

AMERICAN STATES WATER CO

Form 10-Q

August 02, 2017

Table of Contents

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended June 30, 2017

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 001-14431

American States Water Company

(Exact Name of Registrant as Specified in Its Charter)

California

(State or Other Jurisdiction of Incorporation or Organization)

630 E. Foothill Blvd, San Dimas, CA

(Address of Principal Executive Offices)

(909) 394-3600

(Registrant's Telephone Number, Including Area Code)

Not Applicable

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Commission file number 001-12008

Golden State Water Company

(Exact Name of Registrant as Specified in Its Charter)

California

(State or Other Jurisdiction of Incorporation or Organization)

630 E. Foothill Blvd, San Dimas, CA

(Address of Principal Executive Offices)

(909) 394-3600

(Registrant's Telephone Number, Including Area Code)

Not Applicable

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Indicate by check mark whether 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 Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

American States Water Company Yes  No

Golden State Water Company Yes  No

Edgar Filing: AMERICAN STATES WATER CO - Form 10-Q

Indicate by check mark whether Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or such shorter period that the Registrant was required to submit and post such files).

---

Table of Contents

American States Water Company Yes x No "

Golden State Water Company Yes x No "

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer", "accelerated filer" and smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

American States Water Company

Large accelerated filer x Accelerated filer " Non-accelerated filer " Smaller reporting company "

Golden State Water Company

Large accelerated filer " Accelerated filer " Non-accelerated filer x Smaller reporting 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)

American States Water Company Yes " Nox

Golden State Water Company Yes " Nox

As of July 31, 2017, the number of Common Shares outstanding of American States Water Company was 36,644,758 shares. As of July 31, 2017, all of the 146 outstanding Common Shares of Golden State Water Company were owned by American States Water Company.

Golden State Water Company meets the conditions set forth in General Instruction (H)(1)(a) and (b) of Form 10-Q and is therefore filing this Form, in part, with the reduced disclosure format for Golden State Water Company.

---

AMERICAN STATES WATER COMPANY  
and  
GOLDEN STATE WATER COMPANY  
FORM 10-Q

INDEX

Part I Financial Information

<u>Item 1: Financial Statements</u>	<u>1</u>
<u>Consolidated Balance Sheets of American States Water Company as of June 30, 2017 and December 31, 2016</u>	<u>4</u>
<u>Consolidated Statements of Income of American States Water Company for the Three Months Ended June 30, 2017 and 2016</u>	<u>6</u>
<u>Consolidated Statements of Income of American States Water Company for the Six Months Ended June 30, 2017 and 2016</u>	<u>7</u>
<u>Consolidated Statements of Cash Flows of American States Water Company for the Six Months Ended June 30, 2017 and 2016</u>	<u>8</u>
<u>Balance Sheets of Golden State Water Company as of June 30, 2017 and December 31, 2016</u>	<u>9</u>
<u>Statements of Income of Golden State Water Company for the Three Months Ended June 30, 2017 and 2016</u>	<u>11</u>
<u>Statements of Income of Golden State Water Company for the Six Months Ended June 30, 2017 and 2016</u>	<u>12</u>
<u>Statements of Cash Flows of Golden State Water Company for the Six Months Ended June 30, 2017 and 2016</u>	<u>13</u>
<u>Notes to Consolidated Financial Statements</u>	<u>14</u>
<u>Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>26</u>
<u>Item 3: Quantitative and Qualitative Disclosures About Market Risk</u>	<u>51</u>
<u>Item 4: Controls and Procedures</u>	<u>51</u>
<u>Part II</u> <u>Other Information</u>	
<u>Item 1: Legal Proceedings</u>	<u>52</u>
<u>Item</u> <u>1A: Risk Factors</u>	<u>52</u>
<u>Item 2: Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>52</u>

<u>Item 3: Defaults Upon Senior Securities</u>	<u>52</u>
<u>Item 4: Mine Safety Disclosure</u>	<u>52</u>
<u>Item 5: Other Information</u>	<u>52</u>
<u>Item 6: Exhibits</u>	<u>52</u>
<u>Signatures</u>	<u>56</u>

---

Table of Contents

PART I

Item 1. Financial Statements

General

The basic financial statements included herein have been prepared by Registrant, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, all adjustments consisting of normal recurring items and estimates necessary for a fair statement of results for the interim period have been made.

It is suggested that these financial statements be read in conjunction with the financial statements and notes thereto in the latest Annual Report on Form 10-K of American States Water Company and its wholly owned subsidiary, Golden State Water Company.

Filing Format

American States Water Company ("AWR") is the parent company of Golden State Water Company ("GSWC") and American States Utility Services, Inc. and its subsidiaries ("ASUS").

This quarterly report on Form 10-Q is a combined report being filed by two separate Registrants: AWR and GSWC. For more information, please see Note 1 of the Notes to Consolidated Financial Statements and the heading entitled "General" in "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations." References in this report to "Registrant" are to AWR and GSWC collectively, unless otherwise specified. GSWC makes no representations as to the information contained in this report other than with respect to itself.

Forward-Looking Information

This Form 10-Q and the documents incorporated herein contain forward-looking statements intended to qualify for the "safe harbor" from liability established by the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based on current estimates, expectations and projections about future events and assumptions regarding these events and include statements regarding management's goals, beliefs, plans or current expectations, taking into account the information currently available to management. Forward-looking statements are not statements of historical facts. For example, when we use words such as "anticipate," "believe," "plan," "estimate," "expect," "intend," "may" other words that convey uncertainty of future events or outcomes, we are making forward-looking statements. We are not able to predict all the factors that may affect future results. We caution you that any forward-looking statements made by us are not guarantees of future performance and the actual results may differ materially from those in our forward-looking statements. Some of the factors that could cause future results to differ materially from those expressed or implied by our forward-looking statements or from historical results, include, but are not limited to:

• the outcome of pending and future regulatory, legislative or other proceedings, investigations or audits, including decisions in GSWC's general rate cases and the results of independent audits of GSWC's construction contracting procurement practices or other independent audits of our costs;

• changes in the policies and procedures of the California Public Utilities Commission ("CPUC");

• timeliness of CPUC action on rates;

availability of GSWC's water supplies, which may be adversely affected by drought, changes in weather patterns in the West, contamination, and court decisions or other governmental actions restricting the use of water from the Colorado River, the California State Water Project, and/or pumping of groundwater;

- our ability to efficiently manage GSWC capital expenditures and operating and maintenance expenses within CPUC authorized levels and timely recover our costs through rates;

the impact of opposition to GSWC rate increases on our ability to recover our costs through rates, including costs associated with construction of pipelines to connect to alternative sources of water, new wells to replace wells that are no

1

---

Table of Contents

longer in service (or are otherwise inadequate to meet the needs of GSWC's customers), and other facilities to conserve or reclaim water;

the impact of opposition by GSWC customers to rate increases associated with tiered rate structures as well as potential future restrictions on water use mandated in California, which decreases adopted usage and increases customer rates;

the impact of condemnation actions on future GSWC revenues and other aspects of our business if we do not receive adequate compensation for the assets acquired, or recovery of all charges associated with the condemnation of these assets, and the impact on future revenues if we are no longer entitled to any portion of the revenues generated from these assets;

liabilities of GSWC associated with the inherent risks of damage to private property and injuries to employees and the public if they should come into contact with electrical current or equipment, including through downed power lines or equipment malfunctions, or if safe construction and maintenance work sites are not maintained;

our ability to forecast the costs of maintaining GSWC's aging water and electric infrastructure;

- our ability to recover increases in permitting costs and costs associated with negotiating and complying with the terms of our franchise agreements with cities and counties and other demands made upon us by the cities and counties in which GSWC operates;

changes in accounting valuations and estimates, including changes resulting from our assessment of anticipated recovery of GSWC's regulatory assets, liabilities and revenues subject to refund or regulatory disallowances and the timing of such recovery, and the amounts set aside for uncollectible accounts receivable, inventory obsolescence, pensions and post-retirement liabilities, taxes and uninsured losses and claims, including general liability and workers' compensation claims;

changes in environmental laws, health and safety laws and water and wastewater quality requirements and increases in costs associated with complying with these laws and requirements, including costs associated with GSWC's upgrading and building new water treatment plants, GSWC's disposing of residuals from our water treatment plants, handling and storing hazardous chemicals, compliance monitoring activities and GSWC's securing alternative supplies of water when necessary;

our ability to obtain adequate, reliable and cost-effective supplies of chemicals, electricity, fuel, water and other raw materials that are needed for our water and wastewater operations;

our ability to attract, retain, train, motivate, develop and transition key employees;

our ability to recover the costs associated with the contamination of GSWC's groundwater supplies from parties responsible for the contamination or through the ratemaking process, and the time and expense incurred by us in obtaining recovery of such costs;

adequacy of our electric division's power supplies and the extent to which we can manage and respond to the volatility of electricity and natural gas prices;

our electric division's ability to comply with the CPUC's renewable energy procurement requirements;

•



changes in GSWC long-term customer demand due to changes in customer usage patterns as a result of conservation efforts, regulatory changes affecting demand such as mandatory restrictions on water use, new landscaping or irrigation requirements, recycling of water by customers or purchase of recycled water supplied by other parties, unanticipated population growth or decline, changes in climate conditions, general economic and financial market conditions and cost increases, which may impact our long-term operating revenues if we are unable to secure rate increases, if growth in the residential customer base does not occur to the extent necessary to offset the decline in per-customer residential usage or GSWC's customer base declines as a result of condemnation actions or the use of recycled or reclaimed water from other third-party sources;

• changes in accounting treatment for regulated utilities;

• effects of changes in or interpretations of tax laws, rates or policies;

Table of Contents

• changes in estimates used in ASUS's revenue recognition under the percentage of completion method of accounting for certain construction activities;

• termination, in whole or in part, of one or more of our military utility privatization contracts to provide water and/or wastewater services at military bases for the convenience of the U.S. government or for default;

• suspension or debarment for a period of time from contracting with the government due to violations of federal law or regulations in connection with military utility privatization activities;

• delays by the U.S. government in making timely payments to ASUS for water and/or wastewater services at military bases because of fiscal uncertainties over the funding of the U.S. government or otherwise;

• delays in obtaining redetermination of prices or economic price or equitable adjustments to our prices on one or more of our contracts to provide water and/or wastewater services at military bases;

• disallowance of costs on any of our contracts to provide water and/or wastewater services at military bases because of audits, cost reviews or investigations by contracting agencies;

• inaccurate assumptions used in preparing bids in our contracted services business or negotiating periodic price adjustments;

• failure of the wastewater systems that we operate on military bases resulting in untreated wastewater or contaminants spilling into nearby properties, streams or rivers;

• failure to comply with the terms of our military privatization contracts;

• failure of any of our subcontractors to perform services for us in accordance with the terms of our military privatization contracts;

• competition for new military privatization contracts;

• issues with the implementation, maintenance or upgrading of our information technology systems;

• general economic conditions which may impact our ability to recover infrastructure investments and operating costs from customers;

• explosions, fires, accidents, mechanical breakdowns, the disruption of information technology and telecommunication systems, human error and similar events that may occur while operating and maintaining water and electric systems in California or operating and maintaining water and wastewater systems on military bases under varying geographic conditions;

• the impact of storms, earthquakes, floods, mudslides, drought, wildfires, disease and similar natural disasters, or acts of terrorism or vandalism, that affect customer demand or that damage or disrupt facilities, operations or information technology systems owned by us, our customers or third parties on whom we rely;

• potential costs, lost revenues, or other consequences resulting from misappropriation of assets or sensitive information, corruption of data, or operational disruption due to a cyber-attack or other cyber incident;

•

increases in the cost of obtaining insurance or in uninsured losses that may not be recovered in rates, including increases due to difficulties in obtaining insurance for certain risks, such as wildfires and earthquakes in California;

restrictive covenants in our debt instruments or changes to our credit ratings on current or future debt that may increase our financing costs or affect our ability to borrow or make payments on our debt; and

our ability to access capital markets and other sources of credit in a timely manner on acceptable terms.

Please consider our forward-looking statements in light of these risks (which are more fully disclosed in our 2016 Annual Report on Form 10-K) as you read this Form 10-Q. We qualify all our forward-looking statements by these cautionary statements.

Table of Contents

## AMERICAN STATES WATER COMPANY

## CONSOLIDATED BALANCE SHEETS

## ASSETS

(Unaudited)

(in thousands)	June 30, 2017	December 31, 2016
Property, Plant and Equipment		
Regulated utility plant, at cost	\$ 1,672,559	\$ 1,670,238
Non-utility property, at cost	13,936	13,441
Total	1,686,495	1,683,679
Less - Accumulated depreciation	(531,292 )	(532,753 )
Net property, plant and equipment	1,155,203	1,150,926
Other Property and Investments		
Goodwill	1,116	1,116
Other property and investments	21,413	20,836
Total other property and investments	22,529	21,952
Current Assets		
Cash and cash equivalents	2,124	436
Accounts receivable — customers (less allowance for doubtful accounts of \$708 in 2017 and \$702 in 2016)	25,338	19,993
Unbilled receivable	24,350	24,391
Receivable from the U.S. government	10,900	8,467
Other accounts receivable (less allowance for doubtful accounts of \$59 in 2017 and \$62 in 2016)	2,665	3,151
Income taxes receivable	355	17,867
Materials and supplies, at average cost	5,148	4,294
Regulatory assets — current	40,849	43,296
Prepayments and other current assets	4,951	3,735
Costs and estimated earnings in excess of billings on contracts	32,856	41,245
Total current assets	149,536	166,875
Regulatory and Other Assets		
Regulatory assets	104,645	102,985
Costs and estimated earnings in excess of billings on contracts	23,324	22,687
Other	7,416	5,068
Total regulatory and other assets	135,385	130,740
Total Assets	\$ 1,462,653	\$ 1,470,493

The accompanying notes are an integral part of these consolidated financial statements



Table of Contents

AMERICAN STATES WATER COMPANY  
 CONSOLIDATED BALANCE SHEETS  
 CAPITALIZATION AND LIABILITIES  
 (Unaudited)

(in thousands)	June 30, 2017	December 31, 2016
<b>Capitalization</b>		
Common shares, no par value		
Authorized: 60,000,000 shares		
Outstanding: 36,644,758 shares in 2017 and 36,571,360 shares in 2016	\$248,286	\$ 247,232
Earnings reinvested in the business	264,739	247,065
Total common shareholders' equity	513,025	494,297
Long-term debt	320,969	320,981
Total capitalization	833,994	815,278
<b>Current Liabilities</b>		
Notes payable to bank	44,000	90,000
Long-term debt — current	336	330
Accounts payable	45,214	43,724
Income taxes payable	11,726	149
Accrued other taxes	7,275	9,112
Accrued employee expenses	11,423	12,304
Accrued interest	3,831	3,864
Unrealized loss on purchased power contracts	4,493	4,901
Billings in excess of costs and estimated earnings on contracts	414	2,263
Other	11,742	11,297
Total current liabilities	140,454	177,944
<b>Other Credits</b>		
Advances for construction	67,209	69,722
Contributions in aid of construction - net	123,607	120,518
Deferred income taxes	231,031	224,530
Unamortized investment tax credits	1,471	1,529
Accrued pension and other postretirement benefits	52,247	49,856
Other	12,640	11,116
Total other credits	488,205	477,271
<b>Commitments and Contingencies (Note 8)</b>		
Total Capitalization and Liabilities	\$1,462,653	\$ 1,470,493

The accompanying notes are an integral part of these consolidated financial statements

Table of Contents

AMERICAN STATES WATER COMPANY  
CONSOLIDATED STATEMENTS OF INCOME  
FOR THE THREE MONTHS  
ENDED JUNE 30, 2017 AND 2016  
(Unaudited)

(in thousands, except per share amounts)	Three Months	
	Ended June 30, 2017	2016
Operating Revenues		
Water	\$80,734	\$81,058
Electric	7,612	7,701
Contracted services	24,849	23,195
Total operating revenues	113,195	111,954
Operating Expenses		
Water purchased	17,937	15,835
Power purchased for pumping	2,157	2,132
Groundwater production assessment	4,931	3,968
Power purchased for resale	2,308	2,216
Supply cost balancing accounts	(5,293 )	(2,517 )
Other operation	8,172	6,917
Administrative and general	20,458	21,288
Depreciation and amortization	9,647	9,601
Maintenance	3,606	3,635
Property and other taxes	4,345	4,168
ASUS construction	11,412	12,937
Gain on sale of assets	(8,301 )	—
Total operating expenses	71,379	80,180
Operating Income	41,816	31,774
Other Income and Expenses		
Interest expense	(5,926 )	(5,603 )
Interest income	620	190
Other, net	589	437
Total other income and expenses, net	(4,717 )	(4,976 )
Income before income tax expense	37,099	26,798
Income tax expense	14,307	10,056
Net Income	\$22,792	\$16,742
Weighted Average Number of Common Shares Outstanding	36,624	36,554
Basic Earnings Per Common Share	\$0.62	\$0.46
Weighted Average Number of Diluted Shares	36,825	36,752
Fully Diluted Earnings Per Common Share	\$0.62	\$0.45

Dividends Declared Per Common Share	\$0.242	\$0.224
-------------------------------------	---------	---------

The accompanying notes are an integral part of these consolidated financial statements

6

---



Table of Contents

AMERICAN STATES WATER COMPANY  
CONSOLIDATED STATEMENTS OF INCOME  
FOR THE SIX MONTHS  
ENDED JUNE 30, 2017 AND 2016  
(Unaudited)

(in thousands, except per share amounts)	Six Months Ended	
	2017	2016
Operating Revenues		
Water	\$ 147,138	\$ 147,370
Electric	18,114	18,274
Contracted services	46,753	39,837
Total operating revenues	212,005	205,481
Operating Expenses		
Water purchased	30,043	29,634
Power purchased for pumping	3,754	3,764
Groundwater production assessment	8,306	6,668
Power purchased for resale	5,408	5,087
Supply cost balancing accounts	(7,042 )	(5,932 )
Other operation	14,332	13,883
Administrative and general	40,744	42,061
Depreciation and amortization	19,330	19,392
Maintenance	7,070	7,705
Property and other taxes	8,911	8,546
ASUS construction	22,896	21,666
Gain on sale of assets	(8,301 )	—
Total operating expenses	145,451	152,474
Operating Income	66,554	53,007
Other Income and Expenses		
Interest expense	(11,831 )	(11,226 )
Interest income	879	362
Other, net	1,053	618
Total other income and expenses, net	(9,899 )	(10,246 )
Income before income tax expense	56,655	42,761
Income tax expense	21,162	15,869
Net Income	\$ 35,493	\$ 26,892
Weighted Average Number of Common Shares Outstanding	36,607	36,538
Basic Earnings Per Common Share	\$ 0.96	\$ 0.73
Weighted Average Number of Diluted Shares	36,799	36,730
Fully Diluted Earnings Per Common Share	\$ 0.96	\$ 0.73

Dividends Declared Per Common Share	\$0.484	\$0.448
-------------------------------------	---------	---------

The accompanying notes are an integral part of these consolidated financial statements

7

---

Table of Contents

AMERICAN STATES WATER COMPANY  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE SIX MONTHS ENDED JUNE 30, 2017 AND 2016  
(Unaudited)

	Six Months Ended June 30,	
(in thousands)	2017	2016
<b>Cash Flows From Operating Activities:</b>		
Net income	\$35,493	\$26,892
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	19,450	19,759
Provision for doubtful accounts	339	214
Deferred income taxes and investment tax credits	5,948	6,476
Stock-based compensation expense	1,634	1,460
Gain on sale of assets	(8,301 )	—
Other — net	(523 )	(188 )
Changes in assets and liabilities:		
Accounts receivable — customers	(6,408 )	(1,765 )
Unbilled receivable	41	1,533
Other accounts receivable	489	(208 )
Receivables from the U.S. government	(2,433 )	(1,975 )
Materials and supplies	(854 )	121
Prepayments and other assets	(1,102 )	(1,403 )
Costs and estimated earnings in excess of billings on contracts	7,752	(3,615 )
Regulatory assets	(3,855 )	(12,499 )
Accounts payable	948	2,557
Income taxes receivable/payable	29,089	8,803
Billings in excess of costs and estimated earnings on contracts	(1,849 )	2,146
Accrued pension and other post-retirement benefits	2,864	2,554
Other liabilities	(3,283 )	(2,323 )
Net cash provided	75,439	48,539
<b>Cash Flows From Investing Activities:</b>		
Capital expenditures	(45,896 )	(65,334 )
Proceeds from sale of assets	34,324	—
Other investing activities	232	(125 )
Net cash used	(11,340 )	(65,459 )
<b>Cash Flows From Financing Activities:</b>		
Proceeds from stock option exercises	524	126
Receipt of advances for and contributions in aid of construction	5,144	2,075
Refunds on advances for construction	(2,868 )	(2,576 )
Retirement or repayments of long-term debt	(191 )	(169 )
Net change in notes payable to banks	(46,000 )	35,500
Dividends paid	(17,715 )	(16,369 )
Other financing activities	(1,305 )	(1,513 )
Net cash (used) provided	(62,411 )	17,074
Net increase in cash and cash equivalents	1,688	154
Cash and cash equivalents, beginning of period	436	4,364

Edgar Filing: AMERICAN STATES WATER CO - Form 10-Q

Cash and cash equivalents, end of period	\$2,124	\$4,518
Non-cash transactions:		
Accrued payables for investment in utility plant	\$17,777	\$21,488
Property installed by developers and conveyed	\$1,025	\$4,345

The accompanying notes are an integral part of these consolidated financial statements

8

---

Table of Contents

## GOLDEN STATE WATER COMPANY

## BALANCE SHEETS

## ASSETS

(Unaudited)

(in thousands)	June 30, 2017	December 31, 2016
Utility Plant		
Utility plant, at cost	\$1,672,559	\$1,670,238
Less - Accumulated depreciation	(523,084 )	(524,927 )
Net utility plant	1,149,475	1,145,311
Other Property and Investments	19,299	18,719
Current Assets		
Cash and cash equivalents	1,544	209
Accounts receivable-customers (less allowance for doubtful accounts of \$708 in 2017 and \$702 in 2016)	25,338	19,993
Unbilled receivable	18,259	17,700
Other accounts receivable (less allowance for doubtful accounts of \$59 in 2017 and 2016)	1,988	1,959
Income taxes receivable from Parent	—	21,856
Materials and supplies, at average cost	4,437	3,724
Regulatory assets — current	40,849	43,296
Prepayments and other current assets	4,248	3,520
Total current assets	96,663	112,257
Regulatory and Other Assets		
Regulatory assets	104,645	102,985
Other	7,303	4,906
Total regulatory and other assets	111,948	107,891
Total Assets	\$1,377,385	\$1,384,178

The accompanying notes are an integral part of these financial statements

Table of Contents

GOLDEN STATE WATER COMPANY  
BALANCE SHEETS  
CAPITALIZATION AND LIABILITIES  
(Unaudited)

(in thousands)	June 30, 2017	December 31, 2016
<b>Capitalization</b>		
Common Shares, no par value:		
Authorized: 1,000 shares		
Outstanding: 146 shares in 2017 and 2016	\$ 240,920	\$ 240,482
Earnings reinvested in the business	235,309	206,288
Total common shareholder's equity	476,229	446,770
Long-term debt	320,969	320,981
Total capitalization	797,198	767,751
<b>Current Liabilities</b>		
Inter-company payable	9,583	61,726
Long-term debt — current	336	330
Accounts payable	38,490	34,648
Income taxes payable to Parent	3,269	—
Accrued other taxes	7,229	8,870
Accrued employee expenses	10,163	10,983
Accrued interest	3,544	3,588
Unrealized loss on purchased power contracts	4,493	4,901
Other	11,399	10,925
Total current liabilities	88,506	135,971
<b>Other Credits</b>		
Advances for construction	67,209	69,722
Contributions in aid of construction — net	123,607	120,518
Deferred income taxes	234,583	227,798
Unamortized investment tax credits	1,471	1,529
Accrued pension and other postretirement benefits	52,247	49,856
Other	12,564	11,033
Total other credits	491,681	480,456
<b>Commitments and Contingencies (Note 8)</b>		
Total Capitalization and Liabilities	\$ 1,377,385	\$ 1,384,178

The accompanying notes are an integral part of these financial statements

Table of Contents

GOLDEN STATE WATER COMPANY  
 STATEMENTS OF INCOME  
 FOR THE THREE MONTHS  
 ENDED JUNE 30, 2017 AND 2016  
 (Unaudited)

(in thousands)	Three Months	
	Ended June 30,	
	2017	2016
Operating Revenues		
Water	\$80,734	\$81,058
Electric	7,612	7,701
Total operating revenues	88,346	88,759
Operating Expenses		
Water purchased	17,937	15,835
Power purchased for pumping	2,157	2,132
Groundwater production assessment	4,931	3,968
Power purchased for resale	2,308	2,216
Supply cost balancing accounts	(5,293 )	(2,517 )
Other operation	7,096	6,156
Administrative and general	16,007	16,999
Depreciation and amortization	9,394	9,347
Maintenance	3,049	3,243
Property and other taxes	3,982	3,823
Gain on sale of assets	(8,301 )	—
Total operating expenses	53,267	61,202
Operating Income	35,079	27,557
Other Income and Expenses		
Interest expense	(5,775 )	(5,586 )
Interest income	620	190
Other, net	588	231
Total other income and expenses, net	(4,567 )	(5,165 )
Income before income tax expense	30,512	22,392
Income tax expense	12,149	8,722
Net Income	\$18,363	\$13,670

The accompanying notes are an integral part of these consolidated financial statements

Table of Contents

GOLDEN STATE WATER COMPANY  
 STATEMENTS OF INCOME  
 FOR THE SIX MONTHS  
 ENDED JUNE 30, 2017 AND 2016  
 (Unaudited)

(in thousands)	Six Months Ended	
	June 30,	
	2017	2016
Operating Revenues		
Water	\$147,138	\$147,370
Electric	18,114	18,274
Total operating revenues	165,252	165,644
Operating Expenses		
Water purchased	30,043	29,634
Power purchased for pumping	3,754	3,764
Groundwater production assessment	8,306	6,668
Power purchased for resale	5,408	5,087
Supply cost balancing accounts	(7,042 )	(5,932 )
Other operation	11,649	12,239
Administrative and general	31,305	33,515
Depreciation and amortization	18,832	18,877
Maintenance	5,970	6,782
Property and other taxes	8,172	7,810
Gain on sale of assets	(8,301 )	—
Total operating expenses	108,096	118,444
Operating Income	57,156	47,200
Other Income and Expenses		
Interest expense	(11,532 )	(11,156 )
Interest income	857	360
Other, net	1,053	412
Total other income and expenses, net	(9,622 )	(10,384 )
Income before income tax expense	47,534	36,816
Income tax expense	18,422	14,162
Net Income	\$29,112	\$22,654

The accompanying notes are an integral part of these consolidated financial statements



Table of Contents

GOLDEN STATE WATER COMPANY  
STATEMENTS OF CASH FLOWS  
FOR THE SIX MONTHS ENDED JUNE 30, 2017 AND 2016  
(Unaudited)

	Six Months Ended June 30,	
(in thousands)	2017	2016
Cash Flows From Operating Activities:		
Net income		