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 March 31, 2024

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 May 8, 2024, the registrant had 24,176,113 shares of common stock, $0.01 par value per share, outstanding.

TABLE OF CONTENTS

ITEM 1. FINANCIAL STATEMENTS

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

	March 31, 2024	December 31, 2023
ASSETS		
PROPERTY, PLANT AND EQUIPMENT:		
Land	$ 2,674	$ 2,674
Depreciable property, plant and equipment	416,780	414,170
Construction work-in-progress	51,750	48,147
Other	697	697
Less accumulated depreciation	(145,306)	(142,367)
Net property, plant and equipment	326,595	323,321
CURRENT ASSETS:		
Cash and cash equivalents	20,655	3,087
Accounts receivable, net	2,497	2,845
Customer payments in-transit	516	543
Unbilled revenue	2,835	2,755
Taxes, prepaid expenses and other current assets	2,062	2,494
Total current assets	28,565	11,724
OTHER ASSETS:		
Goodwill	10,820	10,820
Intangible assets, net	8,842	8,841
Regulatory assets	2,888	2,898
Restricted cash	2,217	1,676
Right-of-use assets	1,657	1,741
Other noncurrent assets	79	74
Total other assets	26,503	26,050
TOTAL ASSETS	$ 381,663	$ 361,095
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 609	$ 1,027
Accrued expenses	8,927	7,129
Customer and meter deposits	1,619	1,628
Long-term debt, current portion	3,881	3,880
Leases, current portion	566	553
Total current liabilities	15,602	14,217
NONCURRENT LIABILITIES:		
Line of credit	—	2,315
Long-term debt	120,978	101,341
Long-term lease liabilities	1,278	1,370
Deferred revenue - ICFA	19,768	19,656
Regulatory liabilities	6,075	6,076
Advances in aid of construction	112,723	111,529
Contributions in aid of construction, net	36,547	36,409
Deferred income tax liabilities, net	8,516	8,284
Acquisition liabilities	3,027	3,048
Other noncurrent liabilities	9,459	8,230
Total noncurrent liabilities	318,371	298,258
Total liabilities	333,973	312,475
Commitments and contingencies (Refer to Note 16)		
SHAREHOLDERS' EQUITY:		
Common stock, $0.01 par value, 60,000,000 shares authorized; 24,498,195 and 24,492,918 shares issued as of March 31, 2024 and December 31, 2023, respectively.	240	240
Treasury stock, 322,082 and 317,677 shares at March 31, 2024 and December 31, 2023, respectively.	(2)	(2)
Paid in capital	46,655	47,585
Retained earnings	797	797
Total shareholders' equity	47,690	48,620
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 381,663	$ 361,095

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 March 31,	
	2024	2023
REVENUES:		
Water services	$ 5,226	$ 4,839
Wastewater and recycled water services	6,384	6,021
Unregulated revenues	—	2,268
Total revenues	11,610	13,128
OPERATING EXPENSES:		
Operations and maintenance	3,284	2,789
General and administrative	4,125	3,907
Depreciation and amortization	2,934	2,655
Total operating expenses	10,343	9,351
OPERATING INCOME	1,267	3,777
OTHER INCOME (EXPENSE):		
Interest income	238	5
Interest expense	(1,566)	(1,168)
Allowance for equity funds used during construction	207	299
Other, net	795	418
Total other expense	(326)	(446)
INCOME BEFORE INCOME TAXES	941	3,331
INCOME TAX EXPENSE	(250)	(865)
NET INCOME	$ 691	$ 2,466
Basic earnings per common share	$ 0.03	$ 0.10
Diluted earnings per common share	$ 0.03	$ 0.10
Dividends declared per common share	$ 0.08	$ 0.07
Weighted average number of common shares used in the determination of:		
Basic	24,175,699	23,871,046
Diluted	24,295,067	24,026,617

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, 2022	24,095,139	$ 239	(224,093)	$ (2)	$ 44,157	$ —	$ 44,394
Dividend declared $0.07 per share	—	—	—	—	—	(1,778)	(1,778)
Stock compensation	—	—	—	—	299	—	299
Net income	—	—	—	—	—	2,466	2,466
BALANCE - March 31, 2023	24,095,139	239	(224,093)	(2)	44,456	688	45,381
BALANCE - December 31, 2023	24,492,918	240	(317,677)	(2)	47,585	797	48,620
Dividend declared $0.08 per share	—	—	—	—	(1,128)	(691)	(1,819)
Stock option exercise	5,277	—	(4,405)	—	198	—	198
Net income	—	—	—	—	—	691	691
BALANCE - March 31, 2024	24,498,195	240	(322,082)	(2)	46,655	797	47,690

See accompanying notes to the condensed consolidated financial statements

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

	Three Months Ended March 31,	
	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 691	$ 2,466
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred compensation	275	286
Depreciation and amortization	2,934	2,655
Right of use amortization	90	113
Amortization of deferred debt issuance costs and discounts	20	11
Loss (Gain) on disposal of fixed assets	2	(11)
Provision for credit losses	14	19
Deferred income tax expense	252	738
Changes in assets and liabilities		
Accounts receivable	335	(393)
Other current assets	379	1,181
Accounts payable and other current liabilities	1,380	1,225
Other noncurrent assets	(17)	82
Other noncurrent liabilities	1,713	(1,888)
Net cash provided by operating activities	8,068	6,484
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(5,761)	(6,540)
Cash paid for acquisitions, net of cash acquired	—	(6,246)
Other	(4)	—
Net cash used in investing activities	(5,765)	(12,786)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividends paid	(1,819)	(1,779)
Advances in aid of construction	372	202
Principal payments under finance leases	(51)	(132)
Line of credit borrowings	—	8,500
Line of credit repayments	(2,315)	(5,000)
Loan borrowings	20,000	—
Loan repayments	(11)	—
Debt issuance costs paid	(370)	—
Net cash provided by financing activities	15,806	1,791
INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	18,109	(4,511)
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH — Beginning of period	4,763	7,562
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH — End of period	$ 22,872	$ 3,051

See accompanying notes to the condensed consolidated financial statements

Supplemental disclosure of cash flow information:

	Three Months Ended March 31,	
	2024	2023
Cash and cash equivalents	$ 20,655	$ 1,907
Restricted cash	2,217	1,144
Total cash, cash equivalents, and restricted cash	$ 22,872	$ 3,051

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 March 31, 2024 and for the three months ended March 31, 2024 and 2023 are unaudited. The December 31, 2023 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, 2023. In the Company's 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 months ended March 31, 2024 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.

Corporate Transactions

Other Deferred Liability

The Company received $6.7 million in contributions to facilitate the construction of infrastructure in certain areas, which is included in other noncurrent liabilities. As the infrastructure is constructed and placed into service, the corresponding amount will be transferred from the liability into advances in aid of construction during the refund period.

Private Placement Offering of 6.91% Senior Secured Notes

On October 26, 2023, the Company entered into a note purchase agreement for the issuance of an aggregate principal amount of $20 million of 6.91% Senior Secured Notes due on January 3, 2034. Pursuant to the terms of the note purchase agreement, the Company issued the notes on January 3, 2024.

Private Placement Offering of Common Stock

On June 8, 2023, the Company entered into a securities purchase agreement for the issuance and sale by the Company of an aggregate of 230,000 shares of the Company's common stock at a purchase price of $12.07 per share in an offering exempt from registration pursuant to Section 4(a)(2) of the Securities Act of 1933, as amended (the "Securities Act"), and Rule 506 promulgated thereunder. The Company received gross proceeds of approximately $2.8 million from the offering. One of the Company's directors purchased an aggregate of 30,000 shares of common stock in the offering at the purchase price.

Farmers Water Co. Acquisition

On February 1, 2023, the Company acquired all of the equity of Farmers Water Co., an operator of a water utility with service area in Pima County, Arizona. The acquisition added approximately 3,300 active water service connections and approximately 21.5 square miles of service area in Sahuarita, Arizona and the surrounding unincorporated area of Pima County at the time of the acquisition.

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 $0.4 million for the three months ended March 31, 2024 and 2023, respectively, and has received an aggregate of $11.5 million in growth premiums to date. The growth premiums are included in "Other, net" on the Condensed Consolidated Statements of Operations.

Significant Accounting Policies

Basic and Diluted Earnings per Common Share

Basic earnings per share ("EPS") in each period of this report were calculated by dividing net income by the weighted-average number of shares during those periods. Diluted EPS includes additional weighted-average common stock equivalents (options and restricted stock awards), if dilutive. Unless otherwise noted, the term "earnings per share" refers to basic EPS. A reconciliation of the denominator used in basic and diluted EPS calculations is shown in the following table:

	Three Months Ended March 31,	
	2024	**2023**
(In thousands)		
Basic weighted average common shares outstanding	24,176	23,871
Effect of dilutive securities:		
2017 Option grant	66	97
2019 Option grant	14	27
2020 Restricted stock awards	—	11
2021 Restricted stock awards	39	21
Total dilutive securities	119	156
Diluted weighted average common shares outstanding	24,295	24,027
Anti-dilutive shares excluded from earnings per diluted shares[1]	—	—

(1) Shares excluded from the dilutive-effect calculation because the outstanding awards' exercise prices were greater than the average market price of the Company's common stock.

Segments

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker ("CODM") in deciding how to allocate resources and in assessing operating performance. In consideration of ASC 280—*Segment Reporting* the Company notes it is not organized around specific products and services, geographic regions, or regulatory environments. The Company currently operates in one geographic region within the State of Arizona, wherein each operating utility operates within the same regulatory environment.

While the Company reports its revenue, disaggregated by service type, on the face of the Condensed Consolidated Statements of Operations, the Company does not manage the business based on any performance measure at the individual revenue stream level. The Company does not have any customers that contribute more than 10% to the Company's revenues or revenue streams. Additionally, the Company notes that the CODM uses consolidated financial information to evaluate the Company's performance, which is the same basis on which he communicates the Company's results and performance to the Board of Directors. It is upon this consolidated basis from which he bases all significant decisions regarding the allocation of the Company's resources on a consolidated level. Based on the information described above and in accordance with the applicable literature, management has concluded that the Company is currently organized and operated as one operating and reportable segment.

Recent Accounting Pronouncements

Future Adoption of Accounting Standards

In December 2023, the FASB issued ASU 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures to expand the disclosure requirements for income taxes, specifically related to the rate reconciliation and income taxes paid. ASU 2023-09 is effective for annual periods beginning after December 15, 2024, with early adoption permitted. The

Company is assessing the timing and impact that adopting this new standard will have on its consolidated financial statements.

In November 2023, the FASB issued ASU 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures that expands disclosures of significant segment expenses and includes new disclosures for entities with a single reportable segment. ASU 2023-07 is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted. The Company is assessing the timing and impact that adopting this new standard will have on its consolidated financial statements.

2. REGULATORY DECISION AND RELATED ACCOUNTING AND POLICY CHANGES

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

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 the Company has customarily done.

During the fourth quarter of 2023, the Company notified the ACC of its intention to file a rate case for Global Water-Farmers Water Company, Inc. ("GW-Farmers") during 2024. The GW-Farmers rate case is anticipated to be based on a test year ended December 31, 2023 with updates for changes in post-test year plant. The Company has begun stakeholder outreach for the rate case.

During the fourth quarter of 2023, the Company notified the ACC of its intention to file a rate case for Global Water-Santa Cruz Water Company, Inc. ("GW-Santa Cruz") and Global Water-Palo Verde Utilities Company, Inc. ("GW-Palo Verde") in 2025. The GW-Santa Cruz and GW-Palo Verde rate case is anticipated to be based on a test year ending December 31, 2024 with updates for changes in post-test year plant. The Company has begun stakeholder outreach for the rate case.

On July 3, 2023, the Company's GW-Palo Verde and GW-Santa Cruz utilities filed an application with the ACC for approval of an accounting order to defer and record as a regulatory asset the depreciation expense recorded for the Company's Southwest Plant, plus the carrying cost at the authorized rate of return set in GW-Palo Verde's and GW-Santa Cruz's most recent rate order, until the plant is considered for recovery in the next GW-Palo Verde and GW-Santa Cruz rate case. The Southwest Plant was substantially constructed prior to 2009 to provide water, wastewater, and recycled water utility services for the area southwest of the City of Maricopa. Due to the unprecedented collapse of the housing market during the Great Recession, the nearly completed plant remained idle for well over a decade. The total cost of the Southwest Plant was approximately $38.4 million. In July 2023, $27.5 million of construction costs related to the water production plant and a portion of the wastewater processing plant was placed in service, with the remaining parts of the Southwest Plant to be placed in service once sufficient flows, provided by connection growth, are established. There can be no assurance, however, that the ACC will approve the application as submitted and the ACC could take other actions regarding the application.

In January 2024, the Company discovered that approximately $7.8 million of construction costs for the Southwest Plant had been prematurely included as "plant in service" for rate making purposes in 2007 and were reflected in the calculation of customer rates in Rate Decision No. 71878 (September 15, 2010). Those costs were also included as "plant in service" in Rate Decision No. 74364 (February 26, 2014) and Rate Decision No. 78644 (July 27, 2022). The Company disclosed this circumstance to the ACC on March 1, 2024 and on April 25, 2024, GW-Palo Verde filed an application with the ACC requesting a monthly bill credit for customers that would be in place until the conclusion of the next GW-Palo Verde rate case. If approved as filed, the impact of the bill credit would reduce revenue earned subsequent to the order by approximately $570,000 annually. There can be no assurance, however, that the ACC will approve the application as submitted and the ACC could take other actions regarding the application. In addition, further action may be taken by the ACC during the next GW-Palo Verde rate case.

On June 27, 2023, seven of the Company's regulated utilities each filed a rate case application with the ACC for increased water rates based on a 2022 test year. In addition to a rate increase, the Company requested, among other things, the consolidation of water rates for certain of its utilities, including Global Water-Mirabell Water Company, Inc. ("GW-Mirabell"), Global Water-Lyn Lee Water Company, Inc. ("GW-Lyn Lee"), Global Water-Francesca Water Company, Inc. ("GW-Francesca"), Global Water-Tortolita Water Company, Inc. ("GW-Tortolita"), Global Water-Rincon Water Company, Inc. ("GW-Rincon"), Global Water-Las Quintas Serenas Water Company, Inc. ("GW-Las Quintas Serenas"), and Global Water-Red Rock Water Company, Inc. ("GW-Red Rock"), each located in Pima County. Of the Company's utilities, these utilities filing rate applications make up approximately 3% of the Company's active service connections. On February 29, 2024, the Company entered into a settlement agreement with the ACC Utilities Division Staff regarding the rate case application, which was presented to an Administrative Law Judge on April 15, 2024. The Administrative Law Judge issued a Recommended Opinion and Order ("ROO") on May 6, 2024, which is scheduled to be heard by the Commission at the June 11, 2024 open meeting. The ROO recommends approval of the settlement agreement, which includes, among other things, a recommended collective annual revenue increase of approximately $351,000, acquisition premiums for six of the Company's utilities, a capital structure matching the Company's previous rate of 55% equity with a 9.6% return on equity, consolidation of the seven utilities, and a depreciation expense accounting deferral for GW-Rincon. There can be no assurance that the ACC will approve the settlement agreement 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.

On July 27, 2022, the ACC issued Rate Decision No. 78644 relating to the Company's previous rate case. Pursuant to Rate Decision No. 78644, the ACC approved, among other things, a collective annual revenue requirement increase of approximately $2.2 million (including the acquisition premiums discussed below) based on 2019 test year service connections, and phased-in over approximately two years, as follows:

	Incremental	Cumulative
August 1, 2022	$ 1,457,462	$ 1,457,462
January 1, 2023	$ 675,814	$ 2,133,277
January 1, 2024	$ 98,585	$ 2,231,861

To the extent that the number of active service connections has increased and continues to increase from 2019 levels, the additional revenues may be greater than the amounts set forth above. On the other hand, if active connections decrease or the Company experiences declining usage per customer, the Company may not realize all of the anticipated revenues.

Rate Decision No. 78644 also addressed the primary impacts of the Federal Tax Cuts and Jobs Act (the "TCJA") on the Company, which includes the reduction of the federal income tax rate from 35 percent to 21 percent beginning on January 1, 2018. The TCJA required the Company to re-measure all existing deferred income tax assets and liabilities to reflect the reduction in the federal 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. Rate Decision No. 78644 approved an adjustor mechanism for income taxes (as described below) that permits the Company to flow through potential changes to state and federal income tax rates as well as refund or collect funds related to TCJA.

The ACC also approved:

(i) the consolidation of water and/or wastewater rates to create economies of scale that are beneficial to all customers when rates are consolidated;

(ii) acquisition premiums relating to the Company's acquisitions of its GW-Red Rock and Global Water - Turner Ranches Irrigation, Inc. ("GW-Turner Ranches") utilities, which increase the rate base for such utilities and result in an increase in the annual collective revenue requirement included in the table above;

(iii) the Company's ability to annually adjust rates to flow through certain changes in tax expense, primarily related to income taxes, without the necessity of a rate case proceeding; and

(iv) a sustainable water surcharge, which will allow semiannual surcharges to be added to customer bills based on verified costs of new water resources.

Finally, Rate Decision No. 78644 required the Company to work with ACC staff and the Residential Utility Consumer Office to prepare a Private Letter Ruling request to the Internal Revenue Service ("IRS") to clarify whether the failure to eliminate the deferred taxes attributable to assets condemned in a transaction governed by Section 1033 of the Internal Revenue Code ("IRC") would violate the normalization provisions of Section 168(i)(9) of the IRC. The IRS accepted the request and issued its Private Letter Ruling, dated September 22, 2023. The Private Letter Ruling determined that the deferred taxes attributable to assets condemned in a transaction governed by Section 1033 of the IRC must be eliminated and failure to do so would violate the normalization provisions of Section 168(i)(9) of the IRC. As required by Rate Decision No. 78644, the Private Letter Ruling was provided to the ACC and no further action will be taken by the ACC.

Certain accounting implications related to Rate Decision No. 78644 were recognized and recorded as of June 30, 2022, and are as follows:

- Reclassification of GW-Red Rock Water, GW-Red Rock Wastewater, and GW-Turner Ranches acquisition premiums of approximately $0.8 million in the aggregate from goodwill to regulatory assets to be included in rate base. The premiums are to be amortized over 25 years.
- Reversal of the 2017 TCJA tax reform regulatory liability of approximately $0.8 million, which was recorded as a reduction to income tax expense for approximately $0.7 million, and as a reduction to interest expense for approximately $0.1 million.
- Write-off of approximately $0.3 million in capitalized rate case costs.

Regulatory Assets and Liabilities

Regulatory assets and liabilities are the result of operating in a regulated environment in which the ACC establishes rates that are designed to permit the recovery of the cost of service and a return on investment. The Company capitalizes and records regulatory assets for costs that would otherwise be charged to expense if it is probable that the incurred costs will be recovered in future rates. Regulatory assets are amortized over the future periods that the costs are expected to be recovered. Final determination of whether a regulatory asset can be recovered is decided by the ACC in regulatory proceedings. If the Company determines that a portion of the regulatory assets is not recoverable in customer rates, the Company would be required to recognize the loss of the assets disallowed.

If costs expected to be incurred in the future are currently being recovered through rates, the Company records those expected future costs as regulatory liabilities.

The Company's regulatory assets and liabilities consist of the following (in thousands):

	Recovery Period	March 31, 2024	December 31, 2023
Regulatory Assets			
Income taxes recoverable through future rates (1)	Various	$ 1,384	$ 1,404
Rate case expense surcharge(2)	2 years	158	221
Acquisition premiums(3)	25 years	1,261	1,269
Other regulatory assets		85	4
Total regulatory assets		$ 2,888	$ 2,898
Regulatory Liabilities			
Income taxes payable through future rates(1)		$ 483	$ 488
Acquired ICFAs(4)		4,896	4,896
Depreciation adjustment(5)		696	692
Total regulatory liabilities		$ 6,075	$ 6,076

(1) The TCJA required the Company to re-measure all existing deferred income tax assets and liabilities to reflect the reduction in the federal 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.

(2) Rate Decision No. 78743, issued on October 24, 2022, approved approximately $0.5 million in rate case expenses to be recovered through a rate case expense surcharge over a two-year period.

(3) Rate Decision No. 78319, issued on December 3, 2021, approved an acquisition premium to be amortized over 25 years related to the acquisition of the Company's GW-Rincon utility. Amortization will begin once the Company receives a decision on its rate case filed in June 2023 that would approve the acquisition premium to be included in customer rates. The acquisition premium balance as of March 31, 2024 was approximately $0.5 million.

Rate Decision No. 78644, issued on July 27, 2022, approved acquisition premiums related to the acquisitions of the Company's GW-Turner Ranches and GW-Red Rock utilities. Amortization began in 2022 as the acquisition premiums were included in customer rates as approved in the decision. The acquisition premium balance as of March 31, 2024 was approximately $0.7 million.

(4) The acquired Infrastructure Coordination and Financing Agreements ("ICFA") regulatory liability relates to the offset of intangible assets related to ICFA contracts obtained in connection with the GW-Santa Cruz, GW-Palo Verde, and Sonoran Utility Services, LLC ("Sonoran") acquisitions. When funds are received related to the acquired ICFA, a portion of these funds reduce the acquired ICFA regulatory liability and partially offset the amortization expense recognition of the related intangible asset.

(5) Rate Decision No. 78644, issued on July 27, 2022, approved an adjustment to update previously approved depreciation rates. The adjustment was incorporated into rates in accordance with the rate decision.

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 water 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.

Total revenues do not include sales tax as the Company considers itself a pass-through conduit for collecting and remitting sales taxes.

Unregulated Revenue

Unregulated revenues represent those revenues that are not subject to the ratemaking process of the ACC. Unregulated revenues are primarily related to the revenues recognized on a portion of ICFA funds received.

ICFAs are agreements with developers and homebuilders where the Company, which owns 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. Services provided within these agreements include coordination of construction services for water and wastewater treatment facilities as well as financing, arranging, and coordinating the provision of utility services. In return, the developers and homebuilders pay the Company an agreed-upon amount per dwelling unit for the land legally described in the agreement, or a portion thereof. Under ICFA agreements, the Company has a contractual obligation to ensure physical capacity exists through its regulated utilities for the provision of water and wastewater utility service to the land when needed. This obligation persists regardless of connection growth.

Fees for these services are typically a negotiated amount per equivalent dwelling unit for the land legally described in the agreement, or a portion thereof. 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 with the appropriate recorder's office 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 the Company's business model.

Payments for ICFAs are usually received in advance. Rate Decision No. 74364 requires a hook-up fee ("HUF") tariff to be established for all ICFAs that come due and are paid subsequent to December 31, 2013, which is a set amount per equivalent dwelling unit determined by the ACC based on the utility and meter size. Also pursuant to Rate Decision No. 74364, as payments are received, 70% of the payment must be recorded as a HUF liability until the HUF liability is fully funded, with the remaining amount initially recorded to deferred revenue until earned. The Company is responsible for assuring that the full HUF tariff, which is the set amount determined by the rate decision, is funded in the HUF liability, even if it results in recording less than 30% of the overall ICFA funds as deferred revenue. ICFA revenue is recognized when the Company completes the performance obligations under the agreement. Following its issuance in February 2014, Rate Decision No. 74364 prohibits the Company from entering into any new ICFAs.

The Company accounts for the portion of ICFA funds allocated to the HUF liability as a contribution in aid of construction ("CIAC"). 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 are restricted and segregated in a separate bank account and used for 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.

As these arrangements are with developers and not with the end water or wastewater customer, revenue recognition coincides with the completion of the Company's performance obligations under the agreement with the developer and its regulated utilities' ability to provide fitted capacity for water and wastewater service. The Company exercises judgment when estimating the number of equivalent dwelling units that its regulated utilities have capacity to serve. The Company believes that services provided within these agreements are not distinct in the context of the contract because they are highly interdependent with its regulated utilities' 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.

	December 31, 2023 Balance	Payments Allocated to Deferred Revenue	Revenue Recognized	March 31, 2024 Balance
Deferred Revenue - ICFA	$ 19,656	$ 112	$ —	$ 19,768

Disaggregated Revenues

For the three months ended March 31, 2024 and 2023, disaggregated revenues from contracts with customers by major source and customer class are as follows (in thousands):

	Three Months Ended March 31,	
	2024	2023
REGULATED REVENUE		
Water Services		
Residential	$ 4,162	$ 3,891
Irrigation	367	364
Commercial	385	285
Construction	153	127
Other water revenues	159	172
Total water revenues	5,226	4,839
Wastewater and recycled water services		
Residential	5,834	5,533
Commercial	344	281
Recycled water revenues	121	120
Other wastewater revenues	85	87
Total wastewater and recycled water revenues	6,384	6,021
TOTAL REGULATED REVENUE	11,610	10,860
UNREGULATED REVENUE		
ICFA revenues	—	2,268
TOTAL UNREGULATED REVENUE	—	2,268
TOTAL REVENUE	$ 11,610	$ 13,128

Contract Balances

The Company's contract assets and liabilities consist of the following (in thousands):

	March 31, 2024		December 31, 2023	
CONTRACT ASSETS				
Accounts receivable				
Water services	$	1,328	$	1,588
Wastewater and recycled water services		1,290		1,379
Total contract assets	$	2,618	$	2,967
CONTRACT LIABILITIES				
Deferred revenue - ICFA	$	19,768	$	19,656
Total contract liabilities	$	19,768	$	19,656

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 $19.8 million and $19.7 million at March 31, 2024 and December 31, 2023, 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.

4. LEASES

The Company measures the lease liability at the present value of future lease payments, excluding variable payments based on usage or performance, and calculates the present value using implicit rates. Leases with an initial term of twelve months or less are not recorded on the balance sheet.

During August 2023, the Company entered into a new ten-year and nine-month office lease agreement with a commencement date of June 1, 2024. The rent expense will be $5,200 for each full calendar month after a period of abated rent, with a 3% rent escalation commencing in March 2026 and annually thereafter. Tenant improvement payments are incorporated into the lease at an additional month payment of $1,840 with escalations following the same schedule as the base rent.

Rent expense arising from operating leases totaled approximately $99,000 and $93,000 for the three months ended March 31, 2024 and 2023, respectively.

The right-of-use (“ROU”) asset recorded represents the Company’s right to use an underlying asset for the lease term and ROU lease liability represents the Company’s obligation to make lease payments arising from the lease. Lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term.

ROU assets at March 31, 2024 and December 31, 2023 consist of the following (in thousands):

	March 31, 2024		December 31, 2023	
Financing Lease	$	560	$	561
Operating Lease		1,097		1,180
Total	$	1,657	$	1,741

Lease liabilities at March 31, 2024 and December 31, 2023 consist of the following (in thousands):

	March 31, 2024		December 31, 2023	
Financing Lease	$	606	$	623
Operating Lease		1,238		1,300
Total	$	1,844	$	1,923

At March 31, 2024, the remaining aggregate annual minimum lease payments are as follows (in thousands):

	Finance Lease Obligations	Operating Lease Obligations
2024 (remaining period)	$ 190	$ 221
2025	224	430
2026	179	499
2027	73	166
2028	8	—
Thereafter	—	—
Subtotal	674	1,316
Less: amount representing interest	68	78
Total	$ 606	$ 1,238

5. PROPERTY, PLANT AND EQUIPMENT

Depreciable property, plant and equipment at March 31, 2024 and December 31, 2023 consist of the following (in thousands):

	March 31, 2024	December 31, 2023
Equipment	$ 61,252	$ 60,536
Office buildings and other structures	64,107	64,084
Transmission and distribution plant	291,421	289,550
Total property, plant and equipment	$ 416,780	$ 414,170

Depreciation of property, plant and equipment is computed based on the estimated useful lives as follows:

	Useful Lives
Equipment	3 to 30 years
Office buildings and other structures	30 years
Transmission and distribution plant	10 to 50 years

6. ACCOUNTS RECEIVABLE

Accounts receivable as of March 31, 2024 and December 31, 2023 consist of the following (in thousands):

	March 31, 2024	December 31, 2023
Billed receivables	$ 2,618	$ 2,967
Less provision for credit losses	(121)	(122)
Accounts receivable, net	$ 2,497	$ 2,845

7. GOODWILL AND INTANGIBLE ASSETS

Goodwill

The goodwill balance was $10.8 million at March 31, 2024 and is related to the GW-Turner Ranches, GW-Red Rock, GW-Mirabell, GW-Francesca, GW-Tortolita, GW-Lyn Lee, GW-Las Quintas Serenas, GW-Rincon, Twin Hawks Utility, Inc., and GW-Farmers 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.

Intangible Assets

As of March 31, 2024 and December 31, 2023, intangible assets consisted of the following (in thousands):

	March 31, 2024			December 31, 2023		
	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	139		139	139		139
Organizational costs	164		164	163		163
Total indefinite lived intangible assets	1,848		1,848	1,847		1,847
DEFINITE LIVED INTANGIBLE ASSETS:						
Acquired ICFAs	17,978	(16,105)	1,873	17,978	(16,105)	1,873
Sonoran contract rights	7,406	(2,285)	5,121	7,406	(2,285)	5,121
Total definite lived intangible assets	25,384	(18,390)	6,994	25,384	(18,390)	6,994
Total intangible assets	$ 27,232	$ (18,390)	$ 8,842	$ 27,231	$ (18,390)	$ 8,841

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. This CC&N permit has no outstanding conditions that would require renewal.

Franchise contract rights and organizational costs relate to the 2018 acquisition of GW-Red Rock and the 2023 acquisition of GW-Farmers. Franchise contract rights are agreements with Pima and Pinal counties for GW-Red Rock and Pima county for GW-Farmers 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 Sonoran contract rights relate to acquired rights under certain ICFAs through the 2004 acquisition of GW-Santa Cruz and GW-Palo Verde and the 2005 acquisition of Sonoran assets, respectively, which 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, the Company cannot reliably estimate when the remaining intangible assets' amortization will be recorded. There was no amortization recorded for these balances during the three months ended March 31, 2024 and 2023.

8. TRANSACTIONS WITH RELATED PARTIES

The Company provides medical benefits to employees through its participation in a pooled plan sponsored by an affiliate of a significant shareholder and director of the Company. Medical claims paid to the plan were approximately $0.2 million for the three months ended March 31, 2024 and $0.1 million for the three months ended March 31, 2023.

Refer to Note 1 — "Basis of Presentation, Corporate Transactions, Significant Accounting Policies, and Recent Accounting Pronouncements — Corporate Transactions" (specifically the "Private Placement Offering of Common Stock" section) for additional information regarding other related party disclosures.

9. ACCRUED EXPENSES

Accrued expenses at March 31, 2024 and December 31, 2023 consist of the following (in thousands):

	March 31, 2024	December 31, 2023
Interest	$ 2,018	$ 480
Property taxes	1,887	1,242
Customer prepayments	799	883
Accrued project liabilities	795	1,001
Dividend payable	606	606
Accrued professional fees	387	39
Accrued purchase orders	356	200
Accrued bonus	333	602
Other accrued liabilities	1,746	2,076
Total accrued expenses	$ 8,927	$ 7,129

10. FAIR VALUE

Fair Value of Financial Instruments

FASB ASC 820, *Fair Value Measurement*, 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 March 31, 2024 and December 31, 2023 were as follows (in thousands):

	March 31, 2024				December 31, 2023			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Asset/Liability Type:								
HUF Funds - restricted cash(1)	$ 1,360	$ —	$ —	$ 1,360	$ 822	$ —	$ —	$ 822
Demand Deposit(2)	1	—	—	1	1	—	—	1
Certificate of Deposit - Restricted(1)	857	—	—	857	—	854	—	854
Contingent Consideration(3)	—	—	2,092	2,092	—	—	2,113	2,113
Total	$ 2,218	$ —	$ 2,092	$ 4,310	$ 823	$ 854	$ 2,113	$ 3,790

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

(3) As part of the GW-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.

In addition, as part of the GW-Farmers acquisition, the Company is required to pay the seller a growth premium equal to $1,000 (not in thousands) for each new account established in the service area, up to a total aggregate growth premium of $3.5 million. The obligation period of the growth premium commences on the closing date of the acquisition and ends (i) ten years after the first new account for residential purposes is established on land that is, at the time of the closing date of the acquisition, undeveloped or unplatted and owned by the seller within the service area or (ii) ten years after the date of closing if a new account (as previously described) has not been established.

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 March 31, 2024 and December 31, 2023 are as follows (in thousands):

	March 31, 2024		December 31, 2023	
	Short-term	Long-term	Short-term	Long-term
NOTES PAYABLE -				
4.38% Senior Secured Notes, Series A, maturing June 2028	$ —	28,750	$ —	$ 28,750
4.58% Senior Secured Notes, Series B, maturing June 2036	3,833	72,833	3,833	72,833
6.91% Senior Secured Notes, maturing January 2034	—	20,000	—	—
	3,833	121,583	3,833	101,583
OTHER				
Debt issuance costs	—	(776)	—	(426)
Loan Payable	48	171	47	184
Total debt	$ 3,881	$ 120,978	$ 3,880	$ 101,341

Debt is measured at fair value on a recurring basis as of March 31, 2024 and December 31, 2023 as follows (in thousands):

	March 31, 2024				December 31, 2023			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Long-term debt(1)	—	121,722	—	121,722	—	100,746	—	100,746

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

Senior Secured Notes

On June 24, 2016, the Company issued two series of senior secured notes with a 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 (the "Series A Notes"). Series B carries a principal balance of $76.7 million and bears an interest rate of 4.58% over a 20-year term, with the principal payment due on June 15, 2036 (the "Series B Notes"). The Series B Notes were interest only for the first five years, with $1.9 million principal payments paid semiannually in June and December thereafter beginning December 2021.

The Series A Notes and the Series B 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 Series A Notes and the Series B 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 debt service ratio drops to 1.20. The debt service ratio increases to 1.25 for any fiscal quarter ending during the period from and after June 30, 2024. As of March 31, 2024, the Company was in compliance with its financial debt covenants relating to the Series A Notes and the Series B Notes.

Additionally, on October 26, 2023, the Company entered into a note purchase agreement for the issuance of an aggregate principal amount of $20 million of 6.91% Senior Secured Notes due on January 3, 2034 (the "6.91% Notes" and collectively with the Series A Notes and the Series B Notes, the "Senior Secured Notes"). Pursuant to the terms of the 6.91% Note purchase agreement, the Company issued the 6.91% Notes on January 3, 2024. The 6.91% Notes accrue interest at 6.91% per annum from the date of issuance, payable semi-annually on January 3 and July 3 of each year, beginning on July 3, 2024, with a balloon payment due on January 3, 2034.

The 6.91% 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 6.91% Notes also contain a provision limiting the payment of dividends if the Company falls below a debt service coverage ratio of 1.20 for any fiscal quarter ended on or before June 15, 2024 and 1.25 for any fiscal quarter ended during the period from and after June 16, 2024. As of March 31, 2024, the Company was in compliance with its financial debt covenants relating to 6.91% Notes.

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. The Senior Secured Notes also have certain restrictive covenants that limit, among other things, the Company’s ability to: create liens and other encumbrances; incur additional indebtedness; merge, liquidate or consolidate with another entity; dispose of or transfer assets; make distributions or other restricted payments; engage in certain affiliate transactions; and change the nature of the business.

Revolving Credit Line

On April 30, 2020, the Company entered into an agreement with The Northern Trust Company, an Illinois banking corporation (“Northern Trust”), which was initially 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, initially bore an interest rate equal to the London Interbank Offered Rate (LIBOR) plus 2.00% and had no unused line fee.

The Company and Northern Trust have subsequently amended the credit facility agreement on multiple occasions (as amended, the “Northern Trust Loan Agreement”) to, among other things, (i) extend the scheduled maturity date to July 1, 2025; (ii) increase the maximum principal amount available for borrowing to $15.0 million; (iii) replace the LIBOR interest rate provisions with provisions based on the Secured Overnight Financing Rate (SOFR); and (iv) add a quarterly facility fee equal to 0.35% of the average daily unused amount of the revolving line of credit.

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 ended June 30, 2021 through the quarter ending March 31, 2024, the debt service ratio drops to 1.20. Additionally, the Northern Trust Loan Agreement contains certain restrictive covenants that limit, among other things, the Company’s ability to: create liens and other encumbrances; incur additional indebtedness; merge, liquidate or consolidate with another entity; dispose of or transfer assets; make distributions or other restricted payments (including dividends); engage in certain affiliate transactions; and change the nature of the business. The foregoing covenants are subject to various qualifications and limitations as set forth in the Northern Trust Loan Agreement. Pursuant to the Northern Trust Loan Agreement, the revolving credit facility is subject to certain customary events of default after which the revolving credit facility could be declared due and payable if not cured within the grace period or, in certain circumstances, could be declared due and payable immediately. As of March 31, 2024, the Company was in compliance with its financial debt covenants under the Northern Trust Loan Agreement.

As of March 31, 2024, the Company had no outstanding borrowings under this credit line. As of December 31, 2023, the outstanding borrowings on this credit line were approximately $2.3 million. There were approximately $16,000 and $25,000 unamortized debt issuance costs as of March 31, 2024 and December 31, 2023, respectively.

At March 31, 2024, the remaining aggregate annual maturities of debt obligations are as follows (in thousands):

		Debt
2024 (remaining period)	$	3,869
2025		3,884
2026		3,887
2027		3,892
2028		32,604
2029		3,833
Thereafter		73,666
Subtotal		125,635
Less: amount representing unamortized discount and debt issuance costs		776
Total	$	124,859

12. INCOME TAXES

For the three months ended March 31, 2024, tax expense of $0.3 million was recorded on pre-tax income of $0.9 million, compared to tax expense of $0.9 million recorded on pre-tax income of $3.3 million for the three months ended March 31, 2023.

The income tax provision was computed 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 months ended March 31, 2024 primarily due to a decrease of approximately $2.4 million in pre-tax income for the three months ended March 31, 2024 as compared to the three months ended March 31, 2023.

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. The Company recognizes compensation expense associated with the options over the vesting period.

2017 stock option grant

In August 2017, GWRI's Board of Directors granted stock options to acquire 465,000 shares of GWRI's common stock to employees throughout the Company. The options were granted with an exercise price of $9.40, the market price of the Company's common shares on the NASDAQ Global Market at the close of business on August 10, 2017. The options vested over a four-year period, with 25% having vested in August 2018, 25% having vested in August 2019, 25% having vested in August 2020, and 25% having vested in August 2021. The options have a 10-year life. The Company expensed the $1.1 million fair value of the stock option grant ratably over the four-year vesting period. As of August 2021, these options were fully expensed. As of March 31, 2024, 84,671 options have been exercised and 115,708 options have been forfeited with 264,621 options outstanding.

2019 stock option grant

In August 2019, GWRI's Board of directors granted stock options to acquire 250,000 shares of GWRI's common stock to employees throughout the Company. The options were granted with an exercise price of $11.26, the market price of the Company's common shares on the NASDAQ Global Market at the close of business on August 13, 2019. The options vested over a four-year period, with 25% having vested in August 2020, 25% having vested in August 2021, 25% having vested in August 2022, and 25% having vested in August 2023. The options have a 10-year life. The Company expensed the $0.8 million fair value of the stock option grant ratably over the four-year vesting period. As of August 2023, these options were fully expensed. Stock-based compensation expense of $43,000 was recorded for the three months ended March 31, 2023. As of March 31, 2024, 13,257 options have been exercised and 105,757 options have been forfeited with 130,986 options outstanding.

Restricted stock units

Restricted stock units are granted in the first quarter based on the prior year's performance and vest over a three-year period. The units are credited quarterly using the closing price of the Company's common stock on the applicable record date for the respective quarter. The following table details total awards granted and the number of units outstanding as of March 31, 2024, along with the amounts paid to holders of the restricted stock units ("RSUs") for the three months ended March 31, 2024 and 2023 (in thousands, except unit amounts):

			Amounts Paid For the Three Months Ended March 31,	
Grant Date	Units Granted	Units Outstanding	2024	2023
Q1 2020	22,481	—	—	24
Q1 2021[(1)]	27,403	—	28	30
Q1 2022[(1)]	22,262	7,112	23	25
Q1 2023[(1)]	30,366	19,399	32	—
Q1 2024[(1)]	30,962	30,962	—	—
Total	133,474	57,473	$ 83	$ 79

(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

The following table details the recipients of the stock appreciation rights ("SARs") awards, the grant date, units granted, exercise price, outstanding units as of March 31, 2024 and amounts paid during the three months ended March 31, 2024 and 2023 (in thousands, except unit and per unit amounts):

					Amounts Paid For the Three Months Ended March 31,	
Recipients	Grant Date	Units Granted	Exercise Price	Units Outstanding	2024	2023
Members of Management [(1)(2)]	Q1 2015	299,000	$ 4.26	12,500	$ —	$ 165
Members of Management [(1)(3)]	Q1 2018	33,000	$ 8.99	8,250	—	—
Total		332,000		20,750	$ —	$ 165

(1) The SARs vested ratably over 16 quarters from the grant date.
(2) The exercise price was determined to be the fair market value of one share of GWR Global Water Resources Corp. stock on the grant date of February 11, 2015.
(3) 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 March 31, 2024, the Company recorded approximately $0.1 million of negative compensation expense related to the RSUs and SARs. No compensation expense was recorded for the three months ended March 31, 2023. These are liability awards, so when the stock price decreases, cumulative compensation expense is reduced, which can lead to negative compensation in a given period. Based on GWRI's closing share price on March 28, 2024 (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):

	RSUs
2024 (remaining period)	$ 259
2025	255
2026	131
Total	$ 645

Restricted stock awards

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.

The following table details the RSA units granted during the three months ended March 31, 2024 and 2023, as well as the compensation expense related to the grant and partial vesting of RSAs for the three months ended March 31, 2024 and 2023 (in thousands, except share amounts):

	For The Three Months Ended March 31,	
	2024	2023
Compensation expense	$ 198	$ 255
RSAs issued	0	0

14. SUPPLEMENTAL CASH FLOW INFORMATION

The following is supplemental cash flow information for the three months ended March 31, 2024 and 2023 (in thousands):

	For the Three Months Ended March 31,	
	2024	2023
Supplemental cash flow information:		
Cash paid for interest	$ 25	$ 23
Non-cash financing and investing activities:		
Capital expenditures included in accounts payable and accrued liabilities	$ 95	$ 185
Business acquisition through issuance of contingent consideration payable	$ —	1,330
Finance lease additions	$ 38	$ —

15. ACQUISITIONS

Acquisition of Farmers Water Company

On February 1, 2023, the Company acquired all of the equity of Farmers Water Co., an operator of a water utility with service area in Pima County, Arizona, for a total consideration of $7.6 million consisting of $6.2 million in cash plus a growth premium estimated at $1.4 million. The acquisition added approximately 3,300 active water service connections and approximately 21.5 square miles of service area in Sahuarita, Arizona and the surrounding unincorporated area of Pima County at the time of acquisition.

The acquisition was accounted for as a business combination under ASC 805, “Business Combinations” and the purchase price was allocated to the acquired utility assets and liabilities based on the acquisition-date fair values. Fair values are determined in accordance with ASC 820 “Fair Value Measurement,” which allows for the characteristics of the acquired assets and liabilities to be considered, particularly restrictions on the use of the asset and liabilities. Regulation is considered both a restriction on the use of the assets and liabilities, as it relates to inclusion in rate base, and a fundamental input to measuring the fair value in a business combination. Substantially all the Company’s operations are subject to the rate-setting authority of the ACC and are accounted for pursuant to accounting guidance for regulated operations. The rate-setting and cost recovery provisions currently in place for the Company’s regulated operations provide revenues derived from costs, including a return on investment of assets and liabilities included in rate base. As such, the fair value of the Company’s assets and liabilities subject to these rate-setting provisions approximates the pre-acquisition carrying values and does not reflect any net valuation adjustments.

Under the terms of the purchase agreement, the Company is obligated to pay the seller a growth premium equal to $1,000 for each new account established in the service area, up to a total aggregate growth premium of $3.5 million. The obligation period of the growth premium commences on the closing date of the acquisition and ends (i) ten years after the first new account for residential purposes is established on land that is, at the time of the closing date of the acquisition, undeveloped or unplatted and owned by the seller within the service area or (ii) ten years after the date of closing if a new account (as described above) has not been established. The assumptions and estimates used in determining the acquisition liability related to the growth premium are consistent with previous acquisitions. As of March 31, 2024, the remaining liability was $1.3 million.

The purchase price allocation of the net assets acquired in the transaction is as follows as of the acquisition date (in thousands):

Net assets acquired:		
Cash	$	28
Accounts receivable		72
Property, plant and equipment		10,386
Construction work-in-progress		126
Prepaids		8
Intangibles[1]		7
Other taxes		(35)
Other accrued liabilities		(55)
Developer deposits		(22)
AIAC		(1,481)
CIAC		(7,322)
Total net assets assumed		1,712
Goodwill		5,863
Total purchase price	$	7,575

[1] Intangibles consist of franchise contract rights and organization costs. Refer to Note 7 — "Goodwill & Intangible Assets" for additional information regarding the intangibles.

The goodwill reflects the value paid primarily for the long-term potential for connection growth as a result of the Company's increased scale and diversity, opportunities for synergies, and an improved risk profile.

16. COMMITMENTS AND CONTINGENCIES

Commitments

The Company has operating and finance leases for vehicles, office equipment, and office space. Refer to Note 4 – "Leases" for additional information.

On October 16, 2018, the Company completed the acquisition of GW-Red Rock, an operator of a water and a wastewater utility with service areas in the Pima and Pinal counties of Arizona. Under the terms of the purchase agreement, 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. As of March 31, 2024, no meters have been installed and no accounts have been established in any of the three growth premium areas.

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 the Company's financial position, results of operations, or cash flows.

17. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through May 8, 2024, which is the date the financial statements was available to be issued and also the filing date. There are no other subsequent events that require disclosure, except for the following:

Global Water - 2024 Acquisition A, Inc. ("GW-Acquisition"), a wholly owned subsidiary of the Company, entered into an asset purchase agreement with the City of Tucson effective April 25, 2024, pursuant to which GW-Acquisition will acquire seven public water systems from the City of Tucson serving approximately 2,200 water service connections in an all-cash transaction for a purchase price of $8.4 million. The public water systems are located in and around Pima County. The transaction remains subject to customary closing conditions and approval by the ACC. The estimated rate base of the seven water systems is approximately $7.8 million.

On April 30, 2024, the Company's GW-Rincon utility entered into a loan agreement with the Water Infrastructure Finance Authority of Arizona for a principal amount of $2.4 million to improve the utility's infrastructure, of which $0.7 million is forgivable. The loan is due on April 1, 2044 and bears an interest rate of 4.911%, with monthly payments beginning on November 1, 2024.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following management's discussion and analysis of Global Water Resources, Inc.'s (the "Company", "GWRI", "we", or "us") financial condition and results of operations ("MD&A") relate to the three months ended March 31, 2024 and should be read together with the consolidated financial statements and accompanying notes included in Part I, Item 1 of this report.

Cautionary Statement Regarding Forward-Looking Statements

Certain statements in this Quarterly Report on Form 10-Q are forward-looking in nature and may constitute "forward-looking information" within the meaning of applicable securities laws. Often, but not always, forward-looking statements can be identified by the words "believes", "anticipates", "plans", "expects", "intends", "projects", "estimates", "objective", "goal", "focus", "aim", "should", "could", "may", and similar expressions. These forward-looking statements include future estimates described in "Business Outlook", "Factors Affecting our Results of Operations", and "Liquidity and Capital Resources". These forward-looking statements include, but are not limited to, statements about our strategies; expectations about future business plans, prospective performance, growth, and opportunities; future financial performance; regulatory and Arizona Corporation Commission ("ACC") proceedings, decisions, and approvals, such as the anticipated benefits resulting from rate decisions, including any collective revenue increases due to new water and wastewater rates, our beliefs and expectations pertaining to ACC actions relating to our Southwest Plant, as well as the outcome and timing of our rate case and other applications with the ACC, including our applications for the approval of an accounting order and the approval of an annual bill credit, in each case, relating to the Southwest Plant; our plans relating to future filings of our rate cases with the ACC; acquisition plans and our ability to complete additional acquisitions, including the anticipated acquisition of seven public water systems from the City of Tucson and the expected increase in active water service connections resulting from such acquisition; population and growth projections; technologies, including expected benefits from implementing such technologies; revenues; metrics; operating expenses; trends relating to our industry, market, population and job growth, and housing permits; the adequacy of our water supply to service our current demand and growth for the foreseeable future; liquidity and capital resources; plans and expectations for capital expenditures; cash flows and uses of cash; dividends; depreciation and amortization; tax payments; our ability to repay indebtedness and invest in initiatives; the anticipated impact and resolutions of legal matters; the anticipated impact of new or proposed laws, including regulatory requirements, tax changes, and judicial decisions; and the anticipated impact of accounting changes and other pronouncements.

Forward-looking statements should not be read as a guarantee of future performance or results. They are based on numerous assumptions that we believe are reasonable, but they are open to a wide range of uncertainties and business risks. Consequently, actual results may vary materially from what is contained in a forward-looking statement. Investors are cautioned not to place undue reliance on forward-looking information. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements, including risks related to legal, regulatory, and legislative matters; risks related to our business and operations; risks related to market and financial matters; risk related to technology; risks related to the ownership of our common stock; and certain general risks, which could have a material adverse effect on our business, financial condition, results of operations and cash flows. These and other factors are discussed in the risk factors described in Part I, Item 1A "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2023 (the "2023 Form 10-K") as updated from time to time in our subsequent filings with the Securities and Exchange Commission (the "SEC"). Additional risks and uncertainties include, but are not limited to, whether all conditions precedent in the asset purchase agreement to acquire the seven public water systems from the City of Tucson will be satisfied, including the receipt of ACC approval, and other risks to consummation of the acquisition, including circumstances that could give rise to the termination of the asset purchase agreement and the risk that the transaction will not be consummated without undue delay, cost or expense, or at all. Any forward-looking statement speaks only as of the date of this report. Except as required by law, we undertake no obligation to publicly release the results of any revision to these forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

Overview

GWRI is a water resource management company that owns, operates, and manages thirty-two water, wastewater, and recycled water systems in strategically located communities, principally in metropolitan Phoenix and Tucson, Arizona. The Company seeks to deploy an integrated approach, referred to as "Total Water Management." Total Water Management is a comprehensive approach to water utility management that reduces demand on scarce non-renewable water sources and costly renewable water supplies, in a manner that ensures sustainability and greatly benefits communities both environmentally and economically. This approach employs a series of principles and practices that can be tailored to each community:

- Reuse of recycled water, either directly or to non-potable uses, through aquifer recharge, or possibly direct potable reuse in the future;
- Regional planning;

- Use of advanced technology and data;
- Employing respected subject matter experts and retaining thought and application leaders;
- Leading outreach and educational initiatives to ensure all stakeholders including customers, development partners, regulators, and utility staff are knowledgeable on the principles and practices of the Total Water Management approach; and
- Establishing partnerships with communities, developers, and industry stakeholders to gain support of the Total Water Management principles and practices.

Business Outlook

During the second half of 2023, we experienced an increase in the rate of connection growth, which has continued into the first three months of 2024. According to the most recent U.S. Census estimates, the Phoenix metropolitan statistical area ("MSA") is the 10th largest MSA in the U.S. and had an estimated population of 5.1 million, an increase of 4.6% over the 4.8 million people reported in the 2020 Census. Metropolitan Phoenix continues to grow due to its comparatively affordable housing, excellent weather, large and growing universities, a diverse employment base, and low taxes. The Employment and Population Statistics Department of the State of Arizona predicts that the Phoenix metropolitan area will have a population of 5.8 million people by 2030 and 6.5 million by 2040. Arizona's job growth increased by 2.2% during the first three months of 2024 as compared to the same period for the prior year, ranking the state in the top ten nationally as of March 31, 2024.

While we saw an overall weakness in the market for single-family housing during the first half of 2023, according to the W.P. Carey School of Business Greater Phoenix Blue Chip Real Estate Consensus Panel the outlook is improving. They anticipate permitting to increase in 2024 due to the improvement that started in the second half of 2023 combined with the expectations of modestly declining mortgage rates in 2024. Further, single family permits in the City of Maricopa increased 131% for the three months ended March 31, 2024 as compared to the same period in the prior year. Management believes that we are well-positioned to benefit from the growth expected in the Phoenix metropolitan area due to the availability of lots, existing infrastructure in place within our services areas, and increased activity related to multi-family developments.

Factors Affecting our Results of Operations

Our financial condition and results of operations are influenced by a variety of industry-wide factors, including but not limited to:

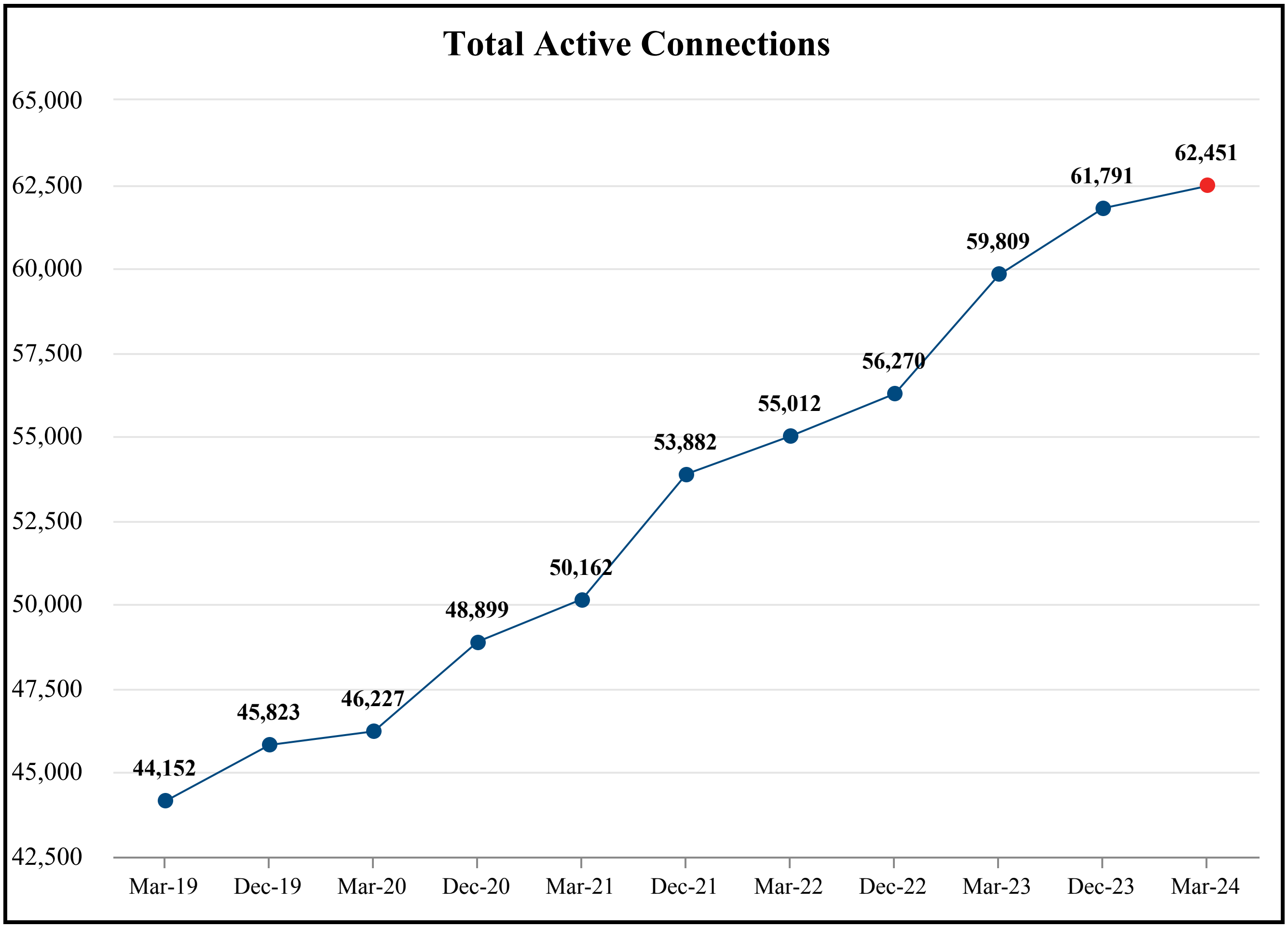
- population and community growth;
- economic and environmental utility regulation;
- economic environment;
- the need for infrastructure investment;
- production and treatment costs;
- weather and seasonality; and
- access to and quality of water supply.

We are subject to economic regulation by the state regulator, the ACC. The U.S. federal and state governments also regulate environmental, health and safety, and water quality matters. We continue to execute on our strategy to optimize and focus the Company in order to provide greater value to our customers and shareholders by aiming to deliver predictable financial results, making prudent capital investments, and focusing our efforts on earning an appropriate rate of return on our investments.

Population and Community Growth

Population and community growth in the metropolitan Phoenix area served by our utilities have a direct impact on our earnings. An increase or decrease in our active service connections will affect our revenues and variable expenses in a corresponding manner. As of March 31, 2024, active service connections increased 2,642, or 4.4%, to 62,451 compared to 59,809 active service connections as of March 31, 2023, primarily due to organic growth in our service areas. Approximately 89.4% of the 62,451 active service connections are serviced by our Global Water - Santa Cruz Water Company, Inc. ("GW-Santa Cruz") and Global Water - Palo Verde Utilities Company, Inc. ("GW-Palo Verde") utilities as of March 31, 2024.

The graph below presents the historical change in active connections for our ongoing operations over the past five years.



Economic and Environmental Utility Regulation

We are subject to extensive regulation of our rates by the ACC, which is charged with establishing rates based on the provision of reliable service at a reasonable cost while also providing an opportunity to earn a fair rate of return on rate base for investors of utilities. The ACC uses a historical test year to evaluate whether the plant in service is used and useful, to assess whether costs were prudently incurred, and to set "just and reasonable" rates. Rate base is typically the depreciated original cost of the plant in service (net of contributions in aid of construction ("CIAC") and advances in aid of construction ("AIAC") which are funds or property provided to a utility under the terms of a main extension agreement, the value of which may be refundable), that has been determined to have been "prudently invested" and "used and useful", although the reconstruction cost of the utility plant may also be considered in determining the rate base. The ACC also decides on an applicable capital structure based on actual or hypothetical analyses. The ACC determines a "rate of return" on that rate base, which includes the approved capital structure and the actual cost of debt and a fair and reasonable cost of equity based on the ACC's judgment. The overall revenue requirement for rate making purposes is established by multiplying the rate of return by the rate base and adding reasonably incurred operating expenses for the test year, depreciation, and any applicable pro forma adjustments.

To ensure an optimal combination of access to water and water conservation balanced with a fair rate of return for investors, our water utility operating revenue is based on two components: a fixed fee and a consumption or volumetric fee. For our water utilities, the fixed fee, or "basic service charge," provides access to water for residential usage and has generally been set at a level to produce approximately 50% of total water revenue. The volumetric fee is based on the total volume of water supplied to a given customer after the minimum number of gallons, if any, covered by the basic service charge, multiplied by a price per gallon set by a tariff approved by the ACC. A discount to the volumetric rate applies for customers that use less than an amount specified by the ACC. For all investor-owned water utilities, the ACC has, as a policy matter, required the establishment of inverted tier conservation-oriented rates, meaning that the price of water increases as consumption increases. For wastewater utilities, wastewater collection, and treatment can be based on volumetric or fixed fees. Our wastewater utility services are billed based solely on a fixed fee, determined by the size of the water meter installed. Recycled water is sold on a volumetric basis with no fixed fee component.

We are required to file rate cases with the ACC to obtain approval for a change in rates. Rate cases and other rate-related proceedings can take a year or more to complete. As a result, there is frequently a delay, or regulatory lag, between the time of a capital investment or incurrence of an operating expense increase and when those costs are reflected in rates. We believe it is common industry practice to file for a rate increase every three to five years. Refer to "—Rate Case and Regulatory Activity" below and Note 2 – "Regulatory Decision and Related Accounting and Policy Changes" of the Notes to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this report for additional information.

Additionally, our water and wastewater utility operations are subject to extensive regulation by U.S. federal, state, and local regulatory agencies that enforce environmental, health, and safety requirements, which affect all of our regulated subsidiaries. Environmental, health and safety, and water quality regulations are complex, change frequently, and have tended to become more stringent over time. Although it is difficult to project the ultimate costs of complying with pending or future requirements, we do not expect requirements under current regulations to have a material impact on our operations or financial condition, though it is possible new methods of treating drinking water may be required if additional regulations become effective in the future.

On April 10, 2024, the U.S. Environmental Protection Agency ("EPA") finalized the National Primary Drinking Water Regulation ("NPDWR") establishing legally enforceable levels, called maximum contaminant levels ("MCLs"), for six per- and polyfluoroalkyl substances or compounds (" PFAS") in drinking water. The EPA also finalized health-based, non-enforceable maximum contaminant level goals for these PFAS. The final rule requires: that public water systems, such as the Company, must monitor for these PFAS and have three years to complete initial monitoring, followed by ongoing compliance monitoring. Public water systems must also provide the public with information on the levels of these PFAS in their drinking water beginning in 2027. Public water systems have five years to implement solutions that reduce these PFAS if monitoring shows that drinking water levels exceed the MCLs applicable. Beginning in five years, public water systems that have PFAS in drinking water which violate one or more of these MCLs must take action to reduce levels of these PFAS in their drinking water and must provide notification to the public of the violation.

We are in process of complying with the first requirement of the rule mandating initial monitoring for all of our utilities. Initial monitoring completed through March 31, 2024 indicated PFAS levels in quantities that exceed the NPDWR for two of our smaller utilities in which treatment options are being evaluated, and monitoring at all of our utilities will occur in accordance with the rule requirements.

Capital expenditures and operating costs required as a result of water quality standards have been traditionally recognized by the ACC as appropriate for inclusion in establishing rates or in a separate surcharge.

Infrastructure Investment

Capital expenditures for infrastructure investment are a component of the rate base on which our regulated utility subsidiaries are allowed to earn an equity rate of return. Capital expenditures for infrastructure provide a basis for earnings growth by expanding our "used and useful" rate base, which is a component of our permitted return on investment and revenue requirement. We are generally able to recover a rate of return on these capital expenditures (return on equity and debt), together with debt service and certain operating costs, through the rates we charge.

We have an established capital improvement plan to make targeted capital investments to repair and replace existing infrastructure as needed, address operating redundancy requirements, improve our overall financial performance and expand our infrastructure in areas where growth is occurring.

Production and Treatment Costs

Our water and wastewater services require significant production resources and therefore result in significant production costs. Although we are permitted to recover these costs through the rates we charge, regulatory lag can decrease our margins and earnings if production costs or other operating expenses increase significantly before we are able to recover them through increased rates. Our most significant costs include labor, chemicals used to treat water and wastewater, and power used to operate pumps and other equipment. Power and chemical costs can be volatile. However, we employ a variety of technologies and methodologies to minimize costs and maximize operational efficiencies.

Weather and Seasonality

Our ability to meet the existing and future water demands of our customers depends on an adequate supply of water. Drought, overuse of sources of water, the protection of threatened species or habitats, or other factors may limit the availability of ground and surface water.

Also, customer usage of water and recycled water is affected by weather conditions, particularly during the summer. Our water systems generally experience higher demand in the summer due to the warmer temperatures and increased usage by customers for irrigation and other outdoor uses. However, summer weather that is cooler or wetter than average generally suppresses customer water demand and can have a downward effect on our operating revenue and operating income. Conversely, when weather conditions are extremely dry, our business may be affected by government-issued drought-related warnings and/or water usage restrictions that would artificially lower customer demand and reduce our operating revenue.

The limited geographic diversity of our service areas makes the results of our operations more sensitive to the effect of local weather extremes. The second and third quarters of the year are generally those in which water services revenue and wastewater services revenues are highest. For additional information and risks associated with weather and seasonality, see “Risk Factors,” included in Part I, Item 1A of the 2023 Form 10-K.

Access to and Quality of Water Supply

In many areas of Arizona (including certain areas that we service), water supplies are limited and, in some cases, current usage rates exceed sustainable levels for certain water resources. We currently rely predominantly (and are likely to continue to rely) on the pumping of groundwater and the generation and delivery of recycled water for non-potable uses to meet future demands in our service areas. At present, groundwater (and recycled water derived from groundwater) is the primary water supply available to us. In addition, regulatory restrictions on the use of groundwater and the development of groundwater wells, lack of available water rights, drought, overuse of local or regional sources of water, protection of threatened species or habitats, or other factors, including climate change, may limit the availability of ground or surface water. Additionally, in the majority of the Phoenix Active Management Area, the Arizona Department of Water Resources (“ADWR”) has paused the issuance of new certificates of assured water supply based on groundwater and paused modifications of any designations of assured water supply for the increase in groundwater. Approximately 1.76% of the Company’s water connections are located within the Phoenix Active Management Area. We believe that we have an adequate supply of water to service our current demand and growth for the foreseeable future in our service areas. For additional information and risks associated with the access to and quality of water supply, see “Risk Factors,” included in Part I, Item 1A of the 2023 Form 10-K.

Rate Case and Regulatory Activity

During the fourth quarter of 2023, the Company notified the ACC of its intention to file a rate case for Global Water-Farmers Water Company, Inc. (“GW-Farmers”) during 2024. Also during the fourth quarter of 2023, the Company notified the ACC of its intention to file a rate case for GW-Santa Cruz and GW-Palo Verde in 2025.

On July 3, 2023, the Company’s GW-Palo Verde and GW-Santa Cruz utilities filed an application with the ACC for approval of an accounting order to defer and record as a regulatory asset the depreciation expense recorded for the Company’s Southwest Plant, plus the carrying cost at the authorized rate of return set in GW-Palo Verde’s and GW-Santa Cruz’s most recent rate order, until the plant is considered for recovery in the next GW-Palo Verde and GW-Santa Cruz rate case. In January 2024, the Company discovered that approximately $7.8 million of construction costs for the Southwest Plant had been prematurely included as “plant in service” for rate making purposes in 2007 and were reflected in the calculation of customer rates in Rate Decision No. 71878 (September 15, 2010). Those costs were also included as “plant in service” in Rate Decision No. 74364 (February 26, 2014) and Rate Decision No. 78644 (July 27, 2022). The Company disclosed this circumstance to the ACC on March 1, 2024 and on April 25, 2024, GW-Palo Verde filed an application with the ACC requesting a monthly bill credit for customers that would be in place until the conclusion of the next GW-Palo Verde rate case. If approved as filed, the impact of the bill credit would reduce revenue earned subsequent to the order by approximately $570,000 annually. There can be no assurance, however, that the ACC will approve the application as submitted and the ACC could take other actions regarding the application. In addition, further action may be taken by the ACC during the next GW-Palo Verde rate case.

On June 27, 2023, seven of the Company’s regulated utilities each filed a rate case application with the ACC for increased water rates based on a 2022 test year. In addition to a rate increase, the Company requested, among other things, the consolidation of water rates for certain of its utilities, including Global Water-Mirabell Water Company, Inc. (“GW-Mirabell”), Global Water-Lyn Lee Water Company, Inc. (“GW-Lyn Lee”), Global Water-Francesca Water Company, Inc. (“GW-Francesca”), Global Water-Tortolita Water Company, Inc. (“GW-Tortolita”), Global Water-Rincon Water Company, Inc.

(“GW-Rincon”), Global Water-Las Quintas Serenas Water Company, Inc. (“GW-Las Quintas Serenas”), and Global Water-Red Rock Water Company, Inc. (“GW-Red Rock”), each located in Pima County. Refer to Note 2 – “Regulatory Decision and Related Accounting and Policy Changes” of the Notes to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this report for additional information.

On July 27, 2022, the ACC issued Rate Decision No. 78644 relating to the Company’s previous rate case involving 12 of the Company’s regulated utilities, which consisted of approximately 96% of the Company’s active service connections at the time of the rate case application filing. Pursuant to Rate Decision No. 78644, the ACC approved, among other things, a collective annual revenue requirement increase of approximately $2.2 million (including the acquisition premiums discussed below) based on 2019 test year service connections, and phased-in over approximately two years, as follows:

	Incremental	Cumulative
August 1, 2022	$ 1,457,462	$ 1,457,462
January 1, 2023	$ 675,814	$ 2,133,277
January 1, 2024	$ 98,585	$ 2,231,861

To the extent that the number of active service connections has increased and continues to increase from 2019 levels, the additional revenues may be greater than the amounts set forth above. On the other hand, if active connections decrease or the Company experiences declining usage per customer, the Company may not realize all of the anticipated revenues.

The ACC also approved: (i) the consolidation of water and/or wastewater rates to create economies of scale that are beneficial to all customers when rates are consolidated; (ii) acquisition premiums relating to the Company’s acquisitions of its GW-Red Rock and Global Water - Turner Ranches Irrigation, Inc. utilities, which increase the rate base for such utilities and result in an increase in the annual collective revenue requirement included in the table above; (iii) the Company’s ability to annually adjust rates to flow through certain changes in tax expense, primarily related to income taxes, without the necessity of a rate case proceeding; and (iv) a sustainable water surcharge, which will allow semiannual surcharges to be added to customer bills based on verified costs of new water resources.

Finally, Rate Decision No. 78644 required the Company to work with ACC staff and the Residential Utility Consumer Office to prepare a Private Letter Ruling request to the Internal Revenue Service (“IRS”) to clarify whether the failure to eliminate the deferred taxes attributable to assets condemned in a transaction governed by Section 1033 of the Internal Revenue Code (“IRC”) would violate the normalization provisions of Section 168(i)(9) of the IRC. The IRS accepted the request and issued its Private Letter Ruling, dated September 22, 2023. The Private Letter Ruling determined that the deferred taxes attributable to assets condemned in a transaction governed by Section 1033 of the IRC must be eliminated and failure to do so would violate the normalization provisions of Section 168(i)(9) of the IRC. As required by Rate Decision No. 78644, the Private Letter Ruling was provided to the ACC and no further action will be taken by the ACC.

Refer to Note 2 – “Regulatory Decision and Related Accounting and Policy Changes” of the Notes to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this report for additional information regarding the Company’s rate case and regulatory activity.

Corporate Transactions

Private Placement Offering of 6.91% Senior Secured Notes

On October 26, 2023, the Company entered into a note purchase agreement for the issuance of an aggregate principal amount of $20 million of 6.91% Senior Secured Notes due on January 3, 2034. Pursuant to the terms of the note purchase agreement, the Company issued the notes on January 3, 2024.

Refer to Note 11 - “Debt” of the Notes to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this report for additional details.

Private Placement Offering of Common Stock

On June 8, 2023, the Company entered into a securities purchase agreement for the issuance and sale by the Company of an aggregate of 230,000 shares of the Company’s common stock at a purchase price of $12.07 per share in an offering exempt from registration pursuant to Section 4(a)(2) of the Securities Act of 1933, as amended (the “Securities Act”), and Rule 506 promulgated thereunder. The Company received gross proceeds of approximately $2.8 million from the offering.

Farmers Water Co. Acquisition

On February 1, 2023, the Company acquired all of the equity of Farmers Water Co., an operator of a water utility with service area in Pima County, Arizona. The acquisition added approximately 3,300 active water service connections and approximately 21.5 square miles of service area in Sahuarita, Arizona and the surrounding unincorporated area of Pima County at the time of the acquisition. Refer to Note 15 - “Acquisitions” of the Notes to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this report for additional details.

Stipulated Condemnation of the Operations and Assets of Valencia

On July 14, 2015, the Company closed the stipulated condemnation to transfer the operations and assets of 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.

Segment Reporting

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing operating performance. In consideration of the Financial Accounting Standards Board’s Accounting Standards Codification 280, *Segment Reporting*, the Company is not organized around specific products and services, geographic regions, or regulatory environments. The Company currently operates in one geographic region within the State of Arizona, wherein each operating utility operates within the same regulatory environment.

While the Company reports revenue, disaggregated by service type, on the face of the statement of operations, the Company does not manage the business based on any performance measure at the individual revenue stream level. The Company does not have any customers that contribute more than 10% to the Company’s revenues or revenue streams. Additionally, the chief operating decision maker uses consolidated financial information to evaluate performance, which is the same basis on which he communicates results and performance to the Company’s board of directors. It is upon this consolidated basis from which he bases all significant decisions regarding the allocation of the Company’s resources on a consolidated level. Based on the information described above and in accordance with the applicable literature, management has concluded that the Company is currently organized and operated as one operating and reportable segment.

Comparison of Results of Operations for the Three Months Ended March 31, 2024 and 2023

The following table summarizes results of operations for the three months ended March 31, 2024 and 2023 (in thousands, except for share amounts):

	For the Three Months Ended March 31,	
	2024	2023
Revenues	$ 11,610	$ 13,128
Operating expenses	10,343	9,351
Operating income	1,267	3,777
Total other expense	(326)	(446)
Income before income taxes	941	3,331
Income tax expense	(250)	(865)
Net income	$ 691	$ 2,466
Basic earnings per common share	$ 0.03	$ 0.10
Diluted earnings per common share	$ 0.03	$ 0.10

Revenues – The following table summarizes revenues for the three months ended March 31, 2024 and 2023 (in thousands):

	For the Three Months Ended March 31,	
	2024	2023
Water services	$ 5,226	$ 4,839
Wastewater and recycled water services	6,384	6,021
Unregulated revenues	—	2,268
Total revenues	$ 11,610	$ 13,128

Total revenues decreased $1.5 million, or 11.6%, to $11.6 million for the three months ended March 31, 2024 compared to $13.1 million for the three months ended March 31, 2023. The decrease in revenue was primarily attributable to the recognition of $2.3 million in unregulated revenue related to infrastructure coordination and financing agreements (“ICFA”) during the three months ended March 31, 2023 that did not occur in the current period, partially offset by an increase of $0.8 million in regulated revenue primarily from organic connection growth and one additional month of revenue resulting from the February 2023 acquisition of GW-Farmers for the three months ended March 31, 2024 as compared to the same period for the prior year.

Water Services – Water services revenue increased $0.4 million, or 8.0%, to $5.2 million for the three months ended March 31, 2024 compared to $4.8 million for the three months ended March 31, 2023. The increase in water services revenue was primarily related to the organic connection growth of 4.4%.

Water services revenue based on consumption increased $0.1 million, or 9.5%, to $1.7 million for the three months ended March 31, 2024 compared to $1.6 million for the three months ended March 31, 2023. The moderate increase was primarily driven by organic growth.

Active water connections increased 4.4% to 34,715 as of March 31, 2024 from 33,298 as of March 31, 2023, primarily due to organic growth in our service areas.

Water consumption increased 6.8% to 0.7 billion gallons for the three months ended March 31, 2024 from 0.6 billion for the three months ended March 31, 2023. The increase in consumption was primarily attributable to organic growth in our service areas.

Water services revenue associated with the basic service charge, excluding miscellaneous charges, increased $0.3 million, or 8.0%, to $3.4 million for the three months ended March 31, 2024 compared to $3.1 million for the three months ended March 31, 2023. The increase was primarily due to growth in active service connections.

Wastewater and Recycled Water Services – Wastewater and recycled water services revenue increased $0.4 million, or 6.0%, to $6.4 million for the three months ended March 31, 2024 compared to $6.0 million for the three months ended March 31, 2023. The increase in wastewater and recycled water services revenue was primarily driven by a $0.4 million increase in wastewater services revenue, which reflects a 4.6% increase in active wastewater connections from 26,511 as of March 31, 2023 to 27,736 as of March 31, 2024.

Recycled water services revenue, which is based on the volume of recycled gallons delivered, was $0.1 million for both the three months ended March 31, 2024 and March 31, 2023. Consumption of recycled water was consistent for both periods.

Operating Expenses – The following table summarizes operating expenses for the three months ended March 31, 2024 and 2023 (in thousands):

	For the Three Months Ended March 31,	
	2024	2023
Operations and maintenance	$ 3,284	$ 2,789
General and administrative	4,125	3,907
Depreciation and amortization	2,934	2,655
Total operating expenses	$ 10,343	$ 9,351

Operations and Maintenance – Operations and maintenance costs, consisting of personnel costs, production costs (primarily chemicals and purchased electrical power), maintenance costs, and property tax, increased $0.5 million, or 17.7%, to $3.3 million for the three months ended March 31, 2024 compared to $2.8 million for the three months ended March 31, 2023.

Total personnel expenses increased $0.3 million, or 36.7%, to $1.3 million for the three months ended March 31, 2024 compared to $0.9 million for the three months ended March 31, 2023. The increase in personnel expenses was primarily related to an increase of $0.1 million in salary and wages, higher medical insurance expenses of $0.2 million, and an additional month of personnel expenses attributable to GW-Farmers for the three months ended March 31, 2024 as compared to the same period for the prior year.

Other notable increases were related to purchased power and property taxes, partially offset by a moderate decrease in chemicals, consumables and supplies.

General and Administrative – General and administrative costs include the day-to-day expenses of office operations, personnel costs, legal and other professional fees, insurance, rent, and regulatory fees. These costs increased $0.2 million, or 5.6%, to $4.1 million for the three months ended March 31, 2024 compared to $3.9 million for the three months ended March 31, 2023.

Total personnel expenses increased $0.2 million, or 11.5%, to $1.9 million for the three months ended March 31, 2024 compared to $1.7 million for the three months ended March 31, 2023. The increase was primarily related to higher medical insurance expenses and increased salaries and wages as a result of an increase in employee headcount.

Other notable increases were related to contract services, regulatory expenses, and board compensation expenses as a direct result of the change in the Company's stock price impacting certain valuations, which were partially offset by a decrease in professional fees.

Depreciation and amortization - Depreciation and amortization expense increased $0.2 million, or 10.5%, to $2.9 million for the three months ended March 31, 2024, compared to $2.7 million for the three months ended March 31, 2023. The increase was primarily driven by additional depreciation expense recorded as a direct result of the increase in fixed assets, which includes certain assets related to the Southwest Plant put into service July 2023.

Other Expense – Other expense decreased $0.1 million, or 26.9%, to $0.3 million for three months ended March 31, 2024 from $0.4 million for the three months ended March 31, 2023, which was primarily attributable an increase of $0.4 million in Buckeye growth premiums and a $0.2 million increase in interest income, which was partially offset by an increase of $0.4 million in interest expense primarily related to the senior secured notes issued in January 2024 (refer to "—Corporation Transactions" above for additional information) and a decrease of $0.1 million in the equity portion of the allowance for funds used during construction ("AFUDC").

Income Tax Expense – Income tax expense of $0.3 million was recorded for the three months ended March 31, 2024 compared to income tax expense of $0.9 million for the three months ended March 31, 2023. The primary driver for the change was due to the decrease in pre-tax income for three months ended March 31, 2024.

Net Income – Net income totaled $0.7 million for the three months ended March 31, 2024 compared to net income of $2.5 million for the three months ended March 31, 2023. The $1.8 million decrease was primarily attributable to the recognition of $2.3 million of ICFA related revenue during the three months ended March 31, 2023 that did not occur in the current period and an increase in operating expenses of approximately $1.0 million, partially offset by an increase in regulated revenue of $0.8 million and decreased tax expense of $0.6 million.

Outstanding Share Data

As of May 8, 2024, there were 24,176,113 shares of the Company's common stock outstanding and stock-based awards outstanding to acquire an additional 395,607 shares of the Company's common stock.

Liquidity and Capital Resources

The Company's capital resources are provided by internally generated cash flows from operations as well as debt and equity financing. Additionally, its regulated utility subsidiaries receive advances and contributions from customers, home builders, and real estate developers to partially fund construction necessary to extend service to new areas. The Company uses capital resources primarily to:

- fund operating costs;
- fund capital requirements, including construction expenditures;
- make debt and interest payments;
- fund acquisitions; and

- pay dividends.

The Company’s utility subsidiaries operate in rate-regulated environments in which the amount of new investment recovery may be limited. Such recovery will take place over an extended period of time because recovery through rate increases is subject to regulatory lag.

As of March 31, 2024, the Company has no notable near-term cash expenditures, other than the principal payments for its Series B Notes (as defined below) in the amount of $1.9 million due in both June 2024 and December 2024. While specific facts and circumstances could change, the Company believes that with the cash on hand and the ability to draw on its $15.0 million revolving line of credit, it will be able to generate sufficient cash flows to meet its operating cash flow requirements and capital expenditure plan, as well as remain in compliance with its debt covenants, for the next twelve months and beyond.

In March 2014, the Company initiated a dividend program to declare and pay a monthly dividend. On November 30, 2023, the Company announced a monthly dividend increase to 0.02508 per share (0.30096 per share annually) from 0.02483 per share (0.29796 per share annually). Although the Company expects that monthly dividends will be declared and paid for the foreseeable future, the declaration of any dividends is at the discretion of the Company’s board of directors and is subject to legal requirements and debt service ratio covenant requirements (refer to “—Senior Secured Notes” and “—Revolving Credit Line”).

Cash from Operating Activities

Cash flows provided by operating activities are used for operating needs and to meet capital expenditure requirements. The Company’s future cash flows from operating activities will be affected by economic utility regulation, infrastructure investment, growth in service connections, customer usage of water, compliance with environmental health and safety standards, production costs, weather, and seasonality.

For the three months ended March 31, 2024, net cash provided by operating activities totaled approximately $8.1 million compared to $6.5 million for the three months ended March 31, 2023. The $1.6 million increase in cash from operating activities was primarily driven by an increase in noncurrent liabilities for the three months ended March 31, 2024 as a result of funds received related to ICFA payments during the first three months in 2024 compared to an overall decrease in noncurrent liabilities for three months ended March 31, 2023 largely attributable to the recognition of ICFA related revenue, partially offset by a decrease in net income for the three months ended March 31, 2024 compared to the prior year period. In addition, there were other notable fluctuations in working capital accounts.

Cash from Investing Activities

The net cash used in investing activities totaled approximately $5.8 million for the three months ended March 31, 2024 compared to $12.8 million for the three months ended March 31, 2023. The $7.0 million decrease in cash used in investing activities was primarily driven by the $6.2 million cash paid for the acquisition of GW-Farmers (net of cash acquired) in February 2023 and a decrease in capital expenditures of $0.8 million for the three months ended March 31, 2024 compared to the three months ended March 31, 2023.

The Company continues to invest capital prudently in existing, core service areas where the Company is able to deploy the Total Water Management model as this includes any required maintenance capital expenditures and the construction of new water and wastewater treatment and delivery facilities. The projected capital expenditures and other investments are subject to periodic review and revision to reflect changes in economic conditions and other factors. As a result, the Company may adjust capital expenditures to correspond with any substantial changes in demand for housing in service areas.

Cash from Financing Activities

The net cash provided by financing activities totaled $15.8 million for the three months ended March 31, 2024, a $14.0 million increase, as compared to the $1.8 million in cash provided by financing activities for the three months ended March 31, 2023. This increase was primarily driven by the $20 million received from the senior secured notes issuance in January 2024, partially offset by $2.3 million of repayments on the Company’s revolving line of credit in the three months ended March 31, 2024 as compared to $3.5 million of net borrowings against the line of credit in the three months ended March 31, 2023.

Debt

Senior Secured Notes

On June 24, 2016, the Company issued two series of senior secured notes with a 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 (the “Series A Notes”). Series B carries a principal balance of $86.3 million and bears an interest rate of 4.58% over a 20-year term, with the principal payment due on June 15, 2036 (the “Series B Notes”). The Series B Notes were interest only for the first five years, with $1.9 million principal payments paid semiannually thereafter beginning December 2021. The proceeds of the Series A Notes and the Series B Notes were primarily used to refinance the Company’s long-term tax exempt bonds, pursuant to an early redemption option at 103%, plus accrued interest, as a result of the Company’s U.S. initial public offering of its common stock in May 2016.

The Series A Notes and the Series B 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 Series A Notes and the Series B 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 debt service ratio drops to 1.20. The debt service ratio increases to 1.25 for any fiscal quarter ending during the period from and after June 30, 2024. As of March 31, 2024, the Company was in compliance with its financial debt covenants relating to the Series A Notes and the Series B Notes.

Additionally, on January 3, 2024, the Company issued $20.0 million aggregate principal amount of 6.91% Senior Secured Notes due on January 3, 2034 (the “6.91% Notes” and collectively with the Series A Notes and the Series B Notes, the “Senior Secured Notes”). The 6.91% Notes accrue interest at 6.91% per annum from the date of issuance, payable semi-annually on January 3 and July 3 of each year, beginning on July 3, 2024, with a balloon payment due on January 3, 2034.

The 6.91% 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. The 6.91% Notes also contain a provision limiting the payment of dividends if the Company falls below a debt service coverage ratio of 1.20 for any fiscal quarter ended on or before June 15, 2024 and 1.25 for any fiscal quarter ended during the period from and after June 16, 2024. As of March 31, 2024, the Company was in compliance with its financial debt covenants relating to 6.91% Notes.

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. The Senior Secured Notes also have certain restrictive covenants that limit, among other things, the Company’s ability to: create liens and other encumbrances; incur additional indebtedness; merge, liquidate or consolidate with another entity; dispose of or transfer assets; make distributions or other restricted payments; engage in certain affiliate transactions; and change the nature of the business.

Debt issuance costs as of March 31, 2024 and December 31, 2023 were $0.8 million and $0.4 million, respectively.

Revolving Credit Line

On April 30, 2020, the Company entered into an agreement with The Northern Trust Company, an Illinois banking corporation (“Northern Trust”), which was initially 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, initially bore an interest rate equal to the London Interbank Offered Rate (LIBOR) plus 2.00% and had no unused line fee.

The Company and Northern Trust have subsequently amended the credit facility agreement on multiple occasions (as amended, the “Northern Trust Loan Agreement”) to, among other things, (i) extend the scheduled maturity date to July 1, 2025; (ii) increase the maximum principal amount available for borrowing to $15.0 million; (iii) replace the LIBOR interest rate provisions with provisions based on the Secured Overnight Financing Rate (SOFR); and (iv) add a quarterly facility fee equal to 0.35% of the average daily unused amount of the revolving line of credit.

Similar to the Senior Secured Notes, 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 ended June 30, 2021 through the quarter ending March 31, 2024, the debt service ratio drops to 1.20. Additionally, the Northern Trust Loan Agreement contains certain restrictive covenants that limit, among other things, the Company's ability to: create liens and other encumbrances; incur additional indebtedness; merge, liquidate or consolidate with another entity; dispose of or transfer assets; make distributions or other restricted payments (including dividends); engage in certain affiliate transactions; and change the nature of the business. The foregoing covenants are subject to various qualifications and limitations as set forth in the Northern Trust Loan Agreement. Pursuant to the Northern Trust Loan Agreement, the revolving credit facility is subject to certain customary events of default after which the revolving credit facility could be declared due and payable if not cured within the grace period or, in certain circumstances, could be declared due and payable immediately. As of March 31, 2024, the Company was in compliance with its financial debt covenants under the Northern Trust Loan Agreement.

As of March 31, 2024, the Company had no outstanding borrowings under the revolving line of credit with Northern Trust. There were approximately $16,000 and $25,000 unamortized debt issuance costs as of March 31, 2024 and December 31, 2023, respectively.

Refer to Note 11 — "Debt" of the Notes to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this report for additional information regarding the Senior Secured Notes and the Company's revolving line of credit.

Other Recent Financing Activity

On June 8, 2023, the Company entered into a securities purchase agreement for the issuance and sale by the Company of an aggregate of 230,000 shares of the Company's common stock at a purchase price of $12.07 per share in an offering exempt from registration pursuant to Section 4(a)(2) of the Securities Act and Rule 506 promulgated thereunder. The Company received gross proceeds of approximately $2.8 million from the offering.

Insurance Coverage

The Company carries various property, casualty, and financial insurance policies with limits, deductibles, and exclusions consistent with industry standards. However, insurance coverage may not be adequate or available to cover unanticipated losses or claims. The Company is self-insured to the extent that losses are within the policy deductible or exceed the amount of insurance maintained. Such losses could have a material adverse effect on the Company's short-term and long-term financial condition and the results of operations and cash flows.

Contractual Obligations

Except as described below, there have been no additional material changes in our reported contractual obligations from those disclosed under "Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources – Contractual Obligations" in the 2023 10-K.

On January 3, 2024, the Company issued $20.0 million aggregate principal amount of 6.91% Senior Secured Notes due on January 3, 2034. Refer to additional details under "– Liquidity and Capital Resources – Debt " above.

Critical Accounting Estimates

The application of critical accounting policies is particularly important to the Company's financial condition and results of operations and provides a framework for management to make significant estimates, assumptions, and other judgments. Additionally, the Company's financial condition, results of operations, and cash flow are impacted by the methods, assumptions, and estimates used in the application of critical accounting policies. Although management believes that these estimates, assumptions, and other judgments are appropriate, they relate to matters that are inherently uncertain and that may change in subsequent periods. Accordingly, changes in the estimates, assumptions, and other judgments applied to these accounting policies could have a significant impact on the Company's financial condition and results of operations as reflected in its financial statements.

There have been no significant changes to our critical accounting policies from those disclosed under "Managements' Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Estimates" in the 2023 10-K.

Off Balance Sheet Arrangements

As of March 31, 2024 and 2023, the Company did not have any off-balance sheet arrangements.

ITEM 3. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company's management, with the participation of its Chief Executive Officer and Chief Financial Officer, reviewed and evaluated the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of March 31, 2024, the disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in reports that the Company files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There was no material change in the Company's internal control over financial reporting (as such term is defined under Rules 13a-15(f) and 15d-15(f) of the Exchange Act) during the fiscal quarter ended March 31, 2024 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In the ordinary course of business, the Company may, from time to time, be subject to various pending and threatened lawsuits in which claims for monetary damages are asserted. To our knowledge, the Company is not involved in any legal proceeding which is expected to have a material effect on the Company.

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the factors discussed in “Risk Factors” included in Part I, Item 1A of the 2023 10-K. There have been no material changes in the risk factors from those discussed in “Risk Factors” included in Part I, Item 1A of the 2023 10-K.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

a) Sales of Unregistered Securities

No unregistered securities were sold during the three months ended March 31, 2024, other than as reported in our Current Reports on Form 8-K filed with the SEC.

b) Use of Proceeds

None.

c) Issuer Purchases of Equity Securities

The following table presents information with respect to purchases of common stock the Company made during the three months ended March 31, 2024.

Period	Total Number of Shares Purchased(1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
January 1 to January 31, 2024	—	$ —	—	$ —
February 1 to February 29, 2024	3,314	12.94	—	—
March 1 to March 31, 2024	1,091	12.95	—	—
Total	4,405		—	$ —

(1) Represents shares withheld from employees to satisfy certain tax obligations due in connection with the vesting of restricted stock awards granted under the Global Water Resources, Inc. 2020 Omnibus Incentive Plan. The average price paid per share for the common stock withheld was based on the closing price of the Company’s common stock on the applicable vesting date.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Rule 10b5-1 Trading Plans

During the three months ended March 31, 2024, none of our directors or officers (as defined in Exchange Act Rule 16a-1(f)) adopted or terminated a “Rule 10b5–1 trading arrangement” or a “non-Rule 10b5–1 trading arrangement,” each as defined in Item 408 of Regulation S-K.

ITEM 6. EXHIBITS

Exhibit Number	Description of Exhibit	Method of Filing
3.1	Second Amended and Restated Certificate of Incorporation of Global Water Resources, Inc.	Incorporated by reference to Exhibit 3.1 of the Company's Form 8-K filed May 4, 2016.
3.2	Amended and Restated Bylaws of Global Water Resources, Inc.	Incorporated by reference to Exhibit 3.2 of the Company's Form 8-K filed May 4, 2016.
4.1	Form of 6.91% Senior Secured Notes due on January 3, 2034	Incorporated by reference to Exhibit 4.1 of the Company's Current Report on Form 8-K filed with the SEC on January 4, 2024.
10.1	Guaranty Agreement, dated as of January 3, 2024, by Global Water, LLC	Incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed with the SEC on January 4, 2024.
10.2	Guaranty Agreement, dated as of January 3, 2024, by Global Water Holdings, Inc.	Incorporated by reference to Exhibit 10.3 of the Company's Current Report on Form 8-K filed with the SEC on January 4, 2024.
10.3	Guaranty Agreement, dated as of January 3, 2024, by West Maricopa Combine, LLC	Incorporated by reference to Exhibit 10.4 of the Company's Current Report on Form 8-K filed with the SEC on January 4, 2024.
10.4	Pledge and Security Agreement, dated as of January 3, 2024, by and between Global Water Resources, Inc. and U.S. Bank Trust Company, National Association, as collateral agent	Incorporated by reference to Exhibit 10.5 of the Company's Current Report on Form 8-K filed with the SEC on January 4, 2024.
10.5	Pledge and Security Agreement, dated as of January 3, 2024, by and between Global Water, LLC and U.S. Bank Trust Company, National Association, as collateral agent	Incorporated by reference to Exhibit 10.6 of the Company's Current Report on Form 8-K filed with the SEC on January 4, 2024.
10.6	Pledge and Security Agreement, dated as of January 3, 2024, by and between Global Water Holdings, Inc. And U.S. Bank Trust Company, National Association, as collateral agent	Incorporated by reference to Exhibit 10.7 of the Company's Current Report on Form 8-K filed with the SEC on January 4, 2024.
10.7	Pledge and Security Agreement, dated as of January 3, 2024, by and between West Maricopa Combine, LLC and U.S. Bank Trust Company, National Association, as collateral agent	Incorporated by reference to Exhibit 10.8 of the Company's Current Report on Form 8-K filed with the SEC on January 4, 2024.
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer	Filed herewith.
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer	Filed herewith.
32.1	Section 1350 Certification of Chief Executive Officer and Chief Financial Officer	Furnished herewith.
101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document	Filed herewith.
101.SCH	Inline XBRL Taxonomy Extension Schema Document	Filed herewith.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document	Filed herewith.

101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document	Filed herewith.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document	Filed herewith.
101. PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document	Filed herewith.
104	Cover Page Interactive Data File (formatted as Inline XBRL with applicable taxonomy extension information contained in Exhibits 101)	Filed herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	Global Water Resources, Inc.
Date: May 8, 2024	By: /s/ Michael J. Liebman
	Michael J. Liebman
	Chief Financial Officer and Corporate Secretary
	(Duly Authorized Officer and Principal Financial and Accounting Officer)