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April 11, 2018

Board of Directors
Watson Water Company, Inc.
4106 Utica Sellersburg Rd.
Jeffersonville, IN 47130

We have reviewed the report prepared by Watson Water Company, Inc. and opined upon by Sherman, Barber & Mullikin, Independent Public Accountants, for the period January 1, 2016 to December 31, 2016. Per the *Independent Auditors' Report* the financial statements included in the report present fairly the financial condition of Watson Water Company, Inc. as of December 31, 2016 and the results of its operations for the period then ended, on the basis of accounting described in the report.

In our opinion, Sherman, Barber & Mullikin prepared all required independent auditor's reports in accordance with generally accepted auditing standards and guidelines established by the State Board of Accounts.

The report is filed with this letter in our office as a matter of public record.


Paul D. Joyce, CPA
State Examiner

WATSON WATER COMPANY, INC.

Audited Financial Statements

December 31, 2016

and

December 31, 2015

SHERMAN, BARBER & MULLIKIN
— A PROFESSIONAL CORPORATION —
CERTIFIED PUBLIC ACCOUNTANTS

WATSON WATER COMPANY, INC.

December 31, 2016 and December 31, 2015

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SHERMAN, BARBER & MULLIKIN
A PROFESSIONAL CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Watson Water Company, Inc.
Jeffersonville, Indiana

We have audited the accompanying financial statements of Watson Water Company, Inc. (a nonprofit organization), which comprise the Balance Sheets as of December 31, 2016 and December 31, 2015 and the related Statements of Income, Changes in Equity and Cash Flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

To the Board of Directors of
Watson Water Company, Inc.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Watson Water Company, Inc. as of December 31, 2016 and December 31, 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedules of Other Operating Expenses are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Sherman, Barber & Mullikin

Sherman, Barber & Mullikin
Madison, Indiana

April 20, 2017

WATSON WATER COMPANY, INC.

Balance Sheets

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Assets		
Utility Plant		
Utility Plant in Service	\$ 13,404,380	\$ 12,148,873
Less: Accumulated Depreciation	<u>(4,775,811)</u>	<u>(4,570,524)</u>
Net Utility Plant in Service	8,628,569	7,578,349
Construction in Progress	<u>2,793,647</u>	<u>64,196</u>
Total Utility Plant	11,422,216	7,642,545
Current Assets		
Cash and Cash Equivalents	760,496	1,263,969
Certificates of Deposit	-	219,395
Accounts Receivable	21,424	22,278
Other Accounts Receivable	4,315	-
Prepaid Insurance	9,571	9,128
Materials and Supply Inventory	<u>20,745</u>	<u>33,517</u>
Total Current Assets	816,551	1,548,287
Other Assets		
Restricted Cash	<u>1,622,059</u>	<u>200,506</u>
Total Assets	<u>\$ 13,860,826</u>	<u>\$ 9,391,338</u>

WATSON WATER COMPANY, INC.

**Balance Sheets
(Continued)**

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Equity and Liabilities		
Equity		
Retained Earnings	\$ 2,399,192	\$ 1,848,705
Contributions-in-Aid of Construction	<u>4,391,382</u>	<u>4,081,628</u>
Total Equity	6,790,574	5,930,333
Long-Term Liabilities		
Notes Payable	5,598,297	2,443,362
Note Acquisition Costs	-	(62,347)
Capital Lease Payable	438,612	546,180
Less: Current Portion of Long-Term Debt	<u>(599,177)</u>	<u>(309,318)</u>
Total Long-Term Liabilities	5,437,732	2,617,877
Current Liabilities		
Accounts Payable	509,832	115,993
Accrued Payroll Liabilities	6,161	5,318
Sales Tax Payable	11,453	10,204
Accrued Interest	79,957	6,435
Customer Refunds Payable	5,311	5,311
Customer Deposits	420,629	390,549
Current Portion of Long-Term Debt	<u>599,177</u>	<u>309,318</u>
Total Current Liabilities	<u>1,632,520</u>	<u>843,128</u>
Total Liabilities	<u>7,070,252</u>	<u>3,461,005</u>
Total Equity and Liabilities	<u>\$ 13,860,826</u>	<u>\$ 9,391,338</u>

WATSON WATER COMPANY, INC.

**Statements of Income
For the Years Ended**

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Operating Revenue		
Water Sales	\$ 2,266,831	\$ 1,743,925
Other Operating Income	<u>54,947</u>	<u>54,090</u>
Total Operating Revenue	2,321,778	1,798,015
Operating Expenses		
Purchased Water	-	4,145
Salaries, Wages & Employee Benefits	380,748	365,463
Repairs & Maintenance	119,438	183,510
Insurance	23,452	16,383
Contractual Services	392,213	140,257
Depreciation Expense	385,814	410,951
Other Operating Expenses	<u>251,146</u>	<u>210,036</u>
Total Operating Expenses	<u>1,552,811</u>	<u>1,330,745</u>
Net Operating Income	768,967	467,270
Other Income (Expenses)		
Interest Earned	2,243	1,198
Interest Expense	(202,617)	(156,892)
Loss on Disposal of Assets	<u>(18,106)</u>	<u>(81,871)</u>
Net Other Income (Expenses)	<u>(218,480)</u>	<u>(237,565)</u>
Net Income	<u>\$ 550,487</u>	<u>\$ 229,705</u>

WATSON WATER COMPANY, INC.

**Statements of Changes in Equity
For the Years Ended**

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Retained Earnings		
Balance, January 1	\$ 1,848,705	\$ 1,619,000
Net Income	550,487	229,705
	<hr/>	<hr/>
Balance, December 31	2,399,192	1,848,705
Contributions-in-Aid of Construction		
Balance, January 1	4,081,628	3,773,683
Tap Fees Collected	111,600	84,000
Line Extensions Paid or Donated by Customers	198,154	223,945
	<hr/>	<hr/>
Balance, December 31	4,391,382	4,081,628
Total Equity	<u>\$ 6,790,574</u>	<u>\$ 5,930,333</u>

WATSON WATER COMPANY, INC.

**Statements of Cash Flows
For the Years Ended**

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Cash Flows from Operating Activities		
Net Income	\$ 550,487	\$ 229,705
Noncash Items Included in Net Income		
Depreciation	385,814	410,951
Amortization of Note Acquisition Cost	62,347	4,523
Loss on Disposal of Assets	18,106	81,871
Bad Debt	2,526	2,421
Interest Earned on Restricted Cash and Certificates of Deposit	(1,570)	(610)
Prepayment Penalty Paid with Loan Proceeds	48,013	-
Interest Expense Paid with Loan Proceeds	7,991	-
(Increase) Decrease in:		
Accounts Receivable	(28,954)	(24,555)
Prepaid Insurance	(443)	7,635
Materials and Supply Inventory	12,772	11,200
Increase (Decrease) in:		
Accounts Payable	65,927	44,969
Accrued & Withheld Expenses	2,092	2,748
Accrued Interest	73,522	(558)
Net Cash Provided by Operating Activities	1,198,630	770,300
Cash Flows from Investing Activities		
Transfer from Restricted Cash	200,549	-
Transfer to Restricted Cash	(1,620,617)	-
Transfer from Certificates of Deposit	219,480	-
Additions to Utility Plant	(302,100)	(180,211)
Net Cash Used in Investing Activities	(1,502,688)	(180,211)
Cash Flows from Financing Activities		
Reduction of Notes Payable	(294,215)	(198,304)
Reduction of Capital Lease	(107,568)	(93,731)
Contribution for Line Extension	37,721	11,625
Tap Fees Received	111,600	84,000
Memberships Received	85,500	70,450
Memberships Refunded	(32,453)	(33,320)
Net Cash Used in Financing Activities	(199,415)	(159,280)

WATSON WATER COMPANY, INC.

**Statements of Cash Flows
For the Years Ended
(Continued)**

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(503,472)	430,809
Cash & Cash Equivalents, Beginning of Period	<u>1,263,969</u>	<u>833,160</u>
Cash & Cash Equivalents, End of Period	<u>\$ 760,496</u>	<u>\$ 1,263,969</u>
 Supplemental Cash Flow Disclosures		
Interest Paid - Expensed	\$ 129,095	\$ 157,450
Interest Paid - Capitalized	\$ 33,067	\$ -
 Supplemental Disclosures of Non-Cash Investing and Financing Activities		
Line Extension Contributed	\$ 160,433	\$ 211,770
Customer Deposits Applied to Bills	\$ 22,967	\$ 17,419
Original Cost of Assets Disposed	\$ 198,634	\$ 271,450
Accumulated Depreciation of Assets Disposed	\$ 180,490	\$ 189,579
Construction Work in Progress Included in Accounts Payable	\$ 381,073	\$ 53,161
Bank Loan Paid off with State Loan Funds	\$ 2,400,647	\$ -
Utility Plant Purchased with Restricted Cash	\$ 3,393,146	\$ -
State Loan Proceeds Deposited into Restricted Cash	\$ 3,393,146	\$ -

WATSON WATER COMPANY, INC.

**Notes to Financial Statements
December 31, 2016 and December 31, 2015**

NOTE A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Organization and Nature of Operations

Watson Water Company, Inc. (the "Company") was incorporated in 1964 and provides potable water to the surrounding communities. The Company currently services approximately 5,855 customers in Jeffersonville and surrounding areas of Indiana. The records of the Company are maintained in accordance with the Uniform System of Accounts as prescribed by the National Association of Regulatory Utility Commissioners.

(2) Income Taxes

The Company has been granted an exemption from federal income taxes under Section 501(c)(12) of the Internal Revenue Code. The Company has also been granted exemption from Indiana Gross Receipts Tax under Indiana Code 6-2.1-3-33. Accordingly, no provision has been made for income taxes in the financial statements.

(3) Utility Plant

Utility Plant assets are recorded at cost. Expenditures, including those for major maintenance activities, which do not materially extend the useful life of or expand the "system," are charged to supplies expense when incurred. Components of Utility Plant are described in detail in Note B.

(4) Depreciation Expense

The provision for depreciation is computed using the straight-line method for Utility Plant and all office furniture and equipment. Utility Plant is depreciated over lives ranging from five to sixty-seven years, the useful lives of the assets. Equipment and office furniture are depreciated over three to ten years and vehicles are depreciated over five years.

(5) Materials and Supply Inventory

Inventory is recorded at cost on the first-in, first-out basis. It consists of materials to be used in future repairs or additions to Utility Plant.

(6) Cash and Cash Equivalents

Cash and Cash Equivalents includes unrestricted funds on hand and on deposit with financial institutions and unrestricted investments with an original maturity of three months or less. There were no such investments at December 31, 2016 or 2015.

WATSON WATER COMPANY, INC.

**Notes to Financial Statements
December 31, 2016 and December 31, 2015**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(7) Certificates of Deposit

The Company has certificates of deposit issued by financial institutions with various maturities. Certificates of deposit maturing within one year of the Balance Sheet date have been reported as current, whereas certificates of deposit maturing subsequent to this date are classified as other assets.

(8) Revenue Recognition

The Company records revenue as it is billed to its customers. Customers are billed on the first of each month. The Company does not accrue amounts receivable for water services rendered but unbilled at month-end.

(9) Contributions-in-Aid of Construction

This account represents a portion of the capital of the Company. Members are required to pay a tap-in fee when they are connected to the water system. This fee is assessed to cover the cost of the meter, meter installation, the service connecting the meter and the distribution main and the use of treatment plant capacity.

The cost of line extensions paid for by the customer in order to obtain service is credited to Contributions-in-Aid of Construction. The total cost of extending water lines is added to Utility Plant in Service.

(10) Accounts Receivable and Uncollectible Accounts

Accounts receivable are considered past due when payment is not received by the due date listed on a customer's bill. Bad debts are accounted for using the direct write-off method. The expense is recognized when a specific account is determined to be uncollectible. The effects of using this method approximate those of the allowance method.

(11) Sales Tax

The Company collects sales tax on all of its sales to nonexempt customers and remits the entire amount to the state. The net method of recording the collection and remittance of sales tax is used in the financial statements.

WATSON WATER COMPANY, INC.

**Notes to Financial Statements
December 31, 2016 and December 31, 2015**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(12) Note Acquisition Costs

Note acquisition costs of \$82,829 were incurred during 2010 to obtain funding through a local financial institution. These costs were being amortized over the term of the note, 15 years, and charged to interest expense using the effective interest method. During 2016 the loan was paid in full and the remaining costs were expensed. Amortization charged to interest expense for 2016 and 2015 was \$ 62,347 and \$ 4,523, respectively.

(13) Customer Deposits

Each new customer of the Company is currently charged a membership fee of \$100. This fee is refundable upon termination of services and is therefore classified as a current liability. Amounts owed to the Company will be deducted from the membership fee before a refund is made.

(14) Estimates

The preparation of financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

WATSON WATER COMPANY, INC.

**Notes to Financial Statements
December 31, 2016 and December 31, 2015**

NOTE B. UTILITY PLANT

The components of Utility Plant were as follows at December 31,

	2016	2015
Intangible Plant	\$ 19,500	\$ 19,500
Source of Supply	1,983,642	1,042,095
Transmissions and Distributions	8,978,117	8,834,685
Hydrants	165,357	150,932
Meters and Meter Installation	1,314,793	1,332,433
Land	475,533	351,038
Transportation Equipment	174,018	124,770
Tools, Shop & Garage Equipment	12,419	12,419
Office Furniture & Fixtures	65,315	65,315
Office Building	155,318	155,318
Water Treatment Equipment	60,368	60,368
Total Utility Plant	\$ 13,404,380	\$ 12,148,873
Depreciation Expense	\$ 385,814	\$ 410,951
Accumulated Depreciation	\$ 4,775,811	\$ 4,570,524

NOTE C. NOTES PAYABLE

On November 17, 2010, the Company obtained a capital improvements loan, totaling \$3,291,252, for the purpose of retiring existing debt and to provide for capital improvements. The note was scheduled to mature on November 17, 2025, and provided for a scheduled interest rate for each consecutive 60-month period ranging from 5.0% to 6.5%. The note required the Company to maintain a \$200,000 deposit account with the financial institution, which was reflected on the Balance Sheet as restricted cash in other assets. It was secured by all property, real or personal, owned by the Company, an assignment of revenue received, inventory and accounts receivable arising in connection with the facility. This note was paid off in 2016 with proceeds from Series 2016B Notes.

On March 27, 2013, the Company obtained a loan, totaling \$41,636, for the purpose of purchasing a Vactron Vacuum System. The note provided for a three-year term with fixed annual principal and interest payments, a 5.25% interest rate and was secured by the vacuum system purchased by the Company. This note was paid off in 2016.

WATSON WATER COMPANY, INC.

**Notes to Financial Statements
December 31, 2016 and December 31, 2015**

NOTES PAYABLE (Continued)

On March 14, 2016, the Company issued Secured Notes, Series 2016A in the amount of \$4,831,000 and Secured Notes, Series 2016B in the amount of \$2,456,651. Both Notes were purchased by the Indiana Finance Authority. Series 2016A was financed through the State of Indiana Drinking Water Revolving Fund loan program and Series 2016B was financed through the State of Indiana Supplemental Drinking Water and Wastewater Assistance program for Indiana Communities.

Series 2016A Notes were issued for the purpose of funding a capital improvements project. The notes mature January 1, 2036, and provide for a 2.25% interest rate with principal and interest payments due on January 1 and July 1. Principal payments will be made in accordance with the Financial Assistance Agreement. The first payment began on July 1, 2016.

Series 2016B Notes were issued for the purpose of refinancing current debt held with a local bank. The notes mature January 1, 2021, and provide for a 4.6% interest rate with principal and interest payments due on January 1 and July 1. Principal payments will be made in accordance with the Financial Aid Agreement. The first payment began on July 1, 2016.

The combined scheduled principal reduction for the next five years is as follows:

2017	\$ 493,800
2018	495,000
2019	517,100
2020	540,100
2021	<u>392,651</u>
Total	2,438,651
Thereafter	<u>3,159,646</u>
Total Notes Payable	<u>\$ 5,598,297</u>

NOTE D. CAPITAL LEASE

The Company leases certain water metering system equipment under a capital lease. The lease agreement contains a \$1 bargain purchase option at the end of the lease term. The economic substance of the lease is that the Company is financing the acquisition of the assets through a lease, and accordingly, they are recorded in the Company's assets and liabilities. The assets and liabilities under the capital lease are recorded at the lower of present value of the minimum lease payments or the fair market value of the assets.

WATSON WATER COMPANY, INC.

**Notes to Financial Statements
December 31, 2016 and December 31, 2015**

CAPITAL LEASE (Continued)

The lease provides for monthly installments of \$10,612 through maturity, November 15, 2020, and bears a 5.5% interest rate. As of December 31, 2016, the property held under this capital lease had a total cost of \$173,545, accumulated depreciation of \$173,545 and a net book value of \$0. The future minimum annual payments under the capital lease are as follows:

2017	\$	127,824
2018		127,851
2019		127,880
2020		105,894
2021		-
Total Minimum Lease Payments		489,449
Less: Amount Representing Interest		(50,837)
Present Value of Net Minimum Obligations		438,612
Less: Current Obligations Under Capital Lease		(127,824)
Long-Term Obligations Under Capital Lease	\$	<u>310,788</u>

The lease agreement contains a covenant to maintain an annual 125% debt coverage ratio. The Company's annual net revenue was sufficient to meet the requirement for the year ended December 31, 2016.

NOTE E. RESTRICTED CASH

The Series 2016 Financial Assistance Agreement requires the Company to maintain certain accounts with a trustee. The accounts and their requirements are as follows:

Construction Account: proceeds from 2016A Notes will be deposited, and related project costs will be disbursed, from this account

Principal and Interest Account: to be funded on a monthly basis and is restricted for the purpose of paying the required semi-annual payments of the Series 2016 notes

Debt Service Reserve Account: consists of the required reserve for the 2016 Series Notes and is funded on a monthly basis until the balance reaches \$698,438.

Equipment Reserve Account: shall deposit \$127,341 (the maximum annual lease payment under the commercial lease agreement) until such lease is paid in full

Non-operating Account: shall deposit \$1,000,000 to be used for:

- a) non-operating purposes within three years of the date of the Series 2016 Notes, and
- b) to prepay principal on the series 2016B Notes to the extent of available funds after meeting the non-operating expenses of the borrower

WATSON WATER COMPANY, INC.

**Notes to Financial Statements
December 31, 2016 and December 31, 2015**

RESTRICTED CASH (Continued)

As indicated in Note C, the capital improvements loan required a \$200,000 deposit account be kept with the financial institution. As of December 31, 2016, this was no longer required as a result of the loan being paid off.

Restricted cash accounts were maintained as follows:

	2016	2015
Principal and Interest Account	\$ 388,474	\$ -
Debt Service Reserve Account	\$ 104,817	\$ -
Equipment Reserve Account	\$ 127,492	\$ -
Non-operating Account	\$ 1,001,276	\$ -
Other Restricted	\$ -	\$ 200,506

The annual funding requirement for restricted cash for the next five years is as follows:

2017	\$ 785,152
2018	\$ 784,698
2019	\$ 784,239
2020	\$ 763,781
2021	\$ 333,716

NOTE F. EMPLOYEE BENEFIT PLANS

The Company sponsors a Salary Reduction Plan for employees, qualified under Section 401(k) of the Internal Revenue Code. In order to qualify for the plan, a full-time employee must have attained the age of 21 years and have been employed by the Company for a period of at least one year. An employee must have over 1,000 hours of service in a plan year to have contributions allocated to him/her for that year. Each participant may elect to have compensation deferred through election of pre-tax or Roth deferrals, with maximum annual deferrals established by the Internal Revenue Code. Vesting is established over a 5-year period. During 2016 and 2015 the Company's contribution was 5.0% of each qualified employee's salary which totaled \$9,522 and \$14,472, respectively.

WATSON WATER COMPANY, INC.

**Notes to Financial Statements
December 31, 2016 and December 31, 2015**

NOTE G. CONCENTRATIONS OF CREDIT RISK

Due to the nature of the Company's business, its customers are all in a concentrated geographic area. The Company is subject to a concentration of credit risk with respect to its receivables, which are solely from those customers.

The Company maintains its cash at federally insured financial institutions. At times, such balances may be in excess of the FDIC insurance limit. At December 31, 2016, the Company's uninsured balance was \$532,227.

NOTE H. STATE AND LOCAL FINANCIAL ASSISTANCE

During 2016, the Company received and expended state funds, deemed non-equivalency funds, as follows:

State of Indiana Drinking Water Revolving Loan Fund	\$ 3,393,146
State of Indiana Supplemental Drinking Water & Wastewater Assistance Program for Indiana Communities	2,456,651
Total State Funds Received and Expended	<u>\$ 5,849,797</u>

NOTE I. CONTINGENCIES

On February 24, 2014, Indiana-American Water Company, Inc. ("IAWC") filed suit against the Company. IAWC claims that the Company breached a Water Supply Agreement and 2003 amendment thereto by failing to pay for water the Company was obligated to purchase under the 2003 amendment. The company asserted counterclaims based on the belief that 1) it had an obligation to purchase water only until it had repaid IAWC for the cost of installing a water main, and 2) the Water Supply Agreement and 2003 amendment terminated when the Company exercised its rights under a "right of first refusal" clause. On June 15, 2016, the Court ruled in favor of IAWC, holding that the Company owed IAWC \$837,670 for unpaid charges and late fees, that the Company had not triggered the right of first refusal, that the Company is obligated to purchase water through April 2037 under the Water Supply Agreement, and that the Company owes some amount of attorneys' fees incurred by IAWC to be determined at a later date. The company believes it has meritorious defenses against the suit and appealed the trial court's decision, which was fully briefed as of November 15, 2016. In the appeal, the Company has focused on the argument the "right of first refusal" clause was triggered and that the Water Supply Agreement has now terminated – a purely legal argument based on contract interpretation that is subject to *de novo* review. The Company is awaiting the ruling from the Indiana Court of Appeals. Based on the advice of counsel, management believes that a loss in excess of \$837,000 is reasonably possible. The ultimate resolution of the matter is expected to occur within one year.

WATSON WATER COMPANY, INC.

**Notes to Financial Statements
December 31, 2016 and December 31, 2015**

NOTE J. SUBSEQUENT EVENTS

Management has evaluated subsequent events through April 20, 2017, the date on which the financial statements were available to be issued.

On January 20, 2017 the Company was awarded a \$584,000 Rural Development note, bearing a 2.25% interest rate and a 40-year term, to fund a main relocation project.

SUPPLEMENTARY INFORMATION

WATSON WATER COMPANY, INC.

**Schedules of Other Operating Expenses
For the Years Ended**

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Other Operating Expenses		
Purchased Power	\$ 57,807	\$ 58,959
Chemicals & Testing	25,591	37,568
Office Supplies & Postage	50,255	43,361
Office Utilities	23,984	22,204
Transportation	16,273	16,533
Directors' Compensation	9,880	10,475
Bad Debt	2,526	2,421
Prepayment Penalty	48,013	-
Miscellaneous Expense	16,817	18,515
Total Other Operating Expenses	<u>\$ 251,146</u>	<u>\$ 210,036</u>