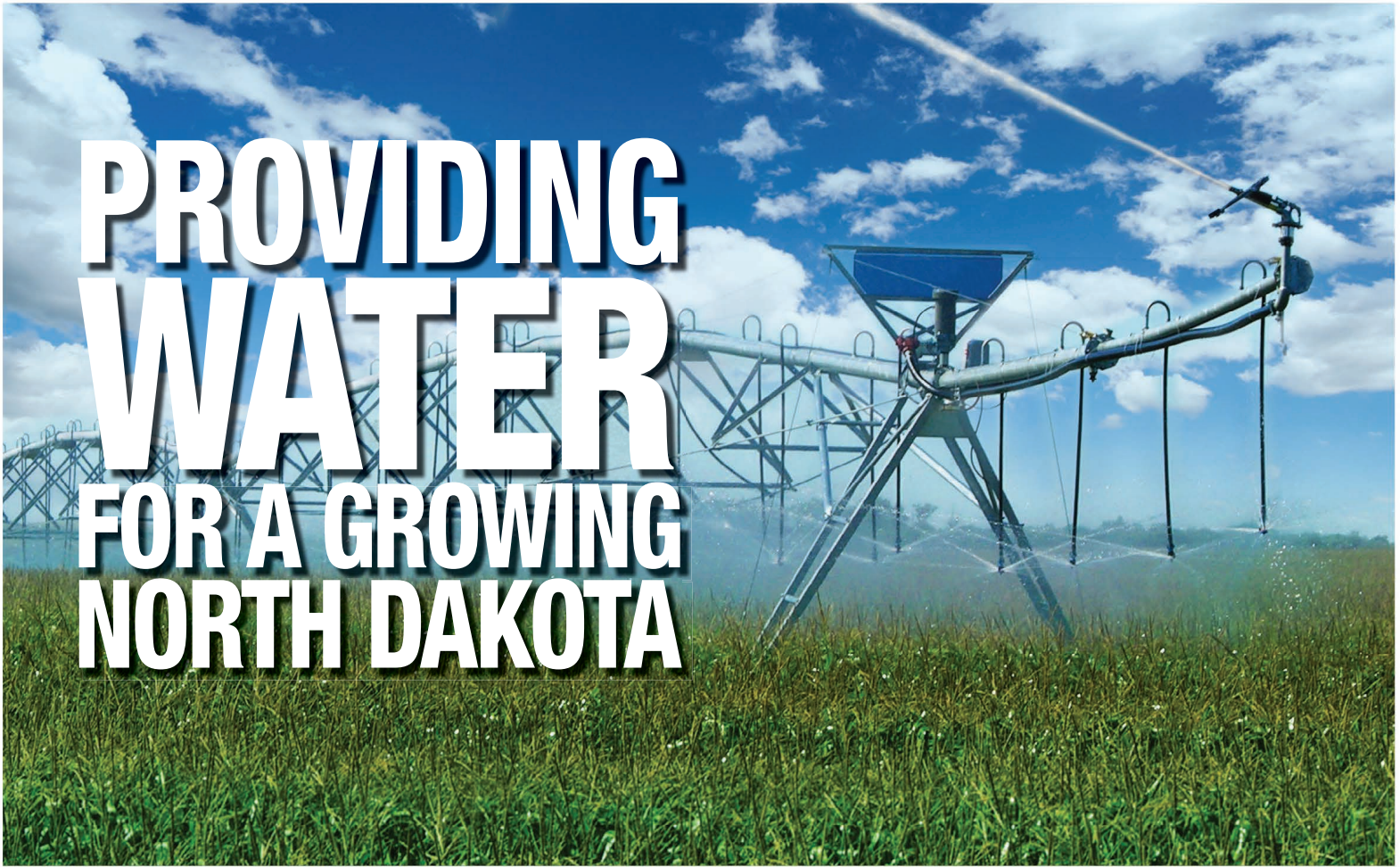


PROVIDING WATER FOR A GROWING NORTH DAKOTA



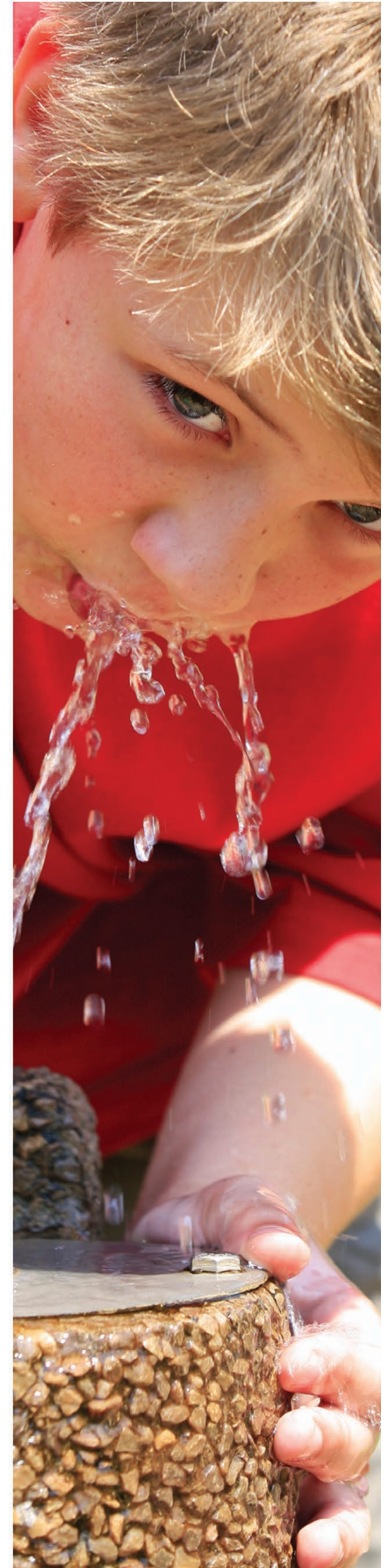
Garrison Diversion
Conservancy District
2012 Annual Report





Garrison Diversion's Mission

**TO PROVIDE A
RELIABLE, HIGH
QUALITY AND
AFFORDABLE
WATER SUPPLY
TO BENEFIT
THE PEOPLE OF
NORTH DAKOTA.**



Executive Letter

2012 was an important year for the Garrison Diversion Conservancy District (Garrison Diversion) as we continued working to meet the water needs of a growing North Dakota.

For the first time in Garrison Diversion's history, we signed a 40-year contract with the Bureau of Reclamation (Reclamation) to provide irrigation water using the McClusky Canal. Thanks to the guarantee of a consistent water supply, irrigators are investing in the central supply works to provide irrigation waters to farmers in the area. This has the potential to generate millions of dollars of investments in North Dakota's agriculture industry.

While we are excited about the irrigation contract, there is a lot of other important work being done in all our focus areas that will allow us to provide water for our growing state:

Agriculture and Natural Resources

We continued our commitment to long-term irrigation by providing funding to the ND Irrigation Association and NDSU Oakes Irrigation Research Site that supports agricultural and irrigation research and development. The continued funding demonstrates our ongoing leadership in agriculture.

Operations and Maintenance

Our Operations and Maintenance (O&M) staff continued operating and maintaining the Mile Marker 7.5 Irrigation Project (MM 7.5) along the McClusky Canal, which the O&M staff helped construct in 2011. Thanks to our staff, the McClusky Canal delivered about 10,000 acre-feet of water for livestock watering, irrigation, recreation and other needs in 2012. We look forward to maintaining the canal and its contribution to North Dakota's agriculture for years to come.

Red River Valley Water Supply Project

As part of our ongoing planning for the Red River Valley Water Supply Project (RRVWSP), we spent 2012 conceptualizing various pipeline alternatives based on possible funding scenarios and responded to local requests for information about the project.

Recreation

Thanks to our Matching Recreation Grant Program, we continued supporting the development of recreational opportunities across the state. In 2012, we awarded \$260,975 in matching funds to 26 projects in our member counties.

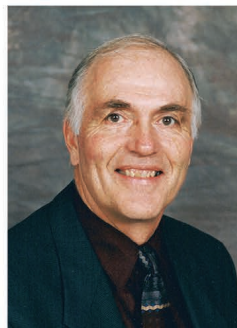
Municipal, Rural and Industrial

In 2012, we provided funding to help the North Dakota Rural Water Systems Association complete 20 drought management plans and 17 water conservation plans in North Dakota. We also continued to jointly administer the state municipal, rural and industrial (MR&I) program with the State Water Commission.

2012 also saw us expanding into new territory as we hosted our first water conference. We brought in experts from across the state and country to talk about the agricultural, economic and psychological impacts caused by a serious, long-term drought. We also discussed the role the RRVWSP will play in mitigating those impacts.

Garrison Diversion's mission is to provide a reliable, high quality and affordable water supply to benefit the people of North Dakota. We are committed to that goal as we look to the future and the ways we can meet the state's water needs.

The 2012 Annual Report is full of the ways our work continues to benefit our state. We are proud of our responsibility as water stewards and look forward to providing water for a growing North Dakota.



John Leininger

John Leininger
Chairman



Dave Koland

Dave Koland
General Manager

Garrison Diversion Board of Directors

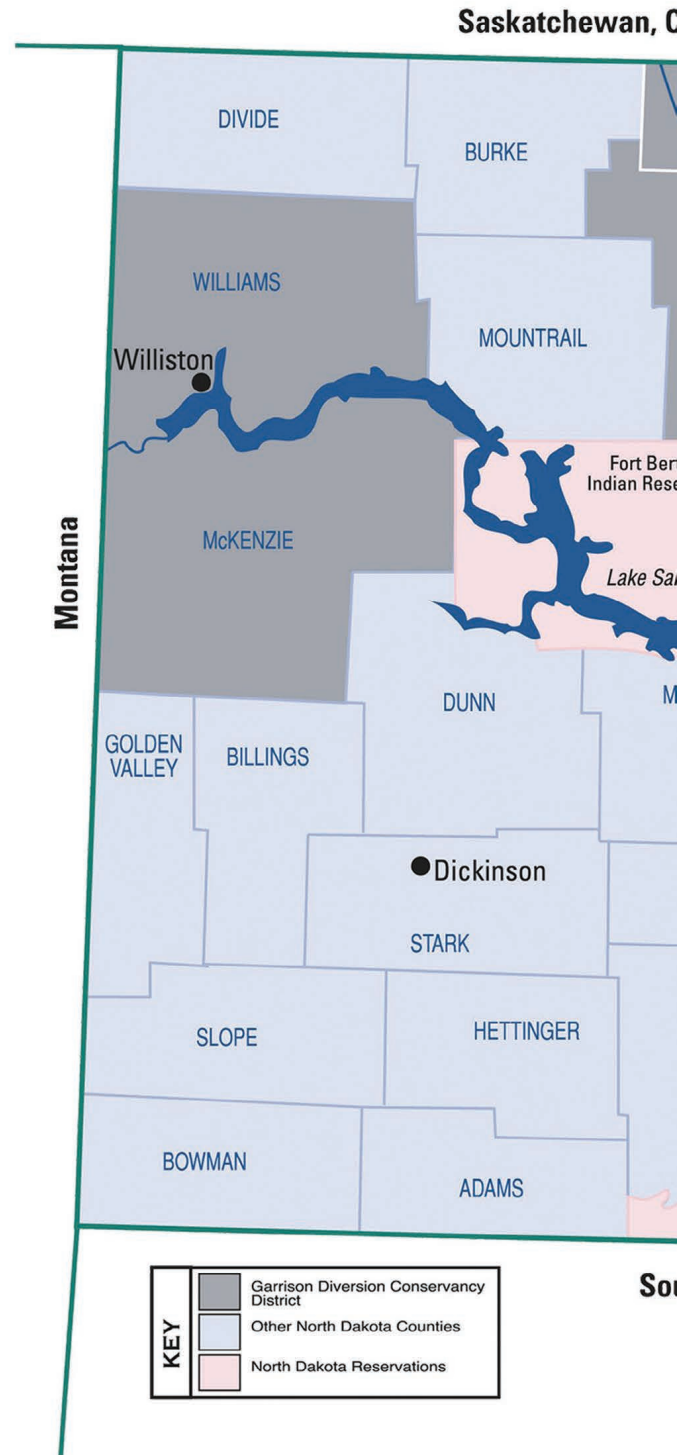


Back Row (L-R): Warren (Bud) Lyons, Ransom County; Richard Cayko, McKenzie County; Charles Richter, Eddy County; Ken Vein, Grand Forks County; Dan Marquart, Nelson County; Kelly Klosterman, Richland County; E. Ward Koeser, Williams County; Richard Fugleberg, Steele County; Steve Metzger, Foster County

Middle Row (L-R): Jeff Breker, Sargent County; John Peyerl, Ramsey County; Roger Bischoff, Barnes County; Bill Ongstad, Wells County; John Leininger, Griggs County; Cliff Hanretty, McHenry County; Norman Haak, Dickey County; David Johnson, Benson County; Kenny Rogers, Bottineau County

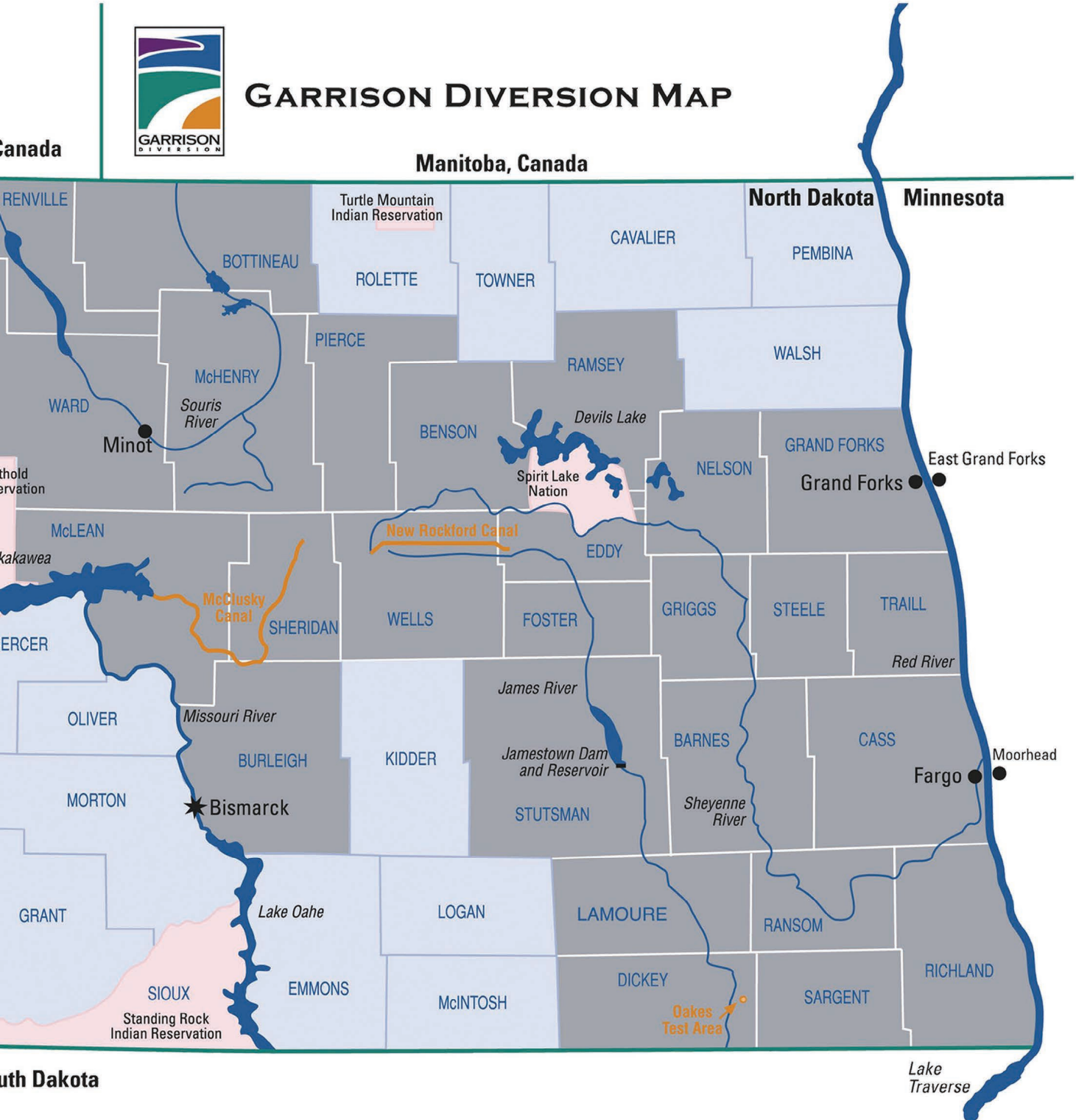
Front Row (L-R): Dr. Bill Krivarchka, Traill County; Rick Anderson, McLean County; Dennis Wendel, LaMoure County; Roger Fenstad, Cass County; Dave Anderson, Pierce County; Ken Royse, Burleigh County; Thomas Olson, Stutsman County; Alan Walter, Ward County; Jim Burbidge, Renville County (deceased)

Not Pictured: Tim Schindler, Sheridan County





GARRISON DIVERSION MAP



South Dakota

Lake Traverse

Agriculture and Natural Resources



Agriculture has been an important element of Garrison Diversion's foundation since its inception in the 1950s. Although Garrison Diversion has multiple focus areas, we continue to develop, expand and enhance irrigation through our investment in agricultural initiatives.

Garrison Diversion made history in 2012 when we signed a 40-year contract with the Bureau of Reclamation to provide irrigation water using the McClusky Canal. This is the first long-term irrigation water service contract signed with Reclamation since the Garrison Diversion Unit was authorized 47 years ago.

"This is a historic day," said Gov. Dalrymple, who spoke during the contract signing. "This opens the door to a lot more development and a lot more investment."

The contract makes it financially feasible for irrigators to invest in constructing the central supply works near the McClusky Canal because it guarantees a consistent water supply that will provide long-term irrigation waters to farmers in the area. It has the potential to generate millions of dollars of investment in North Dakota's agriculture industry.

"Irrigation has always been a major focus of Garrison Diversion," said John Leininger, chairman of the Garrison Diversion Conservancy District. "We're pleased to be able to secure water for irrigation using the McClusky Canal for the next 40 years."

In addition to the McClusky Canal project, Garrison Diversion provided funding to support agricultural and irrigation research and development through the ND Irrigation Association and NDSU Oakes Irrigation Research Site.

Garrison Diversion also works to maintain, enhance and protect North Dakota's natural resources by assisting with maintenance at the Audubon and Arrowwood National Wildlife Refuges, Lonetree Wildlife Management Area, Kraft Slough and various Fish and Wildlife tracts.



Operations and Maintenance



Each year, the “to-do” list for Garrison Diversion’s O&M crew grows, and the hard-working, highly skilled employees take it all in stride. “Our O&M staff is exceptional,” said Kip Kovar, district engineer. “Each year, we take on new jobs, and we haven’t yet encountered any job they can’t handle.”

O&M employees perform routine maintenance procedures including: water operations, painting and coating structures, road maintenance, vegetative management and building and equipment maintenance at the McClusky Canal, New Rockford Canal and Oakes Test Area. Specialized projects that vary from year to year are also a large part of the workload.

In 2012, the O&M staff assisted with the installation of a new digital fuel management system at the O&M office in McClusky. The fuel management system allows Garrison Diversion to better track fuel consumption for accurate job accounting and equipment use accounting. Staff completed all site preparations and the necessary electrical work for the fuel system.

The O&M staff continued to operate and maintain the MM 7.5 along the McClusky Canal.

The McClusky Canal is used for livestock watering, water for wildlife mitigation areas, water quality improvements, irrigation, recreation and fish and wildlife. In 2012, approximately 10,000 acre-feet of water was delivered through the McClusky Canal for these purposes.

In addition to the work with the McClusky Canal, O&M painting and coating specialists coated the discharge pipes for the Snake Creek Pumping Plant to prevent corrosion. The pipes were dewatered before the crew prepped the confined space according to strict safety guidelines. The coating project took approximately two weeks to complete.

Garrison Diversion also has cooperative agreements with state and federal agencies to provide O&M assistance. The State Water Commission received help monitoring and operating the Devils Lake Outlets, water sampling, mowing, spraying and intake work as part of routine duties completed at the Devils Lake Outlets.

O&M staff completed specialty concrete work at the Jamestown Dam as part of a cooperative agreement with Reclamation. The crew was on location for approximately three weeks building levees, dewatering and completing concrete repairs to the discharge structure of the dam. Concrete repairs were also made to the wing wall of the discharge structure, and a drain was fixed at the site.

O&M staff also performed routine maintenance on Garrison Diversion’s large fleet of equipment including dozers, loaders, backhoes and excavators.



Red River Valley Water Supply Project

The Red River in eastern North Dakota creates a variety of issues for residents of the Red River Valley. The river fluctuates between flooding over its banks in the spring and barely flowing during droughts. Despite its irregularities, the Red River is the primary water source for communities in the Valley.

When the Valley faces another severe drought like the one experienced in the 1930s – and experts agree it is only a matter of time – the Red River will not be able to provide enough drinking water for the population, much less water for agriculture and industry. The RRWSP was developed to provide a supplemental water supply vital for drinking, sanitation, fire protection and economic development during a drought.

The RRWSP is designed to transport water from the Missouri River near McClusky via a buried pipeline to Lake Ashtabula, from which it can flow via the Sheyenne River into the Red River. Once completed, the RRWSP will provide enough water to meet the Valley's needs through the year 2050.

As part of the work with the RRWSP, Garrison Diversion also provides support to the Lake Agassiz Water Authority, through the facilitation of meetings, administration, legal and engineering services.

As part of our ongoing planning for the RRWSP, we spent 2012 conceptualizing various pipeline alternatives based on possible funding scenarios. We also devoted time to responding to local questions and requests for information about the project.



Recreation



Garrison Diversion's Matching Recreation Grant Program promotes the development of recreational opportunities that enhance many of North Dakota's towns, parks and water resources. Garrison Diversion funds the grant program by dedicating two-tenths of its one-mill levy. In addition to the grant program, Garrison Diversion continued maintenance at the Chain of Lakes Recreation Area, a popular summer destination for visitors located along the McClusky Canal.

In 2012, Garrison Diversion awarded \$260,975 in matching recreation grant funds to the following 26 projects:

2012 Recreation Grant Recipients:

- **Barnes County**
 - Development of a new city park with new playground equipment in Rogers
 - Improvements at Clausen Springs and Little Yellowstone Parks
- **Benson County**
 - Installation of ADA accessible restrooms at Fireman's Memorial Park in Leeds
 - Development of a trap shooting range in Minnewaukan
- **Bottineau County**
 - Additional campsites at Carbury Dam
- **Cass County**
 - New playground equipment and a vault toilet at Brewer Lake
- **Foster County**
 - New playground equipment for Lake Juanita Park
 - Construction of Phase II of the Community Activity Center at the Foster County Fairgrounds
- **Grand Forks County**
 - Installation of 12 additional sewer hook-ups at the Larimore Dam RV Park
- **McHenry County**
 - Construction of a picnic shelter at Lake George County Park
- **McKenzie County**
 - New playground equipment and a picnic shelter at the Tobacco Gardens Recreation Area
- **McLean County**
 - Renovation of the 4-H camp facilities to ADA standards & construction of a multi-purpose building near Washburn
 - Installation of concrete parking pads at the Garrison RV Park
- **Nelson County**
 - Installation of ADA accessible restrooms at the Stump Lake Park Pavilion
- **Ramsey County**
 - New playground equipment at Roosevelt and Ruger Parks in Devils Lake
 - Construction of an all-season fish cleaning station along Hwy 20
 - Construction of an access stairway at Henegar Landing along Devils Lake
- **Renville County**
 - Installation of a sewer line for 10 new campsites at the Mohall City Campground
- **Richland County**
 - New playground equipment at the city park in Barney
 - Construction of a multi-purpose building at Airport Park in Wahpeton
- **Sargent County**
 - Construction of beach and picnic shelters and the installation of additional water hydrants at Silver Lake Park
- **Stutsman County**
 - Campground expansion at Pelican Point Landing on the Jamestown Reservoir
- **Wells County**
 - Development of the Wells County Outdoor Learning Center
- **Williams County**
 - Electrical upgrades at McGregor Dam
 - New playground equipment for Kota Ray Dam
 - Electrical campsite hook-ups at the Little Beaver Bay Campground

Municipal, Rural and Industrial (MR&I)



Garrison Diversion administers the state MR&I program in conjunction with the State Water Commission to provide funding for projects that deliver quality water to homes and businesses throughout North Dakota. In 2012, \$12.4 million was distributed to help water systems deliver high quality and affordable water to homes, businesses and farms.

Garrison Diversion also provided funding to the North Dakota Rural Water Systems Association to assist with the completion of 20 drought management plans and 17 water conservation plans throughout the state.

North Dakota's water infrastructure benefited from American Recovery and Reinvestment Act (ARRA) funding last year. In addition to the \$12.4 million in MR&I funds, \$7.1 million was distributed from the ARRA MR&I fund.





Management's Discussion and Analysis

Introduction

The North Dakota legislature created Garrison Diversion in 1955 to utilize the water behind Garrison Dam for the benefit of the citizens of North Dakota. 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 and New Rockford Canal and funding of the MR&I program. 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 33 full-time and seasonal employees.

Overview of the Financial Statements

This discussion and analysis serves as an introduction to Garrison Diversion's basic financial statements.

District-Wide Financial Statements

The district-wide financial statements 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 Garrison Diversion's net assets changed during the most recent fiscal year. Changes in net assets are reported under the modified cash basis of accounting.

Garrison Diversion Statement of Assets, Liabilities and Net Assets

Assets	2012	2011
Cash	\$4,691,930	\$3,551,946
Investments	\$3,500,198	\$3,500,200
Land & land improvements	\$950,407	\$950,407
Construction in progress	\$163,873	—
Buildings	\$1,155,064	\$1,155,064
Equipment	\$7,675,348	\$7,420,949
Less accumulated depreciation	(\$3,921,015)	(\$3,438,564)
Total assets	\$14,215,805	\$13,140,002
Liabilities		
Due to employees	\$5,557	\$7,829
Retaining payable	—	\$61,289
Compensated absences	\$290,192	\$265,391
Bond payable	\$1,349,207	\$1,422,823
Total liabilities	\$1,644,956	\$1,757,332
Net Assets		
Invested in fixed assets	\$4,674,470	\$4,665,033
Operating fund	\$1,753,300	\$1,533,419
O & M emergency fund	\$822,818	\$822,818
Deficiency fund	\$802,288	\$802,288
Project development fund	\$915,593	\$915,593
Special purpose fund	\$853,088	\$698,632
Unrestricted fund	\$2,749,292	\$1,944,887
Total net assets	\$12,570,849	\$11,382,670
Total liabilities and net assets	\$14,215,805	\$13,140,002

Assets, Liabilities and Net Assets

The Statement of Assets, Liabilities and Net Assets, as shown above, lists total net assets of \$12,570,849 and \$11,382,670 for the fiscal years ended December 31, 2012 and 2011, respectively. The largest increase was in cash. This was mainly due to the difference between the general fund income and expenses, and the operations, maintenance and replacement (OM&R) income and expenses. In both these funds, income was more than expenses.

In the General Fund, the tax levy and state aid distribution amounted to more than was budgeted. Garrison Diversion budgets income conservatively and bases it on prior years' data. Also, the General Fund expenses were lower than budgeted; in many cases, only 70-80% of an expense line item was expended.

Also, the OM&R program income (\$4,828,774) was greater than the OM&R program expenses (\$4,008,701) (see Statement of Activities chart, pg 12). Under the Modified Cash Basis of accounting used by Garrison Diversion, expenditures are recognized as expenses when they are paid. Revenue is recognized when the revenue is received, not earned. In this case, revenue for services performed for other government entities in the last quarter of 2011 was not received in 2011 but in 2012; but, the expenses to provide these services were recorded and paid for in 2011.

Also, new for 2012 is the construction in progress line item. This is the amount invested, at the end of 2012, in the replacement of the McClusky Canal headworks building. The construction of this building is expected to be completed in early 2013.

Garrison Diversion Statement of Activities

Program Expenses	2012	2011
General fund	\$2,170,627	\$1,993,173
Municipal, rural and industrial	\$19,238,361	\$43,967,811
Operations, maintenance and replacement	\$4,008,701	\$3,341,156
Red River Valley Water Supply Project	—	\$3,340
Irrigation fund	\$403,870	\$272,243
Total district activities	\$25,821,559	\$49,577,723
Program Revenues		
Taxes	\$2,148,984	\$1,971,405
Interest on investments	\$33,535	\$89,922
DWRA recreation program	—	—
Leases	\$2,125	\$2,625
Miscellaneous	\$456	\$745
Sale of capital assets	\$31,824	—
Administration	\$26,583	\$15,932
MR&I appropriation	\$19,553,434	\$34,126,058
Operations, maintenance and replacement	\$4,828,774	\$3,219,561
Red River Valley Water Supply Project	—	\$195,944
Irrigation	\$384,023	\$2,006,049
Total revenue	\$27,009,738	\$41,628,241
Revenue over (under) expenses	\$1,188,179	(\$7,949,482)
Net assets, beginning of year	\$11,382,670	\$19,332,152
Net assets, end of year	\$12,570,849	\$11,382,670

Statement of Activities

Program Expenses

Total expenses for all programs in the fiscal years ended December 31, 2012, and December 31, 2011, were \$25,821,559 and \$49,577,723, respectively. This is a decrease of 48% or \$23,756,164. The main reason for the decrease from fiscal year 2011 was the decrease in municipal, rural & industrial (MR&I) expenses of \$24,729,450. The main factor contributing to this decrease from 2011 was that 2011 was one of the busiest construction seasons for MR&I water system infrastructure projects. The MR&I Program was the recipient of one-time ARRA funding for water system infrastructure, and in 2011, that amount was \$18,533,627.

Program Revenue

Total revenues for fiscal years ended December 31, 2012, and December 31, 2011, were \$27,009,738 and \$41,628,241, respectively. This is a decrease of 35% or \$14,618,503. The decrease from fiscal year 2011 was mainly due to the decrease in MR&I Program revenue of \$14,572,624.

As mentioned above, 2011 was one of the busiest construction seasons for MR&I water system infrastructure projects. The increase was mainly due to ARRA funded projects. In 2011, ARRA revenue, included in MR&I revenue, was \$18,533,627.

Red River Valley Water Supply Project

The Record of Decision for this project was expected to be signed in 2009. This hasn't happened yet. Funds from Garrison Diversion and the Lake Agassiz Water Authority were used to move the project forward in 2012. No Federal funds were received in 2012 for this project.

Capital Assets

Garrison Diversion's investment in capital assets as of December 31, 2012, and December 31, 2011, amount to \$6,023,677 and \$6,087,856 (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. In addition, the investment in the infrastructure for the MM 7.5 is also carried as an asset.

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

- 2012 Freightliner Coronado Semi
- 2012 Caterpillar 950K Wheel Loader
- 2012 Chevrolet Crew Pickup
- Elliptical Demolition Body Truck Box
- Cardtrol Fuel Management System
- 2012 Bobcat S750 Skidsteer
- Mile Marker 7.5 Infrastructure
- 2013 Ford Explorer

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

- Sharp Copier ARM455
- 2009 Chevrolet Traverse
- 2006 Caterpillar Wheel Loader 950H
- 2002 Chevrolet S10 Extended Cab
- 2002 Caterpillar 262 Skidsteer
- 2000 Mack Truck

Debt

On December 31, 2012, Garrison Diversion had a \$1,349,207 bond payable outstanding due to the investment in the MM 7.5.

Personnel

A seasonal-temporary employee was changed to full-time status. There was also a reduction in the number of temporary positions in 2012 compared to 2011.

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

Requests for Information

This financial report provides a general overview of 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, PO Box 140, Carrington, ND 58421.



General Fund Income and Expenditures

Statement of General Fund Income and Expenditures for the fiscal year ending December 31, 2012.

Income Budget	Budget FY 2012	Actual FY 2012
Municipal Rural & Industrial Administration	\$164,327	\$164,327
Operations & Maintenance Administration	\$503,261	\$503,261
Interest Income	\$29,008	\$29,008
Contract Revenue	\$26,583	\$26,583
Lease Income	\$2,125	\$2,125
Tax Levy	\$2,148,984	\$2,148,984
Miscellaneous Income	\$2,065	\$2,065
Total Income	\$2,876,353	\$2,876,353
Expense Budget	Budget FY 2012	Actual FY 2012
Directors Per Diem	\$85,000	\$82,503
Directors Expenses	\$115,000	\$101,701
Employees Salaries	\$640,000	\$437,594
Employees Expenses	\$84,000	\$34,175
Payroll Taxes & Benefits	\$263,539	\$219,011
Operations Expenses	\$203,484	\$144,624
Research	\$315,495	\$279,342
Public Education	\$137,170	\$115,649
Professional Services	\$524,102	\$376,265
Legal	\$58,398	\$48,952
Maintenance & Repair	\$52,000	\$37,306
Irrigation District Expenses	\$44,900	\$12,620
Capital Purchases	\$66,000	\$15,017
Recreation Programs	\$443,688	\$213,300
Total Expenses	\$3,032,776	\$2,118,059





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