UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 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, 2021

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: 001-37756

Global Water Resources, Inc.

(Exact Name of Registrant as Specified in its Charter)

Delaware	**90-0632193**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
21410 N. 19th Avenue #220 **Phoenix, Arizona**	**85027**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (480) 360-7775
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, par value $0.01 per share	GWRS	The NASDAQ Stock Market, LLC

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☒ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). ☒ Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☒
		Emerging growth company	☒

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

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

As of November 8, 2021, the registrant had 22,649,186 shares of common stock, $0.01 par value per share, outstanding.

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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

GLOBAL WATER RESOURCES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share amounts)
(Unaudited)

	September 30, 2021	December 31, 2020
ASSETS		
PROPERTY, PLANT AND EQUIPMENT:		
Property, plant and equipment	357,977	340,193
Less accumulated depreciation	(108,235)	(101,302)
Net property, plant and equipment	249,742	238,891
CURRENT ASSETS:		
Cash and cash equivalents	21,241	18,033
Accounts receivable — net	1,928	2,147
Customer payments in-transit	303	306
Unbilled revenue	2,690	2,304
Prepaid expenses and other current assets	1,291	665
Total current assets	27,453	23,455
OTHER ASSETS:		
Goodwill	4,595	4,600
Intangible assets — net	10,542	11,185
Regulatory asset	2,335	2,036
Restricted cash	843	3,272
Other noncurrent assets	9	9
Total other assets	18,324	21,102
TOTAL ASSETS	295,519	283,448
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	474	531
Accrued expenses	9,909	8,261
Deferred revenue	—	4
Customer and meter deposits	1,627	1,558
Long-term debt and capital leases — current portion	3,985	2,035
Total current liabilities	15,995	12,389
NONCURRENT LIABILITIES:		
Long-term debt and capital leases	110,871	112,659
Deferred revenue - ICFA	18,943	17,843
Regulatory liability	7,557	7,986
Advances in aid of construction	84,691	76,384
Contributions in aid of construction — net	19,251	14,632
Deferred income tax liabilities — net	4,473	3,652
Acquisition liability	1,773	1,773
Other noncurrent liabilities	1,040	3,942
Total noncurrent liabilities	248,599	238,871
Total liabilities	264,594	251,260
Commitments and contingencies (Refer to Note 15)		
SHAREHOLDERS' EQUITY:		
Common stock, $0.01 par value, 60,000,000 shares authorized; 22,830,888 and 22,690,477 shares issued as of September 30, 2021 and December 31, 2020, respectively.	228	227
Treasury stock, 181,702 and 102,711 shares at September 30, 2021 and December 31, 2020, respectively.	(2)	(1)
Paid in capital	30,699	31,962
Retained earnings	—	—
Total shareholders' equity	30,925	32,188
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	295,519	283,448

See accompanying notes to the condensed consolidated financial statements

GLOBAL WATER RESOURCES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except share and per share amounts)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
REVENUES:				
Water services	$ 5,067	$ 5,492	$ 14,303	$ 13,555
Wastewater and recycled water services	5,645	5,238	16,564	15,187
Unregulated revenues	692	27	739	134
Total revenues	11,404	10,757	31,606	28,876
OPERATING EXPENSES:				
Operations and maintenance	2,677	2,584	7,656	7,156
General and administrative	4,078	2,969	11,285	8,682
Depreciation and amortization	2,356	2,312	6,990	6,622
Total operating expenses	9,111	7,865	25,931	22,460
OPERATING INCOME	2,293	2,892	5,675	6,416
OTHER INCOME (EXPENSE):				
Interest income	4	9	17	88
Interest expense	(1,279)	(1,342)	(3,957)	(4,039)
Other	803	70	2,447	(361)
Total other expense	(472)	(1,263)	(1,493)	(4,312)
INCOME BEFORE INCOME TAXES	1,821	1,629	4,182	2,104
INCOME TAX EXPENSE	(323)	(498)	(919)	(741)
NET INCOME	$ 1,498	$ 1,131	$ 3,263	$ 1,363
Basic earnings per common share	$ 0.07	$ 0.05	$ 0.14	$ 0.06
Diluted earnings per common share	$ 0.07	$ 0.05	$ 0.14	$ 0.06
Dividends declared per common share	$ 0.07	$ 0.07	$ 0.22	$ 0.22
Weighted average number of common shares used in the determination of:				
Basic	22,634,946	22,586,588	22,614,423	22,495,675
Diluted	22,940,123	22,633,133	22,900,276	22,530,371

See accompanying notes to the condensed consolidated financial statements

GLOBAL WATER RESOURCES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(in thousands, except share and per share amounts)
(Unaudited)

	Common Stock Shares	Common Stock	Treasury Stock Shares	Treasury Stock	Paid-in Capital	Retained Earnings	Total Equity
BALANCE - December 31, 2019	21,636,420	$ 216	(99,039)	$ (1)	$ 24,457	$ —	$ 24,672
Dividend declared $0.07 per share	—	—	—	—	(1,274)	(354)	(1,628)
Issuance of common stock	1,000,000	10	—	—	11,511	—	11,521
Stock compensation	—	—	—	—	115	—	115
Net income (loss)	—	—	—	—	—	354	354
BALANCE - March 31, 2020	22,636,420	$ 226	(99,039)	$ (1)	$ 34,809	$ —	$ 35,034
Dividend declared $0.07 per share	—	—	—	—	(1,633)		(1,633)
Issuance of common stock	49,163	1	—	—	(3)	—	(2)
Stock compensation	—	—	—	—	768	—	768
Net income (loss)	—	—	—	—	—	(122)	(122)
BALANCE - June 30, 2020	22,685,583	$ 227	(99,039)	$ (1)	$ 33,941	$ (122)	$ 34,045
Dividend declared $0.07 per share		—			(624)	(1,009)	$ (1,633)
Treasury stock	—	—	(943)	—	(1)	—	(1)
Stock option exercise	1,125	—	—	—	—	—	—
Stock compensation	—	—	—	—	275	—	275
Net income	—	—	—	—	—	1,131	1,131
BALANCE - September 30, 2020	22,686,708	$ 227	(99,982)	$ (1)	$ 33,591	$ —	$ 33,817
BALANCE - December 31, 2020	22,690,477	$ 227	(102,711)	$ (1)	$ 31,962	$ —	$ 32,188
Dividend declared $0.07 per share	—	—	—	—	(1,650)	—	(1,650)
Treasury Stock	—	—	(398)	—	—	—	—
Stock option exercise	628	—	—	—	—	—	—
Stock compensation	—	—	—	—	271	—	271
Net income (loss)	—	—	—	—	—	(217)	(217)
BALANCE - March 31, 2021	22,691,105	$ 227	(103,109)	$ (1)	$ 30,583	$ (217)	$ 30,592
Dividend declared $0.07 per share	—	—	—	—	330	(1,982)	(1,652)
Issuance of common stock	54,163						
Treasury Stock	—	—	(24,599)		4	—	4
Stock option exercise	2,875	—	—	—	—	—	—
Stock compensation	—	—	—	—	38	—	38
Net income (loss)	—	—	—	—	—	1,982	1,982
BALANCE - June 30, 2021	22,748,143	$ 227	(127,708)	$ (1)	$ 30,955	$ (217)	$ 30,964
Dividend declared $0.07 per share					(151)	(1,498)	(1,649)
Treasury Stock			(53,994)	(1)	—		(1)
Stock option exercise	82,745	1					1
Stock compensation					112		112
Net income (loss)						1,498	1,498
BALANCE - September 30, 2021	22,830,888	$ 228	(181,702)	$ (2)	$ 30,916	$ (217)	$ 30,925

See accompanying notes to the condensed consolidated financial statements

GLOBAL WATER RESOURCES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, in thousands)

	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 3,263	$ 1,363
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred compensation	2,530	1,708
Depreciation and amortization	6,990	6,622
Amortization of deferred debt issuance costs and discounts	33	103
Other losses	35	551
Provision for doubtful accounts receivable	48	100
Deferred income tax expense	820	295
Changes in assets and liabilities:		
Accounts receivable	171	(615)
Other current assets	(1,012)	(749)
Accounts payable and other current liabilities	(1,240)	1,095
Other noncurrent assets	(299)	(255)
Other noncurrent liabilities	3,896	1,479
Net cash provided by operating activities	15,235	11,697
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(11,794)	(7,490)
Cash paid for acquisitions, net of cash acquired	(5)	—
Other cash flows from investing activities	—	(9)
Net cash used in investing activities	(11,799)	(7,499)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividends paid	(4,950)	(4,896)
Advances in aid of construction	3,366	1,575
Proceeds from stock option exercise	4	—
Principal payments under capital lease	(108)	(77)
Refunds of advances for construction	(968)	(959)
Loan repayments	(1)	(24)
Proceeds from sale of stock	—	11,739
Debt issuance costs paid	—	(53)
Payments of offering costs for sale of stock	—	(221)
Net cash (used) provided by financing activities	(2,657)	7,084
INCREASE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	779	11,282
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH — Beginning of period	21,305	9,095
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH – End of period	$ 22,084	$ 20,377

See accompanying notes to the condensed consolidated financial statements

Supplemental disclosure of cash flow information:

	September 30, 2021	September 30, 2020
Cash and cash equivalents	$ 21,241	$ 18,062
Restricted Cash	843	2,315
Total cash, cash equivalents, and restricted cash	$ 22,084	$ 20,377

GLOBAL WATER RESOURCES, INC.
Notes to the Condensed Consolidated Financial Statements (Unaudited)

1. BASIS OF PRESENTATION, CORPORATE TRANSACTIONS, SIGNIFICANT ACCOUNTING POLICIES, AND RECENT ACCOUNTING PRONOUNCEMENTS

Basis of Presentation and Principles of Consolidation

The condensed consolidated financial statements of Global Water Resources, Inc. (the “Company”, “GWRI”, “we”, “us”, or “our”) and related disclosures as of September 30, 2021 and for the three and nine months ended September 30, 2021 and 2020 are unaudited. The December 31, 2020 condensed consolidated balance sheet data was derived from the Company’s audited consolidated financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America (“U.S. GAAP”). Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted. These financial statements follow the same accounting policies and methods of their application as the Company’s most recent annual consolidated financial statements. These financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2020. In our opinion, these financial statements include all normal and recurring adjustments necessary for the fair statement of the results for the interim period. The results of operations for the three and nine months ended September 30, 2021 are not necessarily indicative of the results to be expected for the full year, due to the seasonality of our business.

The Company prepares its financial statements in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC"). The preparation of the financial statements in conformity with U.S. GAAP 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 income and expenses during the reporting period. Actual results could differ from those estimates.

The Company qualifies as an “emerging growth company”, as defined in the Jumpstart Our Business Startups Act of 2012 (the “JOBS Act”), under the rules and regulations of the SEC. An emerging growth company may take advantage of specified reduced reporting and other requirements that are otherwise applicable generally to public companies. The Company elected to take advantage of these provisions for up to five years or such earlier time that the Company is no longer an emerging growth company. The Company has elected to take advantage of some of the reduced disclosure obligations regarding financial statements. Also, as an emerging growth company the Company can elect to delay adopting new or revised accounting standards issued subsequent to the enactment of the JOBS Act until such time as those standards apply to private companies. The Company has chosen to take advantage of this extended accounting transition provision.

Corporate Transactions

Stipulated Condemnation of the Operations and Assets of Valencia Water Company, Inc.

On July 14, 2015, the Company closed the stipulated condemnation to transfer the operations and assets of Valencia Water Company, Inc. ("Valencia") to the City of Buckeye. Terms of the condemnation were agreed upon through a settlement agreement and stipulated final judgment of condemnation wherein the City of Buckeye acquired all the operations and assets of Valencia and assumed operation of the utility upon close. The City of Buckeye is obligated to pay the Company a growth premium equal to $3,000 for each new water meter installed within Valencia’s prior service areas in the City of Buckeye, for a 20-year period ending December 31, 2034, subject to a maximum payout of $45.0 million over the term of the agreement. The Company received growth premiums of $0.8 million and $0.1 million for the three months ended September 30, 2021 and 2020, respectively, and $0.9 million and $0.2 million for the nine months ended September 30, 2021 and 2020, respectively. The increase in growth premiums was primarily driven by the receipt of a lump sum payment of $0.4 million from the City of Buckeye during the three months ended September 30, 2021, due to an internal audit of premiums that resulted in findings of past growth premiums that had not been remitted to the Company. The increase was also due to increased meter connections in the area over the prior year period.

Private Letter Ruling

On June 2, 2016, the Company received a Private Letter Ruling from the Internal Revenue Service ("IRS") that, for purposes of deferring the approximately $19.4 million gain realized from the condemnation of the operations and assets of Valencia, determined that the assets converted upon the condemnation of such assets could be replaced through certain reclamation facility improvements contemplated by the Company under Internal Revenue Code §1033 as property similar or related in service or use. As of December 31, 2020, the Company fully deferred this gain pursuant to Internal Revenue Code §1033.

Acquisition of Red Rock Utilities

On October 16, 2018, the Company completed the acquisition of Red Rock Utilities ("Red Rock"), an operator of a water and a wastewater utility with service areas in the Pima and Pinal counties of Arizona, for a purchase price of $5.9 million. The acquisition added over 1,650 connections and approximately 9 square miles of service area. The Company is obligated to pay to the seller a growth premium equal to $750 for each new account established within three specified growth premium areas, commencing in each area on the date of the first meter installation and ending on the earlier of ten years after such first installation date or twenty years from the acquisition date. The three specified growth premium areas are located in Pima County, Arizona where Red Rock has not yet begun operating, and where Red Rock is authorized to provide water utility services only. As of September 30, 2021, no meters have been installed and no accounts have been established in any of the three growth premium areas.

Arizona Corporation Commission (the “ACC”) Tax Docket

The Company had regulatory assets of $2.3 million and $2.0 million at September 30, 2021 and December 31, 2020, respectively, and regulatory liabilities of $0.7 million at both September 30, 2021 and December 31, 2020, related to the Federal Tax Cuts and Jobs Act (the "TCJA") signed into law on December 22, 2017. Under ASC 740, *Income Taxes*, the tax effects of changes in tax laws must be recognized in the period in which the law is enacted. ASC 740 also requires deferred income tax assets and liabilities to be measured at the enacted tax rate expected to apply when temporary differences are to be realized or settled. Thus, at the date of enactment, the Company’s deferred income taxes were re-measured based upon the new tax rate. For the Company’s regulated entities, substantially all of the change in deferred income taxes is recorded as an offset to either a regulatory asset or liability because the impact of changes in the rates are expected to be recovered from or refunded to customers.

On December 20, 2017, the ACC opened a docket to address the utility ratemaking implications of the TCJA. The ACC subsequently approved an order in February 2018 requiring Arizona utilities to apply regulatory accounting treatment, which includes the use of regulatory assets and regulatory liabilities, to address all impacts from the enactment of the TCJA.

On September 20, 2018, the ACC issued Rate Decision No. 76901, which set forth the reductions in revenue for our Santa Cruz, Palo Verde, Greater Tonopah and Northern Scottsdale utilities due to the lower corporate tax rates under the TCJA. Rate Decision No. 76901 adopted a phase-in approach for the reductions to match the phase-in of our revenue requirement under Rate Decision No. 74364 enacted in February 2014. In 2020, the aggregate annual reductions in revenue for our Santa Cruz, Palo Verde, Greater Tonopah, and Northern Scottsdale utilities was approximately $1.0 million. In 2021, the final year of the phase-in, the aggregate annual reductions in revenue for our Santa Cruz, Palo Verde, Greater Tonopah, and Northern Scottsdale utilities will be approximately $415,000, $669,000, $16,000, and $5,000, respectively. The ACC also approved a carrying cost of 4.25% on regulatory liabilities resulting from the difference of the fully phased-in rates to be applied in 2021 versus the phased-in rates refunded in the years leading up to 2021 (i.e., 2018 through 2020).

Rate Decision No. 76901, however, did not address the impacts of the TCJA on accumulated deferred income taxes (“ADIT”), including excess ADIT (“EADIT”). Following the ACC's request for a proposal, the Company made its proposal in filings on December 19, 2018 and July 1, 2019. ACC Staff reviewed the Company's filing and requested that the Company defer tariff revisions until such revisions can be considered in the next rate case. ACC Staff also requested that the Company defer consideration of the regulatory assets and regulatory liabilities associated with 2018 EADIT amortization. On July 18, 2019, the Company made a filing proposing these items be deferred to the next rate case. Refer to " — Corporate Transactions — ACC Rate Case" for additional information regarding the Company's next rate case.

On November 27, 2018, February 20, 2019, February 28, 2019, and January 23, 2020, the ACC adopted orders relating to the funding for income taxes on contributions in aid of construction (“CIAC”) and advances in aid of construction (“AIAC”) (which became taxable for our regulated utilities under the TCJA). Those orders 1) require that under the hybrid sharing method, a contributor will pay a gross-up to the utility consisting of 55% of the income tax expense with the utility covering the remaining 45% of the income tax expense; 2) remove the full gross-up method option for Class A and B utilities and their affiliates (which includes all of our utilities); 3) ensure proper ratemaking treatment of a utility using the self-pay method; 4) clarify that pass-through entities that are owned by a “C” corporation can recover tax expense according to methods allowed; and 5) require Class A and B utilities to self-pay the taxes associated with hook-up fee contributions but permit using a portion of the hook-up fees to fund these taxes. The Company's utilities have adopted the hybrid sharing method for income tax on CIAC and AIAC.

ACC Rate Case

On August 28, 2020, 12 of our 17 regulated utilities each filed a rate case application with the ACC for water, wastewater, and recycled water rates, which proposed a collective revenue requirement increase of $4.6 million (relative to expected revenues in 2021, which is the final year of the rate phase-in from the last rate case) based on a 2019 test year. On August 2, 2021, we filed rejoinder testimony with the ACC updating our collective revenue increase to approximately $3.0 million. An evidentiary hearing was conducted beginning August 9, 2021. Certain of our utilities, including Santa Cruz and Palo Verde, have also requested that the rate increases be phased in over three years, beginning January 1, 2022. A final decision is not expected until the first quarter of 2022; therefore, any phase-in will likely not begin as requested on January 1, 2022 and may be shorter or longer than three years, if a revenue increase is approved.

We also requested the consolidation of water and/or wastewater rates for our Red Rock, Santa Cruz, Palo Verde, Picacho Water, and Picacho Utilities located in Pinal County. These utilities make up approximately 97% of the Company's active service connections; provide or will provide water, wastewater, and recycled water services; and are expected to create economies of scale that are beneficial to all customers if consolidated.

There can be no assurance, however, that the ACC will approve the requested rate increase or any increase or the consolidation of water and wastewater rates described above, and the ACC could take other actions as a result of the rate case. Further, it is possible that the ACC may determine to decrease future rates. There can also be no assurance as to the timing of when an approved rate increase (if any) would go into effect.

2020 Common Stock Offering

On January 21, 2020, the Company completed a public offering of 870,000 shares of common stock at a public offering price per share of $12.50, for gross proceeds of $10.9 million. On January 30, 2020, an additional 130,000 shares of common stock were issued at the public offering price of $12.50 per share, for gross proceeds of $1.6 million, resulting in total proceeds from the offering of approximately $12.5 million. The issuance of the additional shares was completed pursuant to the exercise in full of the underwriter's over-allotment option. Total net proceeds of approximately $11.5 million were received after deducting underwriting discounts and commissions and offering expenses paid by us, which collectively totaled approximately $1.0 million.

Significant Accounting Policies

Basic and Diluted Earnings per Common Share

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 awards granted.

As of September 30, 2021, the Company had 537,731 options outstanding to acquire an equivalent number of shares of GWRI common stock. The 320,321 options outstanding from the 2017 option grant equated to 171,669 and 167,320 common share equivalents for the three and nine months ended September 30, 2021, respectively, which were included within the calculation of diluted earnings per share for the three and nine months ended September 30, 2021. The remaining 217,410 options outstanding from the 2019 option grant equated to 70,674 and 61,755 common share equivalents for the three and nine months ended September 30, 2021, respectively, which were included within the calculation of diluted earnings per share for the three and nine months ended September 30, 2021. As of September 30, 2021, there were 74,164 and 143,800 restricted stock awards outstanding from the 2020 grant and 2021 grant, respectively. The 74,164 restricted stock awards outstanding from the 2020 grant equated to 42,362 and 56,777 common share equivalents for the three and nine months ended September 30, 2021, respectively, which were included within the calculation of diluted earnings per share for the three and nine months ended September 30, 2021. The 143,800 restricted stock awards outstanding from the 2021 grant equated to 20,472 for the three months ended September 30, 2021, which were included within the calculation of diluted earnings per share for the three months ended September 30, 2021. The 143,800 restricted stock awards outstanding from the 2021 grant were not included within the dilutive earnings per share calculation for the nine months ended September 30, 2021, as to do so would be antidilutive.

As of September 30, 2020, the Company had 631,375 options outstanding to acquire an equivalent number of shares of GWRI common stock. The 385,771 options outstanding from the 2017 option grant equated to 32,339 and 34,696 common share equivalents for the three and nine months ended September 30, 2020, respectively, which were included within the calculation of diluted earnings per share for the three and nine months ended September 30, 2020. The remaining 245,604 options outstanding from the 2019 option grant were not included within the dilutive earnings per share calculation for the three and nine months ended September 30, 2020, as to do so would be antidilutive. As of September 30, 2020, the 128,327 restricted stock awards outstanding from the 2020 grant equated to 14,206 and zero common share equivalents for the three and nine months ended September 30, 2020, respectively. The 14,206 common share equivalents were included within the calculation of diluted earnings per share for the three months ended September 30, 2020.

Refer to Note 13 – “Deferred Compensation Awards” for additional information regarding the option and restricted stock grants.

Customer payments in-transit

Customer payments in-transit represent funds received by our third-party payment processor related to customer payments, a majority of which were paid for with debit cards, credit cards, and checks, to which the Company does not have immediate access but settles within a few days of the payment transaction.

Recent Accounting Pronouncements

Recently Adopted Accounting Standards

In February 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-02, *Leases* (Topic 842) (“ASU 2016-02”, or "ASC 842"). ASC 842 requires lessees to record a right-of-use asset and corresponding lease obligation for lease arrangements with a term of greater than twelve months and requires additional disclosures about leasing arrangements. The Company implemented Topic 842 on January 1, 2021. The implementation did not result in material changes to our consolidated financial statements. Refer to Note 4 — "Leases" of the notes to the unaudited condensed consolidated financial statements for additional information.

In August 2018, the FASB issued ASU 2018-15, *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract* (Topic 350) ("ASU 2018-15"). ASU 2018-15 amends ASC 350 to include in its scope implementation costs of a Cloud Computing Arrangement ("CCA") that is a service contract and clarifies that a customer should apply ASC 350-40 to determine which implementation costs should be capitalized in a CCA that is considered a service contract. The Company implemented Topic 350 on January 1, 2021. The implementation did not result in material changes to our consolidated financial statements.

Future Adoption of Accounting Standards

In January 2017, the FASB issued ASU 2017-04, *Intangibles - Goodwill and Other* (Topic 350): Simplifying the Test for Goodwill Impairment ("ASU 2017-04"). ASU 2017-04 eliminates Step 2 from the impairment test which requires entities to determine the implied fair value of goodwill to measure if any impairment expense is necessary. Instead, entities will record impairment expenses based on the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. ASU 2019-10 extended the effective date for this ASU. Due to qualifying as an emerging growth company, the Company is required to adopt the ASU on January 1, 2023. The Company is currently assessing the impact that adopting this new accounting standard will have on its consolidated financial statements.

2. REGULATORY DECISION AND RELATED ACCOUNTING AND POLICY CHANGES

Our regulated utilities and certain other balances are subject to regulation by the ACC and meet the requirements for regulatory accounting found within Accounting Standards Codification 980, *Regulated Operations* ("ASC 980").

In accordance with ASC 980, rates charged to utility customers are intended to recover the costs of the provision of service plus a reasonable return in the same period. Changes to the rates are made through formal rate applications with the ACC, which we have done for all of our operating utilities as described below.

On July 9, 2012, we filed formal rate applications with the ACC to adjust the revenue requirements for seven utilities representing a collective rate increase of approximately 28% over 2011 revenue levels. In August 2013, the Company entered into a settlement agreement with ACC Staff, the Residential Utility Consumers Office, the City of Maricopa, and other parties to the rate case. The settlement required approval by the ACC's Commissioners before it could take effect. In February 2014, the rate case proceedings were completed and the ACC issued Rate Decision No. 74364, effectively approving the settlement agreement. The rulings of the decision include, but are not limited to, the following:

- For the Company's utilities, adjusting for the condemnation of the operations and assets of Valencia and sale of Willow Valley Water Co., Inc. ("Willow Valley"), which occurred in 2015 and 2016, respectively, a collective revenue requirement increase of $3.6 million based on 2011 test year service connections, phased-in over time, with the first increase in January 2015 as follows (in thousands, not updated for the TCJA, refer to Note 1 — "Basis of Presentation, Corporate Transactions, Significant Accounting Policies, and Recent Accounting Pronouncements — Corporate Transactions— ACC Tax Docket" for further details):

	Incremental	Cumulative
2015	$ 1,083	$ 1,083
2016	887	1,970
2017	335	2,305
2018	335	2,640
2019	335	2,975
2020	335	3,310
2021	335	3,645

  Whereas this phase-in of additional revenues was determined using a 2011 test year, to the extent that the number of active service connections increases from 2011 levels, the additional revenues may be greater than the amounts set forth above. On the other hand, if active connections decrease or we experience declining usage per customer, we may not realize all of the anticipated revenues.

- Full reversal of the imputation of CIAC balances associated with funds previously received under infrastructure coordination and financing agreements ("ICFAs"), as required in the Company's last rate case. The reversal restored rate base or future rate base and had a significant impact of restoring shareholder equity on the balance sheet.
- The Company has agreed to not enter into any new ICFAs. Existing ICFAs will remain in place, but a portion of future payments to be received under the ICFAs will be considered as hook-up fees, which are accounted for as CIAC once expended on plant.
- A 9.5% return on common equity was adopted.

On September 20, 2018, the ACC issued Rate Decision No. 76901, which set forth the reductions in revenue for our Santa Cruz, Palo Verde, Greater Tonopah, and Northern Scottsdale utilities due to the TCJA. Rate Decision No. 76901 adopted a phase-in approach for the reductions to match the phase-in of our revenue requirements under Rate Decision No. 74364. Refer to Note 1 — "Basis of Presentation, Corporate Transactions, Significant Accounting Policies, and Recent Accounting Pronouncements — Corporate Transactions — ACC Tax Docket" for details regarding Rate Decision No. 76901.

On August 28, 2020, 12 of our 17 regulated utilities each filed a rate case application with the ACC for water, wastewater, and recycled water rates, as well as the consolidation of water and/or wastewater rates for certain of the utilities. Refer to Note 1 — "Basis of Presentation, Corporate Transactions, Significant Accounting Policies, and Recent Accounting Pronouncements — Corporate Transactions— ACC Rate Case" for additional information.

The following provides additional discussion on accounting and policy changes resulting from Rate Decision No. 74364.

Infrastructure Coordination and Financing Agreements – ICFAs are agreements with developers and homebuilders whereby GWRI, the indirect parent of the operating utilities, provides services to plan, coordinate, and finance the water and wastewater infrastructure that would otherwise be required to be performed or subcontracted by the developer or homebuilder.

Under the ICFAs, GWRI has a contractual obligation to ensure physical capacity exists through its regulated utilities for water and wastewater to the landowner/developer when needed. This obligation persists regardless of connection growth. Fees for these services are typically a negotiated amount per equivalent dwelling unit for the specified development or portion of land. Payments are generally due in installments, with a portion due upon signing of the agreement, a portion due upon completion of certain milestones, and the final payment due upon final plat approval or sale of the subdivision. The payments are non-refundable. The agreements are generally recorded against the land and must be assumed in the event of a sale or transfer of the land. The regional planning and coordination of the infrastructure in the various service areas has been an important part of GWRI's business model.

In February 2014, the ACC issued Rate Decision No. 74364, and concluded ICFA funds already received would no longer be deemed CIAC for rate making purposes. ICFA funds already received or which had become due prior to the date of Rate Decision No. 74364 were recognized as revenue once the obligations specified in the ICFA were met. Rate Decision No. 74364 prescribes that of the ICFA funds which come due and are paid subsequent to December 31, 2013, 70% of the ICFA funds will be recorded in the associated utility subsidiary as a hook-up fee ("HUF") liability, with the remaining 30% to be recorded as deferred revenue, which the Company accounts for in accordance with the Company's ICFA revenue recognition policy. A HUF tariff, specifying the dollar value of a HUF for each utility, was approved by the ACC as part of Rate Decision No. 74364. The Company is responsible for assuring the full HUF value is paid from ICFA proceeds, and recorded in its full amount, even if it results in recording less than 30% of the ICFA fee as deferred revenue.

The Company will account for the portion allocated to the HUF as a CIAC contribution. However, in accordance with the ACC directives the CIAC is not deducted from rate base until the HUF funds are expended for utility plant. Such funds will be segregated in a separate bank account and used for plant. A HUF liability will be established and will be amortized as a reduction of depreciation expense over the useful life of the related plant once the HUF funds are utilized for the construction of plant. For facilities required under a HUF or ICFA, the utilities must first use the HUF moneys received, after which, it may use debt or equity financing for the remainder of construction. The Company will record 30% of the funds received, up until the HUF liability is fully funded, as deferred revenue, which is to be recognized as revenue once the obligations specified within the ICFA are met, including construction of sufficient operating capacity to serve the customers for which revenue was deferred.

As of September 30, 2021 and December 31, 2020, ICFA deferred revenue recorded on the consolidated balance sheet totaled \$18.9 million and \$17.8 million, respectively, which represents deferred revenue recorded for ICFA funds received on contracts that had become due prior to Rate Decision No. 74364. Refer to Note 3 — "Revenue Recognition" of the notes to the unaudited condensed consolidated financial statements for additional discussion regarding ICFA revenue.

Intangible assets / Regulatory liability – Pursuant to Rate Decision No. 74364, approximately 70% of ICFA funds to be received in the future will be recorded as a HUF, until the HUF is fully funded at the Company's applicable utility subsidiary. The remaining approximate 30% of future ICFA funds will be recorded at the parent company level and will be subject to the Company's ICFA revenue recognition accounting policy. As the Company now expects to experience an economic benefit from the approximately 30% portion of future ICFA funds, 30% of the regulatory liability, or \$3.4 million, was reversed in 2014. The remaining 70% of the regulatory liability, or \$7.9 million, will continue to be recorded on the balance sheet.

The intangible assets amortize when the corresponding ICFA funds are received in proportion to the amount of total cash expected to be received under the underlying agreements. The recognition of amortization expense will be partially offset by a corresponding reduction of the regulatory liability.

As of September 30, 2021, regulatory liability recorded on the consolidated balance sheet totaled $7.6 million, of which $6.1 million relates to the offset of intangible assets related to ICFA contracts obtained in connection with our Santa Cruz, Palo Verde, and Sonoran acquisitions, and the remaining $1.5 million relates to the TCJA rate reduction mandated by the ACC pursuant to Rate Decision No. 76901.

3. REVENUE RECOGNITION

Regulated Revenue

The Company's operating revenues are primarily attributable to regulated services based upon tariff rates approved by the ACC. Regulated service revenues consist of amounts billed to customers based on approved fixed monthly fees and consumption fees, as well as unbilled revenues estimated from the last meter reading date to the end of the accounting period utilizing historical customer data recorded as accrued revenue. The measurement of sales to customers is generally based on the reading of their meters, which occurs on a systematic basis throughout the month. At the end of each month, the Company estimates consumption since the date of the last meter reading and a corresponding unbilled revenue is recognized. The unbilled revenue estimate is based upon the number of unbilled days that month and the average daily customer billing rate from the previous month (which fluctuates based upon customer usage). The Company applies the invoice practical expedient and recognizes revenue from contracts with customers in the amount for which the Company has a right to invoice. The Company has the right to invoice for the volume of consumption, service charge, and other authorized charges.

The Company satisfies its performance obligation to provide water, wastewater, and recycled services over time as the services are rendered. Regulated services may be terminated by the customers at will, and, as a result, no separate financing component is recognized for the Company's collections from customers, which generally require payment within 15 days of billing. The Company applies judgment, based principally on historical payment experience, in estimating its customers' ability to pay.

The Company has elected to apply the sales tax practical expedient, whereby qualifying excise and other taxes collected from customers and remitted to governmental authorities are not included in reported revenues.

Unregulated Revenue

Unregulated revenues represent those revenues that are not subject to the ratemaking process of the ACC. Unregulated revenues are limited to rental revenue and imputed revenues resulting from a portion of ICFA funds received. ICFAs are agreements with developers and homebuilders where the Company provides services to plan, coordinate, and finance the water and wastewater infrastructure that would otherwise be required to be performed or subcontracted by the developer or homebuilder. In return, the developers and homebuilders pay the Company an agreed-upon amount per dwelling unit for the specified development or portion of land. In addition, under ICFA agreements, the Company has a contractual obligation to ensure physical capacity exists through its regulated utilities for water and wastewater to the developer when needed. This obligation persists regardless of connection growth.

The Company believes that these services are not distinct in the context of the contract because they are highly interdependent with the Company’s ability to provide fitted capacity for water and wastewater services. The Company concluded that the goods and services provided under ICFA contracts constitute a single performance obligation.

ICFA revenue is recognized at a point in time when the Company has the necessary capacity in place within its infrastructure to provide water/wastewater services to the developer. The Company exercises judgment when estimating the number of equivalent dwelling units that the Company has capacity to serve.

Disaggregated Revenues

For the three months ended September 30, 2021 and 2020, disaggregated revenues from contracts with customers by major source and customer class are as follows (in thousands):

	Three Months Ended September 30,	
	2021	2020
REGULATED REVENUE		
Water Services		
Residential	$ 3,599	$ 3,623
Irrigation	836	1,297
Commercial	239	224
Construction	178	169
Other water revenues	215	179
Total water revenues	5,067	5,492
Wastewater and recycled water services		
Residential	4,997	4,516
Commercial	257	244
Recycled water revenues	289	419
Other wastewater revenues	102	59
Total wastewater and recycled water revenues	5,645	5,238
TOTAL REGULATED REVENUE	10,712	10,730
UNREGULATED REVENUE		
ICFA revenues	692	—
Rental revenues	—	26
Other Miscellaneous revenues	—	1
TOTAL UNREGULATED REVENUE	692	27
TOTAL REVENUE	$ 11,404	$ 10,757

Contract Balances

Our contract assets and liabilities consist of the following (in thousands):

	September 30, 2021	December 31, 2020
CONTRACT ASSETS		
Accounts receivable		
Water services	$ 1,126	$ 1,203
Wastewater and recycled water services	937	1,149
Total contract assets(1)	$ 2,063	$ 2,352
CONTRACT LIABILITIES		
Deferred revenue - ICFA	$ 18,943	$ 17,843
Refund liability - regulated(2)	754	733
Deferred revenue - other	—	4
Total contract liabilities	$ 19,697	$ 18,580

(1) The decrease in accounts receivable was primarily due to the reimplementation of disconnection notices and disconnections during the nine months ended September 30, 2021, which had previously been temporarily suspended due to the COVID-19 pandemic.

(2) The increase in refund liability is due to the phase-in approach approved in Rate Decision No. 76901. Refer to Note 1—"Basis of Presentation, Corporate Transactions, Significant Accounting Policies, and Recent Accounting Pronouncements — Corporate Transactions — ACC Tax Docket" of the notes to the unaudited condensed consolidated financial statements for further details.

Remaining Performance Obligations

Revenue allocated to remaining performance obligations represents contracted revenue that has not yet been recognized, which includes deferred revenue and amounts that will be invoiced and recognized as revenue in future periods. Contracted revenue expected to be recognized in future periods was approximately $18.9 million and $17.8 million at September 30, 2021 and December 31, 2020, respectively. Deferred revenue - ICFA is recognized as revenue once the obligations specified within the applicable ICFA are met, including construction of sufficient operating capacity to serve the customers for which revenue was deferred. Due to the uncertainty of future events, the Company is unable to estimate when to expect recognition of deferred revenue - ICFA. Deferred revenue - other is recognized as revenue once the obligations specified with the rental contract are met. The Company expects to recognize the full amount in the next three months.

4. LEASES

On January 1, 2021, the Company adopted ASC 842 using the modified retrospective method. The Company elected the practical expedient package when scoping and identifying leases. As such, the Company has not reassessed: 1) whether any expired or existing contracts are or contain leases; 2) the lease classification for any expired or existing leases; and 3) the initial direct costs for any existing leases. The Company notes that this practical expedient applies to all expired or existing contracts as of the effective date of the Company's adoption. The Company elected this practical expedient package for all lessee and lessor arrangements. In addition, the Company’s leases do not provide an implicit borrowing rate (“IBR”), and as such, we applied judgment when estimating our IBR. We assessed and reviewed factors related to our credit risk, recent debt issuances, and publicly available data for instruments with similar characteristics. The Company elected to use the portfolio approach and applied a single discount rate of approximately 5% to the portfolio. This election was based on the fact that all leases are of similar terms and our credit rating and interest rate environment are stable.

ASC 842 requires the Company to record a right-of-use asset (“ROU”) and a corresponding lease obligation for all operating leases with a term greater than twelve months. The current portion of the ROU asset is included in the “Prepaid expenses and other current assets” line item on the Company’s consolidated balance sheet. The remaining noncurrent balance of the ROU asset is included in the line item “Other noncurrent assets” on the Company’s consolidated balance sheet. In addition, the corresponding lease liabilities current and noncurrent portion are included on the Company’s consolidated balance sheet line items “Other current liabilities” and “Other noncurrent liabilities,” respectively.

The adoption of ASC 842 resulted in the initial recognition of ROU assets of $189,000 and related lease liabilities of $210,000. As of September 30, 2021, ROU assets and liabilities totaled $81,000 and $102,000, respectively, of which relate to office rent.

5. PROPERTY, PLANT AND EQUIPMENT

Property, plant, and equipment at September 30, 2021 and December 31, 2020 consist of the following (in thousands):

	September 30, 2021	December 31, 2020	Average Depreciation Life (in years)
Mains/lines/sewers	$ 163,820	$ 145,910	49
Plant	79,869	96,654	31
Equipment	45,397	37,347	14
Meters	14,475	14,548	13
Furniture, fixture and leasehold improvements	765	1,650	27
Computer and office equipment	975	1,108	6
Software	241	241	3
Land and land rights	1,260	1,159	
Other	752	699	
Construction work-in-process	50,423	40,877	
Total property, plant and equipment	357,977	340,193	
Less accumulated depreciation	(108,235)	(101,302)	
Net property, plant and equipment	$ 249,742	$ 238,891	

6. ACCOUNTS RECEIVABLE

Accounts receivable as of September 30, 2021 and December 31, 2020 consist of the following (in thousands):

	September 30, 2021	December 31, 2020
Billed receivables	$ 2,063	$ 2,352
Less allowance for doubtful accounts	(135)	(205)
Accounts receivable – net	$ 1,928	$ 2,147

7. GOODWILL AND INTANGIBLE ASSETS

Goodwill

As of September 30, 2021, the goodwill balance of $4.6 million related to the Turner, Red Rock, Mirabell, Francesca, Tortolita, and Lyn Lee acquisitions. There were no indicators of impairment identified as a result of the Company's review of events and circumstances related to its goodwill subsequent to the acquisitions. Based on our annual impairment testing performed on November 1st, no impairment was recorded.

Intangible Assets

As of September 30, 2021 and December 31, 2020, intangible assets consisted of the following (in thousands):

	September 30, 2021			December 31, 2020		
	Gross Amount	Accumulated Amortization	Net Amount	Gross Amount	Accumulated Amortization	Net Amount
INDEFINITE LIVED INTANGIBLE ASSETS:						
CP Water Certificate of Convenience & Necessity service area	$ 1,532		$ 1,532	$ 1,532		$ 1,532
Intangible trademark	13		13	13		13
Franchise contract rights	130		130	129		129
Organizational costs	68		68	67		67
	1,743		1,743	1,741		1,741
DEFINITE LIVED INTANGIBLE ASSETS:						
Acquired ICFAs	17,978	(14,363)	3,615	17,978	(13,718)	4,260
Sonoran contract rights	7,406	(2,222)	5,184	7,406	(2,222)	5,184
	25,384	(16,585)	8,799	25,384	(15,940)	9,444
Total intangible assets	$ 27,127	$ (16,585)	$ 10,542	$ 27,125	$ (15,940)	$ 11,185

A Certificate of Convenience & Necessity ("CC&N") is a permit issued by the ACC allowing a public service corporation to serve a specified area, and preventing other public service corporations from offering the same services within the specified area. The CP Water CC&N intangible asset was acquired through the acquisition of CP Water Company in 2006. CC&N permits are expected to be renewable indefinitely.

Franchise contract rights and organizational costs relate to our 2018 acquisition of Red Rock. Franchise contract rights are agreements with Pima and Pinal counties that allow the Company to place infrastructure in public right-of-way and permits expected to be renewable indefinitely. The organizational costs represent fees paid to federal or state governments for the privilege of incorporation and expenditures incident to organizing the corporation and preparing it to conduct business.

Acquired ICFAs and contract rights related to our 2005 acquisition of Sonoran Utility Services, LLC assets are amortized when cash is received in proportion to the amount of total cash expected to be received under the underlying agreements. Due to the uncertainty of the timing of when cash will be received under ICFA agreements and contract rights, we cannot reliably estimate when the remaining intangible assets' amortization will be recorded. Amortization in the amounts of $0.1 million and $0.6 million were recorded for these balances for the three and nine months ended September 30, 2021, respectively. For the three and nine months ended September 30, 2020, amortization in the amount of $0.6 million and $0.8 million were recorded, respectively.

8. TRANSACTIONS WITH RELATED PARTIES

The Company provides medical benefits to our employees through our participation in a pooled plan sponsored by an affiliate of a shareholder and director of the Company. Medical claims paid to the plan were approximately $0.2 million for both the three months ended September 30, 2021 and 2020. Medical claims paid to the plan were approximately $0.5 million for both the nine months ended September 30, 2021 and 2020.

9. ACCRUED EXPENSES

Accrued expenses at September 30, 2021 and December 31, 2020 consist of the following (in thousands):

	September 30, 2021	December 31, 2020
Deferred compensation	$ 1,362	$ 1,399
Property taxes	1,936	1,191
Income taxes	23	1,582
Interest	1,798	472
Dividend payable	548	550
Asset retirement obligation	697	697
Accrued Bonus	695	569
Other accrued liabilities	2,850	1,801
Total accrued expenses	$ 9,909	$ 8,261

10. FAIR VALUE

Fair Value of Financial Instruments

FASB ASC 820 establishes a fair value hierarchy that distinguishes between assumptions based on market data (observable inputs) and the Company's assumptions (unobservable inputs). The hierarchy consists of three levels, as follows:

- Level 1 - Quoted market prices in active markets for identical assets or liabilities
- Level 2 - Inputs other than Level 1 that are either directly or indirectly observable
- Level 3 - Unobservable inputs developed using the Company's estimates and assumptions, which reflect those that the Company believes market participants would use.

Financial assets and liabilities measured at fair value on a recurring basis as of September 30, 2021 and December 31, 2020 were as follows (in thousands):

	September 30, 2021				December 31, 2020			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Asset/Liability Type:								
HUF Funds - restricted cash(1)	$ —	$ 53	$ —	$ 53	$ —	$ 2,482	$ —	$ 2,482
Demand Deposit(2)	2,135	—	—	2,135	2,135	—	—	2,135
Certificate of Deposit - Restricted(1)	—	790	—	790	—	790	—	790
Long-term debt(3)	—	129,961	—	129,961	—	127,724	—	127,724
Acquisition Liability(4)	—	—	838	838	—	—	838	838
Total	$ 2,135	$130,804	$ 838	$133,777	$ 2,135	$130,996	$ 838	$133,969

(1) HUF Funds - restricted cash and Certificate of Deposit - Restricted are presented on the Restricted cash line item of the Company's consolidated balance sheets and are valued at amortized cost, which approximates fair value.

(2) Demand Deposit is presented on the Cash and cash equivalents line item of the Company's consolidated balance sheets and is valued at amortized cost, which approximates fair value.

(3) The fair value of our debt was estimated based on interest rates considered available for instruments of similar terms and remaining maturities.

(4) As part of the Red Rock acquisition, the Company is required to pay to the seller a growth premium equal to $750 (not in thousands) for each new account established within three specified growth premium areas, commencing in each area on the date of the first meter installation and ending on the earlier of ten years after such first installation date, or twenty years from the acquisition date. The fair value of the acquisition liability was calculated using a discounted cash flow technique which utilized unobservable inputs developed using the Company's estimates and assumptions. Significant inputs used in the fair value calculation are as follows: year of the first meter installation, total new accounts per year, years to complete full build out, and discount rate.

11. DEBT

The outstanding balances and maturity dates for short-term (including the current portion of long-term debt) and long-term debt as of September 30, 2021 and December 31, 2020 are as follows (in thousands):

	September 30, 2021		December 31, 2020	
	Short-term	Long-term	Short-term	Long-term
BONDS AND NOTES PAYABLE -				
4.38% Series A 2016, maturing June 2028	$ —	$ 28,750	$ —	$ 28,750
4.58% Series B 2016, maturing June 2036	3,833	82,417	1,917	84,333
4.65% Harquahala Loan, maturing January 2021(1)	—	—	3	—
	3,833	111,167	1,920	113,083
OTHER				
Capital lease obligations	152	231	115	136
Debt issuance costs	—	(527)	—	(560)
Total debt	$ 3,985	$ 110,871	$ 2,035	$ 112,659

(1) Represents a loan that was payable to Harquahala Valley Community Benefits Foundation, which was assumed in connection with the Company's acquisition of Eagletail Water Company in May 2017. The loan was paid off in January 2021.

2016 Senior Secured Notes

On June 24, 2016, the Company issued two series of senior secured notes with an aggregate total principal balance of $115.0 million at a blended interest rate of 4.55%. Series A carries a principal balance of $28.8 million and bears an interest rate of 4.38% over a twelve-year term, with the principal payment due on June 15, 2028. Series B carries a principal balance of $86.3 million and bears an interest rate of 4.58% over a 20-year term. Series B is interest only for the first five years, with $1.9 million principal payments paid semiannually thereafter beginning December 2021. The proceeds of the senior secured notes were primarily used to refinance the previously outstanding long-term tax exempt bonds, which were subject to an early redemption option at 103%, plus accrued interest, as a result of our initial public offering in the United States. As part of the refinancing of the long-term debt, the Company paid a prepayment penalty of $3.2 million and wrote off the remaining $2.2 million in capitalized loan fees related to the tax exempt bonds, which were recorded as additional interest expense in the second quarter of 2016. The senior secured notes are collateralized by a security interest in the Company's equity interest in its subsidiaries, including all payments representing profits and qualifying distributions. Debt issuance costs as of September 30, 2021 and December 31, 2020 were $0.5 million and $0.6 million, respectively.

The senior secured notes require the Company to maintain a debt service coverage ratio of consolidated EBITDA to consolidated debt service of at least 1.10 to 1.00. Consolidated EBITDA is calculated as net income plus depreciation and amortization, taxes, interest and other non-cash charges net of non-cash income. Consolidated debt service is calculated as interest expense, principal payments, and dividend or stock repurchases. The senior secured notes also contain a provision limiting the payment of dividends if the Company falls below a debt service ratio of 1.25. However, for the quarter ended June 30, 2021 through the quarter ending March 31, 2024, the ratio drops to 1.20. The debt service ratio increases to 1.25 for any fiscal quarter during the period from and after June 30, 2024. As of September 30, 2021, the Company was in compliance with its financial debt covenants.

Revolving Credit Line

On April 30, 2020, the Company entered into an agreement with The Northern Trust Company, an Illinois banking corporation (the "Northern Trust Loan Agreement"), for a two-year revolving line of credit up to $10.0 million with a maturity date of April 30, 2022. This credit facility, which may be used to refinance existing indebtedness, to acquire assets to use in and/or expand the Company's business, and for general corporate purposes, bears an interest rate equal to LIBOR plus 2.00% and has no unused line fee. This credit facility replaced the previous revolving line of credit with MidFirst Bank, which was terminated in April 2020. On April 30, 2021, the Company and The Northern Trust Company entered into an amendment to the Northern Trust Loan Agreement pursuant to which, among other things, the maturity date for the Company's revolving credit line was extended from April 30, 2022 to April 30, 2024. As of September 30, 2021, the Company had no outstanding borrowings under this credit line. There were $19,000 and $46,000 unamortized debt issuance costs as of September 30, 2021 and December 31, 2020, respectively.

The Northern Trust Loan Agreement requires the Company to maintain a debt service coverage ratio of consolidated EBITDA to consolidated debt service of at least 1.10 to 1.00. The Northern Trust Loan Agreement also contains a provision limiting the payment of dividends if the Company falls below a debt service ratio of 1.25. However, for the quarter ending June 30, 2021 through the quarter ending March 31, 2024, the ratio drops to 1.20. As of September 30, 2021, the Company was in compliance with its financial debt covenants.

At September 30, 2021, the remaining aggregate annual maturities of debt and minimum lease payments under capital lease obligations for the years ended December 31 are as follows (in thousands):

	Debt	Capital Lease Obligations
Remaining three months of 2021	$ 1,917	$ 43
2022	3,833	142
2023	3,833	104
2024	3,833	61
2025	3,833	33
Thereafter	97,751	—
Subtotal	115,000	383
Less: amount representing interest	—	(25)
Total	$ 115,000	$ 358

12. INCOME TAXES

During the three months ended September 30, 2021, the Company recorded tax expense of $0.3 million on pre-tax income of $1.8 million compared to a tax expense of $0.5 million on pre-tax income of $1.6 million for the three months ended September 30, 2020. During the nine months ended September 30, 2021, the Company recorded a tax expense of $0.9 million on pre-tax income of $4.2 million, compared to a tax expense of $0.7 million on pre-tax income of $2.1 million. The income tax provision was computed based on the Company's estimated effective tax rate and forecasted income expected for the full year, including the impact of any unusual, infrequent, or non-recurring items. The Company's effective tax rate decreased during the three and nine months ended September 30, 2021 due to the exercise and vesting of stock-based compensation in 2021, resulting in windfall tax benefits.

13. DEFERRED COMPENSATION AWARDS

Stock-based compensation

Stock-based compensation related to option awards is measured based on the fair value of the award. The fair value of stock option awards is determined using a Black-Scholes option-pricing model. We recognize compensation expense associated with the options over the vesting period.

2017 stock option grant

Stock-based compensation expense of $29,000 and $67,000 was recorded for the three months ended September 30, 2021 and 2020, respectively, and $160,000 and $200,000 was recorded for the nine months ended September 30, 2021 and 2020, respectively. As of September 30, 2021, 30,980 options have been exercised and 113,699 options have been forfeited with 320,321 outstanding.

2019 stock option grant

Stock-based compensation expense of $23,000 and $49,000 was recorded for the three months ended September 30, 2021 and 2020, respectively, and $118,000 and $146,000 was recorded for the nine months ended September 30, 2021 and 2020, respectively. As of September 30, 2021, 10,619 options have been exercised and 21,971 options have been forfeited with 217,410 options outstanding.

Phantom stock/Restricted stock units compensation

The following table details total awards granted and the number of units outstanding as of September 30, 2021 along with the amounts paid to holders of the phantom stock units ("PSUs") and/or restricted stock units ("RSUs") for the three and nine months ended September 30, 2021 and 2020 (in thousands, except unit amounts):

			Amounts Paid For the Three Months Ended September 30,		Amounts Paid For the Nine Months Ended September 30,	
Grant Date	**Units Granted**	**Units Outstanding**	**2021**	**2020**	**2021**	**2020**
Q1 2017	22,712	—	—	—	—	24
Q1 2018	30,907	—	—	26	39	85
Q1 2019	32,190	5,365	45	27	130	89
Q1 2020	22,481	11,241	31	19	91	38
Q1 2021[1]	27,403	22,836	38	—	76	—
Total	135,693	39,442	$ 114	$ 72	$ 336	$ 236

(1) Pursuant to the Global Water Resources, Inc. 2020 Omnibus Incentive Plan, effective May 7, 2020, long-term incentive awards are no longer granted in the form of PSUs and are granted as RSUs instead.

Stock appreciation rights compensation

The following table details the recipients of the stock appreciation rights (“SARs”) awards, the grant date, units granted, exercise price, outstanding units as of September 30, 2021 and amounts paid during the three and nine months ended September 30, 2021 and 2020 (in thousands, except unit and per unit amounts):

					Amounts Paid For the Three Months Ended September 30,		Amounts Paid For the Nine Months Ended September 30,	
Recipients	**Grant Date**	**Units Granted**	**Exercise Price**	**Units Outstanding**	**2021**	**2020**	**2021**	**2020**
Members of Management [(1)(2)]	Q1 2015	299,000	$ 4.26	70,500	—	—	269	—
Key Executives [(3)(4)]	Q2 2015	300,000	$ 5.13	—	—	—	—	300
Members of Management [(1)(5)]	Q3 2017	103,000	$ 9.40	17,000	321	—	321	—
Members of Management [(1)(6)]	Q1 2018	33,000	$ 8.99	8,250	189	—	189	—
Total		735,000		95,750	$ 510	$ —	$ 779	$ 300

(1) The SARs vest ratably over 16 quarters from the grant date.
(2) The exercise price was determined to be the fair market value of one share of GWRC stock on the grant date of February 11, 2015.
(3) The SARs vest over 16 quarters, vesting 20% per year for the first three years, with the remainder, 40%, vesting in year four.
(4) The exercise price was determined to be the fair market value of one share of GWRC stock on the grant date of May 8, 2015.
(5) The exercise price was determined to be the fair market value of one share of GWRI stock on the grant date of August 10, 2017.
(6) The exercise price was determined to be the fair market value of one share of GWRI stock on the grant date of March 12, 2018.

For the three months ended September 30, 2021 and 2020, the Company recorded approximately $0.4 million and $0.2 million of compensation expense related to the PSUs/RSUs and SARs, respectively. For the nine months ended September 30, 2021 and 2020, the Company recorded approximately $1.1 million of compensation expense and $0.3 million of negative compensation expense related to the PSUs/RSUs and SARs, respectively. Based on GWRI's closing share price on September 30, 2021 (the last trading date of the quarter), deferred compensation expense to be recognized over future periods is estimated for the years ending December 31 as follows (in thousands):

	PSUs	SARs
Remaining three months of 2021	$ 126	$ 6
2022	353	12
2023	201	12
2024	42	12
Total	$ 722	$ 42

Restricted stock compensation

On May 7, 2020, the Company's stockholders approved the Global Water Resources, Inc. 2020 Omnibus Incentive Plan which allows restricted stock awards as a form of compensation. A restricted stock award ("RSA") represents the right to receive a share of the Company's common stock. RSAs vest over two to three years, beginning on the date of the grant. The Company assumes that forfeitures will be minimal and recognizes forfeitures as they occur, which results in a reduction in compensation expense. During the three and nine months ended September 30, 2021, 164,950 RSAs were issued. For the three and nine months ended September 30, 2021, the Company recorded approximately $0.3 million and $0.8 million of compensation expense related to the RSAs, respectively. For the three and nine months ended September 30, 2020, the Company recorded approximately $0.2 million and $0.8 million of compensation expense related to the grant and partial vesting of RSAs. The following table summarizes the RSA transactions as of the three months ended September 30, 2021:

	Number of RSAs	Weighted Average Fair Value
Nonvested stock units at beginning of period	238,813	$ 14.91
Forfeited	20,850	—
Nonvested RSAs at end of period	217,963	$ 14.75

14. SUPPLEMENTAL CASH FLOW INFORMATION

The following is supplemental cash flow information for the nine months ended September 30, 2021 and 2020 (in thousands):

	For the Nine Months Ended September 30, 2021	2020
Supplemental cash flow information:		
Cash paid for interest	$ 2,616	$ 2,616
Non-cash financing and investing activities:		
Capital expenditures included in accounts payable and accrued liabilities	$ 750	$ 294

15. COMMITMENTS AND CONTINGENCIES

Commitments

In January 2019, the Company's corporate office lease agreement was amended to extend the term of the lease, with a commencement date of March 1, 2019 and termination date of May 31, 2022. As such, the Company's monthly rent expense increased to approximately $15,000. Rent expense arising from the operating leases totaled approximately $51,000 and $44,000 for the three months ended September 30, 2021 and 2020, respectively, and $144,000 and $133,000 for the nine months ended September 30, 2021 and 2020, respectively.

Contingencies

From time to time, in the ordinary course of business, the Company may be subject to pending or threatened lawsuits in which claims for monetary damages are asserted. Management is not aware of any legal proceeding of which the ultimate resolution could materially affect our financial position, results of operations, or cash flows.

16. SUBSEQUENT EVENTS

Acquisition of Las Quintas Serenas Water Company

On November 3, 2021, the Company completed the acquisition of Las Quintas Serenas Water Company ("Las Quintas"), an operator of a water utility with service area in the Pima county of Arizona. The acquisition added over 1,100 connections and approximately 2.5 square miles of service area.