5500 South Quebec Street
Greenwood Village, CO 80111
800-542-8072
www.cobank.com

November 13, 2013

Mr. Thomas Mason, President and CEO
Lakes Region Water Co., Inc.

Dear Mr. Mason:

The following information is for informational purposes only and is not a commitment to lend.

Borrower:	Lake Region Water Company (“Borrower”)
Type of Credit Facilities:	A secured term loan of up to 15 years and a maximum $500,000. A secured term loan of up to 5 years and a maximum of $400,000. (“together the “Term Loans”). A secured one-year revolving line of credit of up to $50,000 (“Revolver”) (together the “Loans”)
Purpose:	Term Loans - To refinance existing debt and pay outstanding payables. Revolver – interim capital expenditures and working capital
Availability:	All Term Loans to be advanced at closing.
Interest:	In accordance with one or more of the following interest rate options, as selected by the Company: <u>Weekly Quoted Variable Rate Option</u>: Under this option, balances may be fixed at a rate established by CoBank on the first "Business Day" (to be defined) of each week. The rate established shall be effective until the first Business Day of the next week. WQVR for the week of November 13, 2013 is 2.94%.

Quoted Fixed Rate Option: At one or more rates to be quoted by CoBank. Under this option, rates can be fixed: (1) on balances of $100,000 or more; (2) for periods of, 6 months to the final maturity of the Loan; and (3) for each facility, on no more than 5 separate balances at any one time. As of November 13, 2013 a 15 year fully amortizing fixed rate is 5.75% while a 5 year fixed rate is 4.00%.

Patronage: The above quoted interest rates are stated prior to the payment of patronage under CoBank's patronage program. Patronage will lower the effective interest rate by 75 basis points per annum based on the current program. The patronage program can be modified by a vote of CoBank's board of directors.

Interest will be calculated on the basis of a year consisting of 360 days and shall be payable monthly in arrears by the 20th day of the following month.

Notwithstanding the foregoing, during the continuance of a default, interest shall accrue at 4% in excess of the rates that would otherwise be in effect.

Origination Fees: Five-thousand dollars payable at closing.

Principal Repayment: Term Loans - In consecutive monthly installments, each due on the 20th of the month, with the first installment due on the 20th day of the second month following the month in which the Loan is made. The amount of each installment shall be the same principal amount that would be due and payable if the Loan was payable in level installments of principal and interest and such schedule was calculated using the "CoBank Base Rate" (to be defined) on the date of the loan agreement; provided, however, that if on the date the Loan is made, the Borrower fixes the rate of interest on the entire principal amount of the Loan to the final maturity date thereof, then the rate utilized in calculating the amortization schedule shall be the rate of interest accruing on the Loan.

Revolver – Interest due monthly with principal due at maturity.

Prepayment: Balances bearing interest at the Weekly Quoted Variable Rate Option may be prepaid without premium. Balances bearing interest at the Quoted Fixed Rate Option may be prepaid upon payment of a premium equal to the present value of CoBank's

"Funding Losses" (to be defined) plus a yield of .50% on a per annum basis.

Capitalization: The Loans will be capitalized in accordance with CoBank's bylaws and its capital plan. As such it will be eligible for patronage refunds.

Collateral: The Loans will be secured by a perfected priority lien on and security interest in all real and personal, tangible and intangible, present and future assets of the Borrower including a deed of trust or mortgage with evidence of title (in a form to be determineded by CoBank) subject only to those exceptions approved by CoBank.

Documentation: The Loans would be subject to the negotiation, execution, delivery, and, where appropriate, recording of loan and loan related documentation (including exhibits, opinions, and security documentation) satisfactory to CoBank and its counsel in its or their sole discretion. In addition, all other matters whatsoever relating to the credit or the closing thereof must be approved by CoBank and its counsel in its or their sole discretion. Without limiting the foregoing, the loan documentation shall include conditions precedent, representations and warranties, covenants, events of default, remedies upon default, and various miscellaneous provisions.

Representations and Warranties: Including, without limitation, representations and warranties as to organization; good standing and qualification; authorization of borrowing; compliance with law; financial condition; title to properties; liens; no material adverse change; litigation; payment of taxes; governmental regulations; disclosure; licenses; trademarks; and patents.

Financial Covenants: Financial Covenants:

- "Debt Service Coverage Ratio" (as defined in Exhibit A hereto) of greater than:

  At each FYE > 1.50x

- "Total Debt to Total Capitalization (as defined in Exhibit A hereto) of not greater than 60% at all times.

Negative

Covenants: Inlcude but not restricted to: restrictions on additional indebtedness (except for an amount to be determined for purchase money indebtedness and capital leases), other liens (other than liens securing permitted purchase money indebtedness), mergers and acquisitions, sale or transfer of assets, change in business, dividends (permitted up to the amount of net income assuming no default or event of default exists or would result), and loans and investments subject to permitted items.

Reporting Requirements: The Borrower will be required to deliver:

- Annual reviewed financial statements within 120 days of each fiscal year end.
- If requested by CoBank - Quarterly, company prepared, interim financial statements within 60 days of close of the 1st, 2nd and 3rd fiscal quarters.

Expenses and Indemnification: The Borrower will indemnify CoBank against all losses, liabilities, claims, damages, or expenses relative to the Credit Facility or the use of loan proceeds. All reasonable costs and expenses incurred by CoBank in connection with this transaction including, without limitation, all legal fees and expenses for CoBank's legal counsel, shall be paid by the Borrowers. CoBank will document the Loans in house so no external legal fees are anticipated for loan documentation.

Defaults: CoBank's customary events of default, including without limitation, payment default; cross-default; provisions relating to occurrences of any default under any other material agreement governing indebtedness of the Borrower; material misrepresentation of fact; covenant default; bankruptcy or insolvency; and material unsatisfied judgments.

EXHIBIT A

DEFINIITONS

"**Debt Service Coverage Ratio**" shall mean the ratio of: (1) net income (after taxes), plus depreciation expense, amortization expense, and interest expense, minus non-cash patronage, and non-cash income from subsidiaries and/or joint ventures; to (2) all principal payments due within the period on all "Long-Term Debt"(as defined below) plus interest expense (all as calculated on a consolidated basis for the fiscal year in accordance with GAAP consistently applied or the appropriate standards of the regulatory agency having jurisdiction over the Company). For purposes hereof, "Long-Term Debt" shall mean, for the Company, on a consolidated basis, the sum of (a) all indebtedness for borrowed money, (b) obligations which are evidenced by notes, bonds, debentures or similar instruments, and (c) that portion of obligations with respect to capital leases or other capitalized agreements that are properly classified as a liability on the balance sheet in conformity with GAAP or which are treated as operating leases under regulations applicable to them but which otherwise would be required to be capitalized under GAAP, in each case having a maturity of more than one year from the date of its creation or having a maturity within one year from such date but that is renewable or extendible, at the Company's option, to a date more than one year from such date or that arises under a revolving credit or similar agreement that obligates the lender(s) to extend credit during a period of more than one year from such date, including all current maturities in respect of such indebtedness whether or not required to be paid within one year from the date of its creation.

Total Debt to Capitalization Ratio. The ratio of "Total Debt" to "Total Capitalization" both as defined below. (1) "Total Debt" shall mean, for the Company, on a consolidated basis, the sum of (a) all indebtedness for borrowed money, (b) obligations which are evidenced by notes, bonds, debentures or similar instruments, and (c) that portion of obligations with respect to capital leases or other capitalized agreements that are properly classified as a liability on the balance sheet in conformity with GAAP or which are treated as operating leases under regulations applicable to them but which otherwise would be required to be capitalized under GAAP; and (2) "Total Capitalization" shall mean Total Debt plus "Net Worth" (as defined below). For purposes hereof, "Net Worth" shall mean the difference between total assets less total liabilities (both as determined on a consolidated basis in accordance with GAAP consistently applied or the appropriate standards of the regulatory agency having jurisdiction over the Company), except that in determining Total Capitalization, contributions in aid of construction, advances for construction, customer deposits, or similar items reducing rate base calculations shall be excluded.

Exhibit TF- 1 / TF- 2

Lakes Region Water Co., Inc.
Proforma Balance Sheet

	A	B	C	D	E	F	G
1					Proforma	Proforma	Proforma
2		Actual	Proforma Activity	Proforma	Adj # 1	Adj # 2	After
3		as of	without CoBank	without CoBank	Vendor	CoBank	CoBank Adj.
4		12/31/12	Fy 12/31/13	Fy 12/31/13	Write Downs	Loan	FY 12/31/13
5	ASSETS						
6	Utility Plant						
7	Plant in Service	$ 4,409,594	$ 135,740	$ 4,545,334	$ -	$ -	$ 4,545,334
8	Unfinished Construction	110,529	(24,704)	85,825	-	-	85,825
9	Total Plant	4,520,123	111,036	4,631,159	-	-	4,631,159
10	Accumulated Depreciation	(1,418,560)	(128,760)	(1,547,320)	-	-	(1,547,320)
11	Net Plant	3,101,563	(17,724)	3,083,839	-	-	3,083,839
12	Asset Adjustment - Intangible	(254,025)	(0)	(254,025)	-	-	(254,025)
13	Accum. Amort - Acq. Adj.	160,640	5,688	166,328	-	-	166,328
14	Utility Acquisition Adj (net)	(93,385)	5,688	(87,697)	-	-	(87,697)
15	Total Net Utility Plant	3,008,178	(12,036)	2,996,142	-	-	2,996,142
16	Current Assets						
17	Cash	12,007	17,366	29,373	-	-	29,373
18	Accounts Receivable	164,089	(53,944)	110,145	-	-	110,145
19	Inventory	7,705	12,746	20,451	-	-	20,451
20	Prepaids	40,584	(4,450)	36,134	-	-	36,134
21	Total Current Assets	224,385	(28,283)	196,102	-	-	196,102
22	Deferred Debits	255,424	(25,508)	229,916	(77,000)	5,000	157,916
23	TOTAL ASSETS	$ 3,487,987	$ (65,827)	$ 3,422,160	$ (77,000)	$ 5,000	$ 3,350,160
24							
25	EQUITY CAPITAL & LIABILITIES						
26	Equity Capital						
27	Common Stock	$ 10,000	$ -	$ 10,000	$ -	$ -	$ 10,000
28	Additional Paid In Capital	955,248	-	955,248	-	-	955,248
29	Cap Stock Exp	(11,042)	-	(11,042)	-	-	(11,042)
30	Retained Earnings	415,896	168,920	584,816	19,535	-	604,351
31	Total Equity Capital	1,370,102	168,920	1,539,022	19,535	-	1,558,557
32	Long-term Debt						
33	N/P - TD Bank # 5 [500M refi 1/13/04]	265,613	(36,889)	228,724	-	(228,724)	0
34	N/P - TD Bank # 6 [Consfr 1/13/04]	237,336	(27,474)	209,862	-	(209,862)	(0)
35	N/P - TD Bank # 7 [dc,lov,im 12/29/04]	82,698	(9,726)	72,972	-	(72,972)	(0)
36	N/P St Mary's	3,247	(3,247)	(0)	-	-	(0)
37	N/P St Mary's	-	(0)	(0)	-	-	(0)
38	N/P Gehl 2735 Excavator	9,606	(5,241)	4,365	-	-	4,365
39	N/P Ford Mtr Cr (dump trk)	18,650	(8,229)	10,421	-	-	10,421
40	N/P Ford Mtr Cr (dump trk)	24,556	(8,545)	16,011	-	-	16,011
41	N/P Ford Cr 2013 F-250 / 1794	-	34,782	34,782	-	-	34,782
42	N/P Ford Cr 2013 F-250 / 345	-	24,997	24,997	-	-	24,997
43	LOC CoBank	-	-	-	-	-	-
44	N/P CoBank 500M 15yr	-	-	-	-	500,000	500,000
44	N/P CoBank 400 M 5yr	-	-	-	-	400,000	400,000
45	Total Long term Debt	641,706	(39,573)	602,133	-	388,442	990,575
46	Current Liabilities						
47	Accounts Payable	663,947	(139,614)	524,333	(112,000)	(345,209)	67,124
48	Customer Deposits	956	-	956	-	-	956
49	Accrued Payroll taxes	(210)	210	-	-	-	-
50	Accrued Interest	2,258	(2,258)	-	-	-	-
51	Accrued Federal Income taxes	55,473	17,715	73,188	12,490	(85,678)	0
52	Accrued NHBPT	3,915	(4,335)	(420)	2,975	(2,555)	(0)
53	Total Current Liabilities	726,339	(128,282)	598,057	(96,535)	(433,442)	68,080
54	Deferred Credits						
55	Deferred Income tax	116,004	-	116,004	-	-	116,004
56	C I A C						
57	Contr. in Aid ot Construction	849,099	(0)	849,099	-	-	849,099
58	Accum Amort ot CIAC	(215,263)	(16,892)	(232,155)	-	-	(232,155)
59	Total Net C I A C	633,836	(16,892)	616,944	-	-	616,944
60	Total Equity Capital & Liabilities	$ 3,487,987	$ (15,827)	$ 3,472,160	$ (77,000)	$ (45,000)	$ 3,350,160

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Lakes Region Water Co., Inc.

Proforma Statement of Activities

A	B	C	D	E	F	G
	Actual for the Year Ended 12/31/12	Proforma Activity without Co Bank for the Year Ending 12/31/2013	Proforma Activity without Co Bank for the Year Ending 12/31/2013	Proforma Adj # 1 Vendor Write Downs	Proforma Adj # 2 Coe Bank Loan	Proforma After Co Bank for the Year Ending 12/31/2013
Operating Revenues	$ 1,198,046	$ 1,265,419	$ 1,265,419	$ -	$ -	$ 1,265,419
Operating Expenses:						
Operating and Maintenance	744,087	764,516	764,516	(35,000)	-	729,516
Depreciation Expense	120,654	128,760	128,760	-	-	128,760
Amortization of CIAC	(16,911)	(16,892)	(16,892)	-	-	(16,892)
Amortization of Plant Acquisition Adj.	(5,708)	(5,688)	(5,688)	-	-	(5,688)
Taxes Other than Income	65,830	78,257	78,257	-	-	78,257
Income Taxes	69,293	107,148	107,148	15,465	-	122,613
Total Operating Expenses	977,245	1,056,101	1,056,101	(19,535)	-	1,036,566
Net Water Utility Operating Income	220,801	209,318	209,318	19,535	-	228,853
Other Income and Deduction						
Interest Income (customer accounts)	4,758	4,799	4,799	-	-	4,799
Miscellaneous Deductions	-	-	-	-	-	-
Net Other Income and Deductions	4,758	4,799	4,799	-	-	4,799
Interest Expense	76,447	45,197	45,197	-	-	45,197
Net Income	$ 149,112	$ 168,920	$ 168,920	$ 19,535	$ -	$ 188,455