale customer classes;
- \$4.9 million higher revenues stemming from the implementation of a step 1 rate increase effective August 1, 2019; and
- \$2.0 million from lower interest expense primarily due to a lower amount of long-term debt outstanding; **offset by**
- \$15.5 million lower revenues from alternative revenue programs;
- \$2.4 million higher expense for Payment in Lieu of Taxes (PILOT) per the established PILOT schedule; and
- \$1.3 million higher expense for contract services and electric power due to increased treatment volume.

RESOURCES

	2019	2018	Change
Operating revenues	\$ 34.5	\$ 38.5	\$ (4.0)
Cost of goods sold	1.9	1.7	0.2
Margin	32.6	36.8	(4.2)
Other operating expenses	23.0	21.0	2.0
Operating income (loss)	9.6	15.8	(6.2)
Other income (expense), net	0.4	0.3	0.1
Equity in earnings (loss) of affiliates	(0.2)	(5.9)	5.7
Interest charges	2.2	3.2	(1.0)
Segment income (loss)	\$ 7.6	\$ 7.0	\$ 0.6

Fiscal Year 2019 as Compared with 2018

The increase in earnings of \$0.6 million was primarily due to:

- \$5.6 million impairment charge recorded in 2018 for an affiliate joint venture interest;
- \$1.0 million lower interest expense due to lower levels of outstanding debt; and
- \$0.5 million additional operating income in the current year from Resources' operations; **offset by**
- \$5.4 million gain recorded in 2018 on the sale of the Plummer Oil Field and other land assets; and
- \$1.4 million loss recorded in 2019 on sale of remaining working interests of Citizens Resources Production.

OTHER

	2019	2018	Change
Operating revenues	\$ -	\$ -	\$ -
Operating expenses	-	(0.5)	0.5
Operating income (loss)	-	0.5	(0.5)
Other income (expense), net	(1.9)	(2.5)	0.6
Interest charges	-	0.1	(0.1)
Income (loss) from discontinued operations	(0.7)	40.1	(40.8)
Segment income (loss)	\$ (2.6)	\$ 38.0	\$ (40.6)

In the table above, Other includes advertising and philanthropic costs which 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 2019 as Compared with 2018

The decrease in earnings of \$40.6 million was largely attributable to the \$43.0 million Asset Retirement Obligation re-measurement in 2018, partially offset by lower current year accretion and site re-use costs in comparison with 2018.

LIQUIDITY AND CAPITAL RESOURCES

Debt and Liquidity

Please see Notes 3 and 4 to the combined financial statements for information regarding changes to Citizens' and CWA's outstanding long-term debt and short-term borrowings, respectively.

Capital Spending

For the twelve months ended September 30, 2019, capital expenditures, on an accrual basis, increased by \$63.8 million to \$321.3 million from \$257.5 million during the same period last year. This increase is summarized in the table below (in millions). Certain accrued expenditures, including all capitalized interest, have been included in Other for segment presentation of Capital Expenditures, while the capitalized interest 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
2019	\$ 31.6	\$ 2.9	\$ 2.5	\$ 44.8	\$ 193.7	\$ 20.1	\$ 25.7	\$ 321.3
2018	25.4	5.4	2.9	50.4	143.4	7.8	22.2	257.5
	\$ 6.2	\$ (2.5)	\$ (0.4)	\$ (5.6)	\$ 50.3	\$ 12.3	\$ 3.5	\$ 63.8

Citizens' and CWA's projected capital spending requirement of \$344.2 million for 2020 is summarized as follows (in millions):

	Gas	Steam	Chilled Water	Water	Wastewater	Resources	Other	Total
2020 Projection	\$ 29.8	\$ 3.9	\$ 5.1	\$ 51.0	\$ 199.4	\$ 14.0	\$ 41.0	\$ 344.2

Gas continues to invest in mains and services to maintain its commitment to modernization of its underground gas distribution system. Gas had cash and cash equivalents of \$32.1 million and short-term cash investments of \$10.2 million at September 30, 2019. Gas expects to meet its capital spending requirements in 2020 through cash flows from operations.

Citizens Thermal's Steam business segment continues to invest in distribution assets and production equipment. Chilled Water capital spending plans similarly include investments in distribution assets and production equipment. At September 30, 2019, cash and cash equivalents of Steam and Chilled Water amounted to \$4.9 million and \$25.2 million, respectively. Thermal expects to meet its capital spending requirements in 2020 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 \$70.8 million at September 30, 2019. Water expects to meet its capital spending requirements in 2020 through cash flows from operations.

The Wastewater business segment has a capital improvement plan to meet guidelines of the Combined Sewer Overflow Long-Term Control Plan and the overall needs of the Wastewater System. See Note 12 to the combined financial statements for additional information regarding the Combined Sewer Overflow Long-Term Control Plan. The capital improvement plan also includes other improvements to and expansion of the Wastewater System. Wastewater had cash and cash equivalents of \$38.6 million at September 30, 2019. Wastewater expects to meet its capital spending requirements in 2020 through a combination of cash flows from operations and available funds from issuances of the Series 2019A and 2019B bonds. See Note 11 – Wastewater, to the combined financial statements, for a discussion of regulatory matters affecting the liquidity and capital resources of the Wastewater business segment.

Resources' capital spending projection for 2020 includes activities at Citizens South Madison, Westfield Gas, Westfield Water, and Westfield Wastewater. Resources expects to meet its capital spending requirements in 2020 through a combination of cash flows from operations, its lines of credit, and proceeds from the Series 2019A bond issuances for Westfield Water and Westfield Wastewater, respectively.

Citizens Energy Group and Subsidiary and CWA Authority Inc.

Combined Statements of Financial Position

(In Thousands)

	At September 30, 2019	At September 30, 2018
ASSETS		
Property, plant, and equipment, net	\$ 3,833,502	\$ 3,614,162
Intangible assets, net	57,895	61,598
Investments		
Bond restricted funds	277,308	349,204
Other	22,858	22,559
Total investments	300,166	371,763
Current assets		
Cash and cash equivalents	209,153	249,923
Short-term investments	26,465	-
Accounts receivable, less allowance for doubtful accounts of \$2,443 and \$2,282, respectively	76,795	74,164
Accrued utility revenue	22,425	24,324
Natural gas in storage	29,345	38,458
Materials and supplies	11,818	11,145
Other current assets	3,511	3,759
Current assets directly related to discontinued operations	942	1,761
Total current assets	380,454	403,534
Deferred charges and other non-current assets	35,633	48,850
TOTAL ASSETS	\$ 4,607,650	\$ 4,499,907
CAPITALIZATION AND LIABILITIES		
Capitalization and non-current liabilities		
Retained earnings	\$ 625,845	\$ 482,529
Accumulated other comprehensive loss	(144,502)	(71,348)
Long-term debt (excluding current maturities)	3,156,174	3,214,522
Retirement benefits	182,135	121,363
Contributions in aid of construction	272,294	235,057
Other long-term liabilities	112,162	49,218
Non-current liabilities directly related to discontinued operations	24,177	22,790
Total capitalization and non-current liabilities	4,228,285	4,054,131
Current liabilities		
Current maturities of long-term debt	89,341	124,480
Short-term borrowings	-	56,500
Accounts payable and accrued expenses	191,371	171,718
Accrued taxes	66,672	60,530
Customer deposits	26,058	24,236
Other current liabilities	5,596	7,251
Current liabilities directly related to discontinued operations	327	1,061
Total current liabilities	379,365	445,776
Commitments and contingencies (see note 12)		
TOTAL CAPITALIZATION AND LIABILITIES	\$ 4,607,650	\$ 4,499,907

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

Citizens Energy Group and Subsidiary and CWA Authority, Inc.

Combined Statements of Operations and Comprehensive Income

(In Thousands)

	Fiscal Year Ended September 30,	
	2019	2018
Operating revenues	\$ 861,362	\$ 878,664
Operating expenses		
Cost of goods sold	148,096	151,142
Operations and maintenance	259,418	259,734
Depreciation and amortization	128,834	160,479
Loss (gain) on divestiture	1,009	(5,393)
Taxes	60,148	55,572
Total operating expenses	597,505	621,534
Operating income	263,857	257,130
Other income (expense), net		
Interest income	7,074	5,171
Non-operating post-employment benefits, net	(1,093)	(2,461)
Other	(1,542)	(1,399)
Total other income, net	4,439	1,311
Income before equity in earnings of affiliates and interest charges	268,296	258,441
Equity in losses of affiliates	(169)	(5,942)
Interest charges		
Interest on long-term debt	146,654	156,509
Other interest, including net premium amortization	(22,861)	(19,128)
Total interest charges	123,793	137,381
Income from continuing operations	144,334	115,118
(Loss) income from discontinued operations	(608)	40,186
Net income	\$ 143,726	\$ 155,304
Retirement benefit liability changes:		
Net (loss) gain arising during period	(75,212)	42,047
Amortization of prior service credit	(2,183)	(2,184)
Amortization of loss	4,128	7,688
Total retirement benefit liability changes	(73,267)	47,551
Unrealized gain (loss) on available-for-sale investments	113	(434)
Total other comprehensive (loss) income	(73,154)	47,117
Total comprehensive income	\$ 70,572	\$ 202,421

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,	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 143,726	\$ 155,304
Depreciation and amortization	116,779	152,111
Loss (gain) on divestiture or sale/impairment of assets	707	(6,562)
Equity in losses of affiliates, net of distributions	169	6,567
Allowance for doubtful accounts	4,635	4,201
Changes in operating assets and liabilities:		
Accounts receivable and accrued utility revenue	(5,431)	(8,408)
Natural gas in storage	9,113	4,367
Accounts payable and accrued expenses	6,193	(9,824)
Retirement benefits	(12,495)	(4,010)
Other operating activities	15,405	7,570
Change in net liabilities of discontinued operations	1,473	(52,294)
Net cash provided by operating activities	<u>280,274</u>	<u>249,022</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Construction expenditures	(301,712)	(304,439)
Purchase of investment securities	-	107
Divestiture proceeds, net of expenses	378	8,845
Acquisition of business, net of cash acquired	-	(3,364)
Other investing activities	(26,812)	2,088
Net cash used in investing activities	<u>(328,146)</u>	<u>(296,763)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from bank line of credit	60,000	20,500
Repayment of short-term borrowings and bank line of credit	(57,200)	-
Principal payments of long-term debt and bond refunding	(547,080)	(134,718)
Proceeds from bond refunding	468,525	-
Bond issuance costs	(2,670)	(33)
Contributions in aid of construction	13,731	15,050
Other financing activities	24	(27)
Net cash used in financing activities	<u>(64,670)</u>	<u>(99,228)</u>
Net change in cash, cash equivalents, and restricted cash	(112,542)	(146,969)
Cash, cash equivalents, and restricted cash at beginning of fiscal year	590,381	737,350
Cash, cash equivalents, and restricted cash at end of fiscal year	<u>\$ 477,839</u>	<u>\$ 590,381</u>
Supplemental Cash Flows Information - Interest paid	<u>\$ 133,687</u>	<u>\$ 147,583</u>
Non-cash Investing and Operating Activities		
Construction work-in-progress accrued at end of fiscal year	<u>\$ 73,042</u>	<u>\$ 42,157</u>

The table below provides a reconciliation of cash, cash equivalents, and restricted cash as reported in the Combined Statements of Financial Position to the amount reported in the Combined Statements of Cash Flows:

Cash and cash equivalents	\$ 209,153	\$ 249,923
Restricted cash included in Bond restricted funds	264,296	336,192
Restricted cash included in Investments, Other	4,390	4,266
Cash, cash equivalents, and restricted cash at end of fiscal year	<u>\$ 477,839</u>	<u>\$ 590,381</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)

	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance at September 30, 2017	\$ 327,635	\$ (118,465)	\$ 209,170
Comprehensive income			
Net income	155,304	-	155,304
Unrealized gain (loss) on available-for-sale investments	-	(434)	(434)
Retirement benefit liability changes	-	47,551	47,551
Total comprehensive income	155,304	47,117	202,421
Customer benefit distributions	(410)	-	(410)
Balance at September 30, 2018	\$ 482,529	\$ (71,348)	\$ 411,181
Comprehensive income			
Net income	143,726	-	143,726
Unrealized gain (loss) on available-for-sale investments	-	113	113
Retirement benefit liability changes	-	(73,267)	(73,267)
Total comprehensive income	143,726	(73,154)	70,572
Customer benefit distributions	(410)	-	(410)
Balance at September 30, 2019	\$ 625,845	\$ (144,502)	\$ 481,343

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 or the Company) 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 an affiliate joint venture interest 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 CESCO Diversified Business Enterprises, LLC. The rates and charges for gas, steam, water and wastewater services are regulated by the Indiana Utility Regulatory Commission (IURC).

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.

CESCO Diversified Business Enterprises, LLC serves as a holding company for Citizens Resources Production, LLC, which operates as an oil producer. Substantially all assets of Citizens Resources Production, LLC have been divested as of September 30, 2019. See Note 13 – Divestitures for additional information.

B. Basis of Presentation

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Use of Estimates

The presentation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenue and expenses. Actual results could differ from those estimates.

B. Property, Plant, and Equipment, Depreciation, and Maintenance

Property, plant, and equipment consist primarily of utility plant. The cost of additions includes contracted cost, direct labor and fringe benefits, materials, overheads, and for additions meeting certain criteria, capitalized interest. Maintenance and repairs of property units are charged to expense as incurred.

Depreciation on plant for regulated utilities is computed on a straight-line basis using rates approved by the IURC. Depreciation on Chilled Water 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 Citizens Resources Production 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.

The cost of software upgrades and enhancements are capitalized if they result in added functionality. Information technology costs associated with major system installations, conversions and improvements, such as software training, data conversion and business process reengineering costs, are charged to operating expenses when 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.

Property, plant, and equipment, net at September 30 is as follows (in thousands):

	<u>2019</u>	<u>2018</u>	<u>Useful Lives</u>
Distribution	\$ 2,182,109	\$ 2,094,320	15 - 125 years
Collection	1,959,588	1,877,740	30 - 60 years
Treatment	1,728,144	1,704,889	36 - 65 years
Pumping	341,394	330,091	40 - 55 years
Source of supply	226,596	203,174	30 - 75 years
General plant	145,054	139,255	5 - 50 years
Production	123,056	120,266	20 - 60 years
Transmission	93,080	88,951	25 - 60 years
Gas Storage	34,472	34,217	25 - 60 years
Utility plant in service	6,833,493	6,592,903	
Construction work-in-progress	481,543	393,977	
Total property, plant, and equipment at cost	7,315,036	6,986,880	
Accumulated depreciation	(3,481,534)	(3,372,718)	
Total property, plant, and equipment, net	\$ 3,833,502	\$ 3,614,162	

Depreciation expense was \$124.5 million and \$156.2 million for the twelve months ended September 30, 2019 and 2018, 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 \$12.5 million and \$11.7 million for the twelve months ended September 30, 2019 and 2018, respectively.

C. Cash, Cash Equivalents and Restricted Cash

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, certificates of deposit and US Treasury Bills of \$38.7 million and \$42.2 million at September 30, 2019 and 2018, respectively.

Restricted cash primarily relates to bond and debt service reserve funds which Citizens and CWA are required to maintain as security for the bonds per the terms of the bond indentures. Also included are special deposits for interest and principal which are designated as restricted because Citizens and CWA are required to make monthly payments into these deposit accounts to accumulate cash for debt service payments to the bondholders, along with the balance of available funds from State Revolving Fund bonds. These funds are comprised of cash and cash equivalents, are held in the custody of the bond trustees, and are not available for another use.

Restricted cash also includes construction-related insurance collateral deposits and funds held in a trust covering certain medical benefit obligations (see Note 7).

See the supplemental cash flows information for a reconciliation of cash, cash equivalents and restricted cash.

D. Short-term Investments

Short-term investments consist of certificates of deposit and investments in US Treasury Bills with original maturities in excess of three months with remaining maturities of less than one year. The Company has both the intent and ability to hold these investments to maturity. As such, short-term investments are carried at cost which approximates fair value.

E. Bond Issuance Costs

Bond premiums, discounts and debt issuance costs are recorded as an offset to the related debt liability and are amortized over the lives of the respective issues through the effective interest method. For regulated business segments, the unamortized portions of bond issuance costs of the refunded bonds are recorded as deferred charges and are amortized over the life of the refunding bond issue.

F. 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. There were no net realizable value adjustments in 2019 and 2018.

G. Recoverable (Refundable) Gas and Fuel Costs

The difference between actual gas costs, including unrealized gains and losses and settled amounts associated with Hedging Transaction Costs, 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. Intangible Assets

Intangible assets at September 30, 2019 and September 30, 2018 consist of \$57.9 million and \$61.6 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, 2019 and 2018, respectively. Accumulated amortization for all intangible customer contracts was \$46.6 million and \$42.9 million at September 30, 2019 and 2018, respectively. Amortization expense of such assets was \$3.7 million in each of the years ended September 30, 2019 and 2018. Estimated aggregate amortization expenses for each of the five succeeding fiscal years are as follows (in thousands):

2020	\$	3,703
2021		3,703
2022		3,703
2023		3,703
2024		3,703

I. 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. An asset impairment was recorded in fiscal year 2018 related to an investment in an unconsolidated subsidiary (see Note 2K). No asset impairments were recorded in fiscal year 2019.

J. 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. Partial repayment of the note receivable from ProLiance, an unconsolidated subsidiary (see Note 2K), was received in fiscal year 2018. The allowance was adjusted in fiscal 2018 to reflect the estimated collectible balance of the note receivable. Interest earned on the ProLiance note was \$0.1 million and \$0.2 million in 2019 and 2018, respectively. The non-interest-bearing note receivable from LNG Indy was issued pursuant to the divestiture of LNG Indy and is due December 2021. The following table presents Citizens' notes receivable, which are recorded in "Investments, Other" on the Combined Statements of Financial Position, whose carrying value approximates fair value, as of September 30, 2019 and 2018 (in thousands):

Description	Notes Receivable at September 30, 2019 and 2018		
	Balance	Related Allowance	Receivable Net of Allowance
Note Receivable from ProLiance	\$ 2,806	\$ 2,806	\$ -
Note Receivable from LNG Indy	4,000	-	4,000
	<u>\$ 6,806</u>	<u>\$ 2,806</u>	<u>\$ 4,000</u>

K. Investment in Unconsolidated Affiliates

Unconsolidated affiliates at September 30, 2019 and September 30, 2018 include ProLiance Holdings, LLC (ProLiance), a jointly-owned affiliate of Resources (39%) and Vectren Energy Marketing & Services, Inc., (61%), which is accounted for under the equity method. Investment in unconsolidated affiliates is presented as part of "Investments, Other" in the Combined Statements of Financial Position at September 30, 2019 and September 30, 2018.

In December 2017, Resources purchased ProLiance's 50% ownership share of Heartland Gas Pipeline (HGP) for a price representing 50% of the net book value of HGP, resulting in Resources owning 100% of HGP. Accordingly, the financial results of HGP are consolidated in the Resources segment beginning December 1, 2017. The transaction was accounted for as a business acquisition. Fair value of the net assets acquired approximated their book value; therefore, there was no excess purchase price allocated to goodwill or other intangible assets acquired. To facilitate the purchase of HGP, Gas advanced Resources approximately \$15.4 million in cash during December 2017. Upon receipt of regulatory approval in September 2018, the property, plant, and equipment of HGP was transferred from Resources to Gas as HGP's assets are ultimately used exclusively by Gas in its operations. After settlement of any outstanding liabilities, the remaining assets of Heartland Gas Pipeline were dissolved in fiscal 2019 resulting in an immaterial loss. Resources also recognized a \$1.9 million impairment of its remaining investment in ProLiance in December 2017 and \$3.7 million of losses under the equity-method for the same affiliate in June 2018.

Activity for fiscal years 2019 and 2018 for the investment in affiliates is as follows (in thousands):

	ProLiance	Heartland	Total
Investment in affiliates as of September 30, 2017	\$ 7,125	\$ 9,277	\$ 16,402
Fiscal year 2018 activity	<u>(6,690)</u>	<u>(9,277)</u>	<u>(15,967)</u>
Investment in affiliates as of September 30, 2018	435	-	435
Fiscal year 2019 activity	<u>(169)</u>	<u>-</u>	<u>(169)</u>
Investment in affiliates as of September 30, 2019	<u>\$ 266</u>	<u>\$ -</u>	<u>\$ 266</u>

L. Customers' 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.

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, 2019 for Water, Wastewater, and Resources are \$128.8 million, \$84.2 million, and \$59.2 million, respectively, versus the values at September 30, 2018 for Water, Wastewater, and Resources of \$106.7 million, \$75.9 million, and \$52.4 million, respectively.

M. 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.

N. Derivatives and Hedging

In fiscal years 2019 and 2018, Citizens entered into certain derivative and economic hedging transactions with the objective of decreasing the volatility associated with fluctuating natural gas prices. Through a combination of fixed-price purchases, caps, collars and storage, Citizens Gas mitigates the risk of price volatility on approximately 80 percent of its anticipated system supply gas purchases. Citizens' Hedging Transaction Cost Policy sets guidelines for using selected financial derivative products to support prudent risk management strategies within designated parameters. 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 Financial Accounting Standards Board (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. The impact of commodity contracts was not material to the combined financial statements in any of the periods presented.

O. Fair Value Measurements

Financial Accounting Standards Board (FASB) guidance requires additional disclosures about Citizen's and CWA's financial assets and liabilities that are measured at fair value. Assets and liabilities recorded at fair value in the 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. The fair values of the bond restricted funds, Grantor Trust investments, and commodity contracts have been determined using quoted prices in an active market.

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.

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 measured at fair value on a recurring basis, based on the hierarchy, as of September 30, 2019 and September 30, 2018 (in thousands). There were no financial liabilities at September 30, 2019 and September 30, 2018.

Description	September 30, 2019 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	\$ 38,696	\$ -	\$ -
Short-term investments	26,465	-	-
Bond restricted funds	264,292	-	-
Grantor Trust investments	15,758	-	-
Derivative assets	247	-	-
Total financial assets measured at fair value	<u>\$ 345,458</u>	<u>\$ -</u>	<u>\$ -</u>
Description	September 30, 2018 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	\$ 42,243	\$ -	\$ -
Bond restricted funds	336,191	-	-
Grantor Trust investments	15,355	-	-
Derivative assets	199	-	-
Total financial assets measured at fair value	<u>\$ 393,988</u>	<u>\$ -</u>	<u>\$ -</u>

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 \$277.3 and \$349.2 million at September 30, 2019 and September 30, 2018, respectively. In accordance with fair value disclosure guidance, \$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 at September 30, 2019 and September 30, 2018.

Included in bond restricted funds at September 30, 2019 and September 30, 2018 are \$3 thousand and \$67.5 million, respectively, of proceeds from CWA's First Lien Wastewater Revenue Bonds, Series 2017A 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. Gross deposits to the bond restricted fund investments during 2019 and 2018 were \$232.8 million and \$236.3 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 debt is \$3.4 billion and \$3.3 billion at September 30, 2019 and September 30, 2018, respectively, versus the carrying value of \$3.2 billion at September 30, 2019 and \$3.3 billion at September 30, 2018. In the case of Resources debt, the carrying value approximates fair value.

Customers' advances for construction have a carrying value at September 30, 2019 for Water, Wastewater, and Resources of \$13.8 million, \$3.7 million, and \$7.2 million, respectively, versus the carrying values at September 30, 2018 for Water, Wastewater, and Resources of \$13.4 million, \$2.9 million, and \$4.0 million, respectively. Their relative fair values cannot be accurately estimated because future refund payments depend on several variables, including new customer connections, customer consumption levels, and future rate increases. Portions of these non-interest-bearing instruments are payable annually through 2029 and amounts not paid by the respective contract expiration dates become non-refundable. The fair value of these amounts would, however, be less than their carrying value due to the non-interest-bearing feature.

P. 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 (loss) income (AOCI) include the impact of pension and other post-employment benefits and mark to market valuation adjustments for available for sale investments. The following table presents changes in accumulated other comprehensive (loss) income by component for the twelve months ended September 30, 2019 (in thousands):

	Pension Plan	Postemployment Benefits	Other	Total
Accumulated other comprehensive (loss) income at September 30, 2017	\$ (112,865)	\$ (5,821)	\$ 221	\$ (118,465)
Other comprehensive income before reclassifications	28,007	13,974	(434)	41,547
Amounts reclassified from accumulated other comprehensive income	6,667	(1,097)	-	5,570
Net current-period other comprehensive income	<u>34,674</u>	<u>12,877</u>	<u>(434)</u>	<u>47,117</u>
Accumulated other comprehensive (loss) income at September 30, 2018	\$ (78,191)	\$ 7,056	\$ (213)	\$ (71,348)
Other comprehensive income (loss) before reclassifications	(78,941)	3,127	113	(75,701)
Amounts reclassified from accumulated other comprehensive income (loss)	4,368	(1,821)	-	2,547
Net current-period other comprehensive income (loss)	<u>(74,573)</u>	<u>1,306</u>	<u>113</u>	<u>(73,154)</u>
Accumulated other comprehensive (loss) income at September 30, 2019	<u>\$ (152,764)</u>	<u>\$ 8,362</u>	<u>\$ (100)</u>	<u>\$ (144,502)</u>

Q. Change in Accounting Estimate

Pursuant to the joint depreciation case settlement approved by the IURC (see Note 11), the Company changed depreciation rates for Gas, Citizens Thermal Steam, Water, and Wastewater. The change in depreciation rates is considered a change in accounting estimate and has been applied prospectively effective January 1, 2019. For the twelve months ended September 30, 2019, the effect of the change was a decrease in depreciation and amortization expense of \$36.6 million. The impact of the change on each business unit's results (in millions) is depicted below:

Gas	\$	6.0
Steam		0.3
Water		12.9
Wastewater		17.4
Total	\$	<u>36.6</u>

R. New Accounting Guidance

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), 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. Entities may elect certain practical expedients when applying ASU 2016-02. These include a package of practical expedients which must be applied in its entirety to all leases commencing before the effective date of the standard, unless the lease is modified, to not reassess (a) the existence of a lease, (b) lease classification or (c) determination of initial direct costs, which effectively allows entities to carryforward accounting conclusions under previous U.S. GAAP. ASU 2016-02 also includes a practical expedient to use hindsight in making judgments when determining the lease term and any long-lived asset impairment. ASU 2018-01 was issued in January 2018, allowing entities to elect a practical expedient that would exclude application of ASU 2016-02 to land easements which existed prior to adoption of ASU 2016-02, if they were not accounted for as leases under previous U.S. GAAP. In addition, ASU 2016-02 and ASU 2018-11 provide practical expedients to the lessee and lessor, respectively, for separating lease and non-lease components.

The Company formed an internal stakeholder group, developed a lease inventory, and identified, assessed and documented technical accounting issues, policy considerations and financial reporting implications of the new standard. Based on the Company's assessment, adoption of this new lease standard is not expected to have a material impact on the Company's financial position, results of operations, or cash flows. Upon adoption, the Company currently expects to record right-of-use assets and operating lease liabilities on its Combined Statements of Financial Position of approximately \$4 million. In addition to the recognition of operating leases on the Combined Statements of Financial Position, the Company expects qualitative disclosures regarding the nature of its lease population and additional quantitative disclosures as required by the standard. The Company has also determined that it will elect the package of practical expedients, the land easement practical expedient, and the practical expedient to not separate lease and non-lease components available under the transition guidance described above but will not elect to use the hindsight practical expedient. The Company will adopt ASU 2016-02 beginning October 1, 2019.

S. Recently Adopted Accounting Guidance

In 2014, the FASB issued revised accounting guidance for revenue recognition from contracts with customers (ASC 606). This guidance outlines a single, comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance. The core principle of the new standard is that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments also require disclosure of sufficient information to allow users to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The majority of the Company's revenue is in scope of the new guidance. Alternative revenue programs are excluded from the scope of this guidance and are accounted for under other relevant accounting guidance.

In preparation for adoption, the Company identified material revenue streams and reviewed representative contracts and tariffs, monitored the activities of the power and utilities industry revenue recognition task force and reviewed published positions on specific industry issues to evaluate the impact, if any, on the Company's specific contracts and conclusions. The Company applied certain practical expedients, including utilizing the portfolio approach to aggregate similar contracts for purposes of analysis, ignoring the effects of a significant financing when the period between transfer of the good or service and payment is one year or less, and recognizing revenues for certain contracts under the invoice practical expedient, which allows revenue recognition to be consistent with invoiced amounts (including unbilled estimates) provided certain criteria are met, including consideration of whether the invoiced amounts reasonably represent the value provided to customers.

The Company adopted the provisions of ASC 606 beginning on October 1, 2018 using the full-retrospective method, which requires each prior reporting period presented to be adjusted beginning with the issuance of the Company's fiscal 2019 interim financial statements. Adoption of this standard did not result in any change to the timing or pattern of revenue recognition and a cumulative retained earnings adjustment was not required. For additional information, see Note 5 – Revenue Recognition.

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230) - Restricted Cash. The update requires the Company to combine restricted cash with cash and cash equivalents when reconciling the beginning and end of period balances in the Combined Statements of Cash Flows. The Company implemented the standard in fiscal 2019 and retrospectively applied the standard in the comparative periods. Adoption of this standard did not have a material impact on the Company's financial position, results of operations or disclosures. However, for the year ended September 30, 2018, cash provided by investing activities decreased by \$97.3 million, and cash provided by operations and cash used in financing activities was unchanged. As a result of including restricted cash with cash and cash equivalents when reconciling the beginning of fiscal year and end of fiscal period total amounts presented in the accompanying Combined Statements of Cash Flows, net cash flows increased by \$437.7 million and \$340.4 million for the years ended September 30, 2017 and 2018, respectively. See Note 2C for further discussion.

In March 2017, the FASB issued ASU No. 2017-07, Compensation-Retirement Benefits (ASC 715), which revises how employers sponsoring defined benefit pension and other post-employment plans present the net periodic benefit cost in their income statement. ASC 715 requires the service cost component of net periodic benefit costs to be presented in the same income statement line item as other employee compensation costs arising from services rendered during the period and the other components of net periodic benefit costs to be presented separately outside of operating income. The guidance also allows only the service cost component to be eligible for capitalization. Amendments are to be applied retrospectively for presentation of costs and prospectively for capitalization of service costs. The guidance allows a practical expedient which permits use of previously disclosed service costs and other costs from the pension and other post-retirement benefit plan disclosure in the comparative periods as appropriate estimates when retrospectively changing the presentation of these costs in the statements of operations. The Company adopted the standard on October 1, 2018 and elected the practical expedient available under the transition guidance. The presentation changes required for net periodic benefit costs did not impact previously reported net income; however, reclassification of the other components of net periodic benefits cost resulted in a decrease in "Operations and maintenance" expense and an increase in "Non-operating post-employment benefits, net" of \$2.5 million for the twelve months ended September 30, 2018.

3. LONG-TERM DEBT

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

	(In Thousands)					
	September 30, 2019			September 30, 2018		
	Long-term debt excl. current maturities	Current maturities	Unamortized (Discount), Premium, and (Issuance Costs)	Long-term debt excl. current maturities	Current maturities	Unamortized (Discount), Premium, and (Issuance Costs)
Gas						
Gas Utility Distribution System Series 2008C, Second Lien Revenue Refunding Bonds, 5.25%, due 2020 to 2021	\$ 11,550	\$ 15,535	\$ 294	\$ 27,085	\$ 14,950	\$ 653
Gas Utility Distribution System Series 2010A, Second Lien Revenue Refunding Bonds, 4.00% to 5.00%, due 2020 to 2024	58,795	700	1,097	59,495	480	1,353
Gas Utility Distribution System Series 2013A, Second Lien Revenue Refunding Bonds, 4.125% to 5.250%, due 2027 to 2030	54,465	-	1,144	54,465	-	1,234
Gas Utility Distribution System Series 2017A, Second Lien Revenue Refunding Bonds 5.00%, due 2025 to 2027	49,825	-	6,999	49,825	-	7,910
Subtotal Gas Long-Term Debt	174,635	16,235	9,534	190,870	15,430	11,150

	(In Thousands)					
	September 30, 2019			September 30, 2018		
	Long-term debt excl. current maturities	Current maturities	Unamortized (Discount), Premium, and (Issuance Costs)	Long-term debt excl. current maturities	Current maturities	Unamortized (Discount), Premium, and (Issuance Costs)
<u>Thermal</u>						
Thermal Energy System Series 2010A, First Lien Revenue Refunding Bonds, 4.00%, due 2019 to 2020	530	510	2	1,040	490	5
Thermal Energy System Series 2010B, First Lien Revenue Refunding Bonds, 5.00%, due 2019 to 2021	14,310	8,390	407	22,700	7,950	866
Thermal Energy System Series 2013A, First Lien Revenue Bonds, 4.00% to 5.00%, due 2019 to 2033	6,735	340	48	7,075	330	59
Thermal Energy System Series 2014A, First Lien Revenue Refunding Bonds, 4.00% to 5.00%, due 2019 to 2034	29,495	1,300	2,501	30,795	1,255	2,774
Thermal Energy System Series 2016A, First Lien Revenue Refunding Bonds, 5.00%, due 2021 to 2029	50,410	-	6,172	50,410	-	7,458
Subtotal Thermal Long-Term Debt	101,480	10,540	9,130	112,020	10,025	11,162
<u>Water</u>						
Water Utility Series 2011C (ILPIBB 2006A) *, First Lien Net Revenue Bonds, 5.50%, due 2020 to 2022	24,380	12,710	(27)	37,090	7,465	(39)
Water Utility Series 2011D (ILPIBB 2007B) *, First Lien Net Revenue Bonds, 5.25%, due 2022 to 2025	70,410	-	(51)	70,410	-	(61)
Water Utility Series 2011F (ILPIBB 2009A) *, First Lien Net Revenue Bonds	-	-	-	410,385	5,160	(364)
Water Utility Series 2011G (ILPIBB 2011E) *, First Lien Net Revenue Bonds, 4.50% to 5.125%, due 2020 to 2041	48,930	1,315	(36)	50,245	1,275	(45)
Water Utility Series 2014A, First Lien Net Revenue Bonds, 4.00% to 5.00%, due 2019 to 2044	24,700	530	1,438	25,230	510	1,489
Water Utility Series 2014B, Second Lien Revenue Refunding Bonds, 2.95%, due 2022	43,595	-	(125)	43,595	-	(167)
Water Utility Series 2016A, First Lien Revenue Bonds, 3.50% to 5.00%, due 2019 to 2046	65,605	1,180	11,745	66,785	1,140	12,266

	(In Thousands)					
	September 30, 2019			September 30, 2018		
	Long-term debt excl. current maturities	Current maturities	Unamortized (Discount), Premium, and (Issuance Costs)	Long-term debt excl. current maturities	Current maturities	Unamortized (Discount), Premium, and (Issuance Costs)
Water Utility Series 2016B, First Lien Revenue Refunding Bonds, 4.00% to 5.00%, due 2019 to 2038	211,045	5,850	31,923	216,895	3,000	34,374
Water Utility Series 2018A, First Lien Refunding Revenue Bonds, 3.50% to 5.00%, due 2019 to 2038	359,170	1,975	47,806	-	-	-
Subtotal Water Long-Term Debt	847,835	23,560	92,673	920,635	18,550	47,453
<u>Wastewater</u>						
CWA Wastewater Utility Series 2011A, First Lien Revenue Bonds, 5.00% to 5.25%, due 2019 to 2041	586,600	14,160	25,724	600,760	13,610	27,241
CWA Wastewater Utility Series 2011B, Second Lien Revenue Bonds, 5.00% to 5.25%, due 2019 to 2041	237,245	5,775	3,929	243,020	5,500	4,200
CWA Wastewater Utility Series 2012A, First Lien Revenue Bonds, 2.75% to 5.00%, due 2019 to 2042	170,485	4,025	13,614	174,510	3,835	14,560
CWA Wastewater Utility Series 2014A, First Lien Revenue Bonds, 4.25% to 5.00%, due 2019 to 2044	217,120	4,340	17,875	221,460	4,135	18,857
CWA Wastewater Utility Series 2015A, First Lien Revenue Bonds, 3.25% to 5.00%, due 2019 to 2045	148,240	2,815	19,772	151,055	2,685	20,749
CWA Wastewater Utility Series 2016A, First Lien Revenue Bonds 4.00% to 5.00%, due 2019 to 2046	184,180	3,130	35,153	187,310	3,010	36,708
CWA Wastewater Utility Series 2016B, Second Lien Revenue Refunding Bonds, 3.00% to 5.00%, due 2019 to 2046	41,100	840	2,058	41,940	815	2,248
CWA Wastewater Series 2016C, First Lien Revenue Bonds (SRF), 2.00%, due 2020 to 2036	10,485	550	(77)	11,035	540	(85)
CWA Wastewater Series 2017A, First Lien Revenue Bonds (SRF), 3.53%, due 2020 to 2047	153,556	3,371	(73)	156,927	3,256	(78)
Subtotal Wastewater Long-Term Debt	1,749,011	39,006	117,975	1,788,017	37,386	124,400

	(In Thousands)					
	September 30, 2019			September 30, 2018		
	Long-term debt excl. current maturities	Current maturities	Unamortized (Discount), Premium, and (Issuance Costs)	Long-term debt excl. current maturities	Current maturities	Unamortized (Discount), Premium, and (Issuance Costs)
Resources						
Citizens Westfield Utilities Series 2014A, Revenue Bonds, 90% of 3-month LIBOR plus 2.674%, Due 2019	-	-	-	9,000**	19,454	(138)
Citizens Westfield Water Series 2014A, Revenue Bonds, 90% of 1-month LIBOR plus 1.945 %, Due 2019	-	-	-	-	8,365	(17)
Citizens Westfield Wastewater Series 2014A, Revenue Bonds, 90% of 1-month LIBOR plus 1.945%, Due 2019	-	-	-	-	15,270	(30)
Citizens Westfield Utilities Series 2018A, Refunding Revenue Bonds, 80% of 3-month LIBOR plus 1.90%, due 2023	9,000	-	(104)	-	-	-
Citizens Westfield Water Series 2019A, Revenue Bonds, 4.00%, due 2048	20,000	-	(80)	-	-	-
Citizens Westfield Wastewater Series 2019A, Revenue Bonds, 5.00%, due 2048	22,660	-	2,425	-	-	-
Subtotal Resources Long-Term Debt	51,660	-	2,241	9,000	43,089	(185)
Total Long-Term Debt	\$ 2,924,621	\$89,341	\$231,553	\$3,020,542	\$ 124,480	\$ 193,980

* Indianapolis Local Public Improvement Bond Bank (ILPIBB)

** Refinanced \$9 million of Series 2014A Revenue Bonds; see below.

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

2020	\$ 89,341
2021	97,235
2022	101,918
2023	149,211
2024	119,923
Thereafter	2,456,334
Total principal maturities	<u>\$ 3,013,962</u>

Recent Debt Transaction Activity

On October 3, 2018, Citizens Water issued \$361.1 million of First Lien Refunding Revenue Bonds, Series 2018A. The bonds refunded a portion of the Series 2011F bonds. The 2018A bonds were issued at a premium of \$52.8 million and have principal maturities from 2019 through 2038 with coupons ranging from 3.50% to 5.00%.

On October 15, 2018, CWU repaid \$19.5 million of debt prior to its maturity date as permitted in the indenture between CWU and its lenders.

On October 26, 2018, CWU issued \$9 million of Refunding Revenue Bonds Series 2018A. The 2018A bonds were purchased by a syndicate of banks including PNC Bank as administrative agent and BMO Harris Bank. The bonds are

non-amortizing and are subject to mandatory tender on October 26, 2023. Interest on the bonds is at a floating rate of 80 percent of 3-month LIBOR plus 1.90 percent. The Series 2018A bonds refunded \$9 million of outstanding Series 2014A Revenue Bonds which were therefore classified as long-term debt at September 30, 2018.

On February 13, 2019, Citizens Westfield Water issued \$20.0 million of Water Utility Revenue Bonds, Series 2019A. The 2019A bonds were issued at a premium of \$0.1 million, have a coupon rate of 4.00%, and mature on October 1, 2048. The bonds provided funds for capital spending requirements and also refunded the Citizens Westfield Water Series 2014A Revenue Bonds and the outstanding balance on Westfield Water's line of credit in their entirety.

On February 13, 2019, Citizens Westfield Wastewater issued \$22.7 million of Wastewater Utility Revenue Bonds, Series 2019A. The 2019A bonds were issued at a premium of \$2.8 million, have a coupon rate of 5.00%, and mature on October 1, 2048. The bonds provided funds for capital spending requirements and also refunded the Citizens Westfield Wastewater Series 2014A Revenue Bonds and the outstanding balance on Westfield Wastewater's line of credit in their entirety.

On October 10, 2019, CWA issued \$41.6 million of First Lien Wastewater Utility Revenue Bonds, Series 2019A. The 2019A bonds were issued at a premium of \$9 million and have principal maturities from 2020 through 2049 with coupons ranging from 4.00% to 5.00%. The bonds were issued to fund capital improvements to the Wastewater system including repaying \$20 million of the JP Morgan/ Wells Fargo line of credit.

On October 15, 2019, CWA issued \$180.7 million of First Lien State Revolving Fund Bonds, Series 2019B. The Series 2019B bonds were issued at par and have principal maturities between 2021 and 2050. The bonds were issued to fund specified consent decree capital projects for the Wastewater system (see note 12A) including repaying \$60 million on the JP Morgan/Wells Fargo line of credit.

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.

Citizens and CWA have rate 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 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 2019:

	<u>Minimum Coverage Requirement</u>	<u>2019 Actual</u>
GUDS Revenue Refunding Bonds Series 2008C, Series 2009A, Series 2010A, Series 2013A, and Series 2017A Second Lien Multi-Mode Revenue and Revenue Refunding Bonds	1.0	2.87
Thermal Energy System Revenue Bonds Series 2010A and 2010 B, Series 2013A, Series 2014A, and Series 2016A	1.0	1.60
Water Utility Net Revenue Bonds Series 2011C, Series 2011D, Series 2011F, Series 2011G, Series 2014A, Series 2016A, Series 2016B, and Series 2018A	1.2	1.87
Water Utility Net Revenue Second Lien Bonds Series 2014B	1.1	1.83
CWA Wastewater Utility Revenue Bonds Series 2011A, Series 2012A, Series 2014A, Series 2015A, Series 2016A, 2016C, and 2017A	1.2	1.97
CWA Wastewater Utility Revenue Second Lien Bonds Series 2011B and 2016B	1.1	1.65
Citizens Westfield Water Revenue Bonds Series 2019A	1.2	6.98
Citizens Westfield Wastewater Revenue Bonds Series 2019A	1.2	7.41

As of September 30, 2019, 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 calculating and 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.

In addition, in order to issue additional bonds CWA is required by the terms of the SRF Financial Assistance Agreement to demonstrate its ability to pay first and second lien debt service and make payments in lieu of property taxes, summarized as follows:

	<u>Minimum Coverage Requirement</u>	<u>2019 Actual</u>
CWA Wastewater Utility First Lien Debt, Second Lien Debt, Other Payments	1.0	1.36

4. SHORT-TERM AND OTHER BORROWINGS

Gas

Gas repaid \$50.0 in commercial paper outstanding on June 3, 2019 and had no amount outstanding as of September 30, 2019; the balance at September 30, 2018 was \$50.0 million. Gas has two three-year working capital lines of credit amounting to \$50.0 million. On August 1, 2019 the maturity date on the \$25.0 million line of credit agreement with BMO Harris Bank NA was extended to August 5, 2022 with an interest rate of LIBOR plus 0.90 percent. The \$25.0 million line of credit with J.P. Morgan Chase has a maturity date of August 13, 2021 with an interest rate of LIBOR plus 1.25 percent. At September 30, 2019 and September 30, 2018, Gas had no amount outstanding under either line of credit.

Thermal

On July 25, 2019, the Thermal Energy System closed on a \$20 million line of credit with PNC Bank maturing July 25, 2022, replacing the existing credit agreement with JP Morgan Chase which matured on June 21, 2019. Proceeds can be used for both operating expenses and capital expenditures. The commitment fee on the line is 0.125 percent and the applicable interest rate is LIBOR plus 1.125 percent. At September 30, 2019 and September 30, 2018, no amounts were outstanding.

Water

Water has a \$50.0 million line of credit provided by PNC Bank with a maturity date of November 2, 2020. The line has an interest rate of 83 percent of LIBOR plus 0.70 percent with a commitment fee of 0.15 percent. At September 30, 2019 and September 30, 2018, no amounts were outstanding.

In April 2019, the \$30.0 million working capital line of credit with BMO Harris Bank NA expired and was not renewed. There were no draws on the facility during 2019 or 2018.

Wastewater

On July 23, 2019 CWA closed on a capital expenditure line of credit of \$45 million with Bank of America, NA with a maturity date of July 15, 2022 at an interest rate of 80 percent of LIBOR plus 0.75 percent and a commitment fee of 0.275 percent. CWA also has a \$100 million line of credit with a maturity date of September 30, 2020 provided by 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 87.8 percent of LIBOR plus 0.84 percent and a commitment fee of 0.22 percent. At September 30, 2019 and September 30, 2018, \$80 million and \$20.0 million were outstanding on the line of credit respectively. Outstanding balances for the line of credit were repaid in October 2019 using proceeds from the Series 2019A and 2019B bonds (see Note 3). Balances at September 30, 2019 were accordingly classified as non-current liabilities in the Combined Statements of Financial Position in the line item labeled, "Other long-term liabilities".

Resources

Westfield Gas, Westfield Water, and Westfield Wastewater have established lines of credit with terms and conditions as outlined in the table below. On March 14, 2019, Westfield Water and Westfield Wastewater each closed on \$5.0 million revolving credit facilities, replacing existing \$10.3 million and \$11.0 million revolving credit agreements, respectively, both which matured on March 21, 2019. Outstanding balances for the Westfield Water and Westfield Wastewater lines of credit were repaid in February 2019 using proceeds from the Series 2019A Utility Revenue Bonds (see Note 3).

Entity	Credit Capacity	Maturity Date	Interest Rate	Commitment Fee	Amount Outstanding at (in millions)	
					September 30, 2019	September 30, 2018
Westfield Gas	\$4.0 million	March 30, 2021	LIBOR + 1.65%	0.150%	\$ 1.0	\$ 1.7
Westfield Water	5.0 million	March 14, 2022	LIBOR + 0.90%	0.100%	-	3.5
Westfield Wastewater	5.0 million	March 14, 2022	LIBOR + 0.90%	0.100%	-	3.0

Outstanding borrowings with maturities of twelve months or less from the balance sheet date are presented as current liabilities in the Combined Statements of Financial Position in the line item labeled, "Short-term borrowings".

Outstanding borrowings with maturities greater than twelve months from the balance sheet date are classified as non-current liabilities in the Combined Statements of Financial Position in the line item labeled, "Other long-term liabilities".

5. REVENUE RECOGNITION

Citizens recognizes revenue consistent with amounts billed under tariff offerings or at contractually agreed upon rates based on actual delivery of utility service, including estimated volumes delivered when billings have not yet occurred. The majority of the Company's revenues have fixed pricing based on the contractual terms of the published tariffs, with variability in expected cash flows attributable to the customer's volumetric demand during the billing period. Utility receipts taxes are recognized on a gross basis as part of revenues.

Performance obligations are satisfied over time as utility services are delivered and consumed with billings generally occurring monthly and related payments due within 30 days. Using this output method for revenue recognition provides a faithful depiction of the transfer of utility services as customers obtain control of the service provided and simultaneously benefit from its use at delivery.

Substantially all the Company's revenues result from tariff-based or fixed-price at-will contracts which either have an expected duration of one year or less, or, in the case of longer-term contracts, are based on a single performance obligation (the delivery of utility services) which will not have future performance obligations for disclosure.

Revenues from Contracts with Customers

Utility services for gas, steam, water, and wastewater are marketed throughout the Company's service territory using published tariff rates. The tariff rates are established by the IURC. Each tariff, which is assigned to customers based on customer class, has multiple components, such as a commodity charge, demand charge, facility or service charge and transportation costs. The Company considers each of these components to be aggregated into a single performance obligation for providing utility service which is satisfied over time and is provided and consumed over the billing period (generally one month). As such, revenue from contracts with customers for such contracts is equivalent to the service supplied and billed in that period, including unbilled estimates. Additionally, utility services are typically at-will and customers can cancel service at any time, without a substantive penalty. The Company maintains common utility credit risk mitigation practices, including requiring deposits and actively pursuing collection of past due amounts. Contracts with chilled water customers are based on a fixed capacity charge and a variable usage charge, resulting in performance obligations similar to that of the regulated utilities.

Monthly billing dates for utility services provided to customers are depicted in the table below.

<u>Gas</u>	<u>Steam</u>	<u>Chilled Water</u>	<u>Water</u>	<u>Wastewater</u>	<u>Westfield Utilities</u>
Cycle basis throughout month	Billed at end of month	Billed at end of month	Cycle basis throughout month	Cycle basis throughout month	Billed near end of month

Unbilled revenues, if applicable, are recognized by applying customer billing rates to the estimated volumes delivered but not yet billed. Unbilled revenues can vary significantly from period to period as a result of factors such as seasonality, weather, customer usage patterns, average price in effect per customer class, timing of rendering bills and meter reading schedules. The accrual for unbilled revenues is reversed in the subsequent accounting period when meters are read and customers are billed.

Revenues and, where applicable, costs are influenced by seasonal weather patterns, with peak sales for gas and steam occurring during the winter heating months, and during the summer months for chilled water and water. Revenues for wastewater are generally independent of seasonality. Residential and commercial customers are more impacted by weather than industrial customers. The Normal Temperature Adjustment (NTA) adjusts monthly billings to normalize Gas and Steam margin collected from certain customer classes during heating months.

Alternative Revenue Programs

Alternative Revenue Programs, such as the System Integrity Adjustment described in Note 11 – Wastewater, represent regulator-approved programs which allow for the adjustment of billings and revenue for certain broad, external factors such as normalization programs that adjust revenues for the effects of weather or programs designed to compensate for fluctuations in consumer demand. Such programs typically enable the Company to adjust rates in the future, usually as a surcharge applied to future billings, in response to past activities or completed events. Alternative Revenue Programs represent a contract between the utility and its regulators, not customers, and are therefore not within the scope of the accounting guidance for recognizing revenue from contracts with customers. When the criteria to recognize revenues from Alternative Revenue Programs have been met in accordance with ASC 980-605-25, a regulatory asset is established and the revenue is presented as a component of operating revenues. When amounts previously recognized under Alternative Revenue Programs accounting guidance are billed, the regulatory asset is reduced and a customer account receivable is recorded.

Disaggregated Revenues

Revenue by customer class is most meaningful to the Company as each respective customer class collectively represents unique customer expectations of service, generally has different energy and demand requirements, and operates under custom pricing structures approved by the IURC. Additionally, each customer class is impacted differently by weather and a variety of economic factors. Analyzing revenues disaggregated by customer class allows management to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Disaggregated revenues are presented as follows (in thousands):

Twelve Months Ended September 30, 2019								
	Gas	Steam	Chilled Water	Water	Waste- Water	Resources	Intercompany Eliminations	Total
Residential	\$ 175,999	\$ -	\$ -	\$ 113,892	\$ 132,921	\$ 20,074	\$ -	\$ 442,886
Commercial	67,128	38,587	34,439	71,033	89,594	6,881	(7,398)	300,264
Industrial	12,160	25,892	490	10,264	44,638	253	(1,925)	91,772
Other	2,964	387	-	8,170	12,461	7,321	-	31,303
Revenues - Contracts w/Customers	258,251	64,866	34,929	203,359	279,614	34,529	(9,323)	866,225
Alternative Revenue Programs	-	-	-	-	(4,810)	(53)	-	(4,863)
Gross Operating Revenues	\$ 258,251	\$ 64,866	\$ 34,929	\$ 203,359	\$ 274,804	\$ 34,476	\$ (9,323)	\$ 861,362

Twelve Months Ended September 30, 2018								
	Gas	Steam	Chilled Water	Water	Waste- Water	Resources	Intercompany Eliminations	Total
Residential	\$ 175,204	\$ -	\$ -	\$ 115,728	\$ 133,499	\$ 18,960	\$ -	\$ 443,391
Commercial	67,744	41,617	37,273	72,349	87,577	9,074	(11,757)	303,877
Industrial	13,134	27,831	641	11,616	38,839	251	(1,877)	90,435
Other	3,792	97	-	7,542	8,661	10,156	-	30,248
Revenues - Contracts w/Customers	259,874	69,545	37,914	207,235	268,576	38,441	(13,634)	867,951
Alternative Revenue Programs	-	-	-	-	10,671	42	-	10,713
Gross Operating Revenues	\$ 259,874	\$ 69,545	\$ 37,914	\$ 207,235	\$ 279,247	\$ 38,483	\$ (13,634)	\$ 878,664

Accounts Receivable and Unbilled Revenue

Amounts due from customers are reflected on the Combined Statements of Financial Position in the line items labeled "Accounts receivable" for revenue billed to customers and "Accrued utility revenue" which represent unbilled customer revenues. Unbilled revenues relate to a portion of a customer's consumption of utility services from the date of the last cycle billing date through the last day of the month (balance sheet date). Factors taken into consideration when estimating unbilled revenue include historical usage and customer rates. The Company had no contract assets or liabilities during the periods presented. Additionally, the Company has not incurred any significant costs to obtain or fulfill contracts. The opening and closing balances for customer accounts receivable and accrued utility revenue for the twelve months ended September 30, 2019 and 2018 are presented in the table below.

Accounts Receivable, net							
\$ Thousands	Gas	Steam	Chilled Water	Water	Wastewater	Resources	Total
Balance at September 30, 2019	\$ 11,088	\$ 6,284	\$ 4,916	\$ 22,419	\$ 28,255	\$ 3,833	\$ 76,795
Balance at September 30, 2018	11,621	4,784	4,584	23,451	25,696	4,028	74,164
Increase (Decrease)	\$ (533)	\$ 1,500	\$ 332	\$ (1,032)	\$ 2,559	\$ (195)	\$ 2,631
Balance at September 30, 2018	\$ 11,621	\$ 4,784	\$ 4,584	\$ 23,451	\$ 25,696	\$ 4,028	\$ 74,164
Balance at September 30, 2017	10,132	5,220	4,404	21,076	25,552	4,116	70,500
Increase (Decrease)	\$ 1,489	\$ (436)	\$ 180	\$ 2,375	\$ 144	\$ (88)	\$ 3,664

Accrued Utility Revenue

<u>\$ Thousands</u>	<u>Gas</u>	<u>Steam</u>	<u>Chilled Water</u>	<u>Water</u>	<u>Wastewater</u>	<u>Resources</u>	<u>Total</u>
Balance at September 30, 2019	\$ 2,518	\$ -	\$ -	\$ 7,957	\$ 11,508	\$ 442	\$ 22,425
Balance at September 30, 2018	4,068	-	-	8,403	11,381	472	24,324
Increase (Decrease)	<u>\$ (1,550)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (446)</u>	<u>\$ 127</u>	<u>\$ (30)</u>	<u>\$ (1,899)</u>
Balance at September 30, 2018	\$ 4,068	\$ -	\$ -	\$ 8,403	\$ 11,381	\$ 472	\$ 24,324
Balance at September 30, 2017	3,763	-	-	8,218	11,044	416	23,441
Increase (Decrease)	<u>\$ 305</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 185</u>	<u>\$ 337</u>	<u>\$ 56</u>	<u>\$ 883</u>

Accounts receivable and unbilled revenues can vary significantly from period to period as a result of weather, customer usage patterns, customer mix, commodity costs, changes in tariff rates, timing of customer collections, timing of rendering customer bills, and meter reading schedules.

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>2019</u>	<u>2018</u>
Accounts payable	\$ 87,822	\$ 70,840
Accrued interest	67,203	64,415
Customer credit balances	12,261	14,407
Salaries and employee benefits	19,999	16,893
Post-employment benefits	4,037	4,993
Other	49	170
Total accounts payable and accrued expenses	<u>\$ 191,371</u>	<u>\$ 171,718</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 \$2.2 million and \$2.3 million for the years ended September 30, 2019 and 2018, respectively. 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 are \$15.8 million and \$15.4 million at September 30, 2019 and 2018, respectively.

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, 2019 and 2018 (in thousands):

	Defined Benefit Plan		Other Benefits	
	2019	2018	2019	2018
Projected Benefit Obligation (PBO)	\$ 464,175	\$ 390,564	\$ 71,429	\$ 75,180
Plan assets at fair value	341,942	336,015	-	-
Funded status	<u>\$ (122,233)</u>	<u>\$ (54,549)</u>	<u>\$ (71,429)</u>	<u>\$ (75,180)</u>
<i>Amounts recognized in the Consolidated Statements of Financial Position consist of:</i>				
Current liability	\$ -	\$ -	\$ (4,200)	\$ (5,331)
Non-current liability	(122,233)	(54,549)	(67,229)	(69,849)
Net amounts recognized	<u>\$ (122,233)</u>	<u>\$ (54,549)</u>	<u>\$ (71,429)</u>	<u>\$ (75,180)</u>
<i>Amounts in Accumulated Other Comprehensive Income (AOCI), not in costs: *</i>				
Unrecognized prior service cost	\$ 641	\$ 795	\$ (18,949)	\$ (21,286)
Unrecognized actuarial loss	152,129	77,403	10,580	14,223
Total amounts in AOCI	<u>\$ 152,770</u>	<u>\$ 78,198</u>	<u>\$ (8,369)</u>	<u>\$ (7,063)</u>
Accumulated Benefit Obligation (ABO)	\$ 427,952	\$ 356,422		

* The amounts expected to be recognized in 2020 out of AOCI are \$11.3 million for the defined benefit pension plan and (\$2.1) million for the other benefits.

In accordance with the Mortality Improvement Scale RP-2014 using MP-2018, Citizens applied the new mortality assumptions which were used in the determination of the projected benefit obligation as of September 30, 2019. The net periodic benefit cost for these plans included the following components (in thousands):

	Defined Benefit Plan		Other Benefits	
	2019	2018	2019	2018
Service cost-benefits attributed to service during the period	\$ 12,099	\$ 13,459	\$ 1,301	\$ 1,667
Interest cost	14,839	12,769	2,757	2,457
Expected return on assets	(19,438)	(18,269)	-	-
Amortization of prior service cost	154	154	(2,336)	(2,337)
Amortization of loss	3,613	6,448	515	1,240
Settlement loss recognized	662	84	-	-
Net periodic benefit cost	<u>\$ 11,929</u>	<u>\$ 14,645</u>	<u>\$ 2,237</u>	<u>\$ 3,027</u>

Accounting for pensions and other post-retirement benefits requires an extensive use of assumptions about the discount rate, expected return on plan assets, the rate of future compensation increases received by the Company's employees, mortality, turnover and medical costs. Each assumption is reviewed annually with assistance from the Company's actuarial consultant who provides guidance in establishing the assumptions. The assumptions are selected to represent the average expected experience over time and may differ in any one year from actual experience due to changes in capital markets and the overall economy. These differences will impact the amount of pension and other post-retirement benefit expense that the Company recognizes.

The significant assumptions related to the Company's benefit obligations are as follows:

	Citizens Defined Benefit Pension		Water Defined Benefit Pension		Citizens Post Retirement Benefit		Water Supplemental Benefit	
	2019	2018	2019	2018	2019	2018	2019	2018
Weighted average assumptions used to determine benefit obligations as of September 30:								
Discount rate	3.01%	4.09%	2.61%	3.84%	2.80%	3.98%	2.77%	3.94%
Rate of compensation increase	3.63%	3.15%	-	-	-	-	-	-
Assumed health care cost trend rates used to determine benefit obligations as of September 30:								
Health care cost trend rate	n/a	n/a	n/a	n/a	8.00%	8.00%	n/a	n/a
Ultimate trend rate	n/a	n/a	n/a	n/a	4.35%	4.80%	n/a	n/a
Year rate reaches ultimate trend rate	n/a	n/a	n/a	n/a	2028	2026	n/a	n/a

The significant assumptions related to the Company's net periodic benefit costs are as follows:

	2019		2018		2019		2018	
	2019	2018	2019	2018	2019	2018	2019	2018
Weighted average assumptions used to determine net periodic benefit costs for years ended September 30:								
Discount rate	4.09%	3.68%	3.84%	3.19%	3.98%	3.47%	3.94%	3.39%
Expected return on plan assets	5.78%	5.77%	5.77%	5.77%	n/a	n/a	n/a	n/a
Rate of compensation increase	3.15%	3.50%	n/a	n/a	n/a	n/a	n/a	n/a
Assumed health care cost trend rates used to determine net periodic benefit costs as of September 30:								
Health care cost trend rate	n/a	n/a	n/a	n/a	8.00%	8.00%	n/a	n/a
Ultimate trend rate	n/a	n/a	n/a	n/a	4.80%	5.00%	n/a	n/a
Year rate reaches ultimate trend rate	n/a	n/a	n/a	n/a	2026	2023	n/a	n/a

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

	One-Percentage Point Increase	One-Percentage Point Decrease
Effect on total of annual service and interest cost components	\$ 389	\$ (326)
Effect on accumulated postretirement benefit obligation	6,495	(5,666)

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 2019 and 2018.

The following table presents the pension assets measured at fair value on a recurring basis, based on the hierarchy as of September 30, 2019 and 2018 (in thousands):

Description	2019 Fair Value Measurements Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Pension Assets:			
Cash equivalents	\$ 8,548	\$ -	\$ -
Equities	204,087	-	-
Fixed income	129,306	-	-
Total pension assets measured at fair value	<u>\$ 341,941</u>	<u>\$ -</u>	<u>\$ -</u>

Description	2018 Fair Value Measurements Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Pension Assets:			
Cash equivalents	\$ 6,434	\$ -	\$ -
Equities	204,475	-	-
Fixed income	125,107	-	-
Total pension assets measured at fair value	<u>\$ 336,016</u>	<u>\$ -</u>	<u>\$ -</u>

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

Citizens' pension plan weighted-average asset allocation as of September 30, 2019 and 2018, by asset category is as follows:

	2019	2018
Equity securities	60%	61%
Debt securities	38%	37%
Cash and cash equivalents	2%	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):

	2019	2018	2019	2018
Employer contributions (net of participant contributions)	\$ 18,817	\$ 19,046	\$ 4,682	\$ 4,516
Benefits paid	18,937	17,410	4,682	4,516

Citizens expects to contribute, at a minimum, \$19.4 million to the pension plans for 2020. The following retirement benefit payments, which reflect future service, as appropriate, are expected to be paid (in thousands):

	Defined Benefit Plan	Other Benefits
2020	\$ 17,867	\$ 4,200
2021	19,039	4,372
2022	19,877	4,716
2023	20,077	4,793
2024	21,158	4,860
Years 2025 - 2029	116,509	22,395

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 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 Indianapolis 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 to ultimately provide enhanced benefits to Citizens' beneficiaries. Resources includes affiliate joint venture investments of \$0.3 million and \$0.4 million at September 30, 2019 and September 30, 2018, respectively. 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); CESCO Diversified Business Enterprises, which is the holding company for Citizens Resources Production LLC, an oil producer; and Citizens South Madison (CSM), a small unregulated water utility. In addition, Resources provides stormwater management services to the City of Indianapolis through Citizens Energy Management Company, LLC. From December 2017 through September 2018, Resources also owned Heartland Gas Pipeline, LLC, which provided gas transportation and storage services to Gas.

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 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, 2019 and 2018 are summarized as follows:

Segment Footnote - Combined Statement of Financial Position*Citizens Energy Group and Subsidiary and CWA Authority, Inc.**(In Thousands)**At September 30, 2019*

	Gas	Steam	Chilled Water	Water	Waste- water	Resources	Other	Elimin- ations	Total
Assets									
Property, plant, and equipment	\$ 322,894	\$ 73,635	\$ 63,778	\$ 1,134,075	\$ 2,008,711	\$ 203,550	\$ 26,859	\$ -	\$ 3,833,502
Intangibles	-	15,186	42,709	-	-	-	-	-	57,895
Investments	7,047	11,653	5,844	76,449	193,367	5,240	566	-	300,166
Cash and cash equivalents	32,115	4,953	25,224	70,769	38,604	21,565	15,923	-	209,153
Other current assets	59,053	11,315	6,229	35,584	46,591	5,086	10,797	(3,354)	171,301
Deferred charges and other non-current assets	6,734	2,117	54	18,470	4,969	693	2,596	-	35,633
Total assets	\$427,843	\$118,859	\$143,838	\$1,335,347	\$2,292,242	\$236,134	\$56,741	\$(3,354)	\$4,607,650
Capitalization and Liabilities									
Equity	\$ 125,908	\$ 19,937	\$ 94,572	\$ 121,092	\$ 79,092	\$ 106,861	\$ (66,119)	\$ -	\$ 481,343
Long-term debt	184,169	73,754	36,856	940,508	1,866,986	53,901	-	-	3,156,174
Retirement benefit and Other long-term liabilities	49,345	11,125	2,440	189,635	172,099	67,440	98,684	-	590,768
Current mat. of long-term debt	16,235	5,792	4,748	23,560	39,006	-	-	-	89,341
Short-term borrowings	-	-	-	-	-	-	-	-	-
Current liabilities	52,186	8,251	5,222	60,552	135,059	7,932	24,176	(3,354)	290,024
Total capitalization and liabilities	\$427,843	\$118,859	\$143,838	\$1,335,347	\$2,292,242	\$236,134	\$56,741	\$(3,354)	\$4,607,650

Segment Footnote - Combined Statement of Financial Position*Citizens Energy Group and Subsidiary and CWA Authority, Inc.**(In Thousands)**At September 30, 2018*

	Gas	Steam	Chilled Water	Water	Waste- water	Resources	Other	Elimin- ations	Total
Assets									
Property, plant, and equipment	\$ 305,862	\$ 74,801	\$ 63,660	\$ 1,105,821	\$ 1,861,272	\$ 178,788	\$ 23,958	\$ -	\$ 3,614,162
Intangibles	-	16,169	45,429	-	-	-	-	-	61,598
Investments	6,961	11,341	5,640	84,351	258,372	4,568	530	-	371,763
Cash and cash equivalents	75,531	11,139	25,562	44,034	32,503	35,953	25,201	-	249,923
Other current assets	66,559	10,033	6,322	40,299	43,345	5,676	(1,870)	(16,753)	153,611
Deferred charges and other non-current assets	8,033	2,633	49	17,248	16,973	1,500	2,414	-	48,850
Total assets	\$462,946	\$126,116	\$146,662	\$1,291,753	\$2,212,465	\$226,485	\$50,233	\$(16,753)	\$4,499,907
Capitalization and Liabilities									
Equity	\$ 103,664	\$ 20,876	\$ 92,216	\$ 86,384	\$ 41,446	\$ 102,975	\$ (36,380)	\$ -	\$ 411,181
Long-term debt	202,020	80,671	42,511	968,088	1,912,417	8,815	-	-	3,214,522
Retirement benefit and Other long-term liabilities	34,023	6,742	1,537	160,205	101,236	58,110	66,575	-	428,428
Current mat. of long-term debt	15,430	5,526	4,499	18,550	37,386	43,089	-	-	124,480
Short-term borrowings	50,000	-	-	-	-	6,500	-	-	56,500
Current liabilities	57,809	12,301	5,899	58,526	119,980	6,996	20,038	(16,753)	264,796
Total capitalization and liabilities	\$462,946	\$126,116	\$146,662	\$1,291,753	\$2,212,465	\$226,485	\$50,233	\$(16,753)	\$4,499,907

Segment Footnote - Combined Statement of Operations*Citizens Energy Group and Subsidiary and CWA Authority, Inc.**(In Thousands)**For the Twelve Months Ended September 30, 2019*

	Gas	Steam	Chilled Water	Water	Waste- water	Resources	Other	Elimin- ations	Total
Operating revenues									
Customer revenues	\$ 255,869	\$ 60,936	\$ 34,929	\$ 202,206	\$ 273,654	\$ 33,768	\$ -	\$ -	\$ 861,362
Intercompany revenues	2,382	3,930	-	1,153	1,150	708	-	(9,323)	-
Gross operating revenues	258,251	64,866	34,929	203,359	274,804	34,476	-	(9,323)	861,362
Operating expenses:									
Cost of goods sold	111,293	31,271	10,945	-	-	1,913	-	(7,326)	148,096
Operations and maintenance	63,331	19,980	7,958	76,948	78,832	14,306	-	(1,937)	259,418
Depreciation and amortization	19,044	5,214	5,206	30,616	63,996	4,758	-	-	128,834
Loss (gain) on divestiture	-	-	-	(358)	-	1,367	-	-	1,009
Taxes	9,684	1,611	2,480	16,354	27,480	2,539	-	-	60,148
Total operating expenses	203,352	58,076	26,589	123,560	170,308	24,883	-	(9,263)	597,505
Operating income (loss)	54,899	6,790	8,340	79,799	104,496	9,593	-	(60)	263,857
Other income (expense), net:									
Interest income	810	174	278	2,232	3,381	164	117	(82)	7,074
Non-operating post-employment benefits, net	(300)	(349)	9	(590)	118	19	-	-	(1,093)
Other	(196)	-	-	425	81	208	(2,060)	-	(1,542)
Total other income (expense), net	314	(175)	287	2,067	3,580	391	(1,943)	(82)	4,439
Income (loss) before equity in losses of affiliates and interest charges									
	55,213	6,615	8,627	81,866	108,076	9,984	(1,943)	(142)	268,296
Equity in losses of affiliates	-	-	-	-	-	(169)	-	-	(169)
Interest charges:									
Interest on long-term debt	10,135	3,627	1,913	42,694	86,364	1,921	82	(82)	146,654
Other interest, including net discount (premium) amortization	489	(682)	(918)	(4,801)	(17,187)	311	(73)	-	(22,861)
Total interest charges	10,624	2,945	995	37,893	69,177	2,232	9	(82)	123,793
Income (loss) from continuing operations	44,589	3,670	7,632	43,973	38,899	7,583	(1,952)	(60)	144,334
Loss from discontinued operations	-	-	-	-	-	-	(668)	60	(608)
Net income (loss)	\$ 44,589	\$ 3,670	\$ 7,632	\$ 43,973	\$ 38,899	\$ 7,583	\$ (2,620)	\$ -	\$ 143,726

Segment Footnote - Combined Statement of Operations*Citizens Energy Group and Subsidiary and CWA Authority, Inc.**(In Thousands)**For the Twelve Months Ended September 30, 2018*

	Gas	Steam	Chilled Water	Water	Waste- water	Resources	Other	Elimin- ations	Total
Operating revenues									
Customer revenues	\$ 256,960	\$ 64,057	\$ 37,914	\$ 206,013	\$ 278,126	\$ 35,594	\$ -	\$ -	\$ 878,664
Intercompany revenues	2,914	5,488	-	1,222	1,121	2,889	-	(13,634)	-
Gross operating revenues	259,874	69,545	37,914	207,235	279,247	38,483	-	(13,634)	878,664
Operating expenses:									
Cost of goods sold	112,751	35,486	12,389	-	-	1,711	-	(11,195)	151,142
Operations and maintenance	63,929	18,115	8,184	77,695	76,520	18,514	(859)	(2,364)	259,734
Depreciation and amortization	23,983	5,177	5,463	42,136	78,024	5,696	-	-	160,479
Loss (gain) on divestiture	-	-	-	-	-	(5,393)	-	-	(5,393)
Taxes	9,043	1,389	2,505	15,137	24,953	2,134	411	-	55,572
Total operating expenses	209,706	60,167	28,541	134,968	179,497	22,662	(448)	(13,559)	621,534
Operating income (loss)	50,168	9,378	9,373	72,267	99,750	15,821	448	(75)	257,130
Other income (expense), net:									
Interest income	324	109	169	1,431	2,853	176	147	(38)	5,171
Non-operating post-employment benefits, net	(1,163)	(265)	(51)	(290)	(36)	-	(656)	-	(2,461)
Other	(314)	-	-	635	83	196	(1,999)	-	(1,399)
Total other income (expense), net	(1,153)	(156)	118	1,776	2,900	372	(2,508)	(38)	1,311
Income (loss) before equity in earnings of affiliates and interest charges									
	49,015	9,222	9,491	74,043	102,650	16,193	(2,060)	(113)	258,441
Equity in losses of affiliates	-	-	-	-	-	(5,942)	-	-	(5,942)
Interest charges:									
Interest on long-term debt	11,267	3,882	2,138	48,507	88,189	2,526	38	(38)	156,509
Other interest, including net (premium) discount amortization	889	(683)	(976)	(2,106)	(16,968)	699	17	-	(19,128)
Total interest charges	12,156	3,199	1,162	46,401	71,221	3,225	55	(38)	137,381
Income (loss) from continuing operations	36,859	6,023	8,329	27,642	31,429	7,026	(2,115)	(75)	115,118
Income from discontinued operations	-	-	-	-	-	-	40,111	75	40,186
Net income (loss)	\$ 36,859	\$ 6,023	\$ 8,329	\$ 27,642	\$ 31,429	\$ 7,026	\$ 37,996	\$ -	\$ 155,304

Segment Footnote - Combined Statement of Cash Flows
Citizens Energy Group and Subsidiary and CWA Authority, Inc.
For the Twelve Months Ended September 30, 2019 (In Thousands)

	Gas	Steam	Chilled Water	Water	Waste- water	Resources	Other	Total
Net cash provided by (used in) operating activities	\$ 67,742	\$ 2,999	\$ 11,409	\$ 70,695	\$ 103,209	\$ 18,368	\$ 5,852	\$ 280,274
Investing Activities:								
Construction expenditures	(31,568)	(3,347)	(2,707)	(43,685)	(190,000)	(19,591)	(10,814)	(301,712)
Divestiture proceeds, net of expenses	-	-	-	358	-	20	-	378
Other investing activities	(9,988)	-	-	(487)	-	16	(16,353)	(26,812)
Net cash provided by (used in) investing activities	(41,556)	(3,347)	(2,707)	(43,814)	(190,000)	(19,555)	(27,167)	(328,146)
Financing Activities:								
Proceeds from bank line of credit	-	-	-	-	60,000	-	-	60,000
Repayment of short-term borrowings and bank line of credit	(50,000)	-	-	-	-	(7,200)	-	(57,200)
Principal payments of long-term debt and bond refunding	(15,430)	(5,526)	(4,499)	(432,150)	(37,386)	(52,089)	-	(547,080)
Proceeds from bond refunding	-	-	-	413,987	-	54,538	-	468,525
Bond issuance costs	-	-	-	(2,029)	(3)	(638)	-	(2,670)
Contributions in aid of construction	-	-	-	11,598	5,276	(3,143)	-	13,731
Other financing activities	(3,976)	-	(4,337)	-	-	(3,700)	12,037	24
Net cash provided by (used in) financing activities	(69,406)	(5,526)	(8,836)	(8,594)	27,887	(12,232)	12,037	(64,670)
Net change in cash, cash equivalents, and restricted cash	(43,220)	(5,874)	(134)	18,287	(58,904)	(13,419)	(9,278)	(112,542)
Cash, cash equivalents & restricted cash - beginning of period	82,293	22,480	31,202	102,377	290,875	35,953	25,201	590,381
Cash, cash equivalents & restricted cash - end of period	\$ 39,073	\$ 16,606	\$ 31,068	\$ 120,664	\$ 231,971	\$ 22,534	\$ 15,923	\$ 477,839
Reconciliation:								
Cash and cash equivalents	\$ 32,115	\$ 4,953	\$ 25,224	\$ 70,769	\$ 38,604	\$ 21,565	\$ 15,923	\$ 209,153
Restricted cash included in Bond restricted funds	6,958	11,653	5,844	47,678	191,194	969	-	264,296
Restricted cash included in Investments, Other	-	-	-	2,217	2,173	-	-	4,390
Cash, cash equivalents & restricted cash - end of period	\$ 39,073	\$ 16,606	\$ 31,068	\$ 120,664	\$ 231,971	\$ 22,534	\$ 15,923	\$ 477,839

Segment Footnote - Combined Statement of Cash Flows
Citizens Energy Group and Subsidiary and CWA Authority, Inc.
For the Twelve Months Ended September 30, 2018 (In Thousands)

	Gas	Steam	Chilled Water	Water	Waste- water	Resources	Other	Total
Net cash provided by (used in) operating activities	\$ 59,955	\$ 10,877	\$ 12,577	\$ 60,849	\$ 101,021	\$ 12,714	\$ (8,971)	\$ 249,022
Investing Activities:								
Construction expenditures	(26,578)	(5,673)	(2,272)	(56,181)	(194,767)	(8,156)	(10,812)	(304,439)
Sale and maturity of investment securities	-	-	-	-	107	-	-	107
Divestiture proceeds, net of expenses	324	-	-	-	-	8,521	-	8,845
Acquisition of business, net of cash acquired	-	-	-	-	-	(3,364)	-	(3,364)
Other investing activities	(40,106)	-	(20,757)	(626)	-	34,894	28,683	2,088
Net cash provided by (used in) investing activities	(66,360)	(5,673)	(23,029)	(56,807)	(194,660)	31,895	17,871	(296,763)
Financing Activities:								
Proceeds from bank line of credit	-	-	-	-	20,000	500	-	20,500
Principal payments of long-term debt and bond refunding	(26,060)	(5,301)	(4,309)	(18,475)	(43,437)	(37,136)	-	(134,718)
Bond issuance costs	-	-	-	-	(33)	-	-	(33)
Contributions in aid of construction	-	-	-	7,384	7,281	385	-	15,050
Other financing activities	(27)	-	-	-	-	-	-	(27)
Net cash provided by (used in) financing activities	(26,087)	(5,301)	(4,309)	(11,091)	(16,189)	(36,251)	-	(99,228)
Net change in cash, cash equivalents, and restricted cash	(32,492)	(97)	(14,761)	(7,049)	(109,828)	8,358	8,900	(146,969)
Cash, cash equivalents & restricted cash - beginning of period	114,785	22,577	45,963	109,426	400,703	27,595	16,301	737,350
Cash, cash equivalents & restricted cash - end of period	\$ 82,293	\$ 22,480	\$ 31,202	\$ 102,377	\$ 290,875	\$ 35,953	\$ 25,201	\$ 590,381
Reconciliation:								
Cash and cash equivalents	\$ 75,531	\$ 11,139	\$ 25,562	\$ 44,034	\$ 32,503	\$ 35,953	\$ 25,201	\$ 249,923
Restricted cash included in Bond restricted funds	6,762	11,341	5,640	55,983	256,466	-	-	336,192
Restricted cash included in Investments, Other	-	-	-	2,360	1,906	-	-	4,266
Cash, cash equivalents & restricted cash - end of period	\$ 82,293	\$ 22,480	\$ 31,202	\$ 102,377	\$ 290,875	\$ 35,953	\$ 25,201	\$ 590,381

During the twelve months ended September 30, 2018, an \$18 million contribution was made by Chilled Water to Resources for the purposes of contributing to CWU.

9. ADDITIONAL FINANCIAL INFORMATION – CITIZENS WESTFIELD UTILITIES

Operations of CWU include the activities of Westfield Gas, Westfield Water, and Westfield Wastewater. CWU (Parent) is the holding company for the three utilities serving residential, commercial and industrial customers in Westfield, Indiana:

- Westfield Gas activities include purchasing and distributing natural gas.
- Westfield Water activities include treatment and distribution of drinking water.
- Westfield Wastewater activities include wastewater collection and treatment services.

Consolidated Statement of Financial Position

Citizens Westfield Utilities, LLC

(In Thousands)

At September 30, 2019

	Parent	Westfield Gas	Westfield Water	Westfield Wastewater	Eliminations	Total
Assets						
Property, plant, and equipment	\$ -	\$ 11,229	\$ 80,583	\$ 105,595	\$ -	\$ 197,407
Investments	99,430	-	-	-	(99,430)	-
Cash and cash equivalents	171	1,136	5,600	8,440	-	15,347
Other current assets	-	572	1,646	1,711	-	3,929
Other non-current assets	84	767	410	632	-	1,893
Total assets	\$ 99,685	\$ 13,704	\$ 88,239	\$ 116,378	\$ (99,430)	\$ 218,576
Capitalization and Liabilities						
Member's equity	\$ 90,524	\$ 11,955	\$ 32,430	\$ 55,045	\$ (99,430)	\$ 90,524
Long-term debt	8,896	-	19,919	25,085	-	53,900
Other long-term borrowings	-	1,000	-	-	-	1,000
Other long-term liabilities	-	5	32,672	33,114	-	65,791
Current maturities of long-term debt	-	-	-	-	-	-
Short-term borrowings	-	-	-	-	-	-
Current liabilities	265	744	3,218	3,134	-	7,361
Total capitalization and liabilities	\$ 99,685	\$ 13,704	\$ 88,239	\$ 116,378	\$ (99,430)	\$ 218,576

Consolidated Statement of Financial Position

Citizens Westfield Utilities, LLC

(In Thousands)

At September 30, 2018

	Parent	Westfield Gas	Westfield Water	Westfield Wastewater	Eliminations	Total
Assets						
Property, plant, and equipment	\$ -	\$ 10,077	\$ 68,657	\$ 92,584	\$ -	\$ 171,318
Investments	91,985	-	-	-	(91,985)	-
Cash and cash equivalents	407	1,562	2,208	4,213	-	8,390
Other current assets	1	778	1,300	1,443	-	3,522
Other non-current assets	59	1,287	15	139	-	1,500
Total assets	\$ 92,452	\$ 13,704	\$ 72,180	\$ 98,379	\$ (91,985)	\$ 184,730
Capitalization and Liabilities						
Member's equity	\$ 63,914	\$ 11,191	\$ 29,773	\$ 51,021	\$ (91,985)	\$ 63,914
Long-term debt	8,862	-	8,348	15,240	-	32,450
Other long-term borrowings	-	1,700	3,500	3,000	-	8,200
Other long-term liabilities	-	4	28,539	26,962	-	55,505
Current maturities of long-term debt	19,454	-	-	-	-	19,454
Short-term borrowings	-	-	-	-	-	-
Current liabilities	222	809	2,020	2,156	-	5,207
Total capitalization and liabilities	\$ 92,452	\$ 13,704	\$ 72,180	\$ 98,379	\$ (91,985)	\$ 184,730

Consolidated Statement of Operations
Citizens Westfield Utilities, LLC
For the Twelve Months Ended September 30, 2019
(In Thousands)

	Parent	Westfield Gas	Westfield Water	Westfield Wastewater	Eliminations	Total
Operating revenues	\$ -	\$ 4,762	\$ 9,712	\$ 12,660	\$ -	\$ 27,134
Operating expenses						
Cost of goods sold	-	1,913	-	-	-	1,913
Other operating expenses	197	1,220	3,802	4,303	-	9,522
Depreciation and amortization	-	593	1,228	2,351	-	4,172
Taxes	-	215	1,280	956	-	2,451
Total operating expenses	197	3,941	6,310	7,610	-	18,058
Total operating (loss) income	(197)	821	3,402	5,050	-	9,076
Other income	-	7	222	34	-	263
Equity in earnings of subsidiaries	7,861	-	-	-	(7,861)	-
Interest charges						
Interest on long-term debt	335	-	634	952	-	1,921
Other interest	223	64	82	(57)	-	312
Total interest charges	558	64	716	895	-	2,233
Net income	\$ 7,106	\$ 764	\$ 2,908	\$ 4,189	\$ (7,861)	\$ 7,106

Consolidated Statement of Operations
Citizens Westfield Utilities, LLC
For the Twelve Months Ended September 30, 2018
(In Thousands)

	Parent	Westfield Gas	Westfield Water	Westfield Wastewater	Eliminations	Total
Operating revenues	\$ -	\$ 4,393	\$ 9,458	\$ 12,005	\$ -	\$ 25,856
Operating expenses						
Cost of goods sold	-	1,711	-	-	-	1,711
Other operating expenses	203	1,338	3,626	4,119	-	9,286
Depreciation and amortization	-	584	1,121	2,322	-	4,027
Taxes	-	185	1,032	719	-	1,936
Total operating expenses	203	3,818	5,779	7,160	-	16,960
Total operating income (loss)	(203)	575	3,679	4,845	-	8,896
Other income	-	-	182	3	-	185
Equity in earnings of subsidiaries	8,112	-	-	-	(8,112)	-
Interest charges						
Interest on long-term debt	1,708	-	271	493	-	2,472
Other interest	292	52	183	173	-	700
Total interest charges	2,000	52	454	666	-	3,172
Net income	\$ 5,909	\$ 523	\$ 3,407	\$ 4,182	\$ (8,112)	\$ 5,909

Consolidated Statement of Cash Flows
Citizens Westfield Utilities, LLC
(In Thousands)
For the Twelve Months Ended September 30, 2019

	Parent	Westfield Gas	Westfield Water	Westfield Wastewater	Total
Net cash provided by (used in) operating activities	\$ (576)	\$ 1,924	\$ 5,900	\$ 9,049	\$ 16,297
Investing Activities:					
Construction expenditures	-	(1,649)	(7,840)	(9,855)	(19,344)
Other investing activities	-	-	-	4	4
Net cash provided by (used in) investing activities	-	(1,649)	(7,840)	(9,851)	(19,340)
Financing Activities:					
Repayment of bank line of credit	-	(700)	(3,500)	(3,000)	(7,200)
Proceeds from bond refunding	9,000	-	20,082	25,456	54,538
Principal payments of long-term debt and bond refunding	(28,454)	-	(8,365)	(15,270)	(52,089)
Bond issuance costs	(127)	-	(165)	(346)	(638)
Additional paid-in capital and dividends	19,920	-	(250)	(170)	19,500
Contributions in aid of construction	-	-	(2,069)	(1,073)	(3,142)
Net cash provided by (used in) financing activities	339	(700)	5,733	5,597	10,969
Net change in cash, cash equivalents, and restricted cash	(237)	(425)	3,793	4,795	7,926
Cash, cash equivalents & restricted cash - beginning of period	408	1,561	2,208	4,213	8,390
Cash, cash equivalents & restricted cash - end of period	\$ 171	\$ 1,136	\$ 6,001	\$ 9,008	\$ 16,316
Reconciliation:					
Cash and cash equivalents	\$ 171	\$ 1,136	\$ 5,600	\$ 8,440	\$ 15,347
Restricted cash included in Other non-current assets	-	-	401	568	969
Cash, cash equivalents & restricted cash - end of period	\$ 171	\$ 1,136	\$ 6,001	\$ 9,008	\$ 16,316

Consolidated Statement of Cash Flows
Citizens Westfield Utilities, LLC
(In Thousands)
For the Twelve Months Ended September 30, 2018

	Parent	Westfield Gas	Westfield Water	Westfield Wastewater	Total
Net cash provided by (used in) operating activities	\$ (2,076)	\$ 1,314	\$ 4,379	\$ 5,028	\$ 8,645
Investing Activities:					
Construction expenditures	-	(851)	(3,483)	(2,852)	(7,186)
Net cash provided by (used in) investing activities	-	(851)	(3,483)	(2,852)	(7,186)
Financing Activities:					
Proceeds from bank line of credit	-	500	-	-	500
Principal payments of long-term debt	(34,303)	-	-	-	(34,303)
Additional paid-in capital and dividends	34,500	-	-	-	34,500
Contributions in aid of construction	-	-	(303)	688	385
Other financing activities	1,800	(100)	(850)	(850)	-
Net cash provided by (used in) financing activities	1,997	400	(1,153)	(162)	1,082
Net change in cash, cash equivalents, and restricted cash	(79)	863	(257)	2,014	2,541
Cash, cash equivalents & restricted cash - beginning of period	486	699	2,465	2,199	5,849
Cash, cash equivalents & restricted cash - end of period	\$ 407	\$ 1,562	\$ 2,208	\$ 4,213	\$ 8,390
Reconciliation:					
Cash and cash equivalents	\$ 407	\$ 1,562	\$ 2,208	\$ 4,213	\$ 8,390
Restricted cash included in Other non-current assets	-	-	-	-	-
Cash, cash equivalents & restricted cash - end of period	\$ 407	\$ 1,562	\$ 2,208	\$ 4,213	\$ 8,390

10. DISCONTINUED OPERATIONS AND RELATED ASSET RETIREMENT OBLIGATIONS

The Manufacturing segment, d/b/a Indianapolis Coke, ceased operations on July 13, 2007. Prior to the cessation of operations, Manufacturing (reported as Discontinued Operations) produced manufactured gas, coke, and various chemical by-products for industrial use. Indianapolis Coke had been in operation since 1909 and once produced all of the gas used for heating and other purposes in Marion County. With the introduction of natural gas transported to Indianapolis via interstate pipelines in the 1950's, the percentage of manufactured gas in the gas distribution system gradually declined and reached zero when the Manufacturing segment ceased operation in 2007.

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 420). Citizens enrolled this facility in the Indiana Department of Environmental Management Voluntary Remediation Program to address historical environmental impacts associated with these operations. Demolition costs concluded in 2017, and costs of 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 reviews the asset retirement obligation annually, evaluating newly assumed costs or substantive changes in previously assumed costs to determine if cost estimate impacts are sufficiently material to warrant application of the updated estimates to the asset retirement obligation. Changes resulting from revisions to the timing or amount of the original estimate of cash flows are recognized as an increase or a decrease in the asset retirement cost to the extent applicable.

Activity for the twelve months ended September 30, 2019 for the asset retirement obligation liability is as follows (in thousands):

Asset retirement obligation at September 30, 2018	\$	16,734
Accretion expense		782
Remediation liabilities settled		<u>(3,542)</u>
Asset retirement obligation at September 30, 2019	\$	<u>13,974</u>

In June 2018, Citizens sold certain land parcels associated with Discontinued Operations to the City of Indianapolis (the City) for \$2.1 million. Remaining land parcels of Discontinued Operations, which are subject to the remediation plan discussed above, were leased to the City with ownership to be conveyed to the City upon successful completion of environmental remediation. The City's development plans for the site resulted in changes to the overall site remediation plan and timeline. A remediation work plan was prepared by Citizens and approved by the Indiana Department of Environmental Management in 2018. Effective September 30, 2018, Citizens revised its estimate of the costs and related amount of cash flows for the asset retirement obligation which resulted in a \$43.0 million reduction in the asset retirement obligation liability, primarily relating to decreased estimates for future environmental remediation as required per the revised remediation work plan.

The major classes of assets and liabilities of the Manufacturing segment (reported as Discontinued Operations in Other) at September 30, 2019 and September 30, 2018, are as follows (in thousands):

	September 30, 2019	September 30, 2018
Current assets	<u>\$ 942</u>	<u>\$ 1,761</u>
Deferred charges and other non-current assets	1	-
Total assets	<u>\$ 943</u>	<u>\$ 1,761</u>
Equity (deficiency)	\$ (23,561)	\$ (22,090)
Retirement benefit and other long-term liabilities	24,177	22,790
Current liabilities	327	1,061
Total capitalization and liabilities	<u>\$ 943</u>	<u>\$ 1,761</u>

Discontinued Operations operating loss was \$0.7 million and operating income was \$40.1 million for the fiscal years ended September 30, 2019 and 2018, respectively. Approximately \$24.7 million of cash was provided by Gas to Discontinued Operations during fiscal year 2018, and an additional \$4.0 million during the twelve months ended September 30, 2019, to settle a portion of the liabilities. Additional cash funding from Gas to settle liabilities may be provided to Discontinued Operations in future years.

11. RATE AND REGULATORY MATTERS

A. Regulatory Developments

Gas

The gas utility's most recent general rate case order was issued by the IURC in September 2011.

On April 18, 2018 and May 31, 2018, Citizens Gas filed two petitions and supporting testimony requesting approval of agreements entered into under Rate 30 of its IURC approved tariff. Pursuant to the agreements, Citizens Gas would provide gas transportation service to electric generation facilities located at the same location in Indianapolis but separately owned by Indianapolis Power & Light Company ("IPL") and Indiana Municipal Power Agency ("IMPA") at negotiated rates. Based on discussions with the Office of Utility Consumer Counselor (OUCC), in November 2018, Citizens Gas amended both petitions to seek approval of the contracts as general special contracts that are not subject to the requirements of Rate 30. In January 2019, Citizens Gas and the OUCC submitted settlement agreements and supporting testimony recommending the Commission approve both contracts. On April 3, 2019, the Commission issued orders in both cases approving the settlement agreements and the contracts with IPL and IMPA.

On April 25, 2018, Citizens Gas and Heartland Gas Pipeline, LLC (Heartland), filed a joint petition requesting certain approvals in connection with Heartland's proposed transfer of substantially all its assets to Citizens Gas Pipeline Assets, LLC (Citizens Gas Pipeline) to be held for the exclusive use and benefit of Citizens Gas. The proposed transaction was expected to result in annual savings of \$1.59 million for Citizens Gas's customers by eliminating transportation and storage charges Citizens Gas paid to Heartland and recovered from customers through the Gas Cost Adjustment (GCA) mechanism. On July 10, 2018, the OUCC filed testimony recommending approval of the proposed transfer. On September 12, 2018, the IURC issued an order approving, without modification, the proposed asset purchase agreement pursuant to which Heartland would sell its assets to Citizens Gas Pipeline Assets, LLC, which will own the assets for the exclusive use and benefit of Citizens Gas. The transaction closed and the transfer was effected on September 28, 2018.

Citizens Thermal Steam

The steam utility's most recent general rate case order was issued by the IURC in November 2016.

Water

The water utility's most recent general rate case order was issued by the IURC in April 2016.

Wastewater

Prior to the 2019 Wastewater Order described below, the wastewater utility's most recent general rate case order was issued by the IURC in July 2016.

On September 28, 2017, CWA filed a petition with the IURC requesting approval to implement an initial "System Integrity Adjustment" (SIA 1), which is authorized under a law enacted in 2016 by the Indiana General Assembly (the "SIA statute"). The purpose of the SIA statute is to facilitate an eligible utility's recovery of revenues sufficient to plan for and invest in necessary infrastructure based on the revenue requirement authorized in the utility's most recent rate case. CWA proposed adjustments to its non-industrial rates designed to recover an initial SIA 1 of \$6.1 million, based on a comparison of authorized revenues from CWA's most recent rate case and actual revenues for the 12 months ending July 31, 2017. On December 28, 2017, the IURC issued an order finding that CWA's proposed SIA 1 was properly calculated and approving it for implementation. The new rates implementing the initial SIA 1 became effective January 1, 2018.

Pursuant to the SIA statute, on September 17, 2018, CWA filed a petition requesting approval to change its adjustment amount and beginning January 1, 2019, recover an SIA 2 of approximately \$9.95 million. An SIA 2 of approximately \$9.86 million was approved by the IURC and became effective January 1, 2019.

In accordance with the rate case settlement discussed below, on September 27, 2019, CWA filed a final reconciliation of unreconciled SIA revenues collected as a result of SIA 1 and SIA 2 during the applicable 12-month period of August 2018 - July 2019. On November 22, 2019, CWA received approval from the IURC regarding its final reconciliation of SIA 1 and SIA 2 which will result in a credit to customers of \$0.4 million.

On October 12, 2018, CWA filed a petition with the IURC requesting, among other things, a three-step increase in base rate revenues. On April 12, 2019, CWA, the OUCC and all other parties to the case filed a settlement agreement with the Commission reflecting a three-step increase in base rate revenues of \$31.9 million or 11.9% for the first step, \$13.9 million or 4.6% for the second step, and \$12.0 million or 3.8% for the third step. Included among the various components of the revenue requirements was debt service on CWA bonds expected to be issued in 2019 (step 1), 2020 (step 2) and 2021 (step 3). In the rate case settlement agreement, CWA agreed voluntarily not to seek recovery of SIA 2 revenues

uncollected as of the issuance of the final order in the rate case. Accordingly, CWA expensed \$4.0 million of regulatory assets related to SIA 2 revenues which were previously recorded within "Other current assets" as they were no longer probable of recovery. On July 29, 2019, the IURC issued an Order (the 2019 Wastewater Order) essentially approving the settlement agreement. The step one increase took effect on August 1, 2019 and was reduced by \$1.4 million effective November 22, 2019, since the actual debt service on the CWA bonds issued in 2019 was less than the amount assumed in the 2019 Wastewater Order. The step two and step three increases will be implemented upon confirmation of pricing for the planned CWA 2020 and 2021 bond issuances which are expected to take place in October 2020 and October 2021, respectively. The step two and step three increases are also subject to a true-up to the extent the actual debt service on the bonds issued in each year is materially different than the amount assumed in the 2019 Wastewater Order.

Resources - Westfield Gas

Westfield Gas's most recent general rate case order was issued by the IURC in April 2017. On July 19, 2019, Westfield Gas filed a petition and testimony requesting approval to extend the provision of energy efficiency programs and continue a rider that provides for recovery of costs to administer the energy efficiency programs as well as a decoupling rate adjustment mechanism previously approved in prior cases for the utility. On September 18, 2019, the OUCC filed testimony supporting the relief requested in Westfield Gas's petition, subject to the OUCC's recommendation that if a similar energy efficiency program currently in effect for Indiana Gas Company, Inc. (d/b/a Vectren North) terminates, Westfield Gas's energy efficiency programs, cost recovery rider and decoupling mechanism would also terminate. On September 27, 2019, Westfield Gas filed rebuttal testimony stating that the OUCC's recommendation is consistent with a prior IURC order approving Westfield Gas's energy efficiency programs and is therefore acceptable. A hearing was held on October 21, 2019. The Company anticipates an order will be issued by the IURC by the second quarter of fiscal year 2020.

Resources - Westfield Water

Westfield Water's rates were approved by the IURC in November 2013.

Resources – Westfield Wastewater

Westfield Wastewater's most recent general rate case order was issued by the IURC in May 2017.

Joint Depreciation Case

On January 12, 2018, Citizens filed a depreciation case requesting approval to implement a decrease in depreciation accrual rates when compared to current depreciation rates for Gas, Citizens Thermal Steam, Water, Wastewater, and the Westfield utilities owned by Resources. On September 10, 2018, Citizens and the OUCC submitted a settlement agreement and supporting testimony. Under the settlement agreement, neither Westfield Gas, Citizens Water of Westfield or Citizens Wastewater of Westfield will implement the change in depreciation accrual rates applicable to it approved by the Commission in this proceeding prior to the approval of new basic rates and charges in each utility's next base rate case. A hearing before the IURC was held October 24, 2018. On December 27, 2018, the IURC issued an order approving the settlement agreement without modification.

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

Regulatory assets were comprised of the following at September 30, 2019 and 2018 (in thousands):

	2019	2018	Recovery Period	Statement of Financial Position Location
Deferred Acquisition Transaction Costs	\$ 6,944	\$ 7,529	24 - 25 years	Other deferred charges
System Integrity Adjustment - Wastewater	-	12,119	1 - 15 months	Other deferred charges
Decoupled Sales Component	1,612	2,053	1 - 15 months	Other deferred charges
Deferred Regulatory Proceeding Costs	1,130	1,330	1 - 3 years	Other deferred charges
Deferred Fuel Tracking Adjustments	660	1,003	1 - 18 months	Other current assets
Total Regulatory Assets	<u>\$ 10,346</u>	<u>\$ 24,034</u>		

Regulatory liabilities were comprised of the following at September 30, 2019 and 2018 (in thousands):

	2019	2018	Refund Period	Statement of Financial Position Location
Contributions in Aid of Construction	\$ 272,294	\$ 235,057	40 - 50 years	Contributions in aid of construction
Deferred Water Rights	256	349	5 - 6 years	Other long-term liabilities
Hedging Transaction Costs	-	35	1 - 13 months	Other current liabilities
Deferred Fuel Tracking Adjustments	2,234	4,069	1 - 18 months	Other current liabilities
Other	104	406	Various	Other long-term liab. and accounts payable
Total Regulatory Liabilities	<u>\$ 274,888</u>	<u>\$ 239,916</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 8 for additional information regarding demolition and environmental remediation of the former Indianapolis Coke Manufacturing facility. 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.

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 fiscal year 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. In response to comments received from IDEM in fiscal year 2019, Citizens filed a revised RWP with IDEM in November 2019. 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. The accrued liability related to Langsdale environmental remediation was \$7.0 million and \$7.8 million at September 30, 2019 and September 30, 2018, respectively. 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

In April 2016, the United States Environmental Protection Agency (EPA) 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. In June 2017, the EPA acknowledged its agreement with the Indiana Department of Environmental Management (IDEM) to defer final listing of the proposed site to the NPL whereby IDEM will oversee response actions at the site. It is probable that the company will incur costs related to IDEM's response actions. 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 waters of the United States.

Combined Sewer Overflow 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 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 of Indianapolis (the City), Indiana Department of Environmental Management (IDEM), U.S. Environmental Protection Agency, and the U.S. District Court entered into a Consent Decree in 2006 that established a LTCP to address the System's combined sewer system. The plan established a 20-year schedule for the required combined sewer system and advanced wastewater treatment plant (AWTP) improvements.

Upon acquisition of the Wastewater System in August 2011, CWA assumed the City's obligations under the order of the U.S. District Court for the Southern District of Indiana (the Court) dated December 19, 2006, among the EPA, 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 LTCP have been planned and scheduled through 2025. The DigIndy program, the most significant element of the Consent Decree, is the largest sewer infrastructure project in Indianapolis' history. The Deep Rock Tunnel Connector (DRTC) and the Eagle Creek Tunnel are the first two segments online of the 250 feet deep, 28-mile underground tunnel system designed to store 250 million gallons of combined sewage during wet weather events to prevent overflows from entering area rivers and streams. The stored flows will be pumped to the Southport AWTP, which was expanded as a part of this Consent Decree. The Belmont AWTP was also expanded as part of the Consent Decree and this work was completed in 2012. On December 29, 2017, the first 10 miles of the DigIndy Tunnel system and the DRTC pump station were operational and available for use. Mining for the White River and Lower Pogues Run tunnels, which comprise approximately 7.4 miles of the DigIndy tunnel system, began in September 2016 and finished in April 2019. Work to prepare the White River and Lower Pogues Run segments to capture raw sewage is ongoing with the tunnels scheduled to be online in 2021. Tunnel boring has been initiated to mine the 3.4-mile Fall Creek Tunnel. Upon its completion, mining will begin on the tunnel system's final segment, the 7.6-mile Pleasant Run Tunnel. CWA estimates the projected cost of the Consent Decree, including capital and operation and maintenance costs, is approximately \$2.0 billion in 2016 dollars.

Leases and Other Contractual Commitments

Citizens and CWA have entered operating leases for equipment and information technology needs. Lease expense was \$1.0 million for the year ended September 30, 2019. In addition, the Company also maintains contractual commitments related to the storage of natural gas at various sites. Future minimum lease payments for non-cancelable operating leases and other contractual commitments as of September 30, 2019 are as follows (in thousands):

	Operating Leases	Gas Storage Commitments
2020	\$ 845	\$ 7,406
2021	845	3,921
2022	708	-
2023	696	-
2024	696	-
Thereafter	2,625	-
Total minimum payments	<u>\$ 6,415</u>	<u>\$ 11,327</u>

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.

13. DIVESTITURES

On August 15, 2018, the Board of Directors of Citizens Resources approved in principle the sale of the Plummer Oil Field assets operated by Citizens Resources Production. On September 5, 2018, the divestiture was completed. Pursuant to the divestiture:

- Citizens Resources Production received net proceeds of \$6.4 million and recognized a gain of \$3.9 million, recorded in "Loss (gain) on divestiture" in the Combined Statements of Operations and Comprehensive Income.
- The Buyer will pay to Citizens Resources Production, at the end of a twenty-four-month period beginning on the closing date of the transaction, the amount, if any, by which West Texas Intermediate oil prices received by Buyer during the twenty-four-month period exceed amounts set forth in the purchase agreement, up to a maximum of \$3.6 million. Given the inherent uncertainty of this contingent compensation arrangement, there can be no assurance as to the amount of additional proceeds, if any, which Citizens Resources Production may ultimately realize. Accordingly, Citizens Resources Production is accounting for this matter as a gain contingency and will record any such gain in future periods when the contingency is resolved in accordance with ASC 450 – Contingencies.
- Gas received net proceeds of \$0.3 million and did not recognize a gain or loss on the transaction.
- Gas entered into a Natural Gas Purchase Agreement with the Buyer whereby Gas agreed to purchase natural gas from points at or near the Plummer Field area at market related gas prices. Gas may terminate the agreement for any reason and at any time upon ninety days' notice to Buyer.

In fiscal year 2019 the remaining working interests of Citizens Resources Production were sold at a total net loss of \$1.4 million. After settlement of any outstanding liabilities, the residual assets of Citizens Resources Production will be dissolved in fiscal year 2020. Resources expects any gain or loss on dissolution of Citizens Resources Production to be immaterial.

14. SUBSEQUENT EVENTS

Management has considered the impact of subsequent events through December 11, 2019, the date at which these combined financial statements were issued.

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying combined financial statements of Citizens Energy Group and Subsidiary and CWA Authority, Inc. (the "Companies"), both of which are under common ownership and common management, which comprise the combined statements of financial position as of September 30, 2019 and 2018, and the related combined statements of operations and comprehensive income, 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 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, Inc. as of September 30, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

DELOITTE & TOUCHE LLP

December 11, 2019