

Clay Rural Water System, Inc.

Annual Report - 2005



*Financial,
Operating and
Water Quality Information*

Clay Rural Water System, Inc.

About Your Annual Report

The Clay Rural Water System Annual Report presents detailed information on the financial, operating and water quality of your water system for the year 2005. As a member-owned corporation, you have a vested stake in the operation of the System and need to be informed about its operation. After review, we encourage you to contact the System office with any questions or comments you may have. We can be reached at (605) 267-2088 or toll free at 1-888-847-6117

The water quality information presented in this report is required by the Safe Drinking Water Act, a federal law that governs public water systems such as ours. While this information can be technical in nature, we have tried to present it in an easy to understand format. Again, please contact us with any questions you might have.

About Clay Rural Water

The Clay Rural Water System provides water service to 1,750 locations in parts of five counties in southeast South Dakota. The sole purpose of the water system is to provide safe, quality drinking water to its members for domestic, farm and business use.

Clay RWS is a member-owned, non-profit corporation incorporated in June, 1975. The water system was financed and constructed from 1978-1980 primarily with member connection fees and loans and grants from the Farmers Home Administration. It became fully operational in late 1980. The original construction cost of the System was \$5.8 million.

Service to the member population base of 4,600 is provided from the water treatment plant located seven miles east of Wakonda, SD. Water is distributed from the treatment plant through a network of 800 miles of pipeline, five storage reservoirs with a capacity of 790,000 gallons, and three booster stations. Clay RWS is governed by a nine-member Board of Directors, elected by the membership from three voting districts.

Our Mission

The mission of the Clay Rural Water System is to provide high quality water service to the members of the corporation at the lowest possible cost, consistent with sound business practice.

Service Area





To Our Members:

The year 2005 was again a busy one at Clay Rural Water with expansion to new members, completion of the Greenfield Supply Project and continued work on our Strategic Plan. We also moved ahead with our efforts to expand into southern Union County. Some highlights from 2005 include:

We added 39 new users to the system with our own crews.

We completed the Greenfield Supply Project. This \$1.3 million project will increase capacity in the southern portion of our distribution system. We installed 15 miles of new pipeline, an interconnect with the City of Vermillion and a new peaking plant. With completion of this project we can better serve our existing members and meet future growth in this area. We also now have an important backup source of water for a large portion of our system.

We made significant progress on our Strategic Plan this past year. In 2004 the Board of Directors held its third Strategic Planning Session. The Board identified seven goals at that session. This past year the Board implemented a plan to revise our voting districts to include the area encompassed by our southern Union County Expansion Project. We hired a consultant to review our water rates and our methods for calculating our cost of production figures. And finally we implemented a new Long Term Budget process to better identify our long term capitol maintenance needs. In 2006 we will pay off the original loan that was used to build the original water system in the late 1970's. The majority of the funds that were used to make the monthly payments on our original loan will be used to fund the Long Term Budget. Our water system will be 26 years old this year and a great deal of maintenance is needed to keep it operating. We have identified over \$900,000 worth of needs in the next five years. These include repainting of our water towers, replacement of the filters in the water plant, replacement of many of our main water meters, rehab of our pumping stations, drilling a new well and replacement of several vehicles and pieces of equipment.

We moved ahead with our Southern Union County Expansion Project this past year. This project will extend rural water service to the rural areas around Elk Point, Jefferson, McCook Lake and North Sioux City. Residents of this area suffer from poor quality water and two housing developments are in violation of the Safe Drinking Water Act. We plan to serve 120 rural users and 219 users in four housing developments. In total we will add almost 340 new connections to the System. The project will be complete this fall.

We also did additional work in 2005 to improve the safety and security of our water system. Over the past two years we have obtained over \$38,000 of security funds from Clay and Union counties. We have been able to improve the security at our water treatment plant and office as well as at our reservoir sites. We are very appreciative of our local county officials for their assistance.

Sincerely,

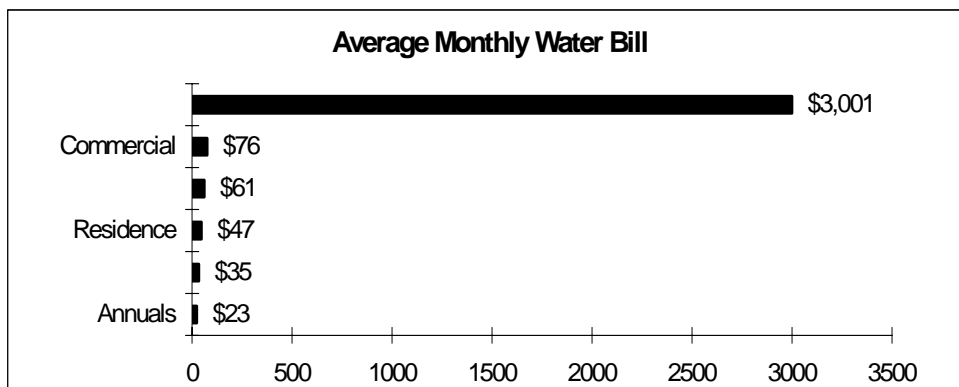
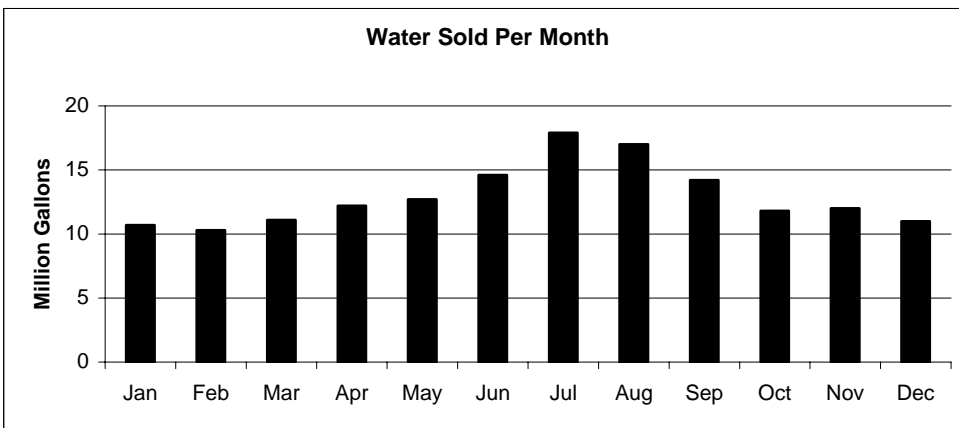
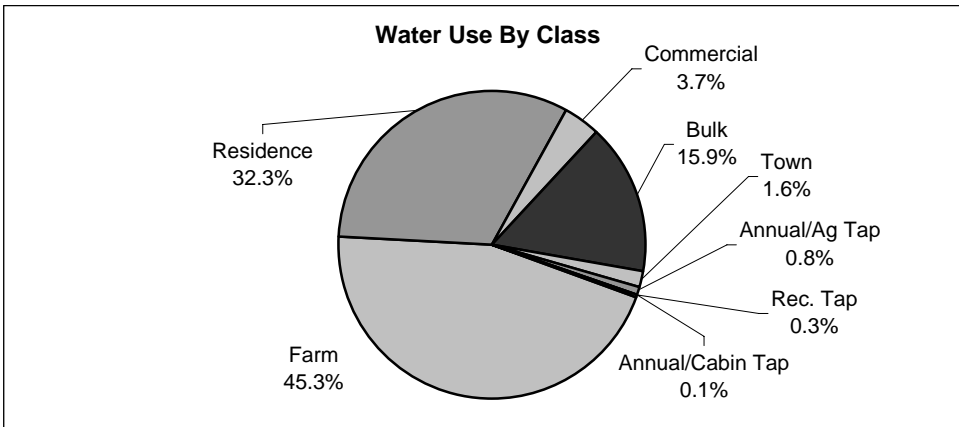
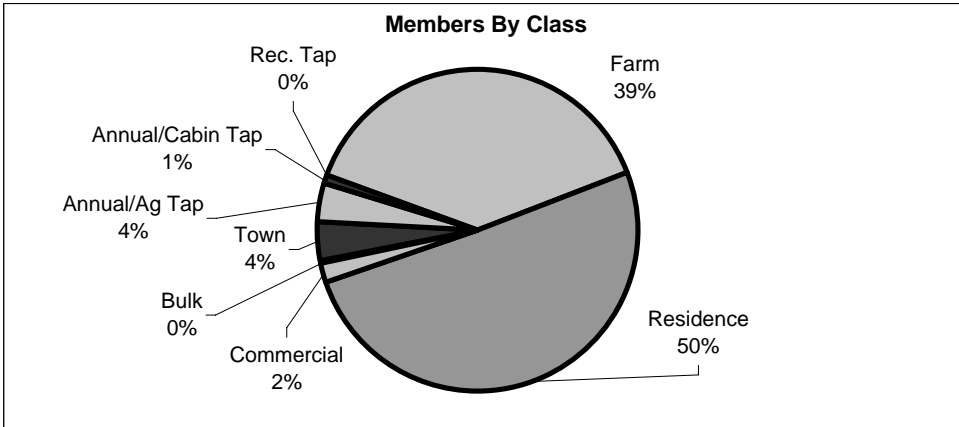
Rick Peterson

Rick Peterson
President, Board of Directors

Five Year Comparisons

	<u>2005</u>	<u>2000</u>	<u>1995</u>
Total Plant Investment	\$14,738,820	\$10,888,931	\$7,748,073
Total Revenue For Year (includes Grants)	\$1,677,410	\$1,164,318	\$1,123,959
Operating Costs (Less Debt Costs)	\$1,125,111	\$919,054	\$525,967
Principle and Interest Payments	\$436,859	\$434,509	\$284,443
Amount Owed on Long Term Debt	\$3,980,566	\$3,084,850	\$2,639,422
Average Number Of Members	1,750	1,520	1,247
Total Gallons Sold	160,435,000	163,191,000	137,000,000
Miles of Pipeline	800	705	650
Cost of Production Per 1,000 Gallons	\$1.71	\$2.00	\$1.30
Average Farm Bill \$/Gallons	\$61.15/9,236	\$60.90/8,645	\$48.33/9,166
Average Residence Bill \$/Gallons	\$47.30/5,068	\$48.70/5,247	\$39.73/5,000

Financial, Operating Information



Balance Sheet

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Current Assets			
Petty Cash	\$ 52	\$ 100	\$ 98
Cash, Checking	\$ 81,167	\$ 65,552	\$ 91,322
Cash, Investments and Savings	\$ 59,553	\$ 72,769	\$ 109,716
Accounts Receivable	\$ 31,720	\$ 19,345	\$ 18,193
Prepaid Insurance, Dues, Services	\$ 12,227	\$ 21,543	\$ 7,318
Materials and Supplies	\$ 86,220	\$ 77,964	\$ 77,546
Total Current Assets	\$ 270,939	\$ 257,273	\$ 304,193
Other Assets			
Refinancing Fee	\$ 100,309	\$ 106,804	\$ 113,244
Cash in Restricted Reserves (Note 1)	\$ 302,354	\$ 390,353	\$ 415,297
CoBank, McLeod Stock (Note 2)	\$ 121,763	\$ 142,521	\$ 167,604
Property, Plant and Equipment	\$14,738,820	\$11,892,625	\$11,671,126
Less Accumulated Depreciation	\$(5,305,577)	\$(4,959,168)	\$(4,659,202)
Total Other Assets	\$ 9,957,669	\$ 7,573,135	\$ 7,708,069
Total Assets	\$10,228,608	\$ 7,830,408	\$ 8,012,262
Current Liabilities			
Accounts Payable (Note 7)	\$ 94,175	\$ 85,020	\$ 21,085
Retirement Payable	\$ 0	\$ 0	\$ 0
Payroll Taxes	\$ 1,055	\$ 776	\$ 6,441
Accrued Interest	\$ 6,212	\$ 6,078	\$ 6,739
Directors Per Diem, Mileage	\$ 4,752	\$ 5,296	\$ 4,482
Use Tax Payable	\$ 216	\$ 186	\$ 88
Accrued Vacation and Sick Leave	\$ 30,097	\$ 32,788	\$ 28,872
Wages Payable	\$ 4,974		
Total Current Liabilities	\$ 141,481	\$ 130,144	\$ 67,707
Note Payable (Note 3)	\$ 3,980,566	\$ 2,228,221	\$ 2,506,771
Deposits and Prepayments (Note 4)	\$ 215,191	\$ 16,192	\$ 7,224
Equity Capitol	\$ 5,891,370	\$ 5,455,851	\$ 5,430,560
Total Liabilities and Equity	\$10,228,608	\$ 7,830,408	\$ 8,012,262

These printed statements are excerpts from the Dec. 31, 2005, 2004, 2003 audited financial statements. The complete audit report is on file with Clay Rural Water System, Inc., Wakonda, SD

Income, Expense Statement

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Income			
Sale of Water	\$ 1,096,542	\$ 1,058,067	\$ 1,062,177
Annual Fees	\$ 14,063	\$ 13,876	\$ 14,139
Membership and Reconnect Fees	\$ 4,591	\$ 4,575	\$ 3,975
Interest Earned	\$ 17,509	\$ 19,544	\$ 15,330
Cash Patronage	\$ 6,721	\$ 8,181	\$ 10,239
Hookup and Line Installation	\$ 90,212	\$ 56,054	\$ 32,943
Grants	\$ 435,931	\$ 900	\$ 10,695
Unrealized Gain/Loss Investments, Disposal of Capitol Assets (Note 2)	\$ (16,925)	\$ (14,759)	\$ 115
Other Income	\$ 28,766	\$ 40,715	\$ 132,991
Total Income	\$ 1,677,410	\$ 1,187,153	\$ 1,282,604
Expenses			
Operating Expense	\$ 321,686	\$ 258,976	\$ 239,049
Administrative and General Expense	\$ 427,675	\$ 415,907	\$ 382,642
Depreciation and Amortization	\$ 375,750	\$ 355,459	\$ 335,042
Interest on Debt (Note 5)	\$ 116,779	\$ 131,520	\$ 159,160
Total Expenses	\$ 1,241,890	\$ 1,161,862	\$ 1,115,893
Net Income (Loss) (Note 6)	\$ 435,520	\$ 25,291	\$ 166,711
Operating Expense Breakdown			
Wells	\$ 1,328	\$ 19,867	\$ 1,606
Water Treatment	\$ 155,872	\$ 116,069	\$ 112,344
Pumping	\$ 2,012	\$ 268	\$ 2,411
Transmission and Distribution	\$ 40,948	\$ 26,515	\$ 28,098
Electrical Charges	\$ 43,177	\$ 38,529	\$ 39,404
Vehicle and Equipment	\$ 54,094	\$ 43,900	\$ 37,269
Misc. Expense	\$ 24,255	\$ 13,828	\$ 17,917
Total Operating Expense	\$ 321,686	\$ 258,976	\$ 239,049
Admin. and General Breakdown			
Legal, Audit, Engineering	\$ 10,503	\$ 14,772	\$ 18,794
Office Operations	\$ 31,080	\$ 23,790	\$ 22,442
Dues, Insurance, Bonds	\$ 96,695	\$ 95,857	\$ 83,030
Directors Expense	\$ 13,287	\$ 18,589	\$ 13,352
Wages and Salaries	\$ 229,328	\$ 222,770	\$ 205,973
Misc. Expense	\$ 46,782	\$ 40,129	\$ 39,051
Total Administrative and General	\$ 427,675	\$ 415,907	\$ 382,642
Depreciation and Amortization	\$ 375,750	\$ 355,459	\$ 335,042
Interest on Debt	\$ 116,779	\$ 131,520	\$ 159,160
Total Expense	\$ 1,241,890	\$ 1,161,862	\$ 1,115,893

These printed statements are excerpts from the Dec. 31, 2005, 2004, 2003 audited financial statements. The complete audit report is on file with Clay Rural Water System, Inc., Wakonda, SD

Notes to Financial Statements

Note 1 - Cash in Restricted Reserves \$302,354

Cash in restricted reserves consists of Mortgage Reserves \$295,364; Customer Deposits and Membership Advances \$6,990.

Note 2 - Stock CoBank, McLeod, Unrealized Gains

Page 4: Clay RWS invests in stock in the National Bank for Cooperatives at an amount equal to 11.5% of the five year average loan balance to meet requirements of loan agreements with CoBank. The amount of stock owned as of Dec. 31, 2005 is \$121,411.

Note 3 - Mortgage Principle Due \$3,980,566

The amount of principle due on System loans. The Original Construction loan will be paid in full in the year 2006; the 1991 Added User Project loan will be paid in full in the year 2011; the Sludge Project loan will be paid in full in the year 2016; the 1995 Water Supply/Treatment System Project loan will be paid in full in the year 2036; the Gayville Project loan will be paid in full in the year 2038; the 1997-98 Added User Project loan will be paid in full in the year 2039; the 2000 Added User Project loan will be paid in full in the year 2041; the Well/Control Project loan will be paid in full in the year 2040; the Greenfield Project loan will be paid in full in the year 2045.

Note 4 - Deposits and Prepayment \$215,191

Credit deposits (\$6,755), customer prepayments (\$2,069), membership advances (\$235) and customer deposits for South Union (\$206,132).

Note 5 - Interest on Debt \$116,779

Of the total debt payment in 2005, \$116,779 was applied to interest and \$320,080 to principle.

Note 6 - Net Income \$435,520

The total net income includes grants of \$435,931.

Note 7 - Accounts Payable

Includes \$57,655 for services payable for the Greenfield and South Union projects.

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Annual Drinking Water Quality Report

Introduction

The Clay Rural Water System is pleased to present its eighth Annual Drinking Water Quality Report. This report is designed to inform you about the quality of water we deliver to you each day. Our constant goal is to provide you with a safe and dependable supply of drinking water. In 2005 the water system treated and delivered 160,435,000 gallons of water to its members.

We want you to fully understand the information contained in this report. If you have any questions, you are welcome to attend the Board of Directors meetings (held the fourth Thursday of every month) or please contact: Greg Merrigan (605) 267-2088.

Where Does Our Water Come From?

Primary Source: Clay Rural Water draws groundwater from the Lower Vermillion - Upper Missouri aquifer in central Clay County. Water is pumped, treated and delivered to members in parts of five counties.

We have undertaken extensive efforts in the past eleven years to protect our water source. With the assistance of the SD Department of Environment and Natural Resources and the South Dakota Association of Rural Water Systems, we have developed a source water assessment and protection plan. A summary of activities was mailed to all System members in 2004. If you would like another copy of the report or any additional information, please contact the System office.

Wynstone Source: Specific information on the Wynstone water system can be found as an insert in the back of this report.

Why Do We Test Our Drinking Water?

The Water we pump from our wells comes from an underground aquifer. As water travels over the surface of the land or through the ground, it dissolves naturally occurring minerals, and can pick up substances resulting from the presence of animals or from human activity.

Contaminants that can occur in source water include: 1) microbial contaminants, such as viruses and bacteria, which can come from sewage treatment plants, septic systems, agricultural livestock operations, and wildlife; 2) inorganic contaminants, such as salts and metals, which can be naturally occurring or result from urban storm water runoff, industrial or domestic wastewater discharges, oil and gas production, mining, or farming; 3) pesticides and herbicides, which may come from a variety of sources such as agriculture, urban storm water runoff, and residential uses; 4) organic chemical contaminants, including synthetic and volatile organic chemicals, which are by-products of industrial processes and petroleum production, and can also come from gas stations., urban storm water runoff, and septic systems ; 5) radioactive contaminants, which can be naturally-occurring or be the result of oil and gas production and mining activities.

In order to ensure that tap water is safe to drink, EPA prescribes regulations that limit the amount of certain contaminants in water provided by public water systems. FDA regulations establish limits for contaminants in bottled water which must provide the same protection for public health.

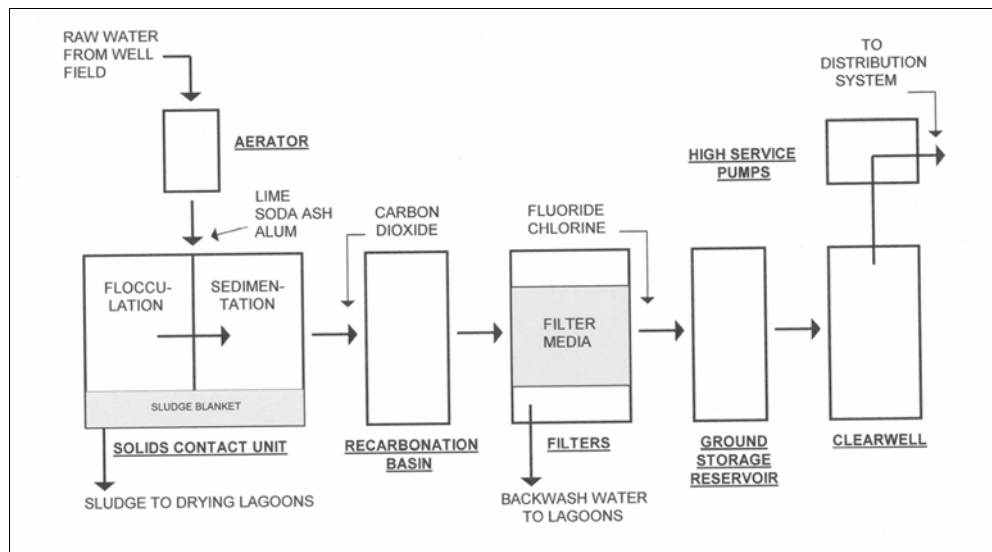
Every gallon of water delivered in 2005 met all state and federal drinking water requirements.

Water Treatment, EPA Information

Treatment Process

The Clay RWS water treatment plant is a lime-softening plant with a daily capacity of 1.1 million gallons.

Water is pumped from three wells located near the plant. Water is first aerated to remove tastes and odors and then treated in a solids contact unit with lime and soda ash to remove minerals and soften. Lime and soda ash settle out of the water with the minerals and form a sludge that is discharged to two drying lagoons. Carbon dioxide is then added to adjust pH. The water is filtered through sand filters to remove any lime and soda ash carryover. Fluoride and chlorine are added and the water flows to storage reservoirs with a capacity of 250,000 gallons. Water is then pumped to the distribution system by four high-service pumps.



Information Provided by EPA

Drinking water, including bottled water, may reasonably be expected to contain at least small amounts of some contaminants. The presence of contaminants does not necessarily indicate that water poses a health risk. More information about contaminants and potential health effects can be obtained by calling the EPA's *Safe Drinking Water Hotline* (1-800-426-4791).

Some people may be more vulnerable to contaminants in drinking water than the general public. Immuno-compromised persons such as persons with cancer undergoing chemotherapy, persons who have undergone organ transplants, people with HIV/AIDS or other immune system disorders, some elderly, and infants can be particularly at risk from infections. These people should seek advice about drinking water from their health care providers. EPA/CDC guidelines on appropriate means to lessen the risk of infection by *Cryptosporidium* and other microbial contaminants are available from the *Safe Drinking Water Hotline* (1-800-426-4791).

2005 Water Quality Test Results

Summary of Results

The Clay Rural Water System routinely tests its water for over 80 substances. The attached table lists all the drinking water contaminants that we detected during the 2005 calendar year. The presence of these contaminants in the water does not necessarily indicate that the water poses a health risk. Unless otherwise noted, the data presented in this table is from testing done Jan. 1 - Dec. 31, 2005. The State requires us to monitor for certain contaminants less than once per year because the concentrations of these contaminants are not expected to vary significantly from year to year. Some of the data, though representative of the water quality, is more than one year old.

Nitrate levels in the water in 2005 were recorded at very low levels as well, one of the signs of a good water source. A common source of nitrates is runoff from fertilizer and animal wastes. With the water systems' source protection efforts, nitrate levels should continue to remain at low levels.

We monitor for lead and copper in some of our users homes to determine if it is leaching from plumbing fixtures. Due to the chemical stability of the water we deliver, the measured lead and copper levels are well below the highest level allowed by EPA.

Substance	Highest Level Detected	Range	Date Tested	Highest Level Allowed (MCL)	Ideal Goal (MCLG)	Units	Major Source of Contamination
Chromium	1.3		11/17/03	100	100	ppb	Discharge from steel and pulp mills; erosion of natural deposits.
Copper	0.0	# Sites > 1.3 AL - 0	07/15/03	AL = 1.3	0	ppm	Corrosion of household plumbing systems; erosion of natural deposits; leaching from wood preservatives.
Fluoride	1.63	0.86 - 1.63	08/18/04	4	4	ppm	Erosion of natural deposits; water additive which promotes strong teeth; discharge from fertilizer and aluminum factories.
Lead	2	# Sites > 15 AL - 0	07/15/03	AL = 15	0	ppb	Corrosion of household plumbing systems; erosion of natural deposits.
Nitrate (as Nitrogen)	0.1		10/13/04	10	10	ppm	Runoff from fertilizer use; leaching from septic tanks, sewage; erosion of natural deposits.
Selenium	1.2		11/17/03	50	50	ppb	Discharge from petroleum refineries; erosion of natural deposits; discharge from mines.
Total trihalomethanes	40		08/24/05	80	0	ppb	By-product of drinking water chlorination.

Definition of Terms

Parts per million (ppm) or Milligrams per liter (mg/l) - one part per million corresponds to one minute in two years or a single penny in \$10,000.

Parts per billion (ppb) or Micrograms per liter (ug/l) - one part per billion corresponds to one minute in 2,000 years or a single penny in \$10,000,000.

Action Level (AL) - the concentration of a contaminant which, if exceeded, triggers treatment or other requirements which a water system must follow.

Maximum Contaminant Level (MCL) - the highest level of a contaminant that is allowed in drinking water. MCLs are set as close to the MCLGs as feasible using the best available treatment technology.

Maximum Contaminant Level Goal (MCLG) - The level of a contaminant in drinking water below which there is no known or expected risk to health. MCLGs allow for a margin of safety.

The Maximum Contaminant Levels are set at very stringent levels. To understand the possible health effects described for many regulated constituents, a person would have to drink two liters of water every day at the MCL level for a lifetime to have a one-in-a-million chance of having the described health effect.

Clay RWS Board Members: Front (l to r): John DeVany, Attorney, Rick Peterson, President, Tom Manning, Glenn Nelson, Sec.-Treas. Back: Craig Nelson, Duane Holoch, Dave Heeren, Jim Ross, Randy Erickson, John Haver, Vice-President.



Clay RWS Staff Members: Front (l to r): Greg Merrigan, Janice Lyso, Buddy Rezac, Donna Henriksen. Back: Evan Peterson, Tom Hollingsworth, Phil Iverson, Mike Schuldt



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