



Delivering Quality on Tap

2008 Annual Report

- FINANCIAL HIGHLIGHTS
- OPERATING RESULTS
- WATER QUALITY INFORMATION



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 2008. 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 2,080 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 5,635 is provided from two water treatment plants located in north central Clay and southern Union counties. Water is distributed from the treatment plants through a network of 1,000 miles of pipeline, six storage reservoirs with a capacity of 1,040,000 gallons, and four 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.

To Our Members:

2008 Financial Performance: In 2008, the financial performance of the water system allowed us to meet our financial requirements. Total revenue was \$1,661,000, which was a record. We did institute a rate increase on January 1, 2008 to cover increased operating costs and to implement some of the recommendations of a rate study conducted in the fall of 2007. Our total gallons of water sold in 2008 decreased from 261 million in 2007 to 239 million. The 2008 total was our second highest in history.

Operational Update: In 2006 and 2007 we undertook several large capitol projects and used reserves to partially fund them. In 2008 we focused our efforts on restoring some of the reserves that were used to finance those projects. Our crews installed 49 new services in 2008. At the end of 2008, a total of 2,079 locations were served. 2007 saw record use for the water system and stretched our ability to provide water during peak use periods from our Wakonda water plant. As a result we enlisted our consulting engineer to do a comprehensive review of our treatment and distribution capacity. The study recommends \$2.3 million in improvements. We have taken steps to implement these improvements in 2010. Included in the project will be the addition of 80 new users who have been waiting to receive service.

2009 Budget Approved: The 2009 Budget and Workplans were approved in January. The budget calls for a rate increase for some classes of users. The 2007 Rate Study as well as the 2009 Budget indicated some classes were not covering their share of operating costs. The comprehensive study completed last fall also indicated that residential users served by the Wakonda water plant were increasing their usage from winter to summer by a significant percentage. This increase is one of the main contributors to our summer peaking issues. We have revised the rate blocks for residential users to encourage wise use of water during peak use periods.

Hyperion Oil Refinery: We were approached last year by officials from Hyperion Refining on our interest to furnish water to their proposed refinery in Union County. We discussed the issue at several board meetings last fall. At present no commitment or formal action has been taken by the Board of Directors. As a Board we are very sensitive to the feelings of our membership on this issue. We have appreciated the input you have provided us. We are investigating this request for service to see if it has any potential for a positive impact on the water system.

If you have any questions on the information presented in this report, please contact the system office at (605) 267-2088 or office@clayruralwater.com

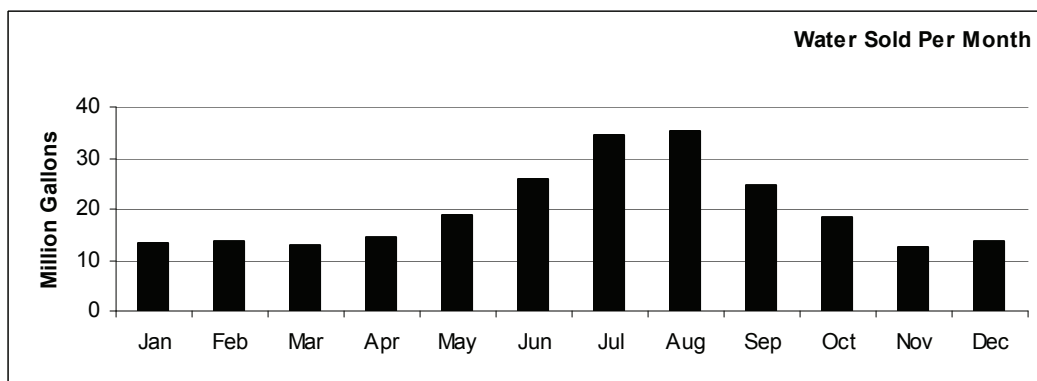
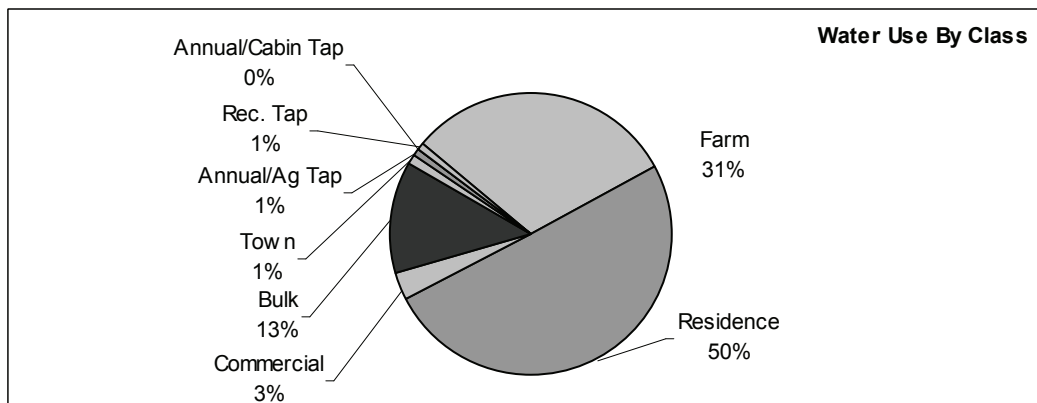
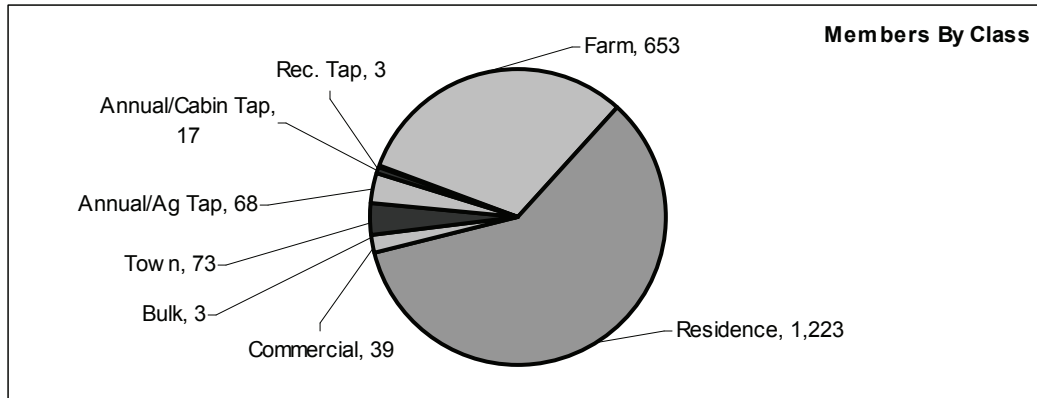
Sincerely,
Craig Nelson
Craig Nelson
President, Board of Directors

Greg Merrigan
Greg Merrigan, Manager

Five Year Comparisons

	<u>2008</u>	<u>2003</u>	<u>1998</u>
Total Plant Investment	\$20,137,013	\$11,671,126	\$10,321,046
Total Revenue	\$1,661,637	\$1,271,909	\$1,039,307
Grants Received	\$0.00	\$10,695	\$304,857
Operating Costs (Less Debt Costs) In- cludes \$639,389 in Depreciation Costs	\$1,615,611	\$956,733	\$859,861
Principle and Interest Payments	\$498,923	\$444,607	\$374,250
Amount Owed on Long Term Debt	\$7,325,040	\$2,506,771	\$3,204,252
Average Number Of Members	2,080	1,608	1,349
Total Gallons Sold	239,318,000	151,896,000	151,492,000
Miles of Pipeline	1,005	770	745
Cost of Production Per 1,000 Gallons	\$1.99	\$2.46	\$1.78
Average Farm Bill \$/Gallons	\$66.22/9,509	\$57.73/8,875	\$55.44/8,250
Average Residence Bill \$/Gallons	\$51.64/8,111	\$48.83/4,858	\$45.48/4,833

Operating Information



Balance Sheet

ASSETS	<u>2008</u>	<u>2007</u>
Petty Cash	\$ 81	\$ 90
Cash, Checking	34,641	42,204
Cash, Investment and Savings	89,564	21,395
Accounts Receivable	30,648	27,446
Prepaid Insurance, Dues, Fees	5,463	5,447
Materials and Supplies	88,113	109,701
Notes Receivable	453,497	462,742
Restricted Savings (Note 1)	130,613	71,659
CoBank Stock (Note 2)	59,139	75,014
TOTAL	891,759	815,698
Investments in Lines, Buildings, Equipment	20,137,013	19,970,324
Less: Accumulated Depreciation	6,973,652	6,334,264
<u>TOTAL ASSETS</u>	<u>\$14,055,120</u>	<u>\$14,451,758</u>
LIABILITIES	<u>2008</u>	<u>2007</u>
Accounts Payable	\$ 45,442	\$ 128,943
Accrued Interest	38,347	38,570
Accrued Vacation and Sick Leave	33,447	30,953
Deferred Revenue	362,690	0
Deposits and Prepaids	16,675	15,893
Notes Payable (Note 3)	7,325,040	7,767,474
Total	7,821,641	7,981,833
Equity in the Above Assets	6,233,479	6,469,925
<u>TOTAL LIABILITIES AND EQUITY</u>	<u>\$14,055,120</u>	<u>\$14,451,758</u>

These printed statements are excerpts from the Dec. 31, 2008 and 2007 audited financial statements. The complete audit report is on file with Clay Rural Water System, Inc., Wakonda, SD.

Income, Expense Statement

INCOME	<u>2008</u>	<u>2007</u>
Water Sales	\$1,489,340	\$1,410,573
Other Revenues		
Hookup Line Installation	109,632	162,373
Membership Fees	2,571	2,774
Reconnect Fees	5,359	3,909
Interest and Dividends	10,148	14,434
Misc. Revenue	44,587	39,940
Total Other Revenues	172,297	223,430
Grant Revenue	0.00	12,104
<u>TOTAL OPERATING REVENUES</u>	\$1,661,637	\$1,646,107
EXPENSES	<u>2008</u>	<u>2007</u>
Source of Supply Expense	\$ 33,041	\$ 21,926
Pumping Expense	48,748	44,547
Water Treatment Expenses, Chemicals	227,906	275,749
Transmission and Distribution Expenses	123,072	159,966
Customer Accounting and Collecting, Meter Reading	35,595	31,072
Salaries of General Officials	15,100	14,500
General Office Salaries	112,670	100,080
General Office Supplies and Expenses	27,586	28,239
Outside Services Employed	34,886	34,175
Insurance Expense	27,365	26,512
Employee Pensions and Benefits	136,581	134,642
Transportation Expenses	58,166	47,485
Misc. General Expense, Bad Debt Expense	31,638	24,768
O&M-General Property	63,868	67,254
TOTAL OPERATING EXPENSE BEFORE DEPR.	976,222	1,010,915
Depreciation and Amortization	639,389	633,613
Interest on Long Term Debt (Note 4)	282,472	282,146
Unrealized Gain (Loss) on Investments	0.00	3,034
<u>TOTAL EXPENSES</u>	1,898,083	1,929,708
NET INCOME (LOSS) (Note 5)	\$ (236,446)	\$(283,601)

Notes to Financial Statements

Note 1 - Cash in Restricted Reserves \$130,613

Cash in restricted reserves consists of: Mortgage Reserves \$130,613

Note 2 - Stock CoBank, Unrealized Gain/Loss

Clay RWS invests in stock of the National Bank for Cooperatives at an amount equal to 11.5% of the five year average loan balance to meet the requirements of loan agreements with CoBank. The amount of stock owned as of Dec. 31, 2008 is \$59,139.

Note 3 - Mortgage Principle Due \$7,325,040

The amount of principle due on System loans. 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 Wynstone Irrigation loan will be paid in full in the year 2026; 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; the South Union State Revolving Loan will be paid in full in the year 2037.

Note 4 - Interest on Debt \$282,472

Of the total debt payment in 2008, \$282,472 went to interest and \$216,451 to principle.

Note 5 - Net Income (Loss) (\$236,446)

The total net income includes Depreciation Expense in the amount of \$639,389.

These printed statements are excerpts from the Dec. 31, 2008 and 2007 audited financial statements. The complete audit report is on file with Clay Rural Water System, Inc., Wakonda, SD.

Annual Drinking Water Quality Report

Introduction

The Clay Rural Water System is pleased to present its eleventh 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 2008 the water system treated and delivered 241,851,560 gallons of drinking 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?

Wakonda Source: Clay Rural Water draws groundwater from the Lower Vermillion - Upper Missouri aquifer in central Clay County. Three wells ranging in depth from 60' to 200' pump water to the treatment plant. Water from the Wakonda plant is then treated and delivered to members in parts of five counties.

South Union Source: Clay Rural Water also draws groundwater from the Dakota Formation west of McCook Lake. Two wells, 300' deep deliver water to the Wynstone Water Treatment Plant. Water is delivered to all members in Union County residing south of Elk Point. This includes the residents of the Deer Run, Wynstone, Sandy Mead and Riv-R-Land developments.

Source Water Protection

We have undertaken extensive efforts in the past fourteen years to protect our water sources. 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 for the Wakonda source.

Efforts include signage, specific water sampling and revision of Clay County zoning ordinances to regulate activities in the source water area.

We are currently developing a source water protection plan for our South Union source.

If you would like further information on our source water efforts, please contact the water system office (605) 267-2088, office@clayruralwater.com

Water Quality Information

Why Do We Test Our Drinking Water?

The Water we pump from our wells comes from underground aquifers. 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.

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).

Water Quality Information

What Law Keeps My Drinking Water Safe?

Congress passed the Safe Drinking Water Act (SDWA) in 1974 to protect public health by regulating the nation's public drinking water supply and protecting sources of drinking water. SDWA is administered by the U.S. Environmental Protection Agency (EPA) and the South Dakota Department of Environment and Natural Resources (DENR).

Highlights of the Safe Drinking Water Act

- Authorizes EPA to set enforceable health standards for contaminants in drinking water.
- Requires public notification of water systems violations and annual reports (Consumer Confidence Reports) to customers on contaminants found in their drinking water - www.epa.gov/safewater/ccr
- Establishes a federal - state partnership for regulation enforcement.
- Included provisions specifically designed to protect underground sources of drinking water - www.epa.gov/safewater/uic
- Establishes a multi-billion-dollar state revolving loan fund for water system upgrades - www.epa.gov/safewater/dwsrf
- Requires an assessment of the vulnerability of all drinking water sources to contamination - www.epa.gov/safewater/protect

Water Tests Performed in 2008

The Clay Rural Water System performs numerous tests on its drinking water supplies to ensure they are safe. All testing done for Safe Drinking Water Act (SDWA) compliance is done by the South Dakota Public Health Laboratory in Pierre. In addition, System Operators perform daily water quality tests to monitor treatment and disinfection effectiveness.

The following SDWA tests were conducted in 2007:

- 72 bacteria presence/absence tests.
- 24 fluoride tests.
- 2 Disinfection by products tests.
- 1 volatile organic compounds test.
- 2 nitrate tests.

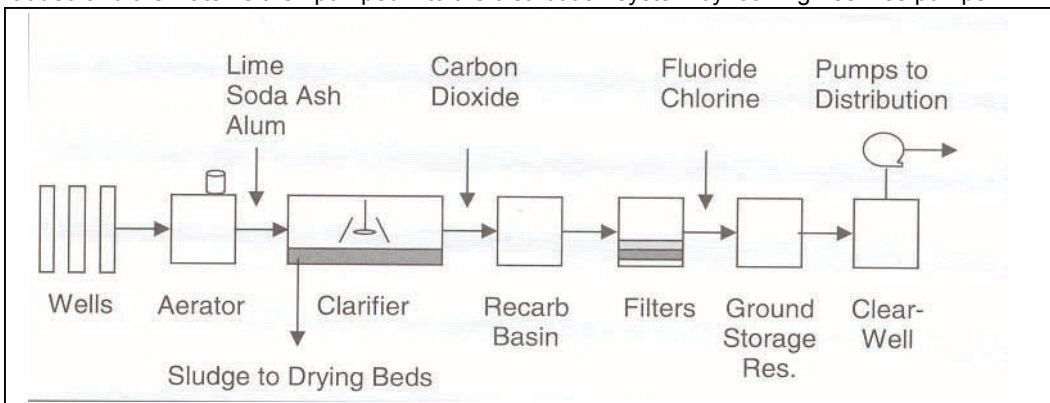
All samples met all state and federal drinking water standards.



Water Treatment

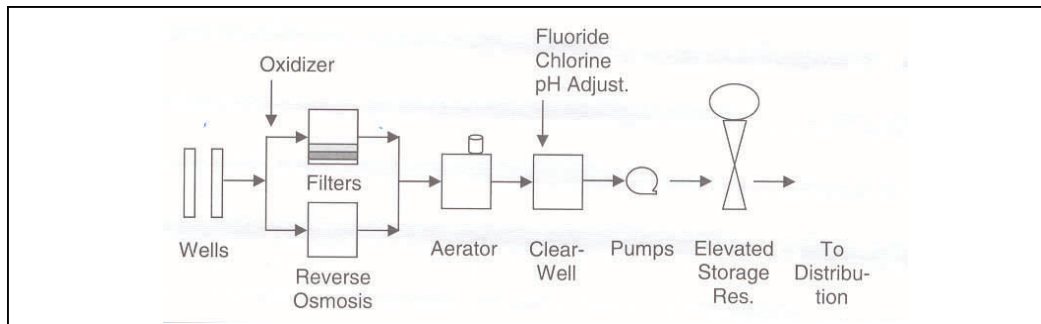
Wakonda Water Treatment Plant

The Wakonda water plant utilizes a lime-softening process and has 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 is then pumped into the distribution system by four high-service pumps.



South Union/Wynstone Water Treatment Plant

The Wynstone plant utilizes a state-of-the-art reverse osmosis treatment system with a capacity of 360,000 gallons per day. Water is pumped from two wells adjacent to the plant. Water is split as it enters the plant with 20% going to two iron and manganese removal filters and the remainder to the reverse osmosis unit where iron, manganese and hardness are removed. The two streams then combine and run through an aerator to remove odors. Fluoride and chlorine are added as the water flows to an underground 125,000 gallon clearwell. Two high service pumps pump the water to a 250,000 gallon elevated tank. Water then flows by gravity to the distribution system.



2008 Water Quality Test 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 2008 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, 2008. DENR 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.

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.

Summary of Results - Wakonda Source (EPA ID Number 0626)

Substance	Highest Level Detected	Range	Date Tested	Highest Level Allowed (MCL)	Ideal Goal (MCL G)	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	08/17/06	AL = 1.3	0	ppm	Corrosion of household plumbing systems; erosion of natural deposits; leaching from wood preservatives.
Fluoride	1.47	0.95 - 1.47	11/20/08	4	4	ppm	Erosion of natural deposits; water additive which promotes strong teeth; discharge from fertilizer and aluminum factories.
Lead	1	# Sites > 15 AL - 0	08/17/06	AL = 15	0	ppb	Corrosion of household plumbing systems; erosion of natural deposits.
Nitrate (as Nitrogen)	<0.2		06/12/08	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.

2008 Water Quality Test Results

Summary of Results - South Union Source (EPA ID Number 2185)

The Clay Rural Water System assumed operation of the Wynstone Housing Development water system on September 1, 2005. In 2006 a new plant was constructed and in late 2006 water supply began to the Sandy Mead, Riv-R-Land areas as well as rural members located south of Elk Point. The data presented below is from both the old and new water treatment plants. Some of the data predates Clay Rural Water's operation of the Wynstone system.

Sub-stance	Highest Level De-tected	Range	Date Tested	Highest Level Allowed (MCL)	Ideal Goal (MCLG)	Units	Major Source of Contamination
Alpha emitters	4.1		12/30/04	15	0	pCi/l	Erosion of natural deposits.
Antimony	0.5		04/19/06	6	6	ppb	Discharge from petroleum refineries; fire retardants; electronics; solder.
Barium	0.020		04/19/06	2	2	ppm	Discharge of drilling wastes; discharge from metal refineries; erosion of natural deposits.
Chromium	1.9		04/19/06	100	100	ppb	Discharge from steel and pulp mills; erosion of natural deposits.
Combined Radium	0.70		12/30/04	5	0	pCi/l	Erosion of natural deposits.
Copper	0.2	# Sites > 1.3 AL - 0	08/21/07	AL = 1.3	0	ppm	Corrosion of household plumbing systems; erosion of natural deposits; leaching from wood preservatives.
Ethylbenzene (Bulk Source)	2	0-2	09/17/07	700	700	ppb	Discharge from petroleum refineries.
Fluoride	1.27	1.20-1.27	7/08/08	4	4	ppm	Erosion of natural deposits; water additive which promotes strong teeth; discharge from fertilizer and aluminum factories.
Haloacetic Acids	4.13		8/27/08	60	0	ppm	By-product of drinking water chlorination.
Lead	2	# Sites > 15 AL - 0	08/21/07	AL = 15	0	ppb	Corrosion of household plumbing systems; erosion of natural deposits.
Selenium	1.7		04/19/06	50	50	ppb	Discharge from petroleum refineries; erosion of natural deposits; discharge from mines.
Total Trihalomethanes	27.6		08/27/08	80	0	ppb	By-product of drinking water chlorination.

2008 Water Quality Test Results

Summary of Results - Deer Run Estates (EPA ID Number 2226)

The Clay Rural Water System began supplying bulk water to the Deer Run Estates Development on December 1, 2006. Also on that date, Clay Rural Water assumed contract operation of the Deer Run distribution system. Under terms of this contract, Clay Rural Water assumed all monitoring and reporting obligations. Some of the information presented in the following tables predates water supply to and operation of the Deer Run distribution system by Clay Rural Water.

For more information about the Deer Run Estates water system and information on opportunities to participate in public meetings, contact your Homeowners Association.

Substance	Highest Level Detected	Range	Date Tested	Highest Level Allowed (MCL)	Ideal Goal (MCLG)	Units	Major Source of Contamination
Alpha emitters	10.3		08/22/05	15	0	pCi/l	Erosion of natural deposits.
Barium	0.030		03/27/03	2	2	ppm	Discharge of drilling wastes; discharge from metal refineries; erosion of natural deposits.
Chromium	3.5		03/27/03	100	100	ppb	Discharge from steel and pulp mills; erosion of natural deposits.
Combined Radium	13.90		08/22/05	5	0	pCi/l	Erosion of natural deposits.
Copper (Bulk Source)	0.1	#Sites> 1.3 AL - 0	08/21/07	AL=1.3	0	ppm	Corrosion of household plumbing systems; erosion of natural deposits; leaching from wood preservatives.
Copper (in Deer Run system)	0.2	#Sites> 1.3 AL - 0	08/22/07	AL=1.3	0	ppm	Corrosion of household plumbing systems; erosion of natural deposits; leaching from wood preservatives.
Ethylbenzene (Bulk Source)	2	0-2	09/17/07	700	700	ppb	Discharge from petroleum refineries.
Fluoride (Bulk Source)	1.27	1.20-1.27	07/08/08	4	4	ppm	Erosion of natural deposits; water additive which promotes strong teeth; discharge from fertilizer and aluminum factories.
Haloacetic Acids	4.13		8/27/08	60	0	ppm	By-product of drinking water chlorination.
Lead (Bulk Source)	2	# Sites > 15 AL - 0	08/21/07	AL = 15	0	ppb	Corrosion of household plumbing systems; erosion of natural deposits.
Lead	0	# Sites > 15 AL = 0	08/22/07	AL = 15	0	ppb	Corrosion of household plumbing systems; erosion of natural deposits.
Total Trihalomethanes	27.6		08/27/08	80	0	ppb	By-product of drinking water chlorination.

2008 Violations for Deer Run Estates

Failure to Issue Public Notice: 06/07/2005; 06/08/2005; 06/09/2005; 06/10/2005; 01/07/2006; 01/08/2006; 01/09/2006. Corrective Action: Deer Run Estates has contracted with the Clay Rural Water System for all monitoring, reporting and operational requirements. A notice was mailed to all residents in August. These violations predate Clay Rural Water's operation.

Definition of Terms Used on the Preceding Pages

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.

Picocuries per liter (pCi/l) - a measure of radioactivity.

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 Rural Water System Inc
30376 SD HWY 19
Wakonda SD 57073-6416

