AMERICAN STATES WATER CO
Form 10-Q
August 04, 2015
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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

x Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
for the quarterly period ended June 30, 2015
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 August 3, 2015, the number of Common Shares outstanding, of American States Water Company was 37,240,678 shares. As of August 3, 2015, 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 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 pending and future 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
- Availability of water supplies, which may be adversely affected by the California 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 recovery of our costs through rates
- The impact of opposition to GSWC rate increases on our ability to recover our costs through rates
- The impact of condemnation actions on the size of our customer base

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- 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

- Changes in accounting valuations and estimates, including changes resulting from 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

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

- Our electric operation'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 the customer 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

- 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 construction activities at our contracted services business

- Termination, in whole or in part, of one or more of our Military Utility Privatization Subsidiaries' contracts to provide water and/or wastewater services at military bases for the convenience of the U.S. government or for default

- Termination of contracts and 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

- Failure of the U.S. government to make timely payments to ASUS for water and/or wastewater services at military bases as a result of fiscal uncertainties over the funding of the U.S. government

- Delays in obtaining redetermination of prices 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 as a result of audits, cost reviews or investigations by contracting agencies

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

- 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

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- Issues with the implementation, maintenance and/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 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 2014 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)	June 30, 2015	December 31, 2014
Property, Plant and Equipment		
Regulated utility plant, at cost	$1,523,161	$1,492,880
Non-utility property, at cost	11,067	10,879
Total	1,534,228	1,503,759
Less - Accumulated depreciation	(518,721)	(500,239)
Net property, plant and equipment	1,015,507	1,003,520
Other Property and Investments		
Goodwill	1,116	1,116
Other property and investments	18,728	17,536
Total other property and investments	19,844	18,652
Current Assets		
Cash and cash equivalents	43,862	75,988
Accounts receivable — customers (less allowance for doubtful accounts of $763 in 2015 and $803 in 2014)	19,247	18,814
Unbilled receivable	17,949	21,422
Receivable from the U.S. government	7,288	6,709
Other accounts receivable (less allowance for doubtful accounts of $111 in 2015 and $89 in 2014)	3,566	4,843
Income taxes receivable	2,820	20,993
Materials and supplies, at average cost	4,152	3,588
Regulatory assets — current	11,187	12,379
Prepayments and other current assets	4,134	2,745
Costs and estimated earnings in excess of billings on contracts	28,422	34,535
Deferred income taxes — current	7,601	7,435
Total current assets	150,228	209,451
Regulatory and Other Assets		
Regulatory assets	131,869	118,829
Costs and estimated earnings in excess of billings on contracts	16,308	15,741
Other	9,599	12,105
Total regulatory and other assets	157,776	146,675
Total Assets	$1,343,355	$1,378,298

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)	June 30, 2015	December 31, 2014
Capitalization		
Common shares, no par value	$247,034	$253,199
Earnings reinvested in the business	230,544	253,602
Total common shareholders’ equity	477,578	506,801
Long-term debt	325,613	325,798
Total capitalization	803,191	832,599
Current Liabilities		
Long-term debt — current	308	292
Accounts payable	42,336	41,855
Income taxes payable	120	638
Accrued other taxes	6,235	8,602
Accrued employee expenses	10,056	10,519
Accrued interest	3,546	3,549
Unrealized loss on purchased power contracts	5,662	3,339
Billings in excess of costs and estimated earnings on contracts	9,453	11,736
Other	17,451	18,760
Total current liabilities	95,167	99,290
Other Credits		
Advances for construction	66,700	68,328
Contributions in aid of construction - net	116,156	116,629
Deferred income taxes	190,121	191,209
Unamortized investment tax credits	1,654	1,699
Accrued pension and other postretirement benefits	63,658	61,773
Other	6,708	6,771
Total other credits	444,997	446,409
Commitments and Contingencies (Note 8)		
Total Capitalization and Liabilities	$1,343,355	$1,378,298

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 JUNE 30, 2015 AND 2014
(Unaudited)

	Three Months Ended June 30,	
(in thousands, except per share amounts)	2015	2014
Operating Revenues		
Water	$87,581	$86,232
Electric	7,889	8,328
Contracted services	19,148	21,081
Total operating revenues	114,618	115,641
Operating Expenses		
Water purchased	16,415	16,263
Power purchased for pumping	2,123	2,570
Groundwater production assessment	4,122	4,853
Power purchased for resale	2,566	1,988
Supply cost balancing accounts	1,816	(106)
Other operation	7,362	7,085
Administrative and general	20,471	19,407
Depreciation and amortization	10,536	10,525
Maintenance	4,205	4,327
Property and other taxes	4,060	3,965
ASUS construction	10,412	13,764
Total operating expenses	84,088	84,641
Operating Income	30,530	31,000
Other Income and Expenses		
Interest expense	(5,527)	(5,778)
Interest income	102	123
Other, net	77	271
Total other income and expenses	(5,348)	(5,384)
Income from operations before income tax expense	25,182	25,616
Income tax expense	9,534	10,262
Net Income	$15,648	$15,354
Weighted Average Number of Common Shares Outstanding	37,702	38,781
Basic Earnings Per Common Share	$0.41	$0.39
Weighted Average Number of Diluted Shares	37,909	39,001
Fully Diluted Earnings Per Common Share	$0.41	$0.39
Dividends Paid Per Common Share	$0.2130	$0.2025

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 SIX MONTHS
ENDED JUNE 30, 2015 AND 2014
(Unaudited)

	Six Months Ended June 30,	
(in thousands, except per share amounts)	2015	2014
Operating Revenues		
Water	$159,085	$156,989
Electric	18,858	18,784
Contracted services	37,608	41,813
Total operating revenues	215,551	217,586
Operating Expenses		
Water purchased	28,706	27,487
Power purchased for pumping	4,140	4,534
Groundwater production assessment	7,511	8,393
Power purchased for resale	5,065	4,687
Supply cost balancing accounts	3,629	712
Other operation	13,522	14,032
Administrative and general	39,998	39,591
Depreciation and amortization	21,084	21,055
Maintenance	7,682	7,816
Property and other taxes	8,336	8,290
ASUS construction	20,458	27,221
Total operating expenses	160,131	163,818
Operating Income	55,420	53,768
Other Income and Expenses		
Interest expense	(10,755)	(11,405)
Interest income	214	235
Other, net	350	396
Total other income and expenses	(10,191)	(10,774)
Income from operations before income tax expense	45,229	42,994
Income tax expense	17,432	16,619
Net Income	$27,797	$26,375
Weighted Average Number of Common Shares Outstanding	37,952	38,764
Basic Earnings Per Common Share	$0.73	$0.68
Weighted Average Number of Diluted Shares	38,153	38,974
Fully Diluted Earnings Per Common Share	$0.73	$0.67
Dividends Paid Per Common Share	$0.426	$0.405

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 SIX MONTHS ENDED JUNE 30, 2015 AND 2014
(Unaudited)

	Six Months Ended June 30,	
(in thousands)	2015	2014
Cash Flows From Operating Activities:		
Net income	$27,797	$26,375
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	21,458	21,552
Provision for doubtful accounts	370	604
Deferred income taxes and investment tax credits	(432)	(1,653)
Stock-based compensation expense	1,321	1,399
Other — net	426	69
Changes in assets and liabilities:		
Accounts receivable — customers	(774)	(1,907)
Unbilled receivable	3,473	(1,599)
Other accounts receivable	1,248	1,543
Receivables from the U.S. government	(579)	3,491
Materials and supplies	(564)	887
Prepayments and other assets	932	(1,997)
Costs and estimated earnings in excess of billings on contracts	5,546	12,437
Regulatory assets	(13,493)	8,768
Accounts payable	511	1,019
Income taxes receivable/payable	17,655	10,994
Billings in excess of costs and estimated earnings on contracts	(2,283)	7,701
Accrued pension and other post-retirement benefits	2,907	3,125
Other liabilities	(2,517)	(1,928)
Net cash provided	63,002	90,880
Cash Flows From Investing Activities:		
Capital expenditures	(34,207)	(35,620)
Other investing activities	(1,401)	(195)
Net cash used	(35,608)	(35,815)
Cash Flows From Financing Activities:		
Proceeds from stock option exercises	512	219
Repurchase of Common Shares	(41,847)	(306)
Receipt of advances for and contributions in aid of construction	1,751	4,174
Refunds on advances for construction	(2,571)	(2,518)
Retirement or repayments of long-term debt	(169)	(174)
Dividends paid	(16,171)	(15,699)
Other financing activities	(1,025)	(1,138)
Net cash used	(59,520)	(15,442)
Net change in cash and cash equivalents	(32,126)	39,623
Cash and cash equivalents, beginning of period	75,988	38,226
Cash and cash equivalents, end of period	$43,862	$77,849

Non-cash transactions:		
Accrued payables for investment in utility plant	$13,110	$14,125
Property installed by developers and conveyed	$784	$206

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)	June 30, 2015	December 31, 2014
Utility Plant		
Utility plant, at cost	$1,523,161	$1,492,880
Less - Accumulated depreciation	(512,053)	(494,000)
Net utility plant	1,011,108	998,880
Other Property and Investments	16,593	15,395
Current Assets		
Cash and cash equivalents	39,936	44,005
Accounts receivable-customers (less allowance for doubtful accounts of $763 in 2015 and $803 in 2014)	19,247	18,814
Unbilled receivable	17,813	17,733
Inter-company receivable	303	499
Other accounts receivable (less allowance for doubtful accounts of $111 in 2015 and $89 in 2014)	3,102	3,795
Income taxes receivable from Parent	4,394	29,580
Note receivable from Parent	3,000	—
Materials and supplies, at average cost	3,420	2,791
Regulatory assets — current	11,187	12,379
Prepayments and other current assets	3,441	2,507
Deferred income taxes — current	7,161	6,500
Total current assets	113,004	138,603
Regulatory and Other Assets		
Regulatory assets	131,869	118,829
Other	9,798	10,667
Total regulatory and other assets	141,667	129,496
Total Assets	$1,282,372	$1,282,374

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)	June 30, 2015	December 31, 2014
Capitalization		
Common shares, no par value	$236,239	$235,607
Earnings reinvested in the business	196,833	199,583
Total common shareholder’s equity	433,072	435,190
Long-term debt	325,613	325,798
Total capitalization	758,685	760,988
Current Liabilities		
Long-term debt — current	308	292
Accounts payable	34,995	29,619
Accrued other taxes	6,151	8,442
Accrued employee expenses	9,255	9,591
Accrued interest	3,546	3,593
Unrealized loss on purchased power contracts	5,662	3,339
Other	17,223	18,659
Total current liabilities	77,140	73,535
Other Credits		
Advances for construction	66,700	68,328
Contributions in aid of construction — net	116,156	116,629
Deferred income taxes	191,799	192,787
Unamortized investment tax credits	1,654	1,699
Accrued pension and other postretirement benefits	63,658	61,773
Other	6,580	6,635
Total other credits	446,547	447,851
Commitments and Contingencies (Note 8)		
Total Capitalization and Liabilities	$1,282,372	$1,282,374

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 JUNE 30, 2015 AND 2014
(Unaudited)

	Three Months Ended June 30,	
(in thousands)	2015	2014
Operating Revenues		
Water	$87,581	$86,232
Electric	7,889	8,328
Total operating revenues	95,470	94,560
Operating Expenses		
Water purchased	16,415	16,263
Power purchased for pumping	2,123	2,570
Groundwater production assessment	4,122	4,853
Power purchased for resale	2,566	1,988
Supply cost balancing accounts	1,816	(106)
Other operation	6,540	6,448
Administrative and general	17,003	16,424
Depreciation and amortization	10,235	10,232
Maintenance	3,667	3,783
Property and other taxes	3,748	3,530
Total operating expenses	68,235	65,985
Operating Income	27,235	28,575
Other Income and Expenses		
Interest expense	(5,516)	(5,721)
Interest income	97	113
Other, net	(67)	272
Total other income and expenses	(5,486)	(5,336)
Income from operations before income tax expense	21,749	23,239
Income tax expense	8,800	9,783
Net Income	$12,949	$13,456

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

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GOLDEN STATE WATER COMPANY
STATEMENTS OF INCOME
FOR THE SIX MONTHS
ENDED JUNE 30, 2015 AND 2014
(Unaudited)

	Six Months Ended June 30,	
(in thousands)	2015	2014
Operating Revenues		
Water	$159,085	$156,989
Electric	18,858	18,784
Total operating revenues	177,943	175,773
Operating Expenses		
Water purchased	28,706	27,487
Power purchased for pumping	4,140	4,534
Groundwater production assessment	7,511	8,393
Power purchased for resale	5,065	4,687
Supply cost balancing accounts	3,629	712
Other operation	11,998	12,804
Administrative and general	32,560	33,409
Depreciation and amortization	20,476	20,472
Maintenance	6,484	6,844
Property and other taxes	7,666	7,426
Total operating expenses	128,235	126,768
Operating Income	49,708	49,005
Other Income and Expenses		
Interest expense	(10,734)	(11,332)
Interest income	201	222
Other, net	206	396
Total other income and expenses	(10,327)	(10,714)
Income from operations before income tax expense	39,381	38,291
Income tax expense	16,047	15,488
Net Income	$23,334	$22,803

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

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GOLDEN STATE WATER COMPANY
STATEMENTS OF CASH FLOW
FOR THE SIX MONTHS ENDED JUNE 30, 2015 AND 2014
(Unaudited)

	Six Months Ended June 30,	
(in thousands)	2015	2014
Cash Flows From Operating Activities:		
Net income	$23,334	$22,803
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	20,850	20,969
Provision for doubtful accounts	370	667
Deferred income taxes and investment tax credits	(827)	(1,219)
Stock-based compensation expense	1,062	973
Other — net	409	34
Changes in assets and liabilities:		
Accounts receivable — customers	(774)	(1,907)
Unbilled receivable	(80)	(1,599)
Other accounts receivable	664	2,145
Materials and supplies	(629)	(613)
Prepayments and other assets	(216)	(1,515)
Regulatory assets	(13,493)	8,836
Accounts payable	5,408	2,968
Inter-company receivable/payable	196	336
Income taxes receivable/payable from/to Parent	25,186	10,617
Accrued pension and other post-retirement benefits	2,907	3,125
Other liabilities	(2,477)	(1,756)
Net cash provided	61,890	64,864
Cash Flows From Investing Activities:		
Capital expenditures	(33,841)	(34,331)
Note receivable from AWR parent	(3,000)	(8,300)
Receipt of payment of note receivable from AWR parent	—	8,800
Other investing activities	(1,427)	(195)
Net cash used	(38,268)	(34,026)
Cash Flows From Financing Activities:		
Receipt of advances for and contributions in aid of construction	1,751	4,174
Refunds on advances for construction	(2,571)	(2,518)
Retirement or repayments of long-term debt	(169)	(174)
Dividends paid	(26,000)	(26,000)
Other financing activities	(702)	(956)
Net cash used	(27,691)	(25,474)
Net change in cash and cash equivalents	(4,069)	5,364
Cash and cash equivalents, beginning of period	44,005	37,875
Cash and cash equivalents, end of period	$39,936	$43,239

Non-cash transactions:		
Accrued payables for investment in utility plant	$13,108	$14,039
Property installed by developers and conveyed	$784	$206

The accompanying notes are an integral part of these financial statements

AMERICAN STATES WATER COMPANY AND SUBSIDIARIES
AND
GOLDEN STATE WATER COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 — Summary of Significant Accounting Policies:

Nature of Operations: American States Water Company (“AWR”) is the parent company of Golden State Water Company (“GSWC”) and American States Utility Services, Inc. (“ASUS”) (and its subsidiaries, Fort Bliss Water Services Company (“FBWS”), Terrapin Utility Services, Inc. (“TUS”), Old Dominion Utility Services, Inc. (“ODUS”), Palmetto State Utility Services, Inc. (“PSUS”) and Old North Utility Services, Inc. (“ONUS”)). The subsidiaries of ASUS may be collectively referred to herein as the “Military Utility Privatization Subsidiaries.”

GSWC is a public utility engaged principally in the purchase, production, distribution and sale of water in California serving approximately 258,000 customers. GSWC also distributes electricity in several San Bernardino County mountain communities in California serving approximately 24,000 customers through its Bear Valley Electric Service (“BVES”) division. Although Registrant has a diversified base of residential, industrial and other customers, revenues derived from commercial and residential water customers accounted for approximately 90% of total water revenues during the three and six months ended June 30, 2015 and 2014. The California Public Utilities Commission (“CPUC”) regulates GSWC’s water and electric businesses, in matters including properties, rates, services, facilities and other matters, and transactions by GSWC with its affiliates. AWR’s assets and operating income are primarily those of GSWC.

ASUS, through its wholly owned subsidiaries, operates, maintains and performs construction activities (including renewal and replacement capital work) on water and/or wastewater systems at various United States military bases pursuant to 50-year firm fixed-price contracts. These contracts are subject to periodic price redeterminations and modifications for changes in circumstances, changes in laws and regulations and additions to the contract value for new construction of facilities at the military bases.

There is no direct regulatory oversight by the CPUC over AWR or the operations, rates or services provided by ASUS or any of its wholly owned subsidiaries.

Basis of Presentation: The consolidated financial statements and notes thereto are being presented in a combined report being filed by two separate Registrants: AWR and GSWC. References in this report to “Registrant” are to AWR and GSWC, collectively, unless otherwise specified. Certain prior period amounts in the consolidated and GSWC Statements of Cash Flow have been reclassified to conform to the 2015 presentation of "Regulatory assets" as a separate line item.

The consolidated financial statements of AWR include the accounts of AWR and its subsidiaries, all of which are wholly owned. These financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. Inter-company transactions and balances have been eliminated in the AWR consolidated financial statements.

The consolidated financial statements included herein have been prepared by Registrant, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). The December 31, 2014 condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by generally accepted accounting principles ("GAAP"). The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. In the opinion of management, all adjustments consisting of normal, recurring items and estimates necessary for a fair statement of the results for the interim periods have been made. It is suggested that these consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Form 10-K for the year ended December 31, 2014 filed with the SEC.

GSWC's Related Party Transactions: In May 2013, AWR issued an interest bearing promissory note (the "Note") to GSWC for $20.0 million which expires on May 23, 2018. Under the terms of the Note, AWR may borrow from GSWC amounts up to $20.0 million for working capital purposes. AWR agreed to pay any unpaid principal amounts outstanding under the Note, plus accrued interest. As of June 30, 2015, AWR had $3.0 million outstanding and owed to GSWC under this Note.

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GSWC and ASUS provide and receive various support services to and from their parent, AWR, and among themselves. GSWC also allocates certain corporate office administrative and general costs to its affiliate, ASUS, using allocation factors approved by the CPUC. GSWC allocated corporate office administrative and general costs to ASUS of approximately $609,000 and $677,000 during the three months ended June 30, 2015 and 2014, respectively, and approximately $1,316,000 and $1,373,000 during the six months ended June 30, 2015 and 2014, respectively. In addition, AWR has a $100.0 million syndicated credit facility. AWR borrows under this facility and provides funds to its subsidiaries, including GSWC, in support of their operations. The interest rate charged to GSWC and ASUS is sufficient to cover AWR's interest cost under the credit facility. Amounts owed to GSWC by its parent, AWR, or for allocated expenses are included in GSWC's inter-company receivables as of June 30, 2015 and December 31, 2014.

Sales and Use Taxes: GSWC bills certain sales and use taxes levied by state or local governments to its customers. Included in these sales and use taxes are franchise fees, which GSWC pays to various municipalities (based on ordinances adopted by these municipalities) in order to use public right of way for utility purposes. GSWC bills these franchise fees to its customers based on a CPUC-authorized rate for each rate-making area as applicable. These franchise fees, which are required to be paid regardless of GSWC's ability to collect from the customer, are accounted for on a gross basis. GSWC's franchise fees billed to customers and recorded as operating revenue were approximately $996,000 and $975,000 for the three months ended June 30, 2015 and 2014, respectively, and $1.9 million and $1.8 million for the six months ended June 30, 2015 and 2014, respectively. When GSWC acts as an agent, and the tax is not required to be remitted if it is not collected from the customer, the taxes are accounted for on a net basis.

Depending on the state in which the operations are conducted, ASUS and its subsidiaries are also subject to certain state non-income tax assessments generally computed on a "gross receipts" or "gross revenues" basis. These non-income tax assessments are required to be paid regardless of whether the subsidiary is reimbursed by the U.S. government for these assessments under its 50-year contracts. The non-income tax assessments are accounted for on a gross basis and totaled $53,000 and $157,000 during the three months ended June 30, 2015 and 2014, respectively, and $86,000 and $306,000 for the six months ended June 30, 2015 and 2014, respectively.

Recently Issued Accounting Pronouncements: In May 2014, the Financial Accounting Standards Board ("FASB") issued updated accounting guidance on revenue recognition. The guidance will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. Under this guidance, an entity will recognize revenue when it transfers promised goods or services to customers in an amount that reflects what the entity expects in exchange for the goods or services. This guidance also requires more detailed disclosures to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. On July 9, 2015, the FASB decided to delay the effective date of the new revenue standard by one year. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017, and adoption is not permitted earlier than the original effective date, that is, no earlier than 2017. The guidance allows entities to select one of two methods of adoption, either the full retrospective approach, meaning the guidance would be applied to all periods presented, or modified retrospective approach, meaning the cumulative effect of applying the guidance would be recognized as an adjustment to opening retained earnings at January 1, 2018, along with providing certain additional disclosures. Registrant will adopt this guidance in the fiscal year beginning January 1, 2018. Management has not yet selected a transition method nor has it determined the effect of the standard on the Company's ongoing financial reporting.

In April 2015, the FASB issued Accounting Standard Update 2015-03, Simplifying the Presentation of Debt Issuance Costs, which requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability, rather than as an asset. The standard does not affect the recognition and measurement of debt issuance costs. This guidance is effective January 1, 2016. As of June 30, 2015, Registrant had $5.0 million in debt issuance costs reflected under "Other Noncurrent Assets."

Also in April 2015, the FASB issued Accounting Standard Update 2015-05, Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement, ASU 2015-05 requires a customer in a cloud computing arrangement to follow internal-use software guidance if both of the following criteria are met: (a) the customer has the contractual right to take possession of the software at any time during the cloud computing arrangement and (b) it can feasibly run the software on its own hardware. If the customer does not meet both criteria, the cloud computing arrangement is considered a service contract and separate accounting for a license would not be permitted. This guidance is effective beginning January 1, 2016 and is not expected to have a material impact on Registrant's consolidated financial statements.

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Note 2 — Regulatory Matters:

In accordance with accounting principles for rate-regulated enterprises, Registrant records regulatory assets, which represent probable future recovery of costs from customers through the ratemaking process, and regulatory liabilities, which represent probable future refunds that are to be credited to customers through the ratemaking process. At June 30, 2015, Registrant had approximately $67.9 million of regulatory assets, net of regulatory liabilities, not accruing carrying costs. Of this amount, $39.7 million relates to the underfunded position in Registrant's pension and other post-retirement obligations, $5.7 million relates to a memorandum account authorized by the CPUC to track unrealized gains and losses on GSWC's purchase power contracts over the term of the contracts, and $16.7 million relates to deferred income taxes representing accelerated tax benefits flowed through to customers, which will be included in rates concurrently with recognition of the associated future tax expense. The remainder relates to other items that do not provide for or incur carrying costs.

Regulatory assets represent costs incurred by GSWC for which it has received or expects to receive rate recovery in the future. In determining the probability of costs being recognized in other periods, GSWC considers regulatory rules and decisions, past practices, and other facts or circumstances that would indicate if recovery is probable. If the CPUC determines that a portion of GSWC’s assets are not recoverable in customer rates, GSWC must determine if it has suffered an asset impairment that would require a write-down in the assets’ valuation. Regulatory assets are offset against regulatory liabilities within each rate-making area. Amounts expected to be collected or refunded in the next 12-months have been classified as current assets and current liabilities by rate-making area. As of June 30, 2015, GSWC has a total of $139.2 million in net regulatory assets, of which $3.8 million of regulatory liabilities have been included in “Other Current Liabilities”. Regulatory assets, less regulatory liabilities, included in the consolidated balance sheets are as follows:

(dollars in thousands)	June 30, 2015	December 31, 2014
GSWC		
Water Revenue Adjustment Mechanism, net of Modified Cost Balancing Account	$28,542	$9,369
Base Revenue Requirement Adjustment Mechanism	5,668	7,761
Costs deferred for future recovery on Aerojet case	13,220	13,629
Pensions and other post-retirement obligations (Note 7)	42,145	43,426
Derivative unrealized loss (Note 4)	5,662	3,339
Flow-through taxes, net (Note 6)	16,745	17,612
Low income rate assistance balancing accounts	8,990	9,109
Other regulatory assets	18,888	22,218
Various refunds to customers	(620)	(759)
Total	$139,240	$125,704

Regulatory matters are discussed in detail in the consolidated financial statements and the notes thereto included in the Form 10-K for the year ended December 31, 2014 filed with the SEC. The discussion below focuses on significant matters and developments since December 31, 2014.

Alternative-Revenue Programs:

GSWC records the difference between what it bills its water customers and that which is authorized by the CPUC using the Water Revenue Adjustment Mechanism (“WRAM”) and Modified Cost Balancing Account (“MCBA”) accounts approved by the CPUC. The recovery or refund of the WRAM is netted against the MCBA over- or under-collection for the corresponding rate-making area and is interest bearing at the current 90-day commercial paper rate. Based on CPUC guidelines, recovery periods relating to the majority of GSWC’s WRAM/MCBA balances range between 18 and 24 months.

GSWC has implemented surcharges to recover all of its WRAM/MCBA balances, as of December 31, 2014. For the six months ended June 30, 2015, surcharges (net of surcredits) of approximately $96,000 were billed to customers to recover previously incurred under-collections in the WRAM/MCBA accounts. During the six months ended June 30, 2015, GSWC recorded additional under-collections in the WRAM/MCBA accounts of $19.3 million. The increase in the WRAM balance in 2015 is largely due to water conservation by our customers in response to the ongoing drought conditions in California. Lower water usage results in an increase in under-collections recorded in the WRAM accounts. As of June 30, 2015, GSWC has a net aggregated regulatory asset of $28.5 million which is comprised of a $26.0 million under-collection in the WRAM accounts and $2.5 million under-collection in the MCBA accounts.

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For BVES, the CPUC approved the Base Revenue Requirement Adjustment Mechanism ("BRRAM") which adjusts base revenues to adopted levels. In November 2014, the CPUC issued a final decision on BVES's general rate case, setting rates and adopted revenues for years 2013 through 2016. In March 2015, surcharges were implemented to collect the 2014 BRRAM under-collection of $3.1 million over 24 months. As of June 30, 2015, GSWC had a regulatory asset of $5.7 million under-collection in the BRRAM.

Other Regulatory Matters:

Procurement Audits:

In December 2011, the CPUC issued a final decision adopting a settlement between GSWC and the CPUC on its investigation of certain work orders and charges paid to a specific contractor used previously for numerous construction projects primarily in one of GSWC's three main geographic water regions. As part of the settlement reached with the CPUC on this matter, GSWC agreed to be subject to three separate independent audits of its procurement practices over a period of ten years from the date the settlement was approved by the CPUC. The audits cover GSWC's procurement practices for contracts with other contractors from 1994 forward. The first audit started in 2014 and covers almost a 20-year period from January 1, 1994 through September 30, 2013.

In December 2014, the accounting firm engaged by the CPUC to conduct the first independent audit provided its draft report to GSWC for comments. The report asserted that GSWC had not complied, in all material respects, with the CPUC's requirements and GSWC's procurement policies during the period from 1994 to 2006. Subsequent to 2006, except for specific instances of alleged noncompliance, GSWC was found to be in compliance, in all material respects, with the CPUC's requirements and GSWC's procurement policies. The findings and corresponding recommendations in the draft report included, among other things, instances of inadequate documentation to support competitive bidding procedures, change orders, and sole source justifications. In February 2015, management provided its responses to the draft report and each of the findings noted by the accounting firm. GSWC informed the accounting firm of certain inaccuracies in their report, asserted that GSWC complied, in all material respects, with the CPUC's requirements throughout the entire audit period and, has been in material compliance with its own procurement policies throughout the audit period.

In March 2015, the accounting firm issued its final report to the CPUC's Division of Water and Audits ("DWA"). The final report, which was issued on a confidential basis, included GSWC's responses to the accounting firm's findings, as well as the firm's responses to GSWC's comments. DWA informed GSWC that it does not intend to pursue further investigation, refunds, or penalties in respect of past procurement activities as a result of the final report. Also in March, the CPUC's Office of Ratepayer Advocates ("ORA"), in anticipation of receiving the final report, requested that the assigned administrative law judges in the ongoing general rate case convene a second phase of the rate case to consider the findings and recommendations in the final audit report. In June 2015, ORA notified the administrative law judges that, having reviewed the final audit report, its potential concerns with the audit report were satisfied and, as such, ORA no longer wished to pursue a second phase in the general rate case to address the final audit report. On August 3, 2015, the presiding administrative law judge issued a ruling that a second phase to the general rate case regarding this issue is not necessary. At this time, GSWC does not believe that a loss associated with any disallowances and/or penalties from this first audit is likely.

Rural Acquisition

In June 2013, GSWC entered into an Asset Purchase Agreement (the "Agreement") to acquire all of the operating water assets of Rural Water Company ("Rural") for an aggregate purchase price of approximately $1.7 million. This transaction was subject to CPUC approval. In June 2015, the CPUC approved the acquisition of Rural, including GSWC's recovery of the purchase price through customer rates. The consummation of the transaction contemplated by the Agreement is subject to customary conditions, including among other things, adjustments to the purchase price for changes in utility plant since entering into the agreement in 2013. Upon completion of this transaction, GSWC will serve approximately 960 customers in the City of Arroyo Grande in the county of San Luis Obispo, California, which is near GSWC's Santa Maria customer service area in Coastal California. Under the terms of the Agreement, GSWC will take over operations thirty days after the remaining conditions to closing are satisfied. This acquisition is not considered to be material to Registrant's financial position or results of operations.

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Note 3 — Earnings per Share/Capital Stock:

In accordance with the accounting guidance for participating securities and earnings per share ("EPS"), Registrant uses the "two-class" method of computing EPS. The "two-class" method is an earnings allocation formula that determines EPS for each class of common stock and participating security. AWR has participating securities related to restricted stock units that earn dividend equivalents on an equal basis with AWR's Common Shares that have been issued under AWR's 2000 and 2008 Stock Incentive Plans and the 2003 and 2013 Non-Employee Directors Stock Plans. In applying the "two-class" method, undistributed earnings are allocated to both common shares and participating securities.
The following is a reconciliation of Registrant's net income and weighted average Common Shares outstanding used for calculating basic net income per share:

Basic:	For The Three Months Ended June 30,		For The Six Months Ended June 30,	
(in thousands, except per share amounts)	2015	2014	2015	2014
Net income	$15,648	$15,354	27,797	26,375
Less: (a) Distributed earnings to common shareholders	8,016	7,853	16,171	15,699
Distributed earnings to participating securities	47	47	89	87
Undistributed earnings	7,585	7,454	11,537	10,589
(b) Undistributed earnings allocated to common shareholders	7,541	7,411	11,474	10,530
Undistributed earnings allocated to participating securities	44	43	63	59
Total income available to common shareholders, basic (a)+(b)	$15,557	$15,264	$27,645	$26,229
Weighted average Common Shares outstanding, basic	37,702	38,781	37,952	38,764
Basic earnings per Common Share	$0.41	$0.39	$0.73	$0.68

Diluted EPS is based upon the weighted average number of Common Shares, including both outstanding shares and shares potentially issuable in connection with stock options and restricted stock units granted under AWR's 2000 and 2008 Stock Incentive Plans, and the 2003 and 2013 Non-Employee Directors Stock Plans, and net income. At June 30, 2015 and 2014, there were 187,152 and 245,784 options outstanding, respectively, under these Plans. At June 30, 2015 and 2014, there were also 225,074 and 239,226 restricted stock units outstanding, respectively, including performance shares awarded to officers of the Registrant.

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The following is a reconciliation of Registrant's net income and weighted average Common Shares outstanding for calculating diluted net income per share:

Diluted:	For The Three Months Ended June 30,		For The Six Months Ended June 30,	
(in thousands, except per share amounts)	2015	2014	2015	2014
Common shareholders earnings, basic	$15,557	$15,264	$27,645	$26,229
Undistributed earnings for dilutive stock-based awards	44	43	63	59
Total common shareholders earnings, diluted	$15,601	$15,307	$27,708	$26,288
Weighted average common shares outstanding, basic	37,702	38,781	37,952	38,764
Stock-based compensation (1)	207	220	201	210
Weighted average common shares outstanding, diluted	37,909	39,001	38,153	38,974
Diluted earnings per Common Share	$0.41	$0.39	$0.73	$0.67

(1) In applying the treasury stock method of reflecting the dilutive effect of outstanding stock-based compensation in the calculation of diluted EPS, 187,152 and 245,784 stock options at June 30, 2015 and 2014, respectively, were deemed to be outstanding in accordance with accounting guidance on earnings per share. All of the 225,074 and 239,226 restricted stock units at June 30, 2015 and 2014, respectively, were included in the calculation of diluted EPS for the six months ended June 30, 2015 and 2014.

No stock options outstanding at June 30, 2015 had an exercise price greater than the average market price of AWR's Common Shares for the six months ended June 30, 2015. There were no stock options outstanding at June 30, 2015 or 2014 that were anti-dilutive.

During the six months ended June 30, 2015 and 2014, AWR issued 69,617 and 70,573 common shares, for approximately $512,000 and $219,000, respectively, under Registrant's Common Share Purchase and Dividend Reinvestment Plan ("DRP"), the 401(k) Plan, the 2000 and 2008 Stock Incentive Plans and the 2003 and 2013 Non-Employee Directors Stock Plans.

On March 27, 2014, AWR's Board of Directors approved a stock repurchase program, authorizing AWR to repurchase up to 1.25 million shares of its Common Shares from time to time through June 30, 2016. Pursuant to this program, Registrant repurchased 704,782 Common Shares on the open market during the six months ended June 30, 2015. The 2014 stock repurchase program was completed in May 2015. On May 19, 2015, AWR's Board of Directors approved a new stock repurchase program, authorizing AWR to repurchase up to 1.2 million shares of its Common Shares from time to time through June 30, 2017. Pursuant to this program, Registrant repurchased 387,021 Common Shares on the open market during the six months ended June 30, 2015. The repurchase of Common Shares is restricted by California law under the same standards which apply to dividend distributions.

During the three months ended June 30, 2015 and 2014, AWR paid quarterly dividends of approximately $8.0 million, or $0.213 per share, and $7.9 million, or $0.2025 per share, respectively. During the six months ended June 30, 2015 and 2014, AWR paid quarterly dividends to shareholders of approximately $16.2 million, or $0.426 per share, and $15.7 million, or $0.405 per share, respectively.

Note 4 — Derivative Instruments:

Derivative financial instruments are used to manage exposure to commodity price risk. Commodity price risk represents the potential impact that can be caused by a change in the market value of a particular commodity. GSWC's electric division, BVES, purchases power under long-term contracts at a fixed cost depending on the amount of power and the period during which the power is purchased under such contracts. These contracts are generally subject to the accounting guidance for derivatives and require mark-to-market derivative accounting. In December 2014, the CPUC approved an application that allowed GSWC to immediately execute new long-term purchased power contracts with energy providers on December 9, 2014. GSWC began taking power under these long-term contracts effective January 1, 2015 at a fixed cost over three and five year terms depending on the amount of power and period during which the power is purchased under the contracts.

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The new long-term contracts executed in December 2014 are subject to the accounting guidance for derivatives and require mark-to-market derivative accounting. Among other things, the CPUC approval in December 2014 also authorized GSWC to establish a regulatory asset and liability memorandum account to offset the mark-to-market entries required by the accounting guidance. Accordingly, all unrealized gains and losses generated from the new purchased power contracts executed in December 2014 are deferred on a monthly basis into a non-interest bearing regulatory memorandum account that tracks the changes in fair value of the derivative throughout the term of the contract. As a result, these unrealized gains and losses do not impact GSWC's earnings. As of June 30, 2015, there was a $5.7 million unrealized loss in the memorandum account for the new purchased power contracts as a result of the recent decrease in energy prices. There were no derivatives as of June 30, 2014. The notional volume of derivatives remaining under these long-term contracts as of June 30, 2015 was approximately 526,000 megawatt hours.
The accounting guidance for fair value measurements applies to all financial assets and financial liabilities that are being measured and reported on a fair value basis. Under the accounting guidance, GSWC makes fair value measurements that are classified and disclosed in one of the following three categories:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2: Quoted prices in markets that are not active or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability; or

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

To value the contract, Registrant applies the Black-76 model, utilizing various inputs that include quoted market prices for energy over the duration of the contract. The market prices used to determine the fair value for this derivative instrument were estimated based on independent sources such as broker quotes and publications that are not observable in or corroborated by the market. Registrant received one broker quote to determine the fair value of its derivative instrument. When such inputs have a significant impact on the measurement of fair value, the instrument is categorized as Level 3. Accordingly, the valuation of the derivative on Registrant's purchased power contract has been classified as Level 3 for all periods presented.
The following table presents changes in the fair value of GSWC's Level 3 derivatives for the three and six months ended June 30, 2015 and 2014:

	For The Three Months Ended June 30,		For The Six Months Ended June 30,	
(dollars in thousands)	2015	2014	2015	2014
Fair value at beginning of the period	$(6,176)	$—	$(3,339)	$—
Unrealized gain (loss) on purchased power contracts	514	—	(2,323)	—
Fair value at end of the period	$(5,662)	$—	$(5,662)	$—

Note 5 — Fair Value of Financial Instruments:

For cash and cash equivalents, accounts receivable, accounts payable and short-term debt, the carrying amount is assumed to approximate fair value due to the short-term nature of the amounts.

Investments held in a Rabbi Trust for the supplemental executive retirement plan are measured at fair value and totaled $10.1 million as of June 30, 2015. All equity investments in the Rabbi Trust are Level 1 investments in mutual funds. The investments held in the Rabbi Trust are included in Other Property and Investments on Registrant's balance sheets.

The table below estimates the fair value of long-term debt held by GSWC. The fair values as of June 30, 2015 and December 31, 2014 have been determined using rates for similar financial instruments of the same duration utilizing Level 2 methods and assumptions. The interest rates used for the June 30, 2015 valuation increased as compared to December 31, 2014, decreasing the fair value of long-term debt as of June 30, 2015. Changes in the assumptions will produce differing results.

	June 30, 2015		December 31, 2014	
(dollars in thousands)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial liabilities:				
Long-term debt—GSWC	$325,921	$388,236	$326,090	$417,057

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Note 6 — Income Taxes:

As a regulated utility, GSWC treats certain temporary differences as flow-through adjustments in computing its income tax provision consistent with the income tax approach approved by the CPUC for ratemaking purposes. Flow-through adjustments increase or decrease tax expense in one period, with an offsetting decrease or increase occurring in another period. Giving effect to these temporary differences as flow-through adjustments typically results in a greater variance between the effective tax rate (“ETR”) and the statutory federal income tax rate in any given period than would otherwise exist if GSWC were not required to account for its income taxes as a regulated enterprise. GSWC's ETR was 40.5% and 42.1% for the three months ended June 30, 2015 and 2014, respectively, and 40.7% and 40.4% for the six months ended June 30, 2015 and 2014, respectively. GSWC's ETRs deviated from the statutory rate primarily due to state taxes and differences between book and taxable income that are treated as flow-through adjustments in accordance with regulatory requirements (primarily related to plant, rate-case and compensation items), as well as permanent items.

AWR's consolidated ETR was 37.9% for the three months ended June 30, 2015 as compared to 40.1% for the three months ended June 30, 2014, and was 38.5% for the six months ended June 30, 2015 as compared to 38.7% for the six months ended June 30, 2014. The ETR at the AWR consolidated level also fluctuated primarily as a result of a reduction in ASUS's state income taxes, which vary among the jurisdictions in which it operates.

Changes in Tax Law:

During the fourth quarter of 2014, the Company reflected a change in its tax method of accounting for certain repair and maintenance expenditures pursuant to regulations issued by the U.S. Treasury Department in September 2013. In connection with filing the 2014 tax returns on or before September 15, 2015, the Company will file an application for an automatic change in tax accounting method with the Internal Revenue Service ("IRS") for the 2014 tax year to implement the new method effective January 1, 2014. The tax accounting method change will also include a cumulative adjustment for 2013 and prior years, and will permit the expensing of certain utility asset replacement costs that were previously being capitalized and depreciated for book and tax purposes. As a result of the change, the Company will deduct a significant amount of asset costs, which consist primarily of water mains and connections.

During the fourth quarter of 2014, GSWC recorded a cumulative adjustment for 2013 and prior years as well as the 2014 estimated deduction, and recognized a total deferred income tax liability of $30.8 million for federal and state repair-and-maintenance deductions as of December 31, 2014. Although this change reduces AWR’s current taxes payable, it did not reduce total income tax expense or ETR.

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Note 7 — Employee Benefit Plans:

The components of net periodic benefit costs, before allocation to the overhead pool, for Registrant's pension plan, postretirement plan and Supplemental Executive Retirement Plan ("SERP") for the three and six months ended June 30, 2015 and 2014 are as follows:

	For The Three Months Ended June 30,					
	Pension Benefits		Other Postretirement Benefits		SERP	
(dollars in thousands)	2015	2014	2015	2014	2015	2014
Components of Net Periodic Benefits Cost:						
Service cost	$1,452	$1,335	$95	$99	$204	$192
Interest cost	1,905	1,845	114	130	163	154
Expected return on plan assets	(2,452)	(2,235)	(123)	(113)	—	—
Amortization of transition	—	—	—	104	—	—
Amortization of prior service cost (benefit)	30	29	(50)	(50)	29	40
Amortization of actuarial (gain) loss	427	(7)	(53)	(66)	108	35
Net periodic pension cost under accounting standards	1,362	967	(17)	104	504	421
Regulatory adjustment — deferred	251	449	—	—	—	—
Total expense recognized, before allocation to overhead pool	$1,613	$1,416	$(17)	$104	$504	$421

	For The Six Months Ended June 30,					
	Pension Benefits		Other Postretirement Benefits		SERP	
(dollars in thousands)	2015	2014	2015	2014	2015	2014
Components of Net Periodic Benefits Cost:						
Service cost	$3,138	$2,822	$190	$198	$408	$384
Interest cost	3,844	3,760	228	260	326	308
Expected return on plan assets	(4,898)	(4,450)	(246)	(226)	—	—
Amortization of transition	—	—	—	208	—	—
Amortization of prior service cost (benefit)	60	59	(100)	(100)	58	80
Amortization of actuarial (gain) loss	896	—	(106)	(132)	216	70
Net periodic pension cost under accounting standards	3,040	2,191	(34)	208	1,008	842
Regulatory adjustment — deferred	262	749	—	—	—	—
Total expense recognized, before allocation to overhead pool	$3,302	$2,940	$(34)	$208	$1,008	$842

In April 2015, Registrant contributed $919,000 to the pension plan. In total, Registrant expects to contribute $6.7 million to the pension plan during 2015.

Regulatory Adjustment:

As authorized by the CPUC in the most recent water and electric general rate case decisions, GSWC utilizes two-way balancing accounts for its water and electric regions and the general office to track differences between the forecasted annual pension expenses adopted in rates and the actual annual expense recorded by GSWC in accordance with the accounting guidance for pension costs. As of June 30, 2015, GSWC has a total $2.4 million net under-collection in the two-way pension balancing accounts included as part of the pension regulatory asset (Note 2).

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Note 8 — Contingencies:

Condemnation of Properties:

The laws of the State of California provide for the acquisition of public utility property by governmental agencies through their power of eminent domain, also known as condemnation, where doing so is necessary and in the public interest. In addition, these laws provide: (i) that the owner of utility property may contest whether the condemnation is actually necessary and in the public interest, and (ii) that the owner is entitled to receive the fair market value of its property if the property is ultimately taken.

Claremont System:

On November 4, 2014, voters in the City of Claremont ("Claremont" or "the City") approved a measure authorizing the issuance of $135 million in water revenue bonds by the City to finance the acquisition of the Claremont water system. On December 9, 2014, the City filed an eminent domain lawsuit against GSWC. GSWC has the ability to legally challenge the government's right to take its property. GSWC does not believe the seizure is necessary and intends to vigorously defend against the potential condemnation. In June 2015, the City amended and refiled its eminent domain lawsuit against GSWC. At this time, management cannot predict the outcome of the eminent domain proceeding. The Claremont water system has a net book value of approximately $49.8 million. GSWC serves approximately 11,000 customers in Claremont.

Ojai System:

In March 2013, Casitas Municipal Water District ("CMWD") passed resolutions under the Mello-Roos Community Facilities District Act of 1982 ("Mello-Roos Act") authorizing the establishment of a Community Facilities District, and the issuance of bonds to finance the potential acquisition of GSWC's Ojai system by eminent domain. GSWC filed a petition in the Superior Court and eventually the Court of Appeals in Ventura County, which, among other things, challenged the legality of CMWD's effort to utilize the Mello-Roos Act to acquire property by eminent domain and to fund legal and expert costs of the planned condemnation. On April 14, 2015, the California Court of Appeals affirmed a prior court's ruling allowing the use of Mello-Roos funding. In May 2015, GSWC filed a petition for review at the Supreme Court of California, which the Supreme Court subsequently denied. Ojai FLOW ("Friends of Locally Owned Water") members were also granted class status by the Superior Court to later file action against GSWC should they be able to prove GSWC's motions delayed the condemnation action and resulted in higher costs for Ojai residents should the system be ultimately taken. GSWC serves approximately 3,000 customers in Ojai.

Artesia System:

On October 13, 2014, the City of Artesia's City Council approved a request for a feasibility study on the potential acquisition of GSWC's water system in Artesia. GSWC serves approximately 3,300 customers in Artesia.

Environmental Clean-Up and Remediation:

GSWC has been involved in environmental remediation and clean-up at a plant site ("Chadron Plant") that contained an underground storage tank which was used to store gasoline for its vehicles. This tank was removed from the ground in July 1990 along with the dispenser and ancillary piping. Since then, GSWC has been involved in various remediation activities at this site. Analysis indicates that offsite monitoring wells may also be necessary to document effectiveness of remediation.

As of June 30, 2015, the total spent to clean-up and remediate GSWC's plant facility was approximately $4.8 million, of which $1.5 million has been paid by the State of California Underground Storage Tank Fund. Amounts paid by GSWC have been included in rate base and approved by the CPUC for recovery. As of June 30, 2015, GSWC has a regulatory asset and an accrued liability for the estimated additional cost of $1.4 million to complete the clean-up at the site. The estimate includes costs for two years of continued activities of groundwater cleanup and monitoring, future soil treatment and site closure related activities. The ultimate cost may vary as there are many unknowns in remediation of underground gasoline spills and this is an estimate based on currently available information. Management also believes it is probable that the estimated additional costs will be approved in rate base by the CPUC.

Other Litigation:

Registrant is also subject to other ordinary routine litigation incidental to its business. Management believes that rate recovery, proper insurance coverage and reserves are in place to insure against property, general liability and workers' compensation claims incurred in the ordinary course of business. Registrant is unable to predict an estimate of the loss, if any, resulting from any pending suits or administrative proceedings.

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Note 9 — Business Segments:

AWR has three reportable segments, water, electric and contracted services, whereas GSWC has two segments, water and electric. On a stand-alone basis, AWR has no material assets other than cash and its investments in its subsidiaries.

All activities of GSWC, a rate-regulated utility, are geographically located within California. Activities of ASUS and its subsidiaries are conducted in California, Georgia, Maryland, New Mexico, North Carolina, South Carolina, Texas and Virginia. Each of ASUS's wholly-owned subsidiaries is regulated by the state in which the subsidiary primarily conducts water and/or wastewater operations. Fees charged for operations and maintenance and renewal and replacement services are based upon the terms of the contracts with the U.S. government, which have been filed as necessary with the regulatory commissions in the states in which ASUS's subsidiaries are incorporated.

The tables below set forth information relating to GSWC's operating segments, ASUS and its subsidiaries and other matters. Total assets by segment are not presented below, as certain of Registrant's assets are not tracked by segment. The utility plant amounts are net of respective accumulated provisions for depreciation. Capital additions reflect capital expenditures paid in cash and exclude government-funded capital expenditures for ASUS and property installed by developers and conveyed to GSWC.

	As Of And For The Three Months Ended June 30, 2015				
	GSWC			AWR	Consolidated
(dollars in thousands)	Water	Electric	ASUS	Parent	AWR
Operating revenues	$87,581	$7,889	$19,148	$—	$114,618
Operating income (loss)	26,472	763	3,297	(2)	30,530
Interest expense, net	5,108	311	8	(2)	5,425
Utility plant	963,147	47,961	4,399	—	1,015,507