American Water Works Company, Inc.
Form 10-Q
October 31, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2018
OR
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from __________ to __________
Commission file number 001-34028

AMERICAN WATER WORKS COMPANY, INC.
(Exact name of registrant as specified in its charter)

Delaware	51-0063696
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1 Water Street, Camden, NJ	08102-1658
(Address of principal executive offices)	(Zip Code)

(856) 955-4001
(Registrant’s telephone number, including area code)
1025
Laurel
Oak Road,
Voorhees,
NJ 08043
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.
Large accelerated filer Accelerated filer

Non-accelerated filer	Smaller reporting company
	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding as of October 25, 2018
Common Stock, $0.01 par value per share	180,598,794 shares (excludes 4,683,156 treasury shares as of October 25, 2018)

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FORWARD-LOOKING STATEMENTS

We have made statements in Part I, Item 2—Management's Discussion and Analysis of Financial Condition and Results of Operations and in other sections of this Quarterly Report on Form 10-Q ("Form 10-Q"), that are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the Private Securities Litigation Reform Act of 1995. In some cases, these forward-looking statements can be identified by words with prospective meanings such as "intend," "plan," "estimate," "believe," "anticipate," "expect," "predict," "project," "propose," "assume," "forecast," "likely," " "outlook," "future," "pending," "goal," "objective," "potential," "continue," "seek to," "may," "can," "should," "will" and "co of such terms or other variations or similar expressions. Forward-looking statements may relate to, among other things, our future financial performance, including our operation and maintenance ("O&M") efficiency ratio, our cash flows, our growth and portfolio optimization strategies, our projected capital expenditures and related funding requirements, our ability to repay debt, our projected strategy to finance current operations and growth initiatives, the impact of legal proceedings and potential fines and penalties, business process and technology improvement initiatives, trends in our industry, regulatory, legislative, tax policy or legal developments or rate adjustments, including rate case filings, filings for infrastructure surcharges and filings to address regulatory lag, and impacts that the Tax Cuts and Jobs Act (the "TCJA") may have on us and our business, results of operations, cash flows and liquidity.

Forward-looking statements are predictions based on our current expectations and assumptions regarding future events. They are not guarantees or assurances of any outcomes, financial results or levels of activity, performance or achievements, and you are cautioned not to place undue reliance upon them. These forward-looking statements are subject to a number of estimates and assumptions, and known and unknown risks, uncertainties and other factors. Our actual results may vary materially from those discussed in the forward-looking statements included herein as a result of the following important factors:

- the decisions of governmental and regulatory bodies, including decisions to raise or lower customer rates;
- the timeliness and outcome of regulatory commissions' actions concerning rates, capital structure, authorized return on equity, capital investment, system acquisitions, taxes, permitting and other decisions;
- changes in customer demand for, and patterns of use of, water, such as may result from conservation efforts;
- limitations on the availability of our water supplies or sources of water, or restrictions on our use thereof, resulting from allocation rights, governmental or regulatory requirements and restrictions, drought, overuse or other factors;
- changes in laws, governmental regulations and policies, including with respect to environmental, health and safety, water quality and emerging contaminants, public utility and tax regulations and policies, and impacts resulting from U.S., state and local elections;
- weather conditions and events, climate variability patterns, and natural disasters, including drought or abnormally high rainfall, prolonged and abnormal ice or freezing conditions, strong winds, coastal and intercoastal flooding, earthquakes, landslides, hurricanes, tornadoes, wildfires, electrical storms and solar flares;
- the outcome of litigation and similar governmental and regulatory proceedings, investigations or actions;
- our ability to appropriately maintain current infrastructure, including our operational and information technology ("IT") systems, and manage the expansion of our business;
- exposure or infiltration of our critical infrastructure, operational technology and IT systems, including the disclosure of sensitive or confidential information contained therein, through physical or cyber attacks or other means;
- our ability to obtain permits and other approvals for projects;
- changes in our capital requirements;
- our ability to control operating expenses and to achieve efficiencies in our operations;
- the intentional or unintentional actions of a third party, including contamination of our water supplies or water provided to our customers;
- our ability to obtain adequate and cost-effective supplies of chemicals, electricity, fuel, water and other raw materials that are needed for our operations;
- our ability to successfully meet growth projections for our regulated and market-based businesses, either individually or in the aggregate, and capitalize on growth opportunities, including our ability to, among other things:

- acquire, close and successfully integrate regulated operations and market-based businesses;
- enter into contracts and other agreements with, or otherwise obtain, new customers in our market-based businesses; and

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- realize anticipated benefits and synergies from new acquisitions;
- risks and uncertainties associated with contracting with the U.S. government, including ongoing compliance with applicable government procurement and security regulations;
- cost overruns relating to improvements in or the expansion of our operations;
- our ability to maintain safe work sites;
- our exposure to liabilities related to environmental laws and similar matters resulting from, among other things, water and wastewater service provided to customers, including, for example, our water transfer solutions that are focused on customers in the shale natural gas exploration and production market;
- changes in general economic, political, business and financial market conditions;
- access to sufficient capital on satisfactory terms and when and as needed to support operations and capital expenditures;
- fluctuations in interest rates;
- restrictive covenants in or changes to the credit ratings on us or our current or future debt that could increase our financing costs or funding requirements or affect our ability to borrow, make payments on debt or pay dividends;
- fluctuations in the value of benefit plan assets and liabilities that could increase our cost and funding requirements;
- changes in federal or state general, income and other tax laws, including any further rules, regulations, interpretations and guidance by the U.S. Department of the Treasury and state or local taxing authorities related to the enactment of the TCJA, the availability of tax credits and tax abatement programs, and our ability to utilize our U.S. federal and state income tax net operating loss (“NOL”) carryforwards;
- migration of customers into or out of our service territories;
- the use by municipalities of the power of eminent domain or other authority to condemn our systems, or the assertion by private landowners of similar rights against us;
- our difficulty or inability to obtain insurance, our inability to obtain insurance at acceptable rates and on acceptable terms and conditions, or our inability to obtain reimbursement under existing insurance programs for any losses sustained;
- the incurrence of impairment charges related to our goodwill or other assets;
- labor actions, including work stoppages and strikes;
- our ability to retain and attract qualified employees;
- civil disturbances or terrorist threats or acts, or public apprehension about future disturbances or terrorist threats or acts; and
- the impact of new, and changes to existing, accounting standards.

These forward-looking statements are qualified by, and should be read together with, the risk factors and other statements contained in our Annual Report on Form 10-K for the year ended December 31, 2017 (“Form 10-K”), and in this Form 10-Q, and you should refer to such risks, uncertainties and risk factors in evaluating such forward-looking statements. Any forward-looking statements we make speak only as of the date this Form 10-Q was filed with the U.S. Securities and Exchange Commission (“SEC”). Except as required by the federal securities laws, we do not have any obligation, and we specifically disclaim any undertaking or intention, to publicly update or revise any forward-looking statements, whether as a result of new information, future events, changed circumstances or otherwise. New factors emerge from time to time, and it is not possible for us to predict all such factors. Furthermore, it may not be possible to assess the impact of any such factor on our businesses, either viewed independently or together, or the extent to which any factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statement. The foregoing factors should not be construed as exhaustive.

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PART I. FINANCIAL INFORMATION
ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS
American Water Works Company, Inc. and Subsidiary Companies
Consolidated Balance Sheets (Unaudited)
(In millions, except share and per share data)

	September 30, 2018	December 31, 2017
ASSETS		
Property, plant and equipment	$ 22,734	$ 21,716
Accumulated depreciation	(5,671)	(5,470)
Property, plant and equipment, net	17,063	16,246
Current assets:		
Cash and cash equivalents	86	55
Restricted funds	29	27
Accounts receivable, net	347	272
Unbilled revenues	203	212
Materials and supplies	42	41
Other	93	113
Total current assets	800	720
Regulatory and other long-term assets:		
Regulatory assets	1,086	1,061
Goodwill	1,571	1,379
Postretirement benefit asset	193	—
Intangible assets	91	9
Other	76	67
Total regulatory and other long-term assets	3,017	2,516
Total assets	$ 20,880	$ 19,482

The accompanying notes are an integral part of these Consolidated Financial Statements.

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American Water Works Company, Inc. and Subsidiary Companies
Consolidated Balance Sheets (Unaudited)
(In millions, except share and per share data)

	September 30, 2018	December 31, 2017
CAPITALIZATION AND LIABILITIES		
Capitalization:		
Common stock ($0.01 par value, 500,000,000 shares authorized, 185,279,397 and 182,508,564 shares issued, respectively)	$ 2	$ 2
Paid-in-capital	6,647	6,432
Accumulated deficit	(432)	(723)
Accumulated other comprehensive loss	(60)	(79)
Treasury stock, at cost (4,683,156 and 4,064,010 shares, respectively)	(297)	(247)
Total common stockholders' equity	5,860	5,385
Long-term debt	7,570	6,490
Redeemable preferred stock at redemption value	7	8
Total long-term debt	7,577	6,498
Total capitalization	13,437	11,883
Current liabilities:		
Short-term debt	564	905
Current portion of long-term debt	263	322
Accounts payable	141	195
Accrued liabilities	455	630
Taxes accrued	67	33
Interest accrued	89	73
Other	169	167
Total current liabilities	1,748	2,325
Regulatory and other long-term liabilities:		
Advances for construction	259	271
Deferred income taxes, net	1,670	1,551
Deferred investment tax credits	21	22
Regulatory liabilities	1,962	1,664
Accrued pension expense	393	384
Accrued postretirement benefit expense	—	40
Other	78	66
Total regulatory and other long-term liabilities	4,383	3,998
Contributions in aid of construction	1,312	1,276
Commitments and contingencies (See Note 12)		
Total capitalization and liabilities	$ 20,880	$ 19,482

The accompanying notes are an integral part of these Consolidated Financial Statements.

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American Water Works Company, Inc. and Subsidiary Companies
Consolidated Statements of Operations (Unaudited)
(In millions, except per share data)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Operating revenues	$976	$936	$2,590	$2,536
Operating expenses:				
Operation and maintenance	390	322	1,085	1,003
Depreciation and amortization	141	128	404	378
General taxes	71	61	210	192
Gain on asset dispositions and purchases	(18)	(7)	(20)	(9)
Impairment charge	57	—	57	—
Total operating expenses, net	641	504	1,736	1,564
Operating income	335	432	854	972
Other income (expense):				
Interest, net	(89)	(89)	(259)	(259)
Non-operating benefit costs, net	5	(2)	10	(7)
Loss on early extinguishment of debt	(2)	(6)	(2)	(6)
Other, net	6	5	14	11
Total other income (expense)	(80)	(92)	(237)	(261)
Income before income taxes	255	340	617	711
Provision for income taxes	70	137	164	284
Consolidated net income	185	203	453	427
Net loss attributable to noncontrolling interest	(2)	—	(2)	—
Net income attributable to common stockholders	$187	$203	$455	$427
Basic earnings per share: (a)				
Net income attributable to common stockholders	$1.04	$1.14	$2.54	$2.39
Diluted earnings per share: (a)				
Net income attributable to common stockholders	$1.04	$1.13	$2.53	$2.39
Weighted-average common shares outstanding:				
Basic	181	178	179	178
Diluted	181	179	180	179
Dividends declared per common share	$0.455	$0.415	$0.91	$0.83

(a) Amounts may not calculate due to rounding.
The accompanying notes are an integral part of these Consolidated Financial Statements.

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American Water Works Company, Inc. and Subsidiary Companies
Consolidated Statements of Comprehensive Income (Unaudited)
(In millions)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income attributable to common stockholders	$187	$203	$455	$427
Other comprehensive income (loss), net of tax:				
Pension amortized to periodic benefit cost:				
Actuarial loss, net of tax of $1 and $1 for the three months and $2 and $3 for the nine months ended September 30, 2018 and 2017, respectively	2	1	6	5
Foreign currency translation adjustment	—	—	—	(1)
Unrealized gain (loss) on cash flow hedges, net of tax of $2 and $(3) for the three months ended and $4 and $(4) for the nine months ended September 30, 2018 and 2017, respectively	7	(3)	13	(5)
Net other comprehensive income (loss)	9	(2)	19	(1)
Comprehensive income attributable to common stockholders	$196	$201	$474	$426

The accompanying notes are an integral part of these Consolidated Financial Statements.

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American Water Works Company, Inc. and Subsidiary Companies
Consolidated Statements of Cash Flows (Unaudited)
(In millions)

	For the Nine Months Ended September 30,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$453	$427
Adjustments to reconcile to net cash flows provided by operating activities:		
Depreciation and amortization	404	378
Deferred income taxes and amortization of investment tax credits	142	264
Provision for losses on accounts receivable	22	21
Gain on asset dispositions and purchases	(20)	(9)
Impairment charge	57	—
Pension and non-pension postretirement benefits	19	44
Other non-cash, net	27	(39)
Changes in assets and liabilities:		
Receivables and unbilled revenues	(70)	(34)
Pension and postretirement benefit contributions	(11)	(36)
Accounts payable and accrued liabilities	(23)	(22)
Other assets and liabilities, net	32	48
Impact of Freedom Industries settlement activities	(40)	(22)
Net cash provided by operating activities	992	1,020
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(1,136)	(964)
Acquisitions, net of cash acquired	(381)	(10)
Proceeds from sale of assets	33	9
Removal costs from property, plant and equipment retirements, net	(61)	(51)
Net cash used in investing activities	(1,545)	(1,016)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt	1,355	1,382
Repayments of long-term debt	(330)	(334)
Net short-term borrowings with maturities less than three months	(341)	(746)
Proceeds from issuance of common stock	183	—
Proceeds from issuances of employee stock plans and direct stock purchase plan	15	21
Advances and contributions for construction, net of refunds of $20 and $16 for the nine months ended September 30, 2018 and 2017, respectively	15	23
Debt issuance costs	(12)	(13)
Make-whole premium on early debt redemption	(10)	(34)
Dividends paid	(237)	(215)
Anti-dilutive share repurchases	(45)	(54)
Taxes paid related to employee stock plans	(7)	(11)
Net cash provided by financing activities	586	19
Net increase in cash and cash equivalents and restricted funds	33	23
Cash and cash equivalents and restricted funds at beginning of period	83	99
Cash and cash equivalents and restricted funds at end of period	$116	$122

Non-cash investing activity:		
Capital expenditures acquired on account but unpaid as of end of period	$187	$175
Acquisition financed by treasury stock	$—	$33

The accompanying notes are an integral part of these Consolidated Financial Statements.

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American Water Works Company, Inc. and Subsidiary Companies
Consolidated Statements of Changes in Stockholders’ Equity (Unaudited)
(In millions)

	Common Stock Shares	Common Stock Par Value	Paid-in-Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Treasury Stock Shares	Treasury Stock At Cost	Total Stockholders' Equity
Balance as of December 31, 2017	182.5	$ 2	$ 6,432	$ (723)	$ (79)	(4.1)	$(247)	$ 5,385
Net income attributable to common stockholders	—	—	—	455	—	—	—	455
Direct stock reinvestment and purchase plan	0.1	—	5	—	—	—	—	5
Employee stock purchase plan	0.1	—	6	—	—	—	—	6
Stock-based compensation activity	0.3	—	21	(1)	—	(0.1)	(5)	15
Issuance of common stock	2.3	—	183	—	—	—	—	183
Repurchases of common stock	—	—	—	—	—	(0.5)	(45)	(45)
Net other comprehensive income	—	—	—	—	19	—	—	19
Dividends	—	—	—	(163)	—	—	—	(163)
Balance as of September 30, 2018	185.3	$ 2	$ 6,647	$ (432)	$ (60)	(4.7)	$(297)	$ 5,860

	Common Stock Shares	Common Stock Par Value	Paid-in-Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Treasury Stock Shares	Treasury Stock At Cost	Total Stockholders' Equity
Balance as of December 31, 2016	181.8	$ 2	$ 6,388	$ (873)	$ (86)	(3.7)	$(213)	$ 5,218
Cumulative effect of change in accounting principle	—	—	—	21	—	—	—	21
Net income attributable to common stockholders	—	—	—	427	—	—	—	427
Direct stock reinvestment and purchase plan	0.1	—	6	—	—	—	—	6
Employee stock purchase plan	—	—	5	—	—	—	—	5
Stock-based compensation activity	0.5	—	18	—	—	(0.1)	(7)	11
Acquisitions via treasury stock	—	—	6	—	—	0.4	27	33
Repurchases of common stock	—	—	—	—	—	(0.7)	(54)	(54)
Net other comprehensive loss	—	—	—	—	(1)	—	—	(1)
Dividends	—	—	—	(148)	—	—	—	(148)
Balance as of September 30, 2017	182.4	$ 2	$ 6,423	$ (573)	$ (87)	(4.1)	$(247)	$ 5,518

The accompanying notes are an integral part of these Consolidated Financial Statements.

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American Water Works Company, Inc. and Subsidiary Companies
Notes to Consolidated Financial Statements (Unaudited)
(Unless otherwise noted, in millions, except per share data)

Note 1: Basis of Presentation

The unaudited Consolidated Financial Statements provided in this report include the accounts of American Water Works Company, Inc. and all of its subsidiaries (collectively, “American Water” or the “Company”), in which a controlling interest is maintained after the elimination of intercompany balances and transactions. The unaudited Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial reporting, and with the rules and regulations for reporting on Quarterly Reports on Form 10-Q (“Form 10-Q”). Accordingly, they do not contain certain information and disclosures required by GAAP for comprehensive financial statements. In the opinion of management, all adjustments necessary for a fair statement of the financial position as of September 30, 2018, and the results of operations and cash flows for all periods presented have been made. All adjustments are of a normal, recurring nature, except as otherwise disclosed.

The unaudited Consolidated Financial Statements and Notes included in this report should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended December 31, 2017 (“Form 10-K”), which provides a more complete discussion of the Company’s accounting policies, financial position, operating results and other matters. The results of operations for interim periods are not necessarily indicative of the results that may be expected for the year, primarily due to the seasonality of the Company’s operations.

Note 2: Significant Accounting Policies
New Accounting Standards
The Company adopted the following accounting standards in 2018:

Standard	Description	Date of Adoption	Application	Effect on the Consolidated Financial Statements
Revenue from Contracts with Customers	Changes the criteria for recognizing revenue from a contract with a customer. Replaces existing guidance on revenue recognition, including most industry-specific guidance. The objective is to provide a single, comprehensive revenue recognition model for all contracts with customers to improve comparability within industries, across industries and across capital markets. The underlying principle is that an entity will recognize revenue to depict the transfer of goods and services to customers at an amount the entity expects to be entitled to in exchange for those goods or services. The guidance also requires a number of disclosures regarding the nature, amount, timing and uncertainty of revenue and the related cash flows.	January 1, 2018	Modified retrospective	The adoption had no material impact on the Consolidated Financial Statements. Additional disclosures were added in the Notes to Consolidated Financial Statements. For additional information, see Note 3—Revenue Recognition.
Clarifying the Definition of a Business	Updated the accounting guidance to clarify the definition of a business, with the objective of assisting entities with evaluating whether transactions should be accounted for as acquisitions, or disposals, of assets or businesses.	January 1, 2018	Prospective	The adoption had no material impact on the Consolidated Financial Statements.
Improving the Presentation of Net Periodic Pension Cost and Net Periodic Post-retirement Benefit Cost	Updated authoritative guidance to require the service cost component of net periodic benefit cost to be presented in the same income statement line item(s) as other employee compensation costs arising from services rendered during the period. The remaining	January 1, 2018	Retrospective for the presentation of the service cost component and the other components of net periodic benefit costs on the Consolidated Statements of	The Company presented in the current period, and reclassified in the prior periods, net periodic benefit costs, other than the service cost component, in non-operating benefit costs, net on the

	components of net periodic benefit cost are required to be presented separately from the service cost component, in an income statement line item outside of operating income. Also, the guidance only allows for the service cost component to be eligible for capitalization. The updated guidance does not impact the accounting for net periodic benefit costs as regulatory assets or liabilities.		Operations; prospective for the limitation of capitalization to only the service cost component of net periodic benefit costs in total assets.	Consolidated Statements of Operations.
Simplification of Goodwill Impairment Testing	Updated authoritative guidance to simplify the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. Under the amendments in the update, an entity should perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An impairment charge should be recognized for the amount by which the carrying value exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary.	August 31, 2018	Prospective	See Note 6—Goodwill and Other Intangible Assets.
Cloud Computing Service Arrangements	Updated the accounting and disclosure guidance for cloud computing arrangements that are service contracts. Under this guidance, implementation costs incurred in cloud computing arrangements and in developing or obtaining internal-use software follow the same capitalization requirements. The accounting for the service element of the arrangement remains unchanged.	September 30, 2018	Prospective	The adoption had no material impact on the Consolidated Financial Statements.

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The following recently issued accounting standards have not yet been adopted by the Company as of September 30, 2018:

Standard	Description	Date of Adoption	Application	Estimated Effect on the Consolidated Financial Statements
Accounting for Leases	Updated the accounting and disclosure guidance for leasing arrangements. Under this guidance, a lessee will be required to recognize the following for all leases, excluding short-term leases, at the commencement date: (i) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (ii) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under the guidance, lessor accounting is largely unchanged. A package of optional transition practical expedients allows an entity not to reassess under the new guidance: (i) whether any existing contracts are or contain leases; (ii) lease classification; and (iii) initial direct costs. Additional optional transition practical expedients are available which allow an entity not to evaluate existing land easements if the easements were not previously accounted for as leases, and to apply the new lease standard at the adoption date and recognize a cumulative-effect adjustment in the opening balance of retained earnings in the period of adoption.	January 1, 2019; early adoption permitted	Modified retrospective	The Company has not yet quantified the impact of recognizing right-of-use assets and lease liabilities, but is evaluating the impact on its Consolidated Financial Statements. The Company has defined a process and implemented software to meet the accounting and reporting requirements of the guidance and is assessing lease arrangements. The Company expects to elect all practical expedients available under the new lease accounting and disclosure guidance and will not elect early adoption for the standard.
Accounting for Hedging Activities	Updated the accounting and disclosure guidance for hedging activities, which allows for more financial and nonfinancial hedging strategies to be eligible for hedge accounting. Under this guidance, a qualitative effectiveness assessment is permitted for certain hedges if an entity can reasonably support an expectation of high effectiveness throughout the term of the hedge,	January 1, 2019; early adoption permitted	Modified retrospective for adjustments related to the measurement of ineffectiveness for cash flow hedges; prospective for the updated presentation and disclosure	The Company does not expect the adoption to have a material impact on its Consolidated Financial Statements based upon its hedging activities as of the balance sheet date. The Company is evaluating the timing of adoption.

	provided that an initial quantitative test establishes that the hedge relationship is highly effective. Also, for cash flow hedges determined to be highly effective, all changes in the fair value of the hedging instrument will be recorded in other comprehensive income, with a subsequent reclassification to earnings when the hedged item impacts earnings.		requirements.	
Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income	Permits an entity to reclassify tax effects stranded in accumulated other comprehensive income as a result of the Tax Cuts and Jobs Act (the "TCJA") to retained earnings.	January 1, 2019; early adoption permitted	In the period of adoption or retrospective.	The Company is evaluating any impact on its Consolidated Financial Statements, as well as the timing of adoption.
Measurement of Credit Losses	Updated the accounting guidance on reporting credit losses for financial assets held at amortized cost basis and available-for-sale debt securities. Under this guidance, expected credit losses are required to be measured based on historical experience, current conditions and reasonable and supportable forecasts that affect the collectability of the reported amount of financial assets. Also, this guidance requires that credit losses on available-for-sale debt securities be presented as an allowance rather than as a direct write-down.	January 1, 2020; early adoption permitted	Modified retrospective	The Company is evaluating any impact on its Consolidated Financial Statements, as well as the timing of adoption.
Disclosure Requirements for Fair Value Measurement	Updated the disclosure requirements for fair value measurement. The guidance removes the requirements to disclose transfers between Level 1 and Level 2 measurements, the timing of transfers between levels, and the valuation processes for Level 3 measurements. Disclosure of transfers into and out of Level 3 measurements will be required. The guidance adds disclosure requirements for the change in unrealized gains and losses in other comprehensive income for recurring Level 3 measurements, as well as the range and weighted average of significant unobservable inputs used to develop Level 3 measurements.	January 1, 2020; early adoption permitted	Prospective for added disclosures and for the narrative description of measurement uncertainty; retrospective for all other amendments.	The Company does not expect the adoption to have a material impact on its Consolidated Financial Statements, and the Company is evaluating the timing of adoption.

Disclosure Requirements for Defined Benefit Plans	Updated the disclosure requirements for defined benefit plans. The guidance removes the requirement to disclose the amounts in accumulated other comprehensive income to be recognized as net periodic benefit cost, the effects of a one percent change in assumed healthcare costs and a number of other disclosures. The guidance clarifies that projected benefit obligations and accumulated benefit obligations should be disclosed, and adds disclosure requirements for the weighted-average interest crediting rates for promised interest crediting rates and an explanation of the reasons for significant gains and losses related to changes in the benefit obligation.	December 31, 2020; early adoption permitted	Retrospective	The Company is evaluating any impact on its Consolidated Financial Statements, as well as the timing of adoption.

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Cash, Cash Equivalents and Restricted Funds

The following table provides a reconciliation of the cash, cash equivalents and restricted funds as presented on the Consolidated Balance Sheets, to the sum of such amounts presented on the Consolidated Statements of Cash Flows for the periods ended September 30:

	2018	2017
Cash and cash equivalents	$86	$93
Restricted funds	29	28
Restricted funds included in other long-term assets	1	1
Cash and cash equivalents and restricted funds as presented on the Consolidated Statements of Cash Flows	$116	$122

Reclassifications

Certain reclassifications have been made to prior periods in the accompanying Consolidated Financial Statements and Notes to conform to the current presentation.

Note 3: Revenue Recognition

On January 1, 2018, the Company adopted Accounting Standards Codification Topic 606, Revenue From Contracts With Customers, and all related amendments (collectively, “ASC 606” or the “standard”), using the modified retrospective approach, applied to contracts which were not completed as of January 1, 2018. Under this approach, periods prior to the adoption date have not been restated and continue to be reported under the accounting standards in effect for those periods. The Company’s revenue associated with alternative revenue programs and lease contracts is outside the scope of ASC 606 and accounted for under other existing GAAP.

Under ASC 606, a performance obligation is a promise within a contract to transfer a distinct good or service, or a series of distinct goods and services, to a customer. Revenue is recognized when performance obligations are satisfied and the customer obtains control of promised goods or services. The amount of revenue recognized reflects the consideration to which the Company expects to be entitled to receive in exchange for goods or services. Under the standard, a contract’s transaction price is allocated to each distinct performance obligation. To determine revenue recognition for arrangements that the Company determines are within the scope of ASC 606, the Company performs the following five steps: (i) identifies the contracts with a customer; (ii) identifies the performance obligations within the contract, including whether they are distinct and capable of being distinct in the context of the contract; (iii) determines the transaction price; (iv) allocates the transaction price to the performance obligations in the contract; and (v) recognizes revenue when, or as, the Company satisfies each performance obligation.

The Company’s revenues from contracts with customers are discussed below. Customer payments for contracts are generally due within 30 days of billing and none of the contracts with customers have payment terms that exceed one year; therefore, the Company elected to apply the significant financing component practical expedient and no amount of consideration has been allocated as a financing component. See Note 15—Segment Information for further discussion of the Company’s operating segments.

Regulated Businesses Revenue

Revenue from the Company’s Regulated Businesses is generated primarily from water and wastewater services delivered to customers. These contracts contain a single performance obligation, the delivery of water and wastewater services, as the promise to transfer the individual good or service is not separately identifiable from other promises within the contracts and, therefore, is not distinct. Revenues are recognized over time, as services are provided. There are generally no significant financing components or variable consideration. Revenues include amounts billed to customers on a cycle basis, and unbilled amounts calculated based on estimated usage from the date of the meter reading associated with the latest customer bill, to the end of the accounting period. The amounts that the Company has a right to invoice are determined by each customer’s actual usage, an indicator that the invoice amount corresponds directly to the value transferred to the customer. The Company elected to use the right to invoice and the disclosure of remaining performance obligations practical expedients for these revenues.

Market-Based Businesses Revenue

Through various protection programs, the Company provides fixed fee services to domestic homeowners and smaller commercial customers to protect against repair costs for interior and external water and sewer lines, interior electric and gas lines, heating and cooling systems, water heaters, power surge protection and other related services. Most of the contracts have a one-year term and each service is a separate performance obligation, satisfied over time, as the customers simultaneously receive and consume the benefits provided from the service. Customers are obligated to pay for the protection programs ratably over 12 months or via a one-time, annual fee, with revenues recognized ratably over time for these services. Advances from customers are deferred until the performance obligation is satisfied. The Company elected to use the disclosure of remaining performance obligations practical expedients for these revenues.

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The Company's Market-Based Businesses also have long-term, fixed fee contracts to operate and maintain water and wastewater facilities with the U.S. government on various military bases and facilities owned by municipal and industrial customers, as well as shorter-term contracts that provide water management solutions for shale natural gas companies and customers in the water services market. Billing and revenue recognition for the fixed fee revenues occurs ratably over the term of the contract, as customers simultaneously receive and consume the benefits provided by the Company. Additionally, these contracts allow the Company to make capital improvements to underlying infrastructure,