

AMERICAN STATES WATER CO

Form 10-Q

November 04, 2013

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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 September 30, 2013

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

95-4676679

(State or Other Jurisdiction of Incorporation or
Organization)

(IRS Employer Identification No.)

630 E. Foothill Blvd, San Dimas, CA

91773-1212

(Address of Principal Executive Offices)

(Zip Code)

(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

95-1243678

(State or Other Jurisdiction of Incorporation or
Organization)

(IRS Employer Identification No.)

630 E. Foothill Blvd, San Dimas, CA

91773-1212

(Address of Principal Executive Offices)

(Zip Code)

(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 x No ☐

Golden State Water Company

Yes x No ☐

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).

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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 "

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 November 1, 2013, the number of Common Shares outstanding, of American States Water Company was 38,717,549 shares. As of November 1, 2013, 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

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

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 relating to AWR and its subsidiaries, other than GSWC.

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” or 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 those 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 regulatory, legislative or other proceedings, investigations or audits, including decisions in our general rate cases and the results of independent audits of our 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

- Our ability to efficiently manage capital expenditures and operating and maintenance expenses within CPUC authorized levels and timely recovery of our costs through rates

The impact of increasing opposition to GSWC rate increases on our ability to recover our costs through rates and on the size of our customer base

- Our ability to forecast the costs of maintaining GSWC's aging water and electric infrastructure

Our ability to recover increases in permitting costs and in 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

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• Changes in accounting valuations and estimates, including those resulting from changes in our assessment of anticipated recovery of regulatory assets, liabilities and revenues subject to refund or regulatory disallowances

• Changes in environmental laws and water and wastewater quality requirements and increases in costs associated with complying with these laws and requirements

• Availability of water supplies, which may be adversely affected by changes in weather patterns, contamination and court decisions or other governmental actions restricting use of water from the Colorado River, transportation of water to GSWC's service areas through the California State Water Project or pumping of groundwater

• 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 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 power supplies for GSWC's Bear Valley Electric Service division and the extent to which we can manage and respond to the volatility of electric and natural gas prices

• Our ability to comply with the CPUC's renewable energy procurement requirements

• Changes in GSWC customer demand due to unanticipated population growth or decline, changes in climate conditions, general economic and financial market conditions, cost increases and conservation

• Changes in accounting treatment for regulated utilities

• Changes in estimates used in ASUS's revenue recognition under the percentage of completion method of accounting for our construction activities at our contracted services business

• Termination, in whole or in part, of our contracts to provide water and/or wastewater services at military bases for the convenience of the U.S. government or for default

• Delays in filing for or obtaining redetermination of prices or equitable adjustments to our prices on our contracts to provide water and/or wastewater services at military bases

• Failure of the U.S. government to make timely payment to ASUS for water and/or wastewater services at military bases as a result of political disputes over the funding of the U.S. government

• Disallowance of costs on our contracts to provide water and/or wastewater services at military bases as a result of audits, cost review or investigations by contracting agencies

• Inaccurate assumptions used in preparing bids in our contracted services business

• Failure of the collection or sewage 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

• Implementation, maintenance and 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

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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 in connection with a cyber attack or other cyber incident

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

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 2012 Annual Report on Form 10-K) as you read this Form 10-Q. We qualify all of our forward-looking statements by these cautionary statements.

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AMERICAN STATES WATER COMPANY

CONSOLIDATED BALANCE SHEETS

ASSETS

(Unaudited)

(in thousands)	September 30, 2013	December 31, 2012
Property, Plant and Equipment		
Regulated utility plant, at cost	\$1,425,214	\$1,351,086
Non utility property, at cost	9,189	9,021
Total	1,434,403	1,360,107
Less - Accumulated depreciation	(465,944)	(442,316)
Net property, plant and equipment	968,459	917,791
Other Property and Investments		
Goodwill	1,116	1,116
Other property and investments	15,343	13,755
Total other property and investments	16,459	14,871
Current Assets		
Cash and cash equivalents	26,162	23,486
Accounts receivable — customers (less allowance for doubtful accounts of \$768 in 2013 and \$797 in 2012)	30,303	19,491
Unbilled revenue	21,083	16,147
Receivable from the U.S. government (less allowance for doubtful accounts of \$0 in 2013 and \$8 in 2012)	19,869	12,905
Other accounts receivable (less allowance for doubtful accounts of \$437 in 2013 and \$423 in 2012)	7,576	7,062
Income taxes receivable	2,847	16,547
Materials and supplies, at average cost	5,186	5,348
Regulatory assets — current	34,635	32,336
Prepayments and other current assets	3,679	4,391
Costs and estimated earnings in excess of billings on uncompleted contracts	41,068	37,703
Deferred income taxes — current	10,157	8,617
Total current assets	202,565	184,033
Regulatory and Other Assets		
Regulatory assets	138,863	143,679
Costs and estimated earnings in excess of billings on uncompleted contracts	6,458	436
Receivable from the U.S. government (less allowance for doubtful accounts of \$0 in 2013 and 2012)	2,864	4,535
Deferred income taxes	13	11
Other	15,372	15,587
Total regulatory and other assets	163,570	164,248
Total Assets	\$1,351,053	\$1,280,943

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

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

(in thousands)	September 30, 2013	December 31, 2012
Capitalization		
Common shares, no par value	\$252,351	\$249,322
Earnings reinvested in the business	234,536	205,257
Total common shareholders' equity	486,887	454,579
Long-term debt	332,088	332,463
Total capitalization	818,975	787,042
Current Liabilities		
Long-term debt — current	3,398	3,328
Accounts payable	62,898	40,569
Income taxes payable	795	511
Accrued other taxes	8,255	8,167
Accrued employee expenses	10,611	9,919
Accrued interest	6,251	3,909
Unrealized loss on purchased power contracts	588	3,060
Billings in excess of costs and estimated earnings on uncompleted contracts	7,815	12,572
Other	15,062	11,662
Total current liabilities	115,673	93,697
Other Credits		
Advances for construction	68,933	70,781
Contributions in aid of construction - net	113,836	106,450
Deferred income taxes	154,309	142,597
Unamortized investment tax credits	1,813	1,881
Accrued pension and other postretirement benefits	70,945	71,618
Other	6,569	6,877
Total other credits	416,405	400,204
Commitments and Contingencies (Note 8)	—	—
Total Capitalization and Liabilities	\$1,351,053	\$1,280,943

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

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AMERICAN STATES WATER COMPANY
CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE MONTHS
ENDED SEPTEMBER 30, 2013 AND 2012
(Unaudited)

	Three Months Ended September 30,		
(in thousands, except per share amounts)	2013	2012	
Operating Revenues			
Water	\$93,932	\$90,976	
Electric	8,849	8,549	
Contracted services	28,133	34,368	
Total operating revenues	130,914	133,893	
Operating Expenses			
Water purchased	19,246	18,874	
Power purchased for pumping	3,414	3,067	
Groundwater production assessment	4,656	3,923	
Power purchased for resale	3,386	2,854	
Supply cost balancing accounts	(1,003	) 1,960
Other operation	7,185	7,394	
Administrative and general	20,083	17,734	
Depreciation and amortization	9,753	10,230	
Maintenance	4,666	4,232	
Property and other taxes	4,108	3,878	
ASUS construction	19,256	23,332	
Net gain on sale of property	—	(65)
Total operating expenses	94,750	97,413	
Operating Income	36,164	36,480	
Other Income and Expenses			
Interest expense	(5,852) (6,018)
Interest income	185	419	
Other, net	247	219	
Total other income and expenses	(5,420) (5,380)
Income from operations before income tax expense	30,744	31,100	
Income tax expense	9,905	12,436	
Net Income	\$20,839	\$18,664	
Weighted Average Number of Common Shares Outstanding	38,696	38,117	
Basic Earnings Per Common Share	\$0.54	\$0.49	
Weighted Average Number of Diluted Shares	38,923	38,205	
Fully Diluted Earnings Per Common Share	\$0.53	\$0.48	

Dividends Paid Per Common Share	\$0.2025	\$0.1775
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The accompanying notes are an integral part of these consolidated financial statements

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AMERICAN STATES WATER COMPANY
CONSOLIDATED STATEMENTS OF INCOME
FOR THE NINE MONTHS
ENDED SEPTEMBER 30, 2013 AND 2012
(Unaudited)

	Nine Months Ended September 30,	
(in thousands, except per share amounts)	2013	2012
Operating Revenues		
Water	\$247,234	\$238,334
Electric	27,980	27,735
Contracted services	86,947	89,298
Total operating revenues	362,161	355,367
Operating Expenses		
Water purchased	46,648	42,257
Power purchased for pumping	7,385	6,642
Groundwater production assessment	11,666	11,228
Power purchased for resale	9,894	8,725
Supply cost balancing accounts	(9	) 9,560
Other operation	19,158	21,671
Administrative and general	56,103	52,626
Depreciation and amortization	29,337	31,127
Maintenance	13,513	11,415
Property and other taxes	12,004	11,699
ASUS construction	59,053	58,513
Net gain on sale of property	(12	) (68
Total operating expenses	264,740	265,395
Operating Income	97,421	89,972
Other Income and Expenses		
Interest expense	(17,398	) (17,808
Interest income	512	1,129
Other, net	673	435
Total other income and expenses	(16,213	) (16,244
Income from operations before income tax expense	81,208	73,728
Income tax expense	30,302	29,871
Net Income	\$50,906	\$43,857
Weighted Average Number of Common Shares Outstanding	38,613	37,849
Basic Earnings Per Common Share	\$1.31	\$1.15
Weighted Average Number of Diluted Shares	38,835	38,077
Fully Diluted Earnings Per Common Share	\$1.31	\$1.15

Dividends Paid Per Common Share	\$0.5575	\$0.4575
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The accompanying notes are an integral part of these consolidated financial statements

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AMERICAN STATES WATER COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOW
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013 AND 2012
(Unaudited)

	Nine Months Ended September 30,	
(in thousands)	2013	2012
Cash Flows From Operating Activities:		
Net income	\$50,906	\$43,857
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	30,019	32,760
Provision for doubtful accounts	776	1,313
Deferred income taxes and investment tax credits	10,616	4,735
Stock-based compensation expense	1,711	1,477
Other — net	(31	) (359
Changes in assets and liabilities:		
Accounts receivable — customers	(11,498	) (9,731
Unbilled revenue	(4,936	) (5,571
Other accounts receivable	(504	) 3,967
Receivable from the U.S. government	(5,293	) 5,530
Materials and supplies	162	(3,508
Prepayments and other current assets	712	(1,421
Regulatory assets — supply cost balancing accounts	(9	) 9,560
Costs and estimated earnings in excess of billings on uncompleted contracts	(9,387	) (2,046
Other assets (including other regulatory assets)	(2,890	) (19,331
Accounts payable	9,370	12,981
Income taxes receivable/payable	13,984	21,294
Billings in excess of costs and estimated earnings on uncompleted contracts	(4,757	) (10,899
Accrued pension and other postretirement benefits	2,114	3,079
Other liabilities	6,214	3,892
Net cash provided	87,279	91,579
Cash Flows From Investing Activities:		
Construction expenditures	(69,059	) (48,169
Other investments	(1,423) —
Proceed from sale of property	12	69
Net cash used	(70,470	) (48,100
Cash Flows From Financing Activities:		
Proceeds from issuance of common shares and stock option exercises	1,948	12,434
Receipt of advances for and contributions in aid of construction	10,051	5,101
Refunds on advances for construction	(3,328	) (3,216
Repayments of long-term debt	(365	) (294
Proceeds from issuance of long-term debt	60	4,034
Net change in notes payable to banks	—	(2,000
Dividends paid	(21,520	) (17,307
Other — net	(979	) (480
Net cash used	(14,133) (1,728
Net increase in cash and cash equivalents	2,676	41,751

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Cash and cash equivalents, beginning of period	23,486	1,315
Cash and cash equivalents, end of period	\$26,162	\$43,066

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

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GOLDEN STATE WATER COMPANY

BALANCE SHEETS

ASSETS

(Unaudited)

(in thousands)	September 30, 2013	December 31, 2012
Utility Plant		
Utility plant, at cost	\$1,425,214	\$1,351,086
Less - Accumulated depreciation	(460,789)	(437,949)
Net utility plant	964,425	913,137
Other Property and Investments	13,187	11,590
Current Assets		
Cash and cash equivalents	25,726	22,578
Accounts receivable-customers (less allowance for doubtful accounts of \$768 in 2013 and \$797 in 2012)	30,303	19,491
Unbilled revenue	21,083	16,147
Inter-company receivable	5,228	2,508
Other accounts receivable (less allowance for doubtful accounts of \$364 in 2013 and \$380 in 2012)	4,993	6,377
Income taxes receivable from Parent	3,550	16,442
Note receivable from Parent	3,836	—
Materials and supplies, at average cost	2,056	2,244
Regulatory assets — current	34,635	32,336
Prepayments and other current assets	3,234	4,162
Deferred income taxes — current	9,259	7,577
Total current assets	143,903	129,862
Regulatory and Other Assets		
Regulatory assets	138,863	143,679
Other accounts receivable	1,345	1,445
Other	12,791	14,339
Total regulatory and other assets	152,999	159,463
Total Assets	\$1,274,514	\$1,214,052

The accompanying notes are an integral part of these financial statements

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GOLDEN STATE WATER COMPANY

BALANCE SHEETS

CAPITALIZATION AND LIABILITIES

(Unaudited)

(in thousands)	September 30, 2013	December 31, 2012
Capitalization		
Common shares, no par value	\$232,392	\$231,480
Earnings reinvested in the business	204,411	184,777
Total common shareholder's equity	436,803	416,257
Long-term debt	332,088	332,463
Total capitalization	768,891	748,720
Current Liabilities		
Long-term debt — current	3,398	3,328
Accounts payable	47,266	27,292
Accrued other taxes	7,791	7,720
Accrued employee expenses	9,466	8,786
Accrued interest	6,251	3,909
Unrealized loss on purchased power contracts	588	3,060
Other	14,960	11,606
Total current liabilities	89,720	65,701
Other Credits		
Advances for construction	68,933	70,781
Contributions in aid of construction — net	113,836	106,450
Deferred income taxes	153,874	142,082
Unamortized investment tax credits	1,813	1,881
Accrued pension and other postretirement benefits	70,945	71,618
Other	6,502	6,819
Total other credits	415,903	399,631
Commitments and Contingencies (Note 8)	—	—
Total Capitalization and Liabilities	\$1,274,514	\$1,214,052

The accompanying notes are an integral part of these financial statements

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GOLDEN STATE WATER COMPANY
 STATEMENTS OF INCOME
 FOR THE THREE MONTHS
 ENDED SEPTEMBER 30, 2013 AND 2012
 (Unaudited)

(in thousands)	Three Months Ended September 30,		
	2013	2012	
Operating Revenues			
Water	\$93,932	\$90,976	
Electric	8,849	8,549	
Total operating revenues	102,781	99,525	
Operating Expenses			
Water purchased	19,246	18,874	
Power purchased for pumping	3,414	3,067	
Groundwater production assessment	4,656	3,923	
Power purchased for resale	3,386	2,854	
Supply cost balancing accounts	(1,003	) 1,960
Other operation	6,506	6,859	
Administrative and general	17,007	14,993	
Depreciation and amortization	9,474	9,941	
Maintenance	4,239	3,801	
Property and other taxes	3,572	3,357	
Net gain on sale of property	—	(65)
Total operating expenses	70,497	69,564	
Operating Income	32,284	29,961	
Other Income and Expenses			
Interest expense	(5,815) (5,959)
Interest income	148	384	
Other, net	247	219	
Total other income and expenses	(5,420) (5,356)
Income from operations before income tax expense	26,864	24,605	
Income tax expense	10,251	10,030	
Net Income	\$16,613	\$14,575	

The accompanying notes are an integral part of these financial statements

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GOLDEN STATE WATER COMPANY
 STATEMENTS OF INCOME
 FOR THE NINE MONTHS
 ENDED SEPTEMBER 30, 2013 AND 2012
 (Unaudited)

	Nine Months Ended September 30,		
(in thousands)	2013	2012	
Operating Revenues			
Water	\$247,234	\$238,334	
Electric	27,980	27,735	
Total operating revenues	275,214	266,069	
Operating Expenses			
Water purchased	46,648	42,257	
Power purchased for pumping	7,385	6,642	
Groundwater production assessment	11,666	11,228	
Power purchased for resale	9,894	8,725	
Supply cost balancing accounts	(9	) 9,560
Other operation	17,145	19,710	
Administrative and general	46,407	44,359	
Depreciation and amortization	28,480	30,283	
Maintenance	12,097	10,098	
Property and other taxes	10,663	10,454	
Net gain on sale of property	—	(65)
Total operating expenses	190,376	193,251	
Operating Income	84,838	72,818	
Other Income and Expenses			
Interest expense	(17,289) (17,648)
Interest income	466	1,063	
Other, net	674	434	
Total other income and expenses	(16,149) (16,151)
Income from operations before income tax expense	68,689	56,667	
Income tax expense	27,557	23,352	
Net Income	\$41,132	\$33,315	

The accompanying notes are an integral part of these financial statements

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GOLDEN STATE WATER COMPANY

STATEMENTS OF CASH FLOW

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013 AND 2012

(Unaudited)

	Nine Months Ended September 30,	
(in thousands)	2013	2012
Cash Flows From Operating Activities:		
Net income	\$41,132	\$33,315
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	29,162	31,916
Provision for doubtful accounts	687	1,271
Deferred income taxes and investment tax credits	10,556	4,725
Stock-based compensation expense	1,384	1,241
Other — net	103	(389)
Changes in assets and liabilities:		
Accounts receivable — customers	(11,498)	(9,731)