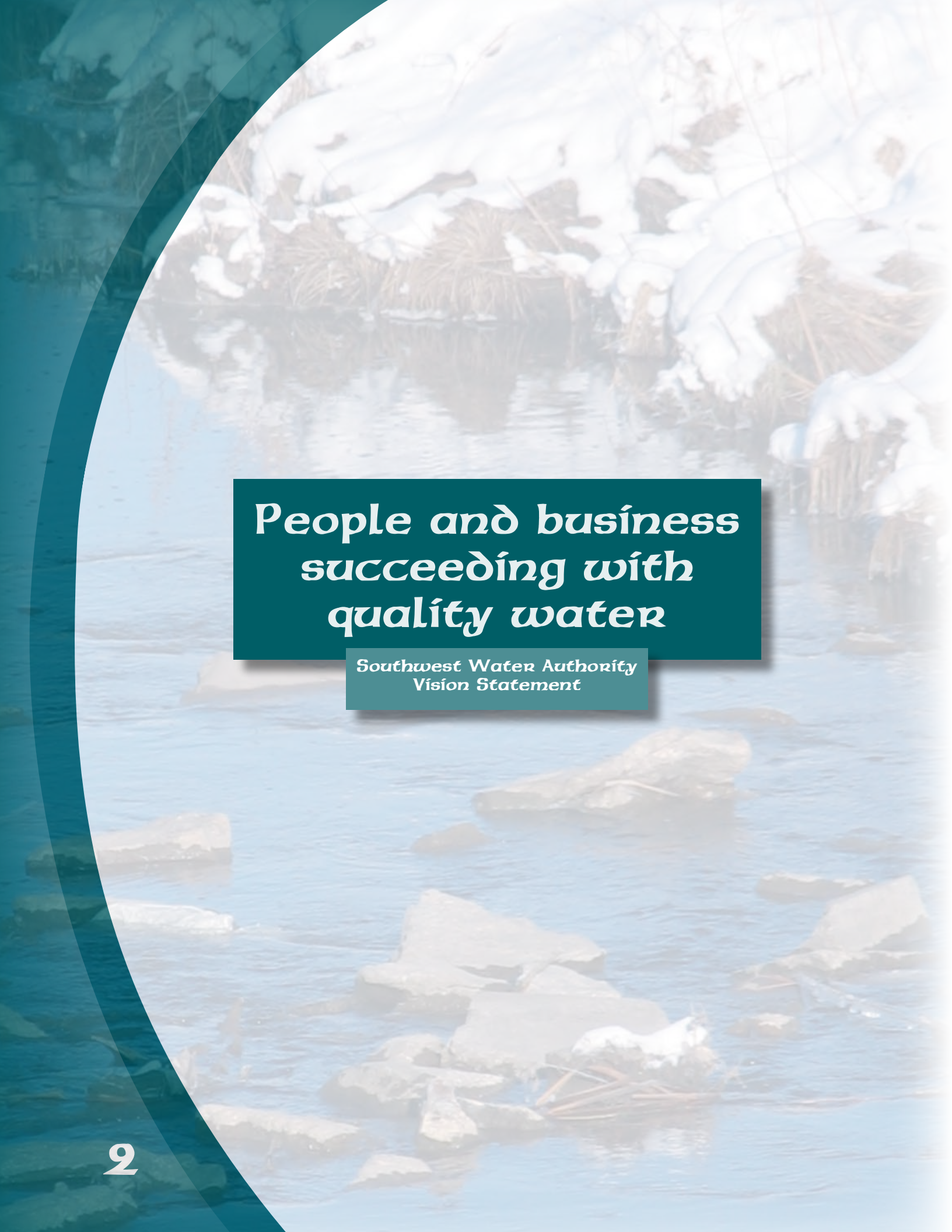




2006 Annual Operating Report

A scenic view of a river with snow-covered banks and rocks in the water. The image is partially covered by a large teal circular graphic on the left side.

People and business succeeding with quality water

**Southwest Water Authority
Vision Statement**

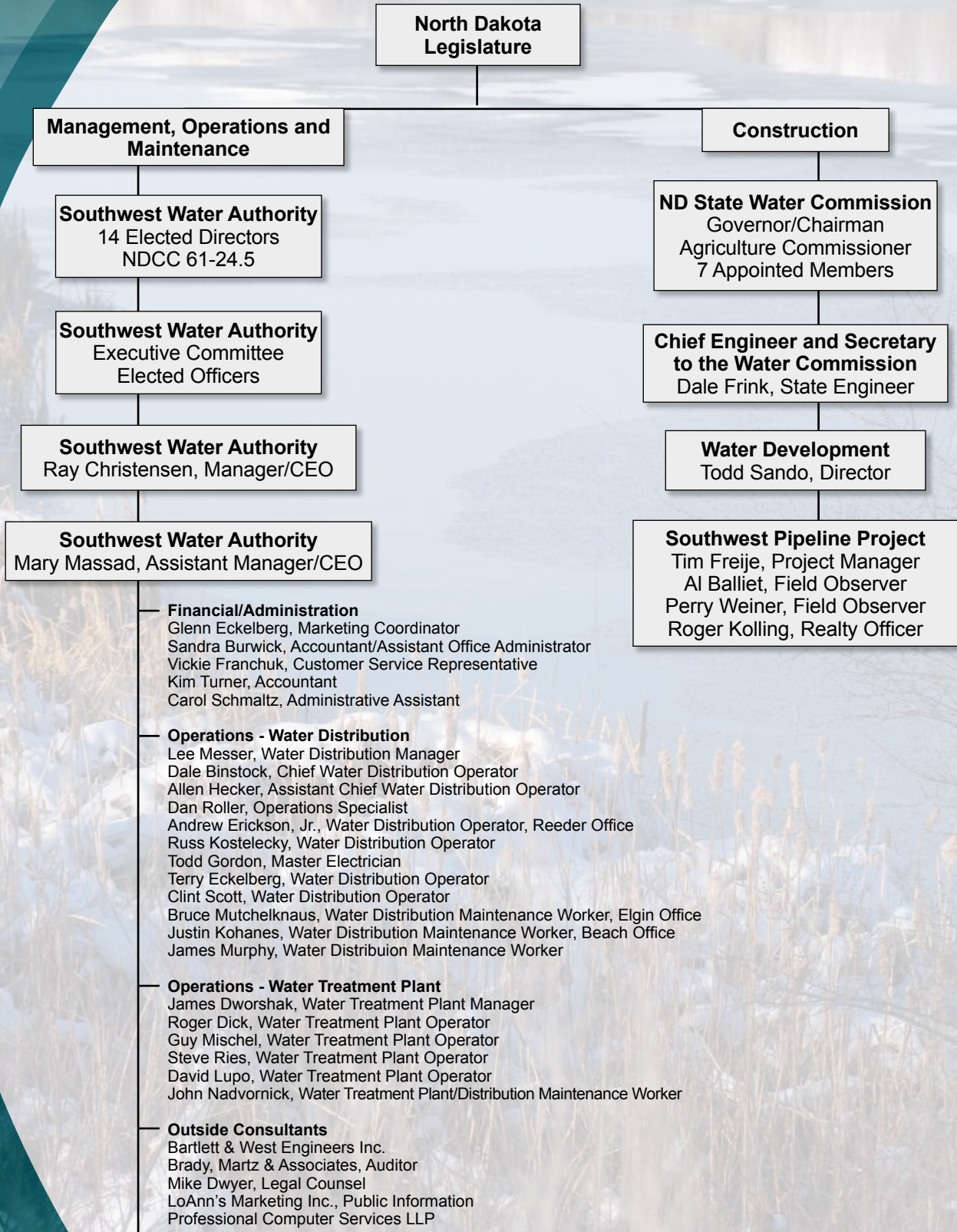
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**Providing
quality water
for southwest
North Dakota**

**Southwest Water Authority
Mission Statement**

Organizational Chart



Southwest Water Authority Board Members



Row One: Chairperson Loren Myran - Stark County; Vice Chairperson Don Flynn - Bowman County; Secretary/Treasurer Darrel Oech - Golden Valley County; Duane Bueligen - Oliver County; Larry Bares - city of Dickinson

Row Two: Leonard Jacobs - Adams County; James Odermann - Billings County; Brian Roth - Grant County; David Juntunen - Slope County; Larry Ziegler - city of Dickinson

Row Three: Steve Tomac - Morton County; John Klein - Mercer County; Emanuel Stroh - Dunn County; Ray Bieber - Hettinger County

ND State Water Commission

Governor John Hoeven, Chairman, Bismarck, ND
Roger Johnson, Agriculture Commissioner, Bismarck, ND
Maurice V. Foley, Minot, ND
Larry Hanson, Williston, ND
Elmer Hillesland, Grand Forks, ND
Arne Berg, Starkweather, ND
Jack Olin, Dickinson, ND
Harley Swenson, Bismarck, ND
Robert Thompson, Page, ND

Our Valued Staff



Row One: Ray Christensen, Manager/CEO; Mary Massad, Assistant Manager/CEO; Glenn Eckelberg, Marketing Coordinator; Sandra Burwick, Accountant/Assistant Office Administrator; Lee Messer, Water Distribution Manager

Row Two: Jim Dworshak WTP Manager; Dale Binstock, Chief WDO; Allen Hecker Assistant Chief WDO; Dan Roller, Operations Specialist; Todd Gordon, Master Electrician

Row Three: Russ Kosteletzky, WDO; Terry Eckelberg, WDO; Clint Scott, WDO; Andrew Erickson, Jr., WDO, Reeder; Bruce Mutchelknaus, WDMW, Elgin;

Row Four: Justin Kohanes, WDMW, Beach; James Murphy, WDMW; Roger Dick, WTPO; Guy Mischel, WTPO; Steve Ries WTPO

Row Five: David Lupo, WTPO; John Nadvornick WTP/WDMW; Kim Turner, Accountant; Vickie Franchuk, Customer Service Rep.; Carol Schmaltz, Administrative Assistant

Terms: Water Treatment Plant (WTP); Water Distribution Operator (WDO);
Water Distribution Maintenance Worker (WDMW); Water Treatment Plant Operator (WTPO)

Ultimate Goal: Completion

By Dale Frink, ND State Engineer

The year 2006 was filled with many milestones for the Southwest Pipeline Project (SWPP) as it marked 20 years of construction, 15 years of delivering water and ten years since the transfer of operations and maintenance of the SWPP to the Southwest Water Authority. Services to a couple hundred rural users in three pockets of the Medora-Beach Regional Service Area are all that remain to be constructed of the original project. Construction of the Beulah Interim Service Project marks our first construction in the Oliver, Mercer, North Dunn Regional Service Area since delivery of water to the cities of Dodge, Halliday, Dunn Center and Golden Valley in the mid-1990's. This will be the last phase of the project. All parties involved should be commended for their continuing efforts and outstanding achievements.



The SWPP has been and continues to be a resoundingly successful water development project for the state of North Dakota. As the Northwest Area Water Supply project is currently in the early stages of construction and the Red River Valley Water Supply Project is in the Environmental Impact Statement study phase, the northwest and eastern portions of the state are going through many of the same obstacles and hurdles the SWPP endured and overcame. The SWPP stands as proof that goals can be accomplished through hard work, dedication and devotion.

Funding has always been and will always be the controlling factor for progress on the SWPP. Renewed activity in the oil and gas industry has increased the balance of the Resources Trust Fund, which was originally conceived as the funding source for the project and continues to be our primary source of state funds. The 2007-2009 Executive budget is favorable for the ND State Water Commission. This will result in solid funding for the SWPP for the next two years.

The Medora-Beach Regional Service Area will be completed in the 2007-2009 biennium, after which construction will be shifted to the balance of the Oliver, Mercer, North Dunn Regional Service Area. While this will be the final portion of the project to be constructed, the end is not necessarily around the corner. This will be a major undertaking requiring building of a water treatment plant and hundreds of miles transmission and distribution lines. We must continue to work hard and secure funds to deliver southwest North Dakotans a safe, reliable source of drinking water.

"We think of our land, water and human resources not as static and sterile possessions, but as life-giving assets to be directed by wise provisions for future days."

Franklin D. Roosevelt

Milestone Anniversaries

By Loren Myran, Chairperson

Where We Were:

Southwest Pipeline Project (SWPP) has indeed made great strides in developing water infrastructure and delivering an adequate supply of quality water to communities, rural homes and businesses throughout the region. In 2006 we celebrated our 20th year of construction, 15th year of rural water service integration and the 10th year of transferring management, operations and maintenance of the SWPP from the ND State Water Commission (SWC) to Southwest Water Authority (SWA).

The concept of rural water service integration is near to my heart. By encouraging cooperation between cities and rural residents, the entire project benefits through increased feasibility and shared construction costs. I believe the successful implementation of this concept is what has made the SWPP an industry standard in

North Dakota. Today, we proudly serve 28 communities and more than 3,000 rural residences, with more than 200 rural customers anticipating service in the 2007-09 biennium.

The need and demand for quality water in southwest North Dakota is evident – even among current customers. After years of sustained drought in southwest North Dakota, 2006 saw record water sales. Rural water use increased by 31 million gallons. Included in that total is 12.9 million gallons purchased through pasture taps.

I am extremely proud of the SWA Board of Directors, who continuously look for new opportunities to better serve our customers, both present and future. One example of their proactive and innovative thinking is the interim water service agreements with Missouri West Water System and the city of Beulah. Through these unique agreements, residents of eastern Morton County, the city of Zap, Country Club Estates and 469 rural customers received service in 2006.

That progressive thinking also led us to negotiate a bulk service agreement with Red Trail Energy LLC. They have contracted for a minimum of 200 million gallons of untreated or “raw” water annually for use in the production of ethanol. With potential expansion, this amount could increase to 315 million gallons annually. They have also signed a rural agreement for treated or “potable” water for office/domestic use. Large contract users, such as Red Trail Energy, help stabilize rates for everyone along the pipeline. This service agreement is a win-win situation for both Red Trail Energy and SWA. In my opinion, Red Trail Energy may not exist without access to pipeline water. In return, their large scale usage helps keep rates stable for all customers.

Rest assured, before any contract is signed, the staff, management and board members of SWA evaluate and consider the effect it may have on current customers. We are confident that, even with a large bulk user such as Red Trail Energy, current customer service will not be interrupted, nor will construction be delayed for future customers. As a subsequent bulk user, Red Trail Energy paid for construction costs from the main transmission lines (both raw and treated) to their plant.

Where We Are:

I am thrilled to report that construction of the Medora-Beach Phase II was completed a year ahead of schedule. Dry conditions, competent construction, engineering and easement crews were significant factors in this achievement. With adequate funding, construction should be completed in Phase III of the Medora-Beach Service Area within the 2007-09 biennium. Additional construction is anticipated in the Oliver, Mercer, North Dunn Service Area, as well.

Where We're Going:

The past operating year was a success although nothing is really finished until service is available to all anxiously awaiting quality water. To that end,

work continues securing the necessary sign-ups, funding and support to construct Phase III of the Medora-Beach Service Area. Once complete, we will then concentrate our efforts on the Oliver, Mercer, North Dunn Service Area. We recognize the overall need and demand for quality water in this region is significant, particularly among rural residents. However, it will be important to secure a large municipal user to assure project feasibility.

We are embarking on a new era not only with new construction phases, but with new leadership, as well. On behalf of the SWA Board of Directors, I welcome Tim Frieje, SWPP's new Project Manager and Mary Massad SWA Assistant Manager/CEO. I am confident that Tim and Mary will continue the excellent working relationship established between the SWC, the SWA Board of Directors and our stakeholders, partners and customers. Mary's leadership, vision and positive attitude will be very valuable in her new role.

Together, we will ensure that the SWPP is constructed and the residents of southwest North Dakota have an adequate supply of quality water.

Construction Summary

By Tim Frieje, Project Manager

More than 400 miles of pipe were installed on the Southwest Pipeline Project in 2006. Phase II of the Medora-Beach Regional Service Area was completed along with the Beulah Interim Service Area. These two projects added the cities of Zap and Golvá and 469 rural users to the project.

Contract 7-8B (Beach, Belfield and Fryburg Service Areas) and Contract 7-8C (Morton County Areas) comprised Phase II of Medora-Beach. The contractors, Abbot, Arne, Schwindt Inc. of Moorhead, Minnesota, on 7-8B and Northern Improvement Co. of Bismarck on 7-8C, worked earnestly this past summer. Each had as many as 15 crews working on the project. The dry conditions of 2006 allowed construction to proceed rapidly. As a result, both contracts were finished well ahead of the substantial completions date of July 15, 2007, for 7-8B and September 7, 2007, for 7-8C.

The drought conditions also seemed to emphasize the value of water as both contracts had a significant number of additional users sign up. The two contracts were originally scheduled to add 346 users, but ended up adding 409 users, with most of the additional sign ups in Morton County. Phase II of the Medora-Beach Regional Service Area was funded by a \$2 million loan and \$1.5 million grant from USDA Rural Development and \$5.4 million in state funds for a total of \$8.9 million.

The Beulah Interim Service Area, built by Abbot, Arne, Schwindt Inc. under Contract 7-9A, brought construction back to the Oliver, Mercer, North Dunn Regional Service Area. Bids were opened in March and the contract was awarded in May. Work commenced in August and finished in November. Sixty rural users and the city of Zap were added to the system and will be supplied with water purchased from the city of Beulah until the project can be supplied by the future water treatment plant planned within the Oliver, Mercer, North Dunn Regional Service Area. Funding for the Beulah Interim Service Area consisted of a \$572,000 loan, a \$520,500 grant from USDA-Rural Development and \$71,500 in state funding.



Changing of the Guard

By Ray Christensen, Manager/CEO



It's always nice to reflect on our recent accomplishments and envision new challenges as I prepare this article. However, with retirement a few months away (July 1, 2007), it is probably time to reflect on a career that began in 1962 when I went to work for the ND State Water Commission. Little did I know that 45 years later I would still be working on water projects.

Perhaps it was destiny. Growing up on a small farmstead near the Raleigh Reservoir in southeastern Grant County I was, as most small boys are, attracted to the water. I enjoyed swimming, fishing or simply playing in the water. What's a little strange is that all this water was within 200 feet of our home, but we did not have running water until my junior year of high school. As bad as the water quality was, we were grateful to receive running water and, along with it, an indoor flusher!

I have thoroughly enjoyed developing water projects throughout North Dakota and have, over the years, developed many friendships. Along the way, I've worked on drainage and flood control structures, Missouri River bank stabilization, municipal water supply and recreational dams, artificial reservoirs, municipal and rural water delivery systems, as well as other miscellaneous water projects. Of all the projects I have worked on, none have been more gratifying and rewarding than the Southwest Pipeline Project (SWPP). It has consumed the last 21 years of my career. This large, regional, water supply system currently delivers a dependable supply of quality water to 28 communities and about 3,000 rural residents. Perhaps the most difficult part of my departure is leaving behind an unfinished project and many citizens still patiently waiting for that first glass of quality water.

The SWPP's ability to work with water leaders statewide, via the North Dakota Water Coalition, has been the ticket to success, and the friendships developed never to be forgotten. We are all working toward the same goal of bringing quality water to our communities, households and businesses. Many needs exist statewide for water infrastructure, with limited resources available for construction. By working together, we can accomplish much more than if everyone went it alone. I firmly believe that by working through the Water Coalition, state and federal officials, we will meet our current and future statewide water challenges.

Throughout the years I have been very fortunate to work with and for quality employees. A great staff has been assembled at Southwest Water Authority (SWA) and I'm very confident they will provide our customers with excellent service for many years to come.

Mary Massad, who has been named as my successor, has been with SWA for ten years. She is very qualified and capable to assume the leadership role in carrying out our mission, ***"Providing quality water for southwest North Dakota"*** and maintaining our vision, ***"People and business succeeding with quality water."***

Thank you to all who have supported me and this vision of quality water. This includes all those I have worked with and for across our entire state. I will always be grateful for the leadership of the early pioneers in southwest North Dakota who recognized the value and impact SWPP would have on the entire region. Also, I extend a special thank you to our board of directors, staff and customers for your loyal support. You have made my tenure as manager/CEO a delightful experience and provided me many memories to take with me into retirement.

It has been a wonderful ride, but time to say farewell and go fishing. Best of luck to all as you pursue project completion. I will help, in any way, to reach the ultimate goal of installing that last piece of pipe. That will indeed call for a special celebration.

Background

The North Dakota State Legislature established the Southwest Water Authority (SWA), a political subdivision, in 1991 to manage, operate and maintain the Southwest Pipeline Project (SWPP). A 14-member board of directors governs SWA. One director represents each county within the SWPP Service Area and two directors represent the city of Dickinson. The counties include: Adams, Billings, Bowman, Dunn, Golden Valley, Grant, Hettinger, Mercer, Morton, Oliver, Slope and Stark.

SWPP, a state-owned project, administered by the ND State Water Commission and operated and maintained by SWA, transports raw water from Lake Sakakawea to Dickinson where it is treated and delivered to the project's customers in southwest North Dakota and Perkins County, South Dakota.

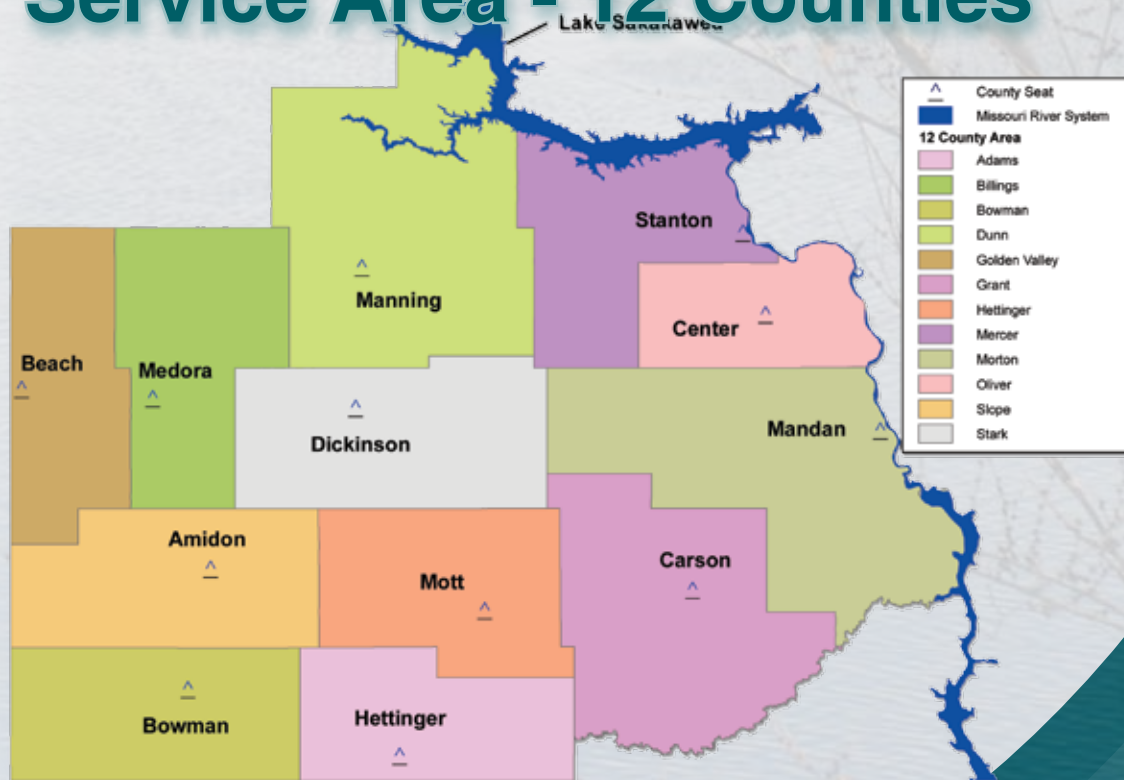
For 21 years, the SWPP has been constructing an efficient network of pipelines, pump stations, reservoirs and treatment facilities to bring southwest North Dakota an adequate supply of quality water. To date the pipeline serves 28 communities, 3,089 rural service locations, 11 contract customers, six raw water customers and Perkins County Rural Water.

In 2006, SWA had two cities, Golvla and Zap, turned over for service. SWA had a total of 469 rural customers turned over for service, including the Beulah Interim Service Area - 60 customers, Medora-Beach Phase II - 256 customers and Morton County - 153 customers.

The project pumped a total of 1,426,735,000 gallons of water from Lake Sakakawea in 2006. This is an increase of 270,287,000 gallons over 2005. Potable water delivered in 2006 was 1,384,236,000 gallons. Contract users consumed 1,196,332,400 gallons and rural customers used 187,903,600 gallons. Total raw water delivered in 2006 was 7,284,050 gallons. Potable water used by contractors during construction totaled 10,827,680 gallons. The water delivered to the end user was 97.02 percent of the total water pumped from Lake Sakakawea by SWPP.

To educate youth on the importance of quality water, SWA held its seventh annual "Make A Splash" Water Festival, September 21-22, 2006. Fifth grade students throughout the SWA's 12-county service area were invited to attend the event held at the Dickinson Recreation Center. A special Thursday evening session was open to the public, attracting more than 600 participants.

Service Area - 12 Counties



Operations/Maintenance Report

Operations and Maintenance (O&M) activities performed by the distribution staff is a long and varied list with two focal points of responsibility: maintaining water quality and maintaining service to customers with minimal interruptions.

This is a significant task, given the geographic size of the area served and the amount of pipe and related appurtenances located along the distribution system.

As additional construction is completed, O&M responsibilities grow. In 2006, over 460 miles of pipe and 472 (including three in 2005) services were added with the completion of Medora-Beach Phase II; the three Morton County Pockets and the Beulah Interim Service Area.

The Morton County and Beulah Interim Service Areas launched a new era in Southwest Pipeline Project water distribution, as the Intake facility at Lake Sakakawea is no longer the sole source of water. Treated water is purchased from Missouri West Water System for distribution in the Morton County pockets and from the city of Beulah for the Beulah Interim Service Area. Four new public water systems were created as a result of the new water sources and the physically discontinuous Morton County Pockets. This means water testing responsibilities have increased significantly as each system must conduct specific Environmental Protection Agency testing requirements.

The distribution staff follows specific routine preventative maintenance, system monitoring and equipment exercising schedules for all system features, including reservoirs, pumps, motors, isolation and pressure reducing valves, meters, cleanouts, pneumatic vessels, heating, ventilation, electrical, cathodic protection and telemetry systems, etc.

- Over 3,300 miles of pipeline with related appurtenances, serving 28 cities, 11 contract customers, six raw water customers, Perkins County Rural Water System and more than 3,000 rural service connections. All pipeline appurtenances (in-line valves, pressure-reducing valves, combination air release valves, blowoff valves and cleanouts). Work is documented to provide historical data for the specific facility or apparatus.

- Four raw water and 12 treated water storage reservoirs. All raw water and two treated water reservoirs at New England and Davis Buttes were drained, cleaned and inspected in 2006. The treated water reservoirs were disinfected and bacteriological tests taken before returning to service.

- Sixty-five raw and treated water pumps in 22 stations ranging in size from two to 900 HorsePower (HP). One pump motor was taken off-line from both the Bucyrus and Dickinson High Service Pump Stations for stator rewind work by a motor repair shop. New motor rated circuit breakers were installed at the Bucyrus and Scranton Pump Stations.

Customer service calls, water hookups for subsequent and contract customers, identifying underground facility locations for contractors, utilities, or individuals doing excavation work and collecting and submitting water samples to various regulatory agencies for required testing are further examples of staff activities.

To ensure water quality maintenance, our distribution operators spend a great deal of time performing tests throughout the distribution system, with emphasis on chlorine residual levels. When a water sample indicates that the chlorine residual has dropped to, or below a specific level, water is flushed from that segment of line until the residual returns to an appropriate level. Seasonal changes require operators to adjust operating levels of system reservoirs, ensuring sufficient turnover (water exchange) within the reservoir.

Adjustments are determined by monitoring water temperature and chlorine residuals at various depths within the reservoirs. Both are indicators of stratification and possible stagnation of water.

This report is an abbreviated listing of the daily distribution activities. We are proud of the distribution system, as well as our ability to operate the system and maintain a quality product.

Water Treatment Report

In 2006, the Water Treatment Plant (WTP) treated a total of 1,426,735,000 gallons of water, for a daily average of 3,975,098 gallons throughout the year. There were 365 operating days for a total of 4,040.50 operating hours for the year.

The following chemicals were and are currently being used in the water treatment process: quicklime for softening, PHI 2325 as a cationic coagulant aid, PHI 3330 as a cationic flocculant, SK-7104 as a corrosion inhibitor, fluoride, carbon dioxide, chlorine and ammonia as disinfectants.

Routine maintenance was performed throughout the year, including draining and cleaning Basin 105 and Basin 106, washing out Filter Backwash Basin, testing all backflow prevention equipment, double checking backflow preventers, installing a new chlorine control panel at the Dodge Pumping Station and miscellaneous other maintenance activities. Major maintenance items to note were the replacement of the Lime Slaker for Basin 106 and the construction of a new lab within the treatment plant.

Other maintenance items to note are relocating the raw water chlorine analyzers in the basement; replacing old galvanized pipe with PVC pipe in the basement; removing old air duct work from around the low service pumps; replacing PVC lines with steel pipe on the CO₂ panels and removing the steam wall heater from the lime silo room.

In order to meet continuing education requirements, various WTP operators attended the following: American Water Works Association Web Cast Seminar, Surface Water Treatment Workshop and the 78th Annual North Dakota Water & Pollution Control Conference. WTP operators also viewed the following safety films:

- Electrical Safety
- Preventing Blood Born Diseases
- Eye Safety
- Computer Workstation Safety
- Workers Compensation Fraud

Southwest Water Authority (SWA) presented its annual Consumer Confidence Report, providing information on drinking water and SWA's treatment process. SWA's water system meets or exceeds all requirements established by the Environmental Protection Agency. This report can be found on SWA's Web site at www.swa.swc.state.nd.us.

"Anyone who can solve the problems of water will be worthy of two Nobel prizes - one for peace and one for science"

John F. Kennedy

Treatment Definitions

floc-cu-lant \flä-ky-lent\ n: substance that causes particles to form larger lumps or masses.

cat-ion-ic \kat-i-ä-nik\ adj: an ion or group of ions having a positive charge and characteristically moving toward the negative electrode in electrolysis.

co-ag-u-lant \ko-a-gy-lent\ n: an agent that causes liquids or solids to coagulate.

Service 2006

**“Water links us
to our neighbor
in a way more
profound and
complex than
any other.”**

John Thorson

Raw Water Users	Gallons Used
Assumption Abbey.....	58,300
Jurgens Farms.....	1,127,000
Ervin Lorenz	109,850
Red Trail Energy.....	4,124,700
Taylor Nursery	1,160,200
Sacred Heart Monastery.....	704,000
Total Raw Water.....	7,284,050

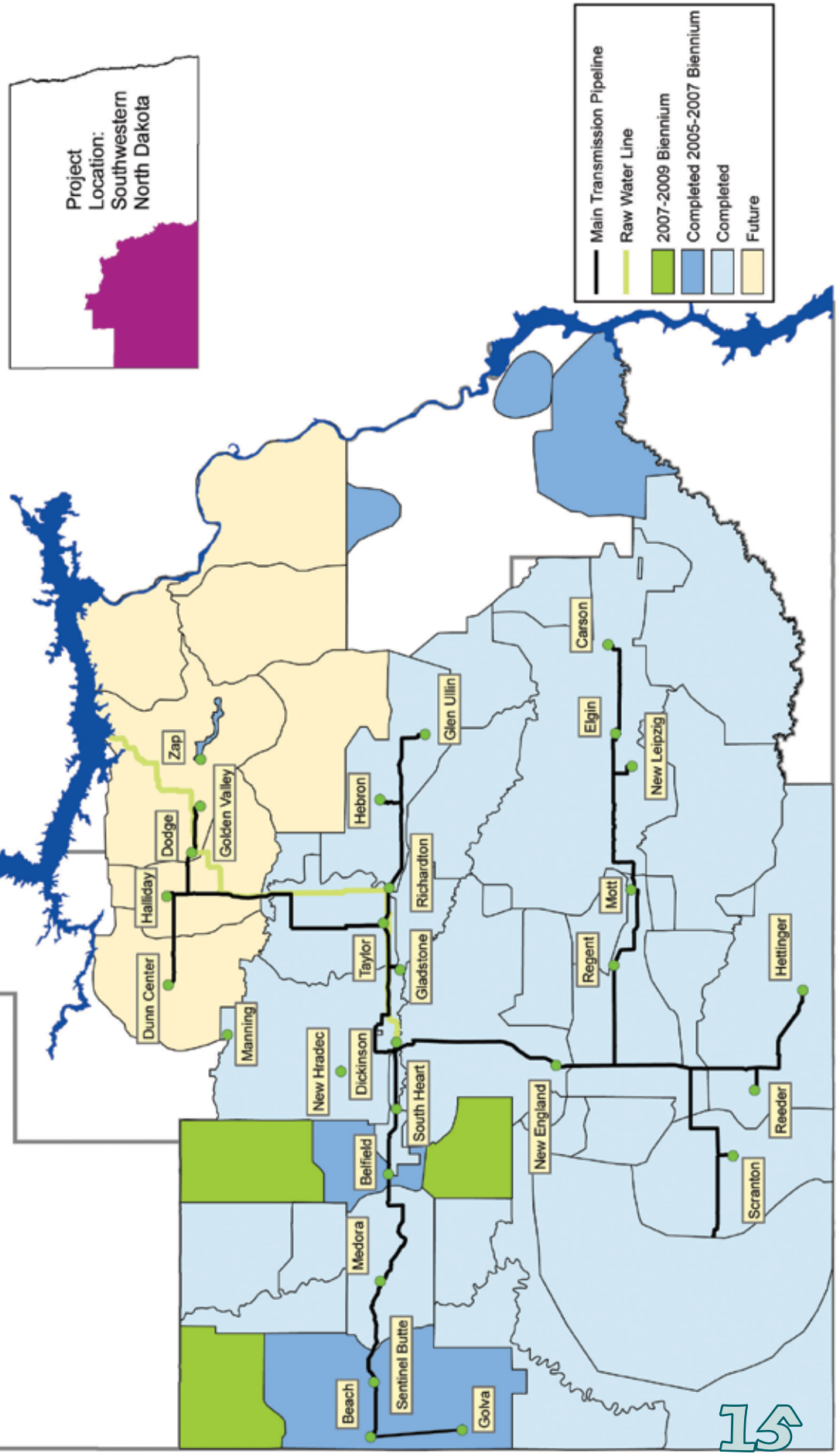
Beulah Interim	Gallons Used
Zap	735,500
Rural	19,600
Total Beulah Interim.....	755,100

Morton County	Gallons Used
Rural	511,700
Total Morton County	511,700

Treated Water Users	Gallons Used
Assumption Abbey.....	1,452,000
Baker Boy	3,016,100
Beach	43,074,900
Belfield.....	31,187,000
Carson	10,748,500
Dickinson	720,031,800
Dickinson Research Center.....	644,700
Dodge	3,651,000
Dunn Center	2,697,600
Elgin.....	21,419,300
Gladstone	5,739,700
Glen Ullin	25,405,800
Golden Valley	5,132,100
Golva	160,900
Halliday.....	8,288,500
Hebron.....	23,102,700
Hettinger	62,270,900
Home on the Range	772,800
Dean Karsky	1,912,200
Manning.....	1,479,400
Medora	13,677,100
Missouri Basin	55,600
Mott.....	24,198,800
Mott Grain.....	807,100
New England	23,511,400
New Hradec.....	1,183,100
New Leipzig	7,696,800
Perkins County Rural Water	85,795,400
Prairie Learning Center	1,485,000
Reeder	5,104,700
Regent.....	7,448,500
Richardton	18,254,300
Sacred Heart Monastery.....	912,000
Scranton	13,394,500
Sentinel Butte	2,124,000
South Heart	10,639,500
Steffes Manufacturing.....	1,629,200
Taylor.....	4,269,000
West Medora Campground	1,223,000
Rural Usage.....	187,372,300
Construction	10,827,680
Total Treated Water.....	1,393,796,880

Southwest Pipeline Project

Southwest Pipeline Project Construction Map



Independent Auditor's Report



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

Note: This is not a complete
set of financial statements.
A complete set is available at the
Southwest Water Authority Office.

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Southwest Water Authority
Dickinson, North Dakota

We have audited the accompanying financial statements of the business-type activities of Southwest Water Authority, as of and for the years ended December 31, 2006 and 2005, which collectively comprise the Southwest Water Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Southwest Water Authority management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and "Government Auditing Standards," issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Southwest Water Authority, as of December 31, 2006 and 2005, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 2, 2007 on our consideration of Southwest Water Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

The Management's Discussion and Analysis (MD & A) on pages 3 through 6 are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The financial information listed as supplementary information in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supporting schedules have been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Brady, Martz

BRADY, MARTZ & ASSOCIATES, P.C.

March 2, 2007

SOUTHWEST WATER AUTHORITY MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2006 AND 2005

As management of the Southwest Water Authority, we offer readers of the Southwest Water Authority's financial statements this narrative overview and analysis of the financial activities of the Southwest Water Authority for the fiscal years ended December 31, 2006 and December 31, 2005. We encourage readers to consider the information presented here in conjunction with Southwest Water Authority's financial statements and footnotes, which are presented within this report.

Financial Highlights

The assets of the Southwest Water Authority totaled \$11,024,084 as of the end of the year 2006 compared with \$10,105,192 as of the end of the year 2005. This is an increase in total assets of \$918,892. The liabilities totaled \$779,995 for 2006 compared with \$790,630 for 2005. The net assets exceeded its liabilities at the close of the most recent fiscal year by \$10,244,089. This compares with the year ending December 31, 2005 by \$9,314,562 for an increase in net assets of \$929,527.

The majority of assets are in the form of cash and cash equivalents in the form of short-term CD's as well as investments held at the American Investment Center.

Assets held in the Trust Department at the American Investment Center, at cost, total \$6,430,270 at year-end compared with \$5,838,226 at year-end of 2005. The amount that is the Replacement and Extraordinary Maintenance Fund is \$5,235,890 at year-end compared with \$4,722,904 at year-end 2005. This is an increase of \$512,986. The North Dakota Legislature established the Replacement and Extraordinary Maintenance Fund when the Southwest Pipeline Project was authorized. This fund was created to cover costs of an extraordinary nature and/or to replace parts of an aging distribution system. It is funded by water customers system wide. The current rate is \$.35 per 1,000 gallons sold to all customers. In addition, \$.10 per 1,000 gallons sold to rural customers is also collected for the rural distribution system. The fees are deposited on a monthly basis into this fund.

The amount in the Escrow Fund is \$493,017 at year-end compared with \$475,158 at year-end 2005. This is an increase of \$17,859. Of this amount, \$192,368 is restricted. This compares with \$302,243 as of year-end 2005, which is a decrease of \$109,875. This is due to the 469 customers turned over for service in 2006. These are the hookup fees paid by customers who sign up for water when water becomes available the hookup fees are recognized as revenue. If, however, the Southwest Water Authority is unable to serve these individuals, the hookup fees must be refunded.

Total cash in bank as of the end of the year is \$3,426,494 compared with \$3,068,105 at the end of 2005. This is an increase of \$358,389. This is made up of checking and money market accounts as well as certificates of deposit.

The liabilities total \$779,995 for 2006 compared with \$790,630 at year-end 2005. This is a decrease in liabilities of \$10,635. Of this amount, \$459,061 is current liabilities mostly in the form of accounts payable. This compares with 2005 ending balance of \$445,244 in current liabilities. This is an increase of current liabilities of \$13,817. The long-term liabilities total \$320,934 at year-end compared with \$345,386 at year-end 2005. Of this amount, \$192,368 is deferred revenue for year-end 2006 compared with \$302,243 year-end 2005. Deferred revenue or hookup fees are held in escrow for customers who have signed up for water service with the Southwest Pipeline Project. When service becomes available, these funds will be released and will then be recognized as revenue. If the Southwest Pipeline Project is unable to provide water service, these hookup fees will be refunded to the individual. The balance in long-term liabilities \$84,810 is rental deposits from tenants/customers compared with \$3,910 for year-end 2005.

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Southwest Water Authority's basic financial statements. The Southwest Water Authority's basic financial statements comprise four components: 1) Balance Sheet, 2) Statement of Revenues, Expenses and Changes in Net Assets, 3) Statement of Cash Flows and 4) Notes to the Financial Statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Basic Financial Statements

The basic financial statements are designed to provide readers with a broad overview of the Southwest Water Authority's finances, in a manner similar to a private-sector business.

The *balance sheet* presents information on all of the Southwest Water Authority'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 the Southwest Water Authority is improving or deteriorating.

CONDENSED BALANCE SHEETS

	2006	2005
ASSETS		
Unrestricted current assets	\$ 5,168,247	\$ 4,755,786
Restricted noncurrent assets	5,277,964	4,762,110
Capital assets	577,873	587,296
Total Assets	\$ 11,024,084	\$ 10,105,192
LIABILITIES		
Current liabilities	\$ 459,061	\$ 445,244
Long-term liabilities	320,934	345,386
Total Liabilities	779,995	790,630
NET ASSETS		
Invested in capital assets, net of related debt	577,873	587,296
Restricted net assets	5,277,964	4,762,110
Unrestricted net assets	4,388,252	3,965,156
Total Net Assets	10,244,089	9,314,562
Total Liabilities and Net Assets	\$ 11,024,084	\$ 10,105,192

The *statement of revenues, expenses, and changes in net assets* presents information showing how the entity's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	2006	2005
Operating revenues:		
Sales	\$ 5,243,278	\$ 4,475,055
Hook up fee transfers	166,732	18,350
Other	27,669	47,331
Total operating revenues	5,437,679	4,540,736
Operating expenses:		
Transmission	2,481,985	2,028,895
Distribution	1,252,857	1,066,684
Board of directors	122,446	122,201
Administrative	362,240	332,019
Easement acquisition	49,014	42,670
Rural water sign-up	51,480	39,459
Customer service	66,902	64,703
Treatment	694,682	596,788
Grass Seeding	206	-
Total operating expenses	5,081,812	4,293,419
Operating income	355,867	247,317
Nonoperating revenues:		
Property taxes	209,722	196,923
Unrealized loss on investments	(46,342)	(80,882)
Investment income	410,280	322,028
Total nonoperating revenues	573,660	438,069
Change in net assets	929,527	685,386
Total net assets - beginning of year	9,314,562	8,629,176
Total net assets - end of year	\$ 10,244,089	\$ 9,314,562



Fund financial statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Southwest Water Authority uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Southwest Water Authority has one fund, an enterprise fund. The enterprise fund is for the Operations and Maintenance of the Southwest Pipeline Project. The main sources of revenue for this fund are from the sale of water and from a mill levy that is levied by the Southwest Water Authority in the amount of one mill in each of the twelve counties that are a part of the Southwest Water Authority.

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

The revenues from the sale of water totaled \$5,243,278 compared with \$4,475,055 for 2005. This is an increase in revenues of \$768,223. The net incomes for each department are transmission of \$154,140, distribution net income of \$82,017 and treatment net income of \$33,469. This compares with net income by department for 2005 of transmission net income of \$94,017, distribution net income of \$108,700 and treatment net income of \$201.

The mill levy generated income of \$209,722 for 2006 compared with \$196,923 for the year 2005. This is an increase of \$12,799. The administration activities had a net income of \$138,145 compared with a net loss of \$11,826 for 2005. Administration includes activities for the board of directors, administration, sign up and easements.

Other major items of note were the release of funds from the Replacement and Extraordinary Maintenance Fund. The items include replacement of blowoffs on the raw water line, purchase of a replacement transformer at the Richardton substation and the replacement of one lime slaker at the water treatment plant. The Southwest Water Authority paid for these items with reimbursement being approved by the board and the State Water Commission for the release of the funds from the Replacement and Extraordinary Maintenance Fund. The total cost for these items was \$149,085.

The actual revenues and expenses were within the overall budget. Revenues were within budgeted numbers for the year without any significant variance. The revenues were within 9% of projections and the expenses were within reason of the budget parameters by being under budget by 4%.

The Southwest Water Authority sold a total of 1,402,347,730 gallons of water in 2006 compared with 1,136,911,170 gallons of water in 2005. This is an increase of 265,436,560 gallons from 2005. This is 11% over the projection for the year of 1,263,600,000 gallons.

Requests for Information

This financial report is designed to provide a general overview of the Southwest Water Authority's finances for all those with an interest in the Southwest Water Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: Chief Financial Officer, Southwest Water Authority, 4665 Second Street SW, Dickinson, ND 58601-7231. You can also contact the Southwest Water Authority online at swa@swwater.com or visit on the web at www.swa.swc.state.nd.us.

"When the well is dry, we learn the worth of water."

Benjamin Franklin

**SOUTHWEST WATER AUTHORITY
DICKINSON, NORTH DAKOTA**

Balance Sheets

December 31, 2006 and 2005

	2006	2005
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 1,344,843	\$ 879,823
Investments	3,155,784	3,229,701
Receivables:		
Accounts (net of allowance of \$3,159 and \$3,448 in 2006 and 2005, respectively)	324,166	334,440
Interest	39,497	37,016
Prepaid expenses	63,466	27,458
Inventory	240,491	247,348
Total current assets	5,168,247	4,755,786
Noncurrent Assets		
Restricted assets:		
Investments	5,235,890	4,722,904
Interest receivable	42,074	39,206
Capital Assets:		
Land	3,291	3,291
Improvements, furniture and equipment, net	574,582	584,005
Total noncurrent assets	5,855,837	5,349,406
Total Assets	\$ 11,024,084	\$ 10,105,192
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 274,749	\$ 285,507
Due to ND State Water Commission	4,614	1,006
Accrued salaries	80,817	72,850
Compensated absences, current portion	65,781	55,850
Accrued expenses	33,100	30,031
Total current liabilities	459,061	445,244
Long-term Liabilities		
Compensated absences, net of current portion	43,756	39,233
Deferred revenue	192,368	302,243
Rental/customer deposits	84,810	3,910
Total long-term liabilities	320,934	345,386
Total liabilities	779,995	790,630
Net Assets		
Invested in capital assets, net of related debt	577,873	587,296
Restricted for replacement	5,277,964	4,762,110
Unrestricted	4,388,252	3,965,156
Total Net Assets	10,244,089	9,314,562
Total Liabilities and Net Assets	\$ 11,024,084	\$ 10,105,192

**SOUTHWEST WATER AUTHORITY
DICKINSON, NORTH DAKOTA**

Statements of Revenues, Expenses and Changes in Fund Net Assets

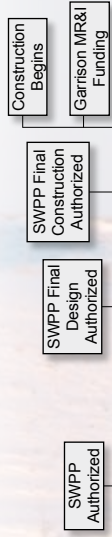
For the years ended December 31, 2006 and 2005

	2006	2005
Operating revenues:		
Sales	\$ 5,243,278	\$ 4,475,055
Hook up fee transfers	166,732	18,350
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Operating income	355,867	247,317
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Change in net assets	929,527	685,386
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Total net assets - beginning of year	9,314,562	8,629,176
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Total net assets - end of year	<u>\$ 10,244,089</u>	<u>\$ 9,314,562</u>

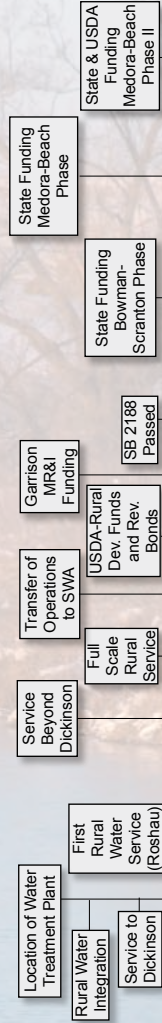
The accompanying notes are an integral part of these financial statements.

SWPP Timeline

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
PROJECTS																				
West River Diversion																				
SW Area Water Supply																				
Southwest Pipeline Project																				
ORGANIZATIONS																				
West River Water Supply District																				
West River Joint Board																				
Southwest Water Authority (Nonprofit)																				
Southwest Water Authority (Political Subdivision)																				
FUNDING (In Millions)																				
State Resources Trust Fund																				
Garrison Diversion MR&I																				
Natural Resources Conservation Service																				
Revenue Bonds																				
USDA - Rural Development (Loans)																				
USDA - Rural Development (Grants)																				
Drinking Water State Revolving Loan Fund																				
Water Development Trust Fund																				
TOTAL													23.6				7.38	8.33	6.67	2.65



	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	Total
PROJECTS																	
West River Diversion																	
SW Area Water Supply																	
Southwest Pipeline Project																	
ORGANIZATIONS																	
West River Water Supply District																	
West River Joint Board																	
Southwest Water Authority (Nonprofit)																	
Southwest Water Authority (Political Subdivision)																	
FUNDING (In Millions)																	
State Resources Trust Fund	0.04	0.06	0.68	0.77	1.46	1.77	1.18	0.7	1.34	4.21	0.83	0.33	3.06	2.38	3.05	0.14	45.6
Garrison Diversion MR&I	5.32	6.87	5.3	10.1	7.77	5.41	0.18	2.47	1.24								69.7
Natural Resources Conservation Service				0.13	0.41	0.39											0.9
Revenue Bonds							3.96	3.08									7.0
USDA - Rural Development (Loans)								3.5	0.02	1.38	0.5	0.23	1.63	1.54		1.5	10.3
USDA - Rural Development (Grants)								1.04	1.54	1.59	2.48	0.92	1.04	0.56	1.3	1.83	12.3
Drinking Water State Revolving Loan Fund										1	0.5						1.5
Water Development Trust Fund										1.45	5.17	0.26	0.45			0.3	7.6
TOTAL	5.36	6.93	5.98	11	9.64	7.57	5.32	10.79	4.14	8.18	5.76	6.65	5.99	4.93	4.35	3.77	154.90



[illegible]

User	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	User Total
Missouri Basin												55.6	55.6
Mott	2,100.3	1,745.7	1,881.6	1,740.2	2,054.6	2,699.9	2,244.2	2,195.5	2,114.9	1,903.9	2,163.7	1,354.3	24,198.8
Mott Grain				26.7	168.9	352.4	63.3	98.0	76.7	13.1	7.3	0.7	807.1
New England	1,591.5	1,383.6	1,658.0	1,572.5	2,231.9	2,991.6	2,814.8	2,473.6	2,453.5	1,500.1	1,851.0	989.3	23,511.4
New Hradec	105.4	86.8	137.5	81.2	109.1	120.6	110.2	104.9	105.4	73.5	89.8	58.7	1,183.1
New Leipzig	493.3	545.1	566.5	430.7	755.3	1,123.4	1,002.8	814.1	646.7	460.7	515.3	342.9	7,696.8
PCRWS*	4,622.3	4,593.1	5,732.5	4,553.6	6,102.8	8,978.4	11,630.6	11,212.5	9,789.7	6,464.7	7,604.4	4,510.8	85,795.4
PLC**	139.0	85.0	143.0	106.0	104.6	113.4	172.8	131.2	149.0	107.0	121.9	112.1	1,485.0
Reeder	403.4	261.1	340.0	266.4	380.3	613.2	573.1	629.0	464.0	365.4	464.1	344.7	5,104.7
Regent	441.4	485.7	408.0	428.4	568.8	891.9	731.5	790.7	762.2	631.8	895.9	412.2	7,448.5
Richardton	1,285.7	1,133.7	1,279.3	1,115.4	1,409.7	2,334.7	2,345.8	2,151.5	1,654.9	1,220.1	1,338.3	985.2	18,254.3
Sacred Heart	70.0	65.0	72.0	70.0	135.0	68.0	83.0	75.0	66.0	69.0	90.0	49.0	912.0
Scranton	821.3	757.3	819.5	803.9	1,310.3	2,069.6	1,672.8	1,481.5	1,352.9	818.6	919.3	567.5	13,394.5
Sentinel Butte	114.6	131.8	401.0	99.4	145.8	225.5	170.7	213.7	179.2	110.5	253.6	78.2	2,124.0
South Heart	694.0	630.0	841.0	570.8	873.8	1,200.7	1,383.1	1,463.8	1,188.8	643.4	700.7	449.4	10,639.5
Steffes	95.7	111.2	129.4	128.2	193.5	99.1	231.5	133.4	172.9	105.6	127.5	101.2	1,629.2
Taylor	262.0	226.0	261.0	286.0	340.0	480.0	531.0	553.0	443.0	307.0	323.0	257.0	4,269.0
WMCG***	15.0	11.0	11.0	10.0	190.0	250.0	295.0	252.0	123.0	19.0	33.0	14.0	1,223.0
Monthly Total	78,606.4	68,770.2	80,586.4	70,933.8	99,491.9	140,355.2	156,676.2	149,158.7	124,156.8	78,816.6	88,655.7	59,389.0	1,195,596.9
BEULAH INTERIM POTABLE WATER CONTRACTS													
User	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	User Total
Zap													
Monthly Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	291.1	444.4	735.5
													735.5

*PCRWS - Perkins County Rural Water System

**PLC - Prairie Learning Center

***WMCG - West Medora Campground

Rates 2006

The water rate for rural customers in 2006 consisted of a minimum payment of \$38.25 per month and included 2,000 gallons of water. The rate for water use in excess of the 2,000 gallons was \$3.60 per thousand gallons. On July 1, 2002, Southwest Water Authority implemented a volume discount for rural customers, reducing water rates from \$3.60 to \$2.60 on usage over 10,000 gallons. Also, customers with pasture taps received a rate reduction, from \$3.60 to \$2.60 on water usage in excess of 60,000 gallons, billed annually.

Rural Customers Under 10,000 Gallons

Treatment	\$0.55
Transmission Operations and Maintenance	\$1.05
Transmission Replacement	\$0.35
Transmission Reserve	\$0.09
Distribution Operation and Maintenance	\$1.31
Distribution Replacement	\$0.10
Distribution Reserve	\$0.15
Total	\$3.60

Rural Customers Over 10,000 Gallons

Treatment	\$0.55
Transmission Operation and Maintenance	\$0.72
Transmission Replacement	\$0.35
Transmission Reserve	\$0.00
Distribution Operation and Maintenance	\$0.88
Distribution Replacement	\$0.10
Total	\$2.60

The standard rural minimum fee of \$38.25 is broken into three separate components: meter fee, capital repayment, operations and maintenance. The capital repayment (\$28.80) and meter fee (\$5.00) portions of the minimum are used to pay the interest and principal on Series A and B Bonds, with the remaining balance paid to the Resources Trust Fund. These bonds help fund construction costs. After two years, the meter fee is paid to the Operations and Maintenance Fund, covering capital and routine operations and maintenance costs. The final portion of the monthly minimum (\$4.45) is for the Operation and Maintenance Fund to cover fixed costs.

The 2006 rate for demand flow contract customers was \$3.83 per 1,000 gallons of potable water.

Demand Flow Contract Customers

Treatment	\$0.55
Transmission Operation and Maintenance	\$1.05
Transmission Replacement and Extraordinary Maintenance	\$0.35
Capital Repayment	\$0.94
Demand Charge	\$0.94
Transmission Reserve	\$0.00
Total	\$3.83

Rates 2006, continued

The 2006 rate for constant flow contract customers was \$2.98 per 1,000 gallons of potable water.

Constant Flow Contract Customers

Treatment.....	\$0.55
Transmission Operation and Maintenance.....	\$1.05
Transmission Replacement and Extraordinary Maintenance.....	\$0.35
Capital Repayment.....	\$0.94
Transmission Reserve.....	\$0.09
Total.....	\$2.98

The raw water contract rate was \$2.45 per 1,000 gallons of water. Raw water customers do not pay for the cost of treatment.

Rates 2007

Rural Rates

The water rates for 2007 increased for the first time in five years for rural customers. The new monthly minimum is \$39.45, an increase of \$1.20 from last year and still includes 2,000 gallons of water.

This also includes capital repayment, meter fee and operations and maintenance. The capital repayment amount is tied to the Consumer Price Index and adjusted annually by the ND State Water Commission.

The rural customer rate per 1,000 gallons is \$3.65 up to 10,000 gallons and over 10,000 gallons is \$2.65. The water rate per 1,000 gallons increased \$.05 from last year.

Service to eastern Morton County is being made possible through a unique bulk water service agreement between Southwest Water Authority (SWA) and Missouri West Water System (MWWS). Under the agreement, SWA purchases water from MWWS and delivers that water to customers in eastern Morton County. The monthly minimum for Morton County is \$39.45 and includes 2,000 gallons of water. The rural rate per 1,000 gallons is \$3.65 up to 10,000 gallons and over 10,000 gallons is \$2.65.

The Beulah Interim Service Area is also being made possible through a bulk water service agreement between SWA and the city of Beulah. Under this agreement SWA purchases water from the city of Beulah until service can be provided by Southwest Pipeline Project's Oliver, Mercer, North Dunn Phase. The monthly minimum for Beulah Interim Service is \$39.45 and includes 2,000 gallons of water. The rural rate per 1,000 gallons is \$3.65. This area does not qualify for the volume discount until service is available to the Oliver, Mercer and North Dunn Service Area.

Contract Customers

Contract Customers also saw their first rate increase in five years. The demand flow contract customer rate is \$4.05 per 1,000 gallons of potable water. The constant flow contract customer rate is \$3.07 per 1,000 gallons of potable water. The raw water contract rate is \$2.49 per 1,000 gallons of water.

*"Til taught by pain,
men really know
not what good
water is worth."*

From "Don Juan"
by Byron

Water Service Contracts

User	Billed+	O&M++	Treatment	Reserve	Replacement	Capital Repayment	Demand	Total
Assumption Abbey	1,452.00	\$1,524.62	\$798.62	\$0.00	\$508.22	\$1,364.88	\$1,364.88	\$5,561.22
Baker Boy	3,016.10	\$3,166.88	\$1,658.86	\$271.46	\$1,055.64	\$2,835.14		\$8,987.98
Beach	43,049.90	\$45,202.44	\$23,677.49	\$3,874.49	\$15,067.50	\$40,466.90		\$128,288.82
Belfield	31,187.00	\$32,746.38	\$17,152.88	\$2,806.83	\$10,915.48	\$29,315.78		\$92,937.35
Carson	10,748.50	\$11,285.96	\$5,911.71	\$967.35	\$3,762.01	\$10,103.60		\$32,030.63
Dickinson	720,031.80	\$756,033.44	\$396,017.54	\$64,802.87	\$252,011.18	\$676,829.88		\$2,145,694.91
Dickinson Research	1,200.00	\$1,260.00	\$660.00	\$0.00	\$420.00	\$1,128.00	\$1,128.00	\$4,596.00
Dodge	3,651.00	\$3,833.55	\$2,008.05	\$328.59	\$1,277.85	\$3,431.94		\$10,879.98
Dunn Center	2,697.60	\$2,832.52	\$1,483.72	\$242.79	\$944.20	\$2,535.74		\$8,038.97
Elgin	21,419.30	\$22,490.29	\$11,780.64	\$1,927.74	\$7,496.78	\$20,134.14		\$63,829.59
Gladstone	5,739.70	\$6,026.72	\$3,156.87	\$516.57	\$2,008.93	\$5,395.33		\$17,104.42
Glen Ullin	25,405.80	\$26,676.11	\$13,973.21	\$2,286.53	\$8,892.05	\$23,881.46		\$75,709.36
Golden Valley	5,132.10	\$5,388.75	\$2,822.70	\$461.89	\$1,796.28	\$4,824.17		\$15,293.79
Golva	160.90	\$168.95	\$88.50	\$0.00	\$56.32	\$151.24	\$151.24	\$616.25
Halliday	8,288.50	\$8,702.97	\$4,558.72	\$745.97	\$2,901.02	\$7,791.18		\$24,699.86
Hebron	23,102.70	\$24,257.85	\$12,706.50	\$2,079.25	\$8,085.96	\$21,716.54		\$68,846.10
Hettinger	62,055.20	\$65,157.98	\$34,130.38	\$5,584.96	\$21,719.34	\$58,331.87		\$184,924.53
Home on the Range	1,200.00	\$1,260.00	\$660.00	\$0.00	\$420.00	\$1,128.00	\$1,128.00	\$4,596.00
Karsky Dairy	1,912.20	\$2,007.72	\$1,051.74	\$172.11	\$669.30	\$1,797.48		\$5,698.35
Manning	1,479.40	\$1,553.41	\$813.71	\$0.00	\$517.83	\$1,390.64	\$1,390.64	\$5,666.23
Medora****	13,677.10	\$9,140.20	\$4,787.73	\$783.43	\$3,046.75	\$8,182.62		\$25,940.73
Missouri Basin	55.60	\$58.39	\$30.58	\$5.00	\$19.46	\$52.26		\$165.69
Mott	24,198.80	\$25,408.78	\$13,309.38	\$2,177.89	\$8,469.62	\$22,746.88		\$72,112.55
Mott Grain	1,200.00	\$1,259.95	\$660.03	\$108.00	\$420.03	\$1,128.00		\$3,576.01
New England	23,511.40	\$24,687.00	\$12,931.30	\$2,116.03	\$8,229.02	\$22,100.70		\$70,064.05
New Hradec	1,183.10	\$1,242.28	\$650.73	\$0.00	\$414.11	\$1,112.12	\$1,112.12	\$4,531.36
New Leipzig	7,696.80	\$8,081.69	\$4,233.29	\$692.72	\$2,693.93	\$7,234.99		\$22,936.62
PCRWS*	85,795.40	\$90,085.20	\$47,187.50	\$7,721.59	\$30,028.43	\$0.00		\$175,022.72
PLC**	1,485.00	\$1,559.23	\$816.76	\$133.65	\$519.76	\$1,395.90		\$4,425.30

User	Billed+	O&M++	Treatment	Reserve	Replacement	Cap. Repayment	Demand	Total
Reeder	5,104.70	\$5,359.96	\$2,807.61	\$459.44	\$1,786.67	\$4,798.42		\$15,212.10
Regent	7,448.50	\$7,820.95	\$4,096.70	\$670.37	\$2,607.00	\$7,001.61		\$22,196.63
Richardton	18,254.30	\$19,167.06	\$10,039.91	\$1,642.89	\$6,389.05	\$17,159.05		\$54,397.96
Sacred Heart	912.00	\$957.60	\$501.60	\$0.00	\$319.20	\$857.28	\$857.28	\$3,492.96
Scranton	13,394.50	\$14,064.27	\$7,367.02	\$1,205.52	\$4,688.12	\$12,590.82		\$39,915.75
Sentinel Butte	2,124.00	\$2,230.22	\$1,168.22	\$191.16	\$743.42	\$1,996.56		\$6,329.58
South Heart	10,639.50	\$11,171.49	\$5,851.74	\$957.55	\$3,723.84	\$10,001.13		\$31,705.75
Steffes	1,629.20	\$1,710.56	\$896.09	\$146.65	\$570.25	\$1,531.46		\$4,855.01
Taylor	4,269.00	\$4,482.45	\$2,347.95	\$384.21	\$1,494.15	\$4,012.86		\$12,721.62
WMCG***	1,223.00	\$1,284.14	\$672.65	\$0.00	\$428.05	\$1,149.62	\$1,149.62	\$4,684.08
Totals	1,191,804.43	1,251,395.19	655,493.39	106,465.50	417,132.51	1,039,648.49	8,324.08	3,478,459.16

TOTAL FROM RAW WATER CONTRACTS

User	Billed+	O&M++	Treatment	Reserve	Replacement	Cap. Repayment	Demand	Total
Abbey	100.00	\$105.02	N/A	\$11.01	\$35.02	\$94.00	N/A	\$245.05
Jurgens Farm	1,127.00	\$1,183.35	N/A	\$123.97	\$394.45	\$1,059.38	N/A	\$2,761.15
Lorenz Farm	109.85	\$115.35	N/A	\$12.08	\$38.46	\$103.26	N/A	\$269.15
Red Trail Energy	4,124.70	\$4,330.95	N/A	\$453.73	\$1,443.66	\$3,877.22	N/A	\$10,105.56
Sacred Heart	704.00	\$739.20	N/A	\$77.44	\$246.40	\$661.76	N/A	\$1,724.80
Taylor Nursery	1,160.20	\$1,218.23	N/A	\$127.63	\$406.09	\$1,090.58	N/A	\$2,842.53
Totals	7,325.75	\$7,692.10	N/A	\$805.86	\$2,564.08	\$6,886.20	N/A	\$17,948.24

TOTAL BEULAH INTERIM SERVICE CONTRACTS

User	Billed+	O&M++	Treatment	Reserve	Replacement	Cap. Repayment	Demand	Total
Zap	735.50	\$1,316.56	N/A	\$110.33	\$73.55	\$691.37	N/A	\$2,191.81
Totals	735.50	\$1,316.56	N/A	\$110.33	\$73.55	\$691.37	N/A	\$2,191.81

+ per thousand gallons billed

++ Operations and Maintenance

Rate History

Contract Water Rate								
	1992	1993	1994	1995	1996	1997	1998	1999
O&M	\$0.80	\$0.50	\$0.60	\$0.67	\$0.81	\$0.85	\$0.83	\$0.88
Treatment	\$0.56	\$0.64	\$0.69	\$0.65	\$0.55	\$0.55	\$0.52	\$0.56
REM	\$0.30	\$0.30	\$0.30	\$0.30	\$0.30	\$0.30	\$0.30	\$0.35
Cap Repaymt.	\$0.62	\$0.68	\$0.70	\$0.72	\$0.74	\$0.76	\$0.78	\$0.79
Reserve Fund								\$0.05
Total***	\$2.28	\$2.12	\$2.29	\$2.34	\$2.40	\$2.46	\$2.43	\$2.63
	2000	2001	2002	2003	2004	2005	2006	2007
O&M	\$0.91	\$1.05	\$1.05	\$1.05	\$1.05	\$1.05	\$1.05	\$1.05
Treatment	\$0.53	\$0.53	\$0.53	\$0.53	\$0.55	\$0.55	\$0.55	\$0.60
REM	\$0.35	\$0.35	\$0.35	\$0.35	\$0.35	\$0.35	\$0.35	\$0.35
Cap Repaymt.	\$0.80	\$0.83	\$0.85	\$0.87	\$0.89	\$0.91	\$0.94	\$0.98
Reserve Fund	\$0.15	\$0.20	\$0.20	\$0.18	\$0.14	\$0.12	\$0.09	\$0.09
Total***	\$2.74	\$2.96	\$2.98	\$2.98	\$2.98	\$2.98	\$2.98	\$3.07

***Total Contract Rates: rates shown are for constant flow service.
Demand flow customers pay double the capital repayment portion of the water rate.

Rural Monthly Minimum: These prices include 2,000 gallons of water from 1997 to 2007.

	1992	1993	1994	1995	1996	1997	1998	1999
	\$25.00	\$25.00	\$25.00	\$26.95	\$28.00	\$33.90	\$33.90	\$35.10
	2000	2001	2002	2003	2004	2005	2006	2007
	\$35.80	\$37.55	\$38.25	\$38.25	\$38.25	\$38.25	\$38.25	\$39.45

Rural Water Rate

	1992	1993	1994	1995	1996	1997	1998	1999
	\$2.50	\$2.50	\$2.50	\$2.50	\$2.55	\$2.55	\$2.59	\$3.05
	2000	2001	2002	2003	2004	2005	2006	2007
	\$3.15	\$3.60	\$3.60	\$3.60	\$3.60	\$3.60	\$3.60	\$3.65

Potable Water: These numbers do not include construction water. Amounts below are listed in 1,000 gallons.

	1992	1993	1994	1995	1996	1997	1998	1999
	655,640.0	523,308.0	612,163.0	697,411.2	806,175.3	826,589.8	908,168.2	823,339.9
	2000	2001	2002	2003	2004	2005	2006	2007
	1,001,669	1,030,755	1,066,537	1,119,869	1,113,088	1,133,512	1,388,361	

From July, 2002, to December, 2006, rural usage greater than 10,000 gallons per month was billed at \$2.60 per thousand gallons. Beginning January, 2007, rural usage greater than 10,000 gallons per month will be billed at \$2.65 per thousand gallons.

Rural Water Usage History

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
1995	638,000	722,000	797,000	841,000	934,000	1,282,000	1,601,000	1,708,000	1,822,000	1,531,000	1,839,000	2,130,000	15,845,000
1996	2,674,000	2,513,000	3,001,000	3,096,000	2,994,000	3,537,000	4,435,000	4,829,000	5,598,000	4,342,000	4,026,400	5,328,000	46,373,400
1997	4,508,000	4,513,300	3,876,400	4,383,300	4,642,000	5,516,800	6,041,300	6,136,200	5,623,200	6,124,000	4,679,100	4,853,000	60,896,600
1998	5,213,600	5,108,300	4,694,500	4,889,400	5,105,200	7,228,400	5,945,000	7,279,200	6,742,300	6,672,900	6,136,000	4,776,100	69,790,900
1999	5,627,700	5,355,100	4,912,600	6,081,700	5,589,900	6,078,700	7,307,200	8,430,100	7,579,700	7,742,800	6,717,200	7,047,500	78,470,200
2000	7,567,600	7,178,100	6,538,000	7,618,300	7,979,600	8,979,700	8,886,400	9,147,300	10,089,100	10,638,200	7,627,100	7,166,100	99,415,500
2001	7,566,100	7,182,800	6,803,000	7,199,700	7,890,200	9,377,700	8,687,300	8,853,700	10,633,300	10,084,400	7,364,200	7,860,900	99,503,300
2002	8,803,100	7,351,300	7,367,300	8,452,700	8,591,300	11,816,800	12,067,400	12,878,000	11,186,900	16,109,900	9,111,700	8,463,100	122,199,500
2003	9,747,700	9,030,800	8,645,200	8,999,500	10,030,800	12,353,200	12,869,800	14,851,300	14,823,500	19,743,800	10,257,100	9,372,700	140,725,400
2004	10,499,300	9,838,200	8,627,700	9,678,100	11,882,600	12,985,500	15,676,800	14,729,100	14,405,200	19,217,100	10,106,100	9,765,600	147,411,300
2005	10,438,000	9,806,900	9,593,300	11,043,100	11,416,100	13,780,800	13,786,700	14,552,400	16,177,400	24,084,600	11,281,500	10,926,200	156,887,000
2006	10,776,500	10,172,100	10,680,600	11,034,400	12,665,800	18,998,700	21,531,000	20,735,000	19,695,200	28,022,600	11,186,500	11,873,900	187,372,300
MORTON COUNTY RURAL WATER USAGE HISTORY													
2006	0	0	0	0	0	0	0	2,600	42,800	237,000	132,600	96,700	511,700
BEULAH INTERIM SERVICE RURAL WATER USAGE HISTORY													
2006	0	0	0	0	0	0	0	0	0	0	0	19,600	19,600



Capital Repayment



Capital repayment is a portion of the water rate charged by Southwest Water Authority to pay back the cost of construction of the pipeline. In 1982, a study determined that due to economic constraints in southwest North Dakota there would be a limit to the amount customers could pay in order to cover the cost of construction. Since capital repayment is based on the ability to pay, the portion of the rate designated for capital repayment is indexed to the Consumer Price Index and adjusted annually.

For all contract customers, the capital repayment rate is based upon a per thousand gallons charge. For all rural customers, the capital repayment rate is a portion of the monthly minimum payment. This money is paid monthly to the ND State Water Commission or the bond bank.

Below is a table showing the payment history of capital repayment by water users throughout the system:

	1991-1992	1993	1994	1995	1996	1997
Contract	\$224,065.00	\$190,433.00	\$292,997.00	\$408,563.00	\$418,179.77	\$487,828.22
Rural		\$5,540.00	\$7,475.00	\$95,616.00	\$316,814.38	\$370,085.00
Total	\$224,065.00	\$195,973.00	\$300,472.00	\$504,179.00	\$734,994.15	\$857,913.22

	1998	1999	2000	2001	2002	2003
Contract	\$568,497.91	\$580,865.33	\$634,275.73	\$751,392.41	\$800,159.52	\$861,015.31
Rural	\$347,293.46	\$445,131.91	\$524,952.50	\$556,470.52	\$630,004.66	\$718,768.94
Total	\$915,791.37	\$1,025,997.24	\$1,159,228.23	\$1,307,862.93	\$1,430,164.18	\$1,579,784.25

	2004	2005	2006	Total
Contract	\$846,041.48	\$897,289.69	\$1,067,345.59	\$9,028,948.96
Rural	\$774,667.77	\$809,668.64	\$881,134.67	\$6,483,623.45
Total	\$1,620,709.25	\$1,706,958.33	\$1,948,480.26	\$15,512,572.41

Replacement & Extraordinary Maintenance Fund

A portion of the water rate charged by Southwest Water Authority (SWA) is for Replacement & Extraordinary Maintenance (REM). It is based on a per thousand gallons of water billed. The REM rate is one of the components of the rate structure that is paid by all customers, both contract and rural.

Originally, the rate was set at \$.30 per thousand gallons of water sold, but in 1998 a rate study was completed to determine the fairness and correctness of the rate

REM Fund, Continued

structure. At that time, it was determined in order to meet the needs of extraordinary maintenance of the pipeline in the future, the rate for the REM Fund should be increased to \$.35 per thousand gallons and has remained this amount since 1999.

When the Southwest Pipeline Project (SWPP) was authorized in 1981, the North Dakota Legislature established the REM Fund. This fund created an account to cover the costs of an extraordinary nature or to replace parts of the SWPP as the system ages. Disbursements from this account have to meet specific criteria and be approved by the ND State Water Commission (SWC) and SWA Board of Directors.

When SWA took over operations and management of the SWPP from the SWC in 1996, SWA established an account to maintain REM Funds separately and to follow the North Dakota Century Code. The table that follows gives a summary of activity of this account.

	1991-1995	1996	1997	1998	1999	2000
Beginning Balance		735,372	1,016,563	1,315,966	1,630,497	2,002,873
Contributions						
Contract	727,434	230,837	234,566	254,697	298,472	320,454
Rural	7,938	17,899	22,994	27,361	33,369	43,850
Interest		22,006	56,919	83,945	98,511	121,376
Dividends		13,025	6,524	9,070	5,601	9,137
Fiduciary Fees		(2,575)	(4,655)	(6,105)	(7,302)	(8,602)
Disbursements			(16,945)	(54,438)	(56,275)	(174,195)
Ending Balance	735,372	1,016,563	1,315,966	1,630,497	2,002,873	2,314,893

	2001	2002	2003	2004	2005
Beginning Balance	2,314,893	2,804,274	3,301,016	3,835,485	4,220,502
Contributions					
Contract	329,448	333,308	346,330	335,340	347,808
Rural	44,066	53,121	62,334	67,709	64,725
Interest	127,292	160,258	150,883	188,652	198,149
Dividends	16,575	4,016	3,985	2,279	5,633
Fiduciary Fees	(9552)	(12,177)	(14,190)	(15,845)	(17,417)
Disbursements	(18,448)	(41,784)	(14,874)	(193,119)	(31,754)
Ending Balance	2,804,274	3,301,016	3,835,485	4,220,502	4,787,646

	2006	Total
Beginning Balance	4,787,646	
Contributions		
Contract	425,777	4,184,471
Rural	82,115	527,481
Interest	202,716	1,410,708
Dividends	8,203	84,049
Fiduciary Fees	(19,135)	(117,556)
Disbursements	(149,084)	(750,914)
Ending Balance	5,338,238	5,338,238

Phased Development Plan

Current Development Phase:

Medora, Beach, Morton Phase West

Final Development Phase:

Oliver, Mercer, North Dunn Phase.....North

SWPP Funding Sources

State Funding (in millions of dollars)

Resources Trust Fund.....	\$ 45.6
Water Development Trust Fund	\$ 7.6
Subtotal	\$ 53.2

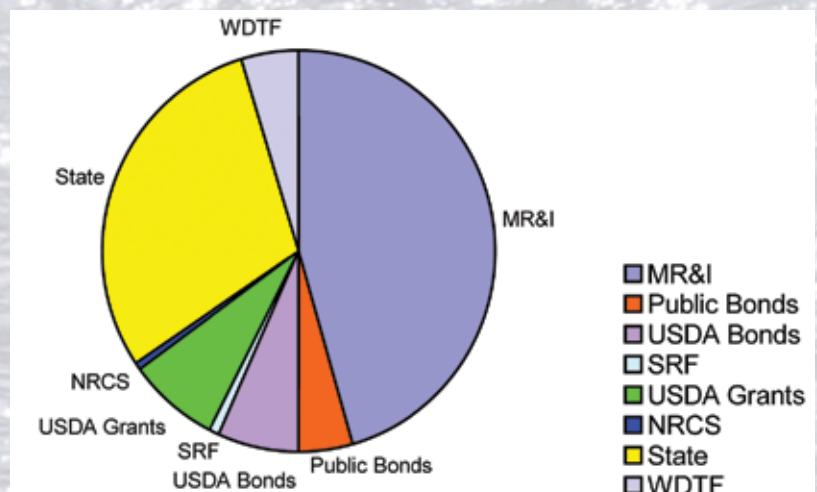
Grants

Garrison Diversion Conservancy District	
Municipal Rural & Industrial Fund	\$ 69.7
USDA-Rural Development	\$ 12.3
Natural Resources Conservation Service PL566.....	\$ 0.9
Subtotal	\$ 82.9

State Bonds Repaid by Users

Public Revenue Bonds.....	\$ 7.0
USDA-Rural Development	\$10.3
ND Drinking Water Revolving Loan Fund	\$ 1.5
Subtotal	\$ 18.8
Total Funding	\$154.9

SWPP FUNDING SOURCES \$154.9 Million as of 12/31/06



Electric Power Usage

Southwest Water Authority (SWA) purchases power from the federal government through the Department of Energy for the main transmission pumping facilities throughout the system. These expenses are identified as Western Area Power Association costs. Local utility companies supply or distribute the power to each location. These expenses are identified as wheeling costs. SWA pays the local utility companies to wheel the power provided by the Department of Energy.

Below is a table illustrating the total power usage listed in kilowatt hours:

"You could write the story of a man's growth in terms of his epic concerns with water."

Bernard Frank

Location	1994	1995	1996	1997	1998	1999
Intake PS	1,645,820	1,855,579	2,192,366	2,129,824	2,302,460	2,334,674
Richardton PS	956,087	1,070,952	1,250,174	1,241,108	1,347,075	1,378,141
Dickinson PS	21,299	343,654	495,616	495,618	752,435	831,898
Dodge PS	47,820	238,364	386,470	385,973	405,366	384,563
Jung Lake PS					24,331	187,528
Bucyrus PS					223,039	128,217
Total	2,671,026	3,508,549	4,324,626	4,252,523	5,054,706	5,245,021

Location	2000	2001	2002	2003	2004	2005
Intake PS	2,573,895	2,661,280	2,771,644	2,930,468	2,909,556	3,003,794
Richardton PS	1,485,588	1,550,685	1,630,154	1,724,962	1,688,295	1,733,036
Dickinson PS	940,441	1,036,288	1,128,038	1,241,497	1,241,087	1,312,768
Dodge PS	429,567	454,764	548,086	612,649	566,817	538,056
Jung Lake PS	236,441	315,255	380,975	450,324	461,738	480,550
Bucyrus PS	127,212	139,462	136,942	136,226	139,823	161,163
WTP	223,935	312,018	324,991	322,634	323,419	342,292
Burt PS	23,803	87,630	93,624	97,740	97,593	102,398
Scranton PS			29,326	59,815	53,329	60,091
Fryburg PS					29,680	121,760
Beach PS					25,059	92,475
Total	6,040,882	6,557,382	7,043,780	7,576,315	7,536,396	7,948,383

Location	2006
Intake PS	3,646,031
Richardton PS	2,220,764
Dickinson PS	1,649,870
Dodge PS	946,905
Jung Lake PS	713,773
Bucyrus PS	282,261
WTP	397,147
Burt PS	113,815
Scranton PS	73,489
Fryburg PS	167,147
Beach PS	119,306
Total	10,330,508

PS = Pump Station
WTP = Water Treatment Plant

