

Dear Shareholders:

January 2018

Attached is a copy of the 2018 budget for the Blue Lake Springs Mutual Water Company. It is important to note that the budget includes \$1,547,689 of income from fees charged to our shareholders. The budget also includes \$830,546 of income from other sources, including \$761,665 from prior years. With regard to expenses, the budget projects \$742,345 in General Expenses, \$110,100 for Source of Supply, \$199,300 for Water Treatment, \$116,000 for Distribution, and \$25,500 for Pumping Expenses for a total expense of \$1,193,245. This results in an expected Contingency Reserve of \$1,184,990. This Contingency Reserve is available to fund unanticipated expenses such as uncollected shareholder fees, costs not included in the budget, and reserves.

In the past year the Board has restructured the meeting schedule. The Board of Directors has scheduled meetings for January 13, March 10, May 12, June 2, September 8, and November 10, 2018. All these meetings, except June, are on the second Saturday of the month and are held at the Water Company's office at 1011 Blagen Road, Arnold at 9am. The Board may schedule additional meetings as necessary. Please check the web site for meeting notices.

The Company experienced a reorganization during the year. Tom Schneider sold his property in Blue Lake Springs and became ineligible to serve on the Board of Directors. At the September Board of Directors meeting, I was appointed to replace Tom as Treasurer. At the November 11th meeting we appointed Jay Brethauer to replace Tom Schneider on the Board. The Board has also been preparing for the infrastructure project. This project will provide water service to all shareholders from pipelines in the street. It will include fire hydrants and pressure regulators. It will also provide all shareholders with a service box, and those with water service, a water meter located in the front of their lot. The project is scheduled to start in mid-2018 and be completed by the end of 2019. All of this is subject to change based on weather and construction conditions.

As most of you know the Water Company has arranged for a \$12.23 million loan from the United States Department of Agriculture (USDA) at a very favorable interest rate of 1.875% over a 40-year term. The loan will be repaid from surcharges paid by all our shareholders based on annual loan payments scheduled to start one year after project construction is complete. These surcharges will be included within the rate structure along with the rates for water service and the normal operations of the Water Company. The specific amount of each charge and the starting date will be determined based on the final cost and the completion date of the project, at which time the USDA loan documents will be drawn.

In preparation for the infrastructure project, the Company has hired MC Engineering to develop the drawings and specifications for the bid documents. They include the specific location of all pipelines, fire hydrants, and meter boxes. This involves determining the best and least expensive route for the main lines with the avoidance of as much rock and trees as possible. It also involves identifying the location of all non-BLSMWC pipelines currently in the utility right of way, as they must be avoided in our project.

We will keep you informed of the progress of the project through the Bubbler and special communications as necessary.

Sincerely,

Lee Bateman

Lee Bateman
Treasurer

The 2018 Budget is on the reverse side