

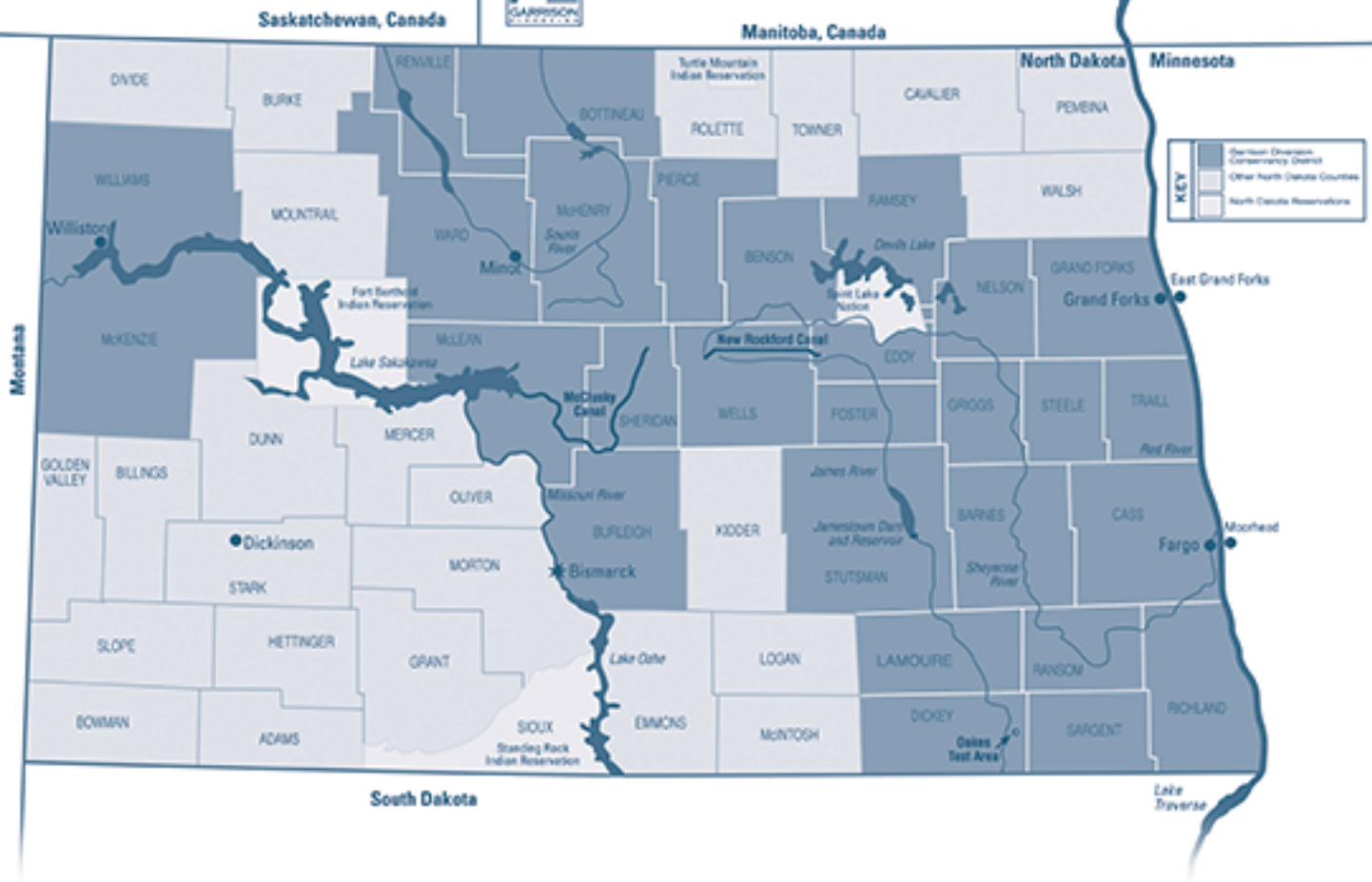


Planning for the Future





GARRISON DIVERSION MAP



Garrison Diversion is committed to securing a stronger future for all of North Dakota by providing a reliable, high quality and affordable water supply. It also includes providing opportunities for industry, the environment, agriculture, recreation and development of our natural resources for multiple uses.





Rick Anderson

Rick Anderson
Chairman



Dave Koland

Dave Koland
General Manager



Board of Directors

Front Row left to right: Norman Rudel, Wells County; Ken Royse, Burleigh County; John Leininger, Griggs County; Rick Anderson, McLean County; Norman Haak, Dickey County; Dennis Wendel, LaMoure County; Harlan Opdahl, Barnes County; Maurice Orn, Sargent County; Kenny Rogers, Bottineau County

Middle Row left to right: Bill Krivarchka, Traill County; Jim Burbidge, Renville County; Alan Walter, Ward County; LeRoy Johnson, Pierce County; Maynard Helgaas, Stutsman County; David Johnson, Benson County; Roger Johnson, Nelson County; Jon Lindgren, Cass County; Richard Cayko, McKenzie County

Back Row left to right: Steve Metzger, Foster County; John Peyerl, Ramsey County; Tim Schindler, Sheridan County; Richard Fugleberg, Steele County; Ken Vein, Grand Forks County; Kelly Klosterman, Richland County; Charles Richter, Eddy County; E. Ward Koeser, Williams County; Warren (Bud) Lyons, Ransom County

Not pictured Cliff Hanretty, McHenry County

Executive Letter

Planning for the future water needs of North Dakota is the mission of Garrison Diversion. Whether the focus is Agriculture, Recreation, MR&I, the Red River Valley Water Supply Project or Operations and Maintenance, these initiatives are important because they position our resources for the future.

Our Municipal, Rural & Industrial Program, in partnership with the State Water Commission, provided over \$14.87 million this fiscal year towards the water infrastructure that will sustain and support North Dakota's future.

Recreational opportunities within the district continue to expand with our matching recreation grant funding.

In our role as co-lead for the Red River Valley Water Supply Project Environmental Impact Statement, we worked to coordinate state agency input to compile the Supplemental Draft Environmental Impact Statement. The economic consequences of a 1930s-type drought on the region are staggering. Providing the Red River Valley with a supplemental water supply is critical to preventing a potential disaster.

Keeping our initiatives in focus, we can ensure that the future includes a reliable, high quality and affordable water supply for the benefit of North Dakota.



Staff

Front Row left to right: Marty Koeplin, Kristin Esser, Geoff Theurer, Lisa Schafer, Dave Koland, Merri Mooridian, David Johnson, Benjamin Dockter, John Schuh

Middle Row left to right: Matt Ziegler, Curt Nelson, Tom Wagner, Roger Mindt, Renae Duchscherer, Kerry Beckman, Judy Allmaras, Darren Murray, Terry Schindler, Jerry Kellar, Kip Kovar, Charnell Haak

Back Row left to right: Stacey Gussiaas, Michelle Werner, Dave Peterson, Sue Stein, Martha Hagen MacLeod, Vern Lasher, Jerry Baker, LuVerne Albrecht, John Odstrcil, Julee Erdmann, Marlene Smith

Not pictured: Dale Esser, Ernie Mathias

Planning for the Future: Delivering a Reliable Water Supply

A reliable water supply is critical to the sustainability and future growth of North Dakota. Garrison Diversion is committed to securing dependable municipal, rural and industrial (MR&I) water supplies for the state's residents today and into the future.

In cooperation with the State Water Commission, over \$14.87 million was expended this fiscal year to North Dakota municipal and rural water systems.

The MR&I Fund recipients include:

- All Seasons System IV – Bottineau
- All Seasons System V – Rugby
- Langdon Rural Water
- McKenzie County Rural Water
- Northwest Area Water Supply Phase I – Rugby
- Northwest Area Water Supply Phase II – Minot
- Ramsey County Rural Water
- Tri-County Rural Water
- City of Underwood
- City of Williston

The Water Development and Research Fund recipients include:

- All Seasons System IV – Bottineau
- All Seasons System V – Rugby
- City of Carrington
- McKenzie County Rural Water
- Mountrail County Rural Water
- North Valley Water District
- Park River Water System
- Ramsey County Rural Water
- Stutsman Rural Water District
- Traill Rural Water District
- Williams Rural Water

Through a joint venture with the North Dakota Rural Water Systems Association, Garrison Diversion provided funding for the Water Conservation Plan Program. This program is intended to assist both rural and municipal water systems in eastern North Dakota in creating water conservation plans and drought management plans. In 2006, 36 systems within the Red River Valley completed water conservation plans.



Williston Water Treatment Plant





Planning for the Future: Supporting Agricultural Advancements

Garrison Diversion's investment in agricultural initiatives continues to provide benefits to North Dakota farmers and ranchers. Our funding provides leadership and financial support for high value irrigation research, production, processing and marketing.

Recipients of funding include:

- North Dakota Irrigation Association
- NDSU Oakes Irrigation Research Site
- NDSU Irrigation Specialist Position
- NDSU Extension Irrigation Research and Outreach Program

At the Oakes Test Area, 3,109 acres were irrigated during the 2006 growing season. To secure future irrigation reliability, a study was initiated to locate additional groundwater sources near the Oakes Test Area. A water permit application was submitted to the State Water Commission for an additional 5,000 acre-feet of water.

Accessibility to project pumping power is a continuing focus for Garrison Diversion. This access would allow irrigators in designated Garrison Diversion Unit projects to irrigate at a reduced power rate.

Planning for the Future: Offering New Recreational Opportunities

The enhancement of one of North Dakota's most treasured resources, our recreational opportunities, is a key initiative for Garrison Diversion. Our commitment to recreational development is demonstrated through our matching grant program. We feel that investing in the promotion, development and preservation of our natural resources is important to ensure the continued and future utilization of these areas.

Garrison Diversion expanded its support of North Dakota's natural resources in 2006 by signing a recreation management agreement with the Bureau of Reclamation for the Chain of Lakes area in central North Dakota. This agreement will allow for the additional development of recreational facilities within the area.



Youth jumping into New John's Lake



Fishing in New John's Lake



Youth helping with construction at Garrison Skate Park



O&M workers refurbishing pump at Oakes Pumping Plant



O&M workers placing north stoplogs at New John's Lake for canal pumpdown



Snake Creek Pumping Plant

Planning for the Future: Maintaining and Improving Our Facilities

The Operations and Maintenance (O&M) of the Garrison Diversion Unit facilities ensure the current and future utilization of the project features. Routine work performed at the McClusky and New Rockford Canals and Oakes Test Area consisted of monitoring and inspecting the facilities, water operations, building and equipment maintenance, rock and gravel hauling, and spraying for noxious weeds.

Additional improvements completed at the McClusky Canal included hauling 3,000 loads of rock for erosion control, placing beach belting and rip rap material along the canal, and repairing four upper berm drains. Along the New Rockford Canal, reclaiming work was done in spoil areas. At the Oakes Test Area, 2,916 acre-feet of water was delivered to irrigators. In addition, three pumps at the Oakes Pumping Plant were refurbished.

At the Snake Creek Pumping Plant, the Garrison Diversion O&M staff installed a pilot water treatment system for the State Water Commission and Bureau of Reclamation for the Northwest Area Water Supply project.



Low Red River water levels at the Midtown Dam in Fargo, July 2006

Planning for the Future: Ensuring Quality Drinking Water for the Red River Valley

The Red River Valley faces a potential water supply crisis. Most residents rely on the drought-prone Red River and its tributaries as their primary water source. Studies predict that present water supplies would be inadequate during a drought similar to the 1930s.

In 1934, there were nearly five consecutive months of zero flow in the Red River at Fargo. If such a shortage occurred today, it would take 1,200 truckloads of water per day to supply Fargo's basic indoor household water needs. That is a truckload arriving every minute around the clock for five months. Given the predicted future population growth in the valley, the projected water supply shortages will become even greater in the future.

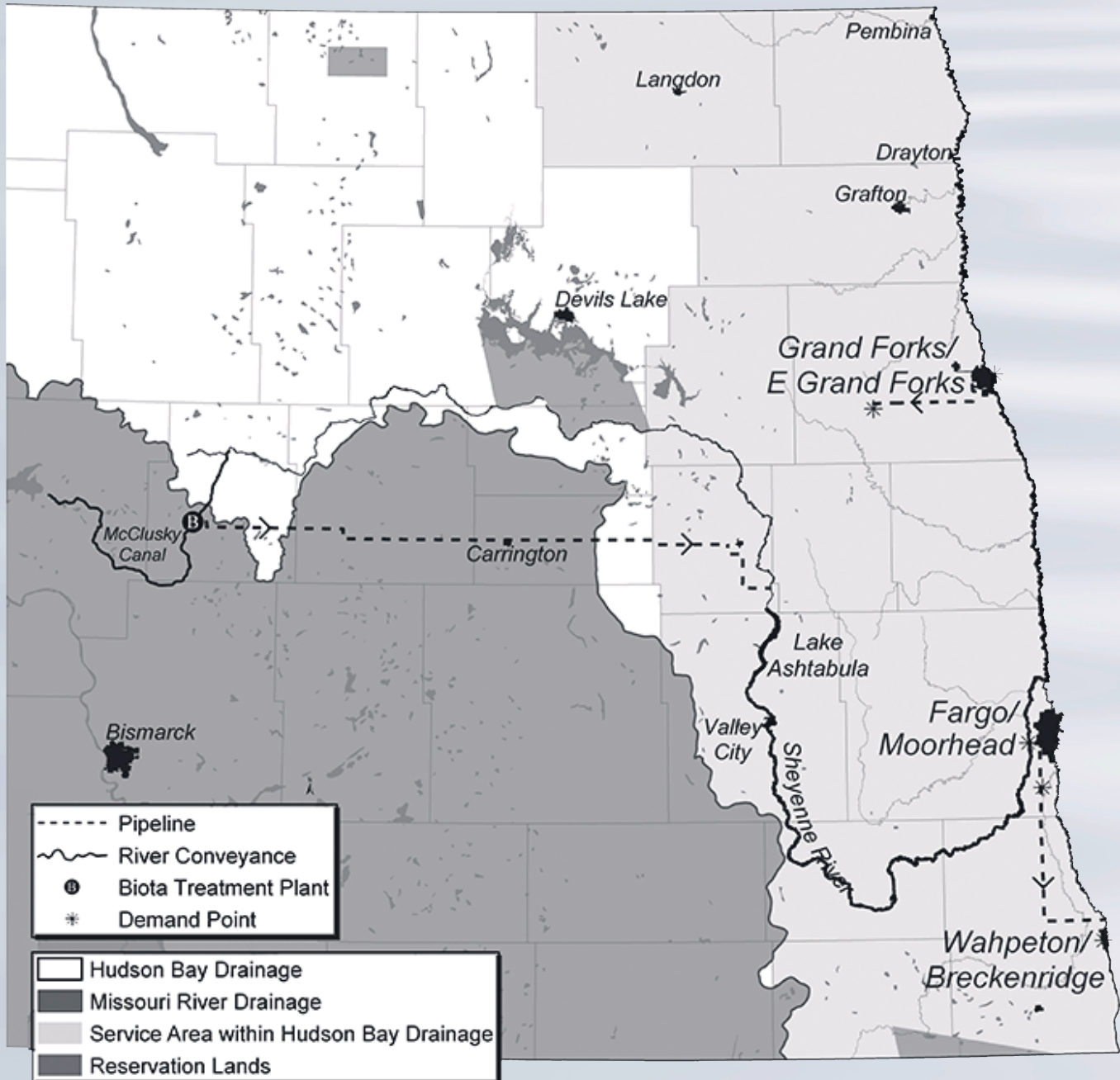
Studies show that a 1930s-type drought could realistically be repeated before 2050. To ensure the future prosperity of the state and region, the Red River Valley Water Supply Project continues to be an important focus for Garrison Diversion.

In December 2005, the Bureau of Reclamation and State of North Dakota, represented by Garrison Diversion, released a Draft Environmental Impact Statement on the Red River Valley Water Supply Project. Throughout 2006, public hearings were held across the state, and comments were collected regarding the project. As the state lead, Garrison Diversion coordinated state agency input to help compile the Supplemental Draft Environmental Impact Statement.

The State of North Dakota and Bureau of Reclamation's Preferred Alternative for the Red River Valley Water Supply Project would supplement existing water supplies with Missouri River water to meet future water needs. Treated Missouri River water would be diverted eastward through a buried pipeline. Using Lake Ashtabula as a regulating reservoir, the water would then proceed into the Sheyenne River and ultimately flow into the Red River.



Preferred Alternative for the Red River Valley Water Supply Project



Management's Discussion and Analysis

Introduction

The North Dakota legislature created the Garrison Diversion Conservancy District (Garrison Diversion) in 1955. The 28 North Dakota counties that comprise the district each elect a citizen to the Garrison Diversion Board of Directors and levy a one-mill property tax to support its operations. Annual federal appropriations provide funding for the operations, maintenance and replacement (OM&R) of the McClusky Canal, New Rockford Canal, and Oakes Test Area; funding of the municipal, rural and industrial program (MR&I) and the Red River Valley Water Supply Project (RRVWSP). Our headquarters are located in Carrington, North Dakota. Operation and maintenance offices are located in McClusky, New Rockford and Oakes, North Dakota. Currently, Garrison Diversion has 39 full-time and seasonal employees.



Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to Garrison Diversion's basic financial statements. Garrison Diversion's basic financial statements comprise three components: 1) district-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The complete financial statements are contained in the annual audit report.

District-wide Financial Statements

The *district-wide financial statements* are designed to provide readers with a broad overview of Garrison Diversion's finances in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of Garrison Diversion's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Garrison Diversion is improving or deteriorating.

The *statement of activities* presents information showing how the district's net assets changed during the most recent fiscal year. Changes in net assets are reported under the modified cash basis of accounting.



Assets, Liabilities and Net Assets

The Statement of Assets, Liabilities and Net Assets, as shown on the next page, lists total net assets of \$10,676,032 and \$18,892,504 for the fiscal years ended December 31, 2006, and June 30, 2005, respectively. There was a reduction in net assets compared to last fiscal year's net assets. The biggest factor accounting for the reduction in net assets was the appropriation for the MR&I program being \$8,777,554 less than the amount spent on construction for the fiscal year.

Under the Modified Cash Basis of accounting used by Garrison Diversion, the appropriation for the MR&I program is recognized as revenue in the year it is received and the expenditure in the year it is actually paid to reimburse an eligible expenditure by a project sponsor. Normally, that expenditure is not until 1-2 years after the appropriation was recognized as revenue. (Projects receive approval to begin construction when the money for the project is deposited in the MR&I Program Fund bank account.)



Statement of Activities

Program Revenue

Garrison Diversion has changed its fiscal year from a July 1 to June 30 period to a January 1 to December 31 period beginning in 2007. Therefore, the revenues and expenses on the next page in the “December 31, 2006” column are for an 18-month period while the revenues and expenses in the “June 30, 2005” column represent a 12-month period.

Total revenues for fiscal years ended December 31, 2006, and June 30, 2005, were \$14,005,285 and \$13,897,425, respectively. This is an increase of 0.78%, or \$107,860. The increase from fiscal year 2005 was the net result of \$535,566 more revenue in the General Fund (Administrative), \$583,869 more revenue in the Operations, Maintenance and Replacement Fund, a \$550,194 increase in the Red River Valley Water Supply Project, offset by \$1,561,769 less revenue for the Municipal, Rural & Industrial Fund.

Red River Valley Water Supply Project

The Red River Valley studies were ongoing in the 2005/2006 fiscal year. The revenue from the Bureau of Reclamation increased from \$698,641 to \$1,248,835, and the expenses increased from \$760,667 to \$1,096,966.

The funds were used to support staff working on the project and to fund consultants doing specific studies for the project.

Program Expenses

Total expenses for all programs in the fiscal years ended December 31, 2006, and June 30, 2005, were \$22,221,757 and \$19,144,092, respectively. This is an increase of 16%, or \$3,077,665. The decrease from fiscal year 2004/2005 was the net result of \$721,961 more expenses in the General Fund (Administrative), \$1,438,519 more spent in the Municipal, Rural and Industrial (MR&I) program, \$336,299 increased spending on the Red River Valley Water Supply Project (RRVWSP), and \$580,886 more spent on Operations, Maintenance and Replacement (OM&R).



GARRISON DIVERSION NET ASSETS

	Dec. 31, 2006	June 30, 2005
ASSETS		
Cash	\$6,232,149	\$13,675,207
Investments	3,121,105	3,869,730
Due from Employees	0	3,524
Land	123,667	123,667
Land Improvements	237,166	248,066
Buildings	694,017	694,017
Equipment	2,970,495	2,711,402
Less Accumulated Depreciation	(2,503,612)	(2,243,712)
Total Assets	\$10,874,987	\$19,081,901
LIABILITIES		
Due to Employees	\$3,192	\$5,199
Compensated Absences	195,763	184,198
Total Liabilities	198,955	189,397
NET ASSETS		
Invested in Fixed Assets	1,521,733	1,533,440
Operating Fund	1,236,905	1,326,212
O&M Emergency Fund	813,500	822,817
Deficiency Fund	804,146	804,146
Project Development	916,554	916,554
Unrestricted Fund	5,383,194	13,489,335
Total Net Assets	\$10,676,032	\$18,892,504



GARRISON DIVERSION STATEMENT OF ACTIVITIES

	Dec. 31, 2006	June 30, 2005
PROGRAM EXPENSES		
General Fund	\$2,681,385	\$1,959,424
Municipal, Rural, and Industrial Operations, Maintenance, and Replacement	14,876,925	13,438,406
Red River Valley Water Supply Project	3,566,481	2,985,595
Total District Activities	\$22,221,757	\$19,144,092
PROGRAM REVENUES		
Taxes	\$1,480,722	\$1,264,351
Interest on Investments	601,792	281,201
MR&I Appropriation	7,107,443	8,669,212
Operations, Maintenance, and Replacement	3,558,991	2,975,122
Red River Valley Water Supply Project	1,248,835	698,641
Leases	2,125	2,846
Miscellaneous	5,377	6,052
Total Revenue	\$14,005,285	\$13,897,425
Revenue Over (Under) Expenses	(8,216,472)	(5,246,667)
NET ASSETS, BEGINNING OF YEAR	\$18,892,504	\$24,139,171
NET ASSETS, END OF YEAR	\$10,676,032	\$18,892,504

Capital Assets

Garrison Diversion's investment in capital assets as of December 31, 2006 and June 30, 2005, amounts to \$1,595,237 and \$1,533,440 (net of accumulated depreciation), respectively. This investment in capital assets includes the headquarters building site, maintenance buildings at McClusky, Oakes and New Rockford, equipment to maintain our facilities such as mowers, sprayers and tractors, and construction equipment and vehicles to maintain the Garrison Diversion Unit canals and associated structures including dozers, loaders and other related vehicles. We also carry as an asset recreational development at the Devils Lake State Park System, which includes Grahams Island, Black Tiger Bay, and Shelters Grove. Improvements to the various buildings and office equipment are also carried as assets.

Major capital assets purchased during the current fiscal year included the following:

- 2006 John Deere 1435 Tractor with Front Mower Deck and Rotary Broom
- Godwin Dri-Prime Pump
- 2005 Kenworth Heavy Hauler Semi
- 2006 Chevrolet Colorado Extended Cab Pickup
- 2006 CAT 950H Wheel Loader (2)
- 2006 Chevrolet K3500 1 Ton Pickup
- GPS Pathfinder PRO XT
- PJ Pintle Hook Trailer

Major capital assets retired or traded during the current fiscal year included the following:

- Liberty Mobile Home
- 1995 John Deere F925 Tractor with Front Mower
- 1986 Ford LTL Semi
- 2003 CAT 950G Loader
- 1999 CAT IT28G Loader

Economic Factors and Next Year's Budgets

Personnel

There were no significant changes to the Garrison Diversion administrative staff.

Operations and Maintenance staff changes include: the Supervisor at the New Rockford site retired on December 31, 2005. Two employees were promoted to Foreman, one employee was promoted to Operator III, one employee was promoted to O&M Specialist II, and the Safety Coordinator position was moved from the New Rockford location to the Carrington location.

Garrison Diversion does not have any business-type activities that generate significant amounts of revenue.

Requests for Information

This financial report is designed to provide a general overview of Garrison Diversion's finances for all those with an interest in Garrison Diversion's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Garrison Diversion Conservancy District
P.O. Box 140, Carrington, ND 58421

General Fund Income and Expenditures

Statement of General Fund Revenues and Expenditures for the fiscal year ending December 31, 2006.

Income Budget Analysis Statement for July 1, 2005, to December 31, 2006

	Budget	Actual
MR&I Administration	\$119,500	\$170,035
O & M Administration	\$470,500	\$595,951
Red River Valley Water Supply Study	\$141,230	\$141,230
Interest Income	\$235,831	\$235,831
Lease Income	\$2,125	\$2,125
Tax Levy	\$1,334,860	\$1,334,860
State Aid Distribution	\$145,862	\$145,862
Miscellaneous Income	\$5,377	\$5,377
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Total Income	\$2,455,285	\$2,631,271

Expense Budget Analysis Statement for July 1, 2005, to December 31, 2006

	Budget	Actual
Directors Per Diem	\$80,046	\$80,046
Directors Expenses	\$122,365	\$122,365
Employees Salaries	\$880,000	\$819,229
Employees Expenses	\$117,737	\$90,487
Payroll Taxes and Benefits	\$303,500	\$275,773
Operations Expenses	\$210,835	\$167,007
Research	\$337,500	\$330,000
Public Education	\$143,882	\$106,099
Professional Services	\$779,718	\$588,375
Legal	\$26,117	\$26,117
Maintenance & Repair	\$65,165	\$49,981
Irrigation District Expenses	\$6,885	\$6,885
Capital Purchases	\$47,500	\$20,968
Recreation Matching	\$312,000	\$301,003
Natural Resources Trust	\$36,815	\$36,815
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Total Expenses	\$3,470,065	\$3,021,150



Garrison Diversion
Conservancy District
P.O. Box 140
Carrington, ND 58421