

Muskingum Watershed Conservancy District
Tuscarawas County, Ohio

Audited Financial Statements

For the Fiscal Year Ended
December 31, 2011



Dave Yost • Auditor of State

Board of Directors
Muskingum Watershed Conservancy District
P.O. Box 349
New Philadelphia, Ohio 44663

We have reviewed the *Independent Auditor's Report* of the Muskingum Watershed Conservancy District, Tuscarawas County, prepared by Rea & Associates, Inc., for the audit period January 1, 2011 through December 31, 2011. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Muskingum Watershed Conservancy District is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

June 7, 2013

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**MUSKINGUM WATERSHED CONSERVANCY DISTRICT
TUSCARAWAS COUNTY**

DECEMBER 31, 2011

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April 10, 2013

Board of Directors
Muskingum Watershed Conservancy District
P.O. Box 349
New Philadelphia, OH 44663

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the business-type activities of Muskingum Watershed Conservancy District, Tuscarawas County, Ohio (the "Conservancy District"), as of and for the year ended December 31, 2011, which collectively comprise the Conservancy District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Conservancy District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit 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 audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the business-type activities of the Muskingum Watershed Conservancy District, as of December 31, 2011, and the respective changes in financial position and the cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 3 to the financial statements, the Conservancy District restated capital assets to correct errors from prior years. Our opinion is not modified with respect to this matter.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 10, 2013 on our consideration of the Conservancy District'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 considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3–8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Conservancy District's basic financial statements. The combining financial statements listed in the table of contents as supplementary information, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statement as a whole.

Rea & Associates, Inc.

Muskingum Watershed Conservancy District
Tuscarawas County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2011

The discussion and analysis of the Muskingum Watershed Conservancy District's (the "Conservancy District") financial performance provides an overall review of the Conservancy District's financial activities for the fiscal year ended December 31, 2011. The intent of this discussion and analysis is to look at the Conservancy District's financial performance as a whole; readers should also review the financial statements and notes to the basic financial statements to enhance their understanding of the Conservancy District's financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2011 are as follows:

- Total assets increased \$2,582,460. This increase is due to a large increase in pooled cash and cash equivalents, which was directly related to proceeds received from the sale of oil and gas rights during 2011.
- Net assets increased \$11,009,261 as a result of the increase in cash and the decrease in long-term liabilities.
- Outstanding debt decreased from \$7,148,560 to \$1,780,553 through principal payments.
- Outstanding notes payable were repaid in full during 2011.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of two parts – management's discussion and analysis and the basic financial statements. These statements are organized so that the reader can understand the financial position of the Conservancy District. The statement of net assets represents the basic statement of position for the Conservancy District. The statement of activities and changes in net assets present increases (e.g. revenues) and decreases (e.g. expenses) in net total assets. The statement of cash flows reflects how the Conservancy District finances and meets its cash flow needs. Finally, the notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided on the basic financial statements.

Muskingum Watershed Conservancy District
 Tuscarawas County, Ohio
Management's Discussion and Analysis
 For the Fiscal Year Ended December 31, 2011

FINANCIAL ANALYSIS OF THE CONSERVANCY DISTRICT AS A WHOLE

The Conservancy District is not required to present government-wide financial statements as the Conservancy District is engaged in only business-type activities. Therefore, no condensed financial information derived from government-wide financial statements is included in the discussion and analysis.

The following tables represent the Conservancy District's condensed financial information for 2011 and 2010 derived from the statement of net assets and the statement of receipts, disbursements, and changes in net assets.

	<u>2011</u>	<u>Restated 2010</u>
Assets		
Current and Other Assets	\$ 25,006,805	\$ 23,452,050
Capital Assets, net	12,926,430	11,898,725
<i>Total Assets</i>	<u>37,933,235</u>	<u>35,350,775</u>
Liabilities		
Current Liabilities	754,423	5,745,958
Long-Term Liabilities	2,310,449	5,745,715
<i>Total Liabilities</i>	<u>3,064,872</u>	<u>11,491,673</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	11,237,283	9,850,918
Restricted	10,140,647	12,250,271
Unrestricted	13,490,433	1,757,913
<i>Total Net Assets</i>	<u>\$ 34,868,363</u>	<u>\$ 23,859,102</u>

Muskingum Watershed Conservancy District
 Tuscarawas County, Ohio
Management's Discussion and Analysis
 For the Fiscal Year Ended December 31, 2011

Changes in Net Assets – The following shows the changes in net assets for 2011 and 2010.

	<u>2011</u>	<u>Restated 2010</u>
Operating Revenues		
Timber Sales	\$ 336,799	\$ 340,476
Pine-Pulpwood Sales	110,241	108,670
Land and Building Rentals	23,270	24,690
Mineral Rights and Royalties	15,867,706	273,321
Share Crop Lease	547,141	374,167
Atwood Lodge Receipts	0	2,548,680
Road Maintenance	42,671	4,187
Cottage Sites	2,020,847	1,982,197
Private Docks	446,491	435,240
Club Sites	61,344	64,187
Lake Patrol Operations	41,822	36,020
Marina Operations	686,742	729,236
Fishing Rights	62,647	62,647
Marina Camping	160,983	136,072
Water Resources/Flood Control	38,358	37,825
Beach Facilities	120,546	122,864
Water and Sewer Systems	713,577	36,650
Vacation Cabin	421,654	387,444
Park Camping	4,128,482	4,089,767
General Park Facilities	148,534	155,222
Special Events	116,335	116,925
Miscellaneous Income	261,459	29,275
<i>Total Operating Revenues</i>	<u>\$ 26,357,649</u>	<u>\$ 12,095,762</u>

Muskingum Watershed Conservancy District
Tuscarawas County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2011

	2011	Restated 2010
Operating Expenses		
Water quality	\$ 215,757	\$ 54,679
Vehicles and equipment	127,514	184,172
Debris removal/flood mitigation	4,896,839	1,144,724
Boundary survey	57,267	12,922
Conservation	28,625	28,024
Reservoir Maintenance	27,964	31,663
Office remodeling and equipment	87,313	0
Shoreline Protection	327,371	347,581
Land and building rentals	10,627	9,857
Share crop expenses	182,761	217,199
Atwood lodge expenses	669,525	4,723,231
Mineral operation expenses	176,596	13,551
Watershed management	35,638	2,434
Beach facilities	201,645	225,738
Auto and truck	201,626	188,170
Office building	115,461	98,902
Administrative and finance	1,661,321	1,293,452
Engineering	500,899	628,760
Planning and development	84,693	78,769
GIS and Parcel Development	411,472	409,160
Forestry maintenance expenses	118,688	290,910
Park camping expense	2,315,617	1,832,596
Cottage sites and clubs	713,565	647,192
General park facilities expense	1,832,199	1,754,391
Cost of Lake Dredging	30	10,355
Public launching facilities	29,771	25,363
Vacation cabin expense	141,212	108,813
Marina operation expenses	336,957	334,363
Water and sewer system expense	335,747	304,170
Lake patrol operation expenses	240,486	252,173
Education and public information	177,210	203,661
Safety expenses	95,511	89,994
Recreation maintenance	171,176	192,235
Parks - special events	15,595	25,851
Assessment	4,680,777	1,560,259
Depreciation	736,958	815,809
Total Operating Expenses	21,962,413	18,141,123
Operating Income/(Loss)	4,395,236	(6,045,361)

Muskingum Watershed Conservancy District
Tuscarawas County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2011

	2011	Restated 2010
Non-Operating Revenues (Expenses)		
Maintenance assessments	\$ 10,399,509	\$ 10,536,440
Grants	65,389	525,033
Interest on investments	51,566	41,605
Debt retirement - Interest	(566,854)	(452,938)
	<u>9,949,610</u>	<u>10,650,140</u>
<i>Total Non-Operating Revenues (Expenses)</i>		
<i>Income Before Special Item</i>	<u>14,344,846</u>	<u>4,604,779</u>
Special Item	(3,335,585)	0
	<u>(3,335,585)</u>	<u>0</u>
<i>Change in Net Assets</i>	<u>\$ 11,009,261</u>	<u>\$ 4,604,779</u>

Revenues and expenses related to the Atwood Lodge decreased significantly in 2011 due to the closing of the Lodge in October 2010. The increase in the mineral rights and royalties is due to the lease of oil and gas rights for approximately 6,468 acres of land during 2011. Assessments expenses increased in 2011 due to the complete amortization of deferred costs associated with the maintenance assessment study. The Conservancy District repaid the entire OWDA loan related to these deferred charges during 2011. Debris removal/flood mitigation expenses increased in 2011 as the Conservancy District utilized assessment collections.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2011 the Conservancy District had \$12,926,430 of capital assets net of accumulated depreciation. The following table shows 2011 balances compared with 2010:

	2011	Restated 2010
Land	\$ 1,806,650	\$ 1,806,650
Capitalized Development Costs	1,189,495	1,189,495
Land Improvements	1,956,980	729,955
Buildings	2,945,048	3,080,479
Building Improvements	1,360,826	1,414,041
Furniture, Fixtures and Equipment	615,666	780,621
Vehicles	368,213	339,831
Infrastructure	2,683,552	2,557,653
<i>Totals</i>	<u>\$ 12,926,430</u>	<u>\$ 11,898,725</u>

The majority of the increase in capital assets in 2011 related to land improvements through shoreline stabilization projects. Additional information on the Conservancy District's capital assets can be found in Note 6.

Muskingum Watershed Conservancy District
 Tuscarawas County, Ohio
Management's Discussion and Analysis
 For the Fiscal Year Ended December 31, 2011

Debt

The outstanding debt for the Conservancy District as of December 31, 2011 was \$1,780,553 with \$77,539 due within one year. The following table summarizes the Conservancy District's long-term debt outstanding as of December 31, 2011 and 2010:

	2011	2010
1998 Revenue Bonds - 4.75%	\$ 0	\$ 259,517
1999 Revenue Bonds - 5.31%	0	466,386
2001 Revenue Bonds - Variable	649,680	670,616
OWDA #2162 - 5.56%	366,195	386,039
OWDA #4213 - 5.1%	0	4,914,230
OWDA #5413 - 0%	169,996	157,580
OWDA #5575 - 3.25%	566,827	265,250
OWDA #5558 - 3.25%	27,855	28,942
<i>Totals</i>	<u>\$ 1,780,553</u>	<u>\$ 7,148,560</u>

Additional information on the Conservancy District's long-term debt can be found in Note 12.

The Conservancy District had notes payable of \$3,388,273 at the beginning of 2011. The notes payable were retired during 2011. Additional information can be found in Note 11.

CURRENT ISSUES

The Conservancy District is in the process of finalizing a five year strategic management plan. This plan will set the stage for the Conservancy District's operational needs as well as potential capital development. In addition, park master plans will be developed for each of the five major Conservancy District park facilities as well as establishing a "MWCD brand" that will be a theme for our works within the Conservancy District.

The recent surge in the Utica shale activity in Ohio has presented the Conservancy District with opportunities to utilize its natural resources. With over 20,000 acres available for lease, the Conservancy District is continuing to develop and implement its plan for the prudent use of the resources it has available.

The Conservancy District will begin construction of a new water treatment facility at Atwood Park and also the Atwood Resort area. This is a project that has been considered for a couple years and now will be done in order to meet EPA guidelines with an estimated cost of \$4 million.

Finally, the Conservancy District is the local cost share partner with the U.S. Army Corps of Engineers on two projects, the Bolivar Dam and the Dover Dam. These projects are multiple year projects and the estimated remaining amounts for the Conservancy District's cost share are in excess of \$36 million.

Muskingum Watershed Conservancy District
Tuscarawas County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2011

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, investors and creditors with a general overview of the Conservancy District's finances and to show the Conservancy District's accountability for the money it receives. If you have questions about this report or need additional information, contact James Cugliari of the Muskingum Watershed Conservancy District.

Muskingum Watershed Conservancy District
Tuscarawas County, Ohio
Statement of Net Assets
Proprietary Fund
December 31, 2011

Assets	
<i>Current Assets:</i>	
Equity in Pooled Cash and Cash Equivalents	\$ 22,344,446
Accounts Receivable	1,262,032
Maintenance Assessments Receivable	<u>1,400,327</u>
<i>Total Current Assets</i>	<u>25,006,805</u>
<i>Non-Current Assets:</i>	
Non-Depreciable Capital Assets	2,996,145
Depreciable Capital Assets, Net	<u>9,930,285</u>
<i>Total Non-Current Assets</i>	<u>12,926,430</u>
<i>Total Assets</i>	<u>37,933,235</u>
Liabilities	
<i>Current Liabilities:</i>	
Accounts Payable	97,643
Performance Bond Payable	8,475
Escrow Land Rentals	175
Accrued Retirement Insurance	44,840
Accrued Wages and Benefits	104,231
Accrued Interest Payable	100
Accrued Industrial Insurance	156,939
Accrued Disability Income	6,980
Claims Payable	149,266
Compensated Absences	55,759
Capital Leases Payable	52,476
Revenue Bonds Payable	22,550
OWDA Loans Payable	<u>54,989</u>
<i>Total Current Liabilities</i>	<u>754,423</u>
<i>Long-Term Liabilities:</i>	
Deferred Revenue	60,633
Compensated Absences - net of current portion	492,834
Capital Leases Payable - net of current portion	53,968
Revenue Bonds Payable - net of current portion	627,130
OWDA Loans Payable - net of current portion	<u>1,075,884</u>
<i>Total Long-Term Liabilities</i>	<u>2,310,449</u>
<i>Total Liabilities</i>	<u>3,064,872</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	11,237,283
Restricted for Maintenance Assessment	10,140,647
Unrestricted	<u>13,490,433</u>
<i>Total Net Assets</i>	<u>\$ 34,868,363</u>

See accompanying notes to the financial statements.

Muskingum Watershed Conservancy District
Tuscarawas County, Ohio
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Fund
For the Year Ended December 31, 2011

Operating Revenues	
Timber sales	\$ 336,799
Pine/pulpwood sales	110,241
Land and building rentals	23,270
Mineral rights and royalties	15,867,706
Share crop lease	547,141
Road maintenance	42,671
Cottage sites	2,020,847
Private docks	446,491
Club sites	61,344
Lake patrol operations	41,822
Marina operations	686,742
Fishing rights	62,647
Marina camping	160,983
Water resources/flood control	38,358
Beach facilities	120,546
Water and sewer systems	713,577
Vacation cabin	421,654
Park camping	4,128,482
General park facilities	148,534
Special events	116,335
Miscellaneous income	261,459
<i>Total Operating Revenues</i>	<u>26,357,649</u>
Operating Expenses	
Water Quality	215,757
Vehicles and equipment	127,514
Debris removal/flood mitigation	4,896,839
Boundary survey	57,267
Conservation	28,625
Reservoir Maintenance	27,964
Office remodeling and equipment	87,313
Shoreline Protection	327,371
Land and building rentals	10,627
Share crop expenses	182,761
Atwood lodge expenses	669,525
Mineral operation expenses	176,596
Watershed management	35,638
Beach facilities	201,645
Auto and truck	201,626
Office building	115,461
Administrative and finance	1,661,321
Engineering	500,899
Planning and development	84,693
GIS and Parcel Development	411,472
Forestry maintenance	118,688
Park camping expense	2,315,617
Cottage sites and clubs	713,565
General park facilities expense	1,832,199
Cost of lake dredging	30
Expense of public launching facilities	29,771
Vacation cabin expense	141,212
Marina operation expenses	336,957

Muskingum Watershed Conservancy District
Tuscarawas County, Ohio
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Fund
For the Year Ended December 31, 2011

(Continued)	
Water and sewer system expense	\$ 335,747
Lake patrol operation expenses	240,486
Education and public information	177,210
Safety expenses	95,511
Recreation maintenance	171,176
Parks - special events	15,595
Assessment	4,680,777
Depreciation	<u>736,958</u>
<i>Total Operating Expenses</i>	<u>21,962,413</u>
<i>Operating Income</i>	4,395,236
Non-Operating Revenues (Expenses)	
Maintenance assessments	10,399,509
Grants	65,389
Interest on investments	51,566
Debt retirement - Interest	<u>(566,854)</u>
<i>Total Non-Operating Revenues (Expenses)</i>	<u>9,949,610</u>
<i>Income Before Special Item</i>	14,344,846
Special Item	<u>(3,335,585)</u>
<i>Change in Net Assets</i>	11,009,261
Net Assets - Beginning of Year (Restated - See Note 3)	<u>23,859,102</u>
Net Assets - End of Year	<u>\$ 34,868,363</u>

See accompanying notes to the financial statements.

Muskingum Watershed Conservancy District
Tuscarawas County, Ohio
Statement of Cash Flows
Proprietary Fund
For the Year Ended December 31, 2011

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Cash flows from Operating Activities:	
Cash Received from Customers	\$ 25,682,346
Cash Payments to Suppliers for Goods and Services	(10,155,989)
Cash Payments for Employees Services and Benefits	<u>(6,216,499)</u>
<i>Net Cash Provided by Operating Activities</i>	<u>9,309,858</u>
Cash Flows from Noncapital Financing Activities:	
Proceeds from Line of Credit	144,625
Proceeds from OWDA Loans	21,860
Principal Payments on OWDA Loans	(4,924,761)
Principal Payments on Line of Credit	(972,898)
Intergovernmental Grants	65,389
Maintenance Assessments	8,991,502
Interest Paid on Debt	<u>(239,007)</u>
<i>Net Cash Provided by Noncapital Financing Activities</i>	<u>3,086,710</u>
Cash Flows from Capital and Related Financing Activities:	
Acquisition of Capital Assets	(1,599,713)
Maintenance Assessments	1,295,789
Proceeds from OWDA Loans	324,999
Principal Payments on Revenue Bonds	(746,839)
Principal Payments on OWDA Loans	(43,266)
Principal Payments on Mortgage Note	(2,560,000)
Principal Payments on Capital Leases	(58,506)
Interest Paid on Debt	<u>(327,847)</u>
<i>Net Cash Used for Capital and Related Financing Activities</i>	<u>(3,715,383)</u>
Cash Flows from Investing Activities:	
Receipts of Interest	<u>51,566</u>
<i>Net Increase in Cash and Cash Equivalents</i>	8,732,751
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>13,611,695</u>
<i>Cash and Cash Equivalents End of Year</i>	<u>\$ 22,344,446</u>
Reconciliation of Operating Income To Net Cash Provided by Operating Activities:	
Operating Income	\$ 4,395,236
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	736,958
Deferred Charges	4,680,777
Accounts Receivable	(678,326)
Increase (Decrease) in Liabilities:	
Accounts Payable	28,821
Deferred Revenue	3,023
Claims Payable	(43,710)
Accrued Wages and Benefits	82,685
Accrued Disability Income	5,990
Compensated Absences	147,139
Accrued Retirement Insurance	2,576
Accrued Industrial Insurance	<u>(51,311)</u>
<i>Net Cash Provided by Operating Activities</i>	<u>\$ 9,309,858</u>

Noncash Capital Financing Activities:

During 2011, capital assets were acquired through capital leases in the amount of \$164,950.

See accompanying notes to the financial statements.

Muskingum Watershed Conservancy District
Tuscarawas County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended December 31, 2011

NOTE 1: NATURE OF BASIC OPERATIONS AND DESCRIPTION OF ENTITY

The Muskingum Watershed Conservancy District was created as a separate political subdivision by the Ohio Legislature in 1933. The Muskingum Watershed Conservancy District (the "Conservancy District") was created in accordance with Section 101 of the Ohio Revised Code which is concerned with the formation and governing of conservancy Districts. The Conservancy District operates under an elected conservancy court consisting of eighteen court of common pleas judges, with one judge serving on the court from each county. Muskingum Watershed Conservancy District had a five member board of directors in 2011 appointed by the court. All other officers and employees are hired in accordance with the provisions of Section 6101 of the Ohio Revised Code. The Conservancy District is a separate governmental entity within the eighteen county area served by the Conservancy District.

2011 Board of Directors:

- | | |
|-----------------------------------|----------------------------|
| • Harry C. Horstman – President | Term Expires June 3, 2015 |
| • Steve Kokovich – Vice President | Term Expires June 3, 2013 |
| • David Parham – Member | Term Expires June 8, 2016 |
| • Richard J. Pryce - Member | Term Expires July 18, 2012 |
| • William P. Boyle, Jr. – Member | Term Expires July 18, 2014 |

2011 Officers:

- John M. Hoopingarner – Executive Director/Secretary
- James B. Cugliari – Chief Financial Officer/Treasurer

Services provided by the Conservancy District are defined in detail in the Ohio Conservancy District Act and Section 6104.04 of the Ohio Revised Code and include among other duties the following:

- (A) Flood reduction
- (B) Regulating stream channels by changing, widening, and deepening the same
- (C) Providing a water supply for domestic, industrial, and public use
- (D) Providing for the collection and disposal of sewage and other liquid waste
- (E) Regulating the flow of streams and conserving the waters thereof

The Conservancy District manages fourteen reservoirs and receives income from the following and other sources:

- (A) Park camping
- (B) Rental of sites for cottages
- (C) Sale of crops
- (D) Sale of timber and pulpwood
- (E) Boat marina rentals and docking
- (F) Assessment

Muskingum Watershed Conservancy District
Tuscarawas County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended December 31, 2011

NOTE 1: NATURE OF BASIC OPERATIONS AND DESCRIPTION OF ENTITY (continued)

Subdistricts:

Chippewa Subdistrict, Black Fork Subdistrict, Buffalo Subdistrict and Duck Creek Subdistrict are blended component units of Muskingum Watershed Conservancy District. Each subdistrict was formed in accordance with Chapter 6101-71 of the Ohio Revised Code; organization of subdistricts. They were put into action as a result of petitions of the owners of real property subject to flooding within their areas. To date the only active subdistrict is the Chippewa Subdistrict. Currently the Muskingum Watershed Conservancy District is going through a readjustment of the assessment of Chippewa Subdistrict so that additional maintenance funds can be obtained to maintain the project. Black Fork Subdistrict, Buffalo Creek Subdistrict and Duck Creek Subdistrict are inactive.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Conservancy District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Conservancy District applies generally accepted accounting principles that were issued prior to November 30, 1989 by the Financial Accounting Standards Board ("FASB") to its proprietary fund provided they do not conflict with or contradict GASB pronouncements. The entity has elected not to follow FASB guidelines for proprietary funds issued after November 30, 1989. The FASB has codified its standards and the standards issued prior to November 30, 1989 are included in the codification. The most significant of the Conservancy District's accounting policies are described below.

A. Basis of Presentation

The Conservancy District uses the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

The Conservancy District operates as a self-supporting governmental enterprise and uses accounting polices applicable to governmental enterprise funds.

B. Measurement Focus

The enterprise fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the Conservancy District are included on the statement of net assets. The statement of changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the Conservancy District finances and meets the cash flow needs of its enterprise activity.

Muskingum Watershed Conservancy District
Tuscarawas County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended December 31, 2011

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Budgetary Process

Budget:

The Conservancy District's annual budget of revenues, expenses, and capital expenditures is prepared under the cash basis of accounting. The budget is adopted by resolution of the Board of Directors. The Conservancy District utilizes such budget and related budgetary accounting to ensure that: (1) service objectives are attained, (2) expenditures are properly controlled; and (3) adequate resources will be available to finance current operations and meet capital outlay requirements.

Because the Conservancy District's revenues and expenses may fluctuate, a flexible-rather than fixed-dollar budget is utilized to permit budgetary revision. Actual results of operations are compared to the final revised budget of the Conservancy District for the year.

Appropriations:

The annual appropriation measure is passed on the last meeting of the year in December, for the period January 1 to December 31 of the following year. The appropriation measure may be amended or supplemented by the board. The total amount appropriated from any fund for any year shall not exceed the sum of the unencumbered balance in the fund at the beginning of the year and the amounts to be received during such year from bonds authorized, and taxes and special assessments imposed prior to their appropriation, together with all other moneys estimated to be received by the fund during the year. At the close of each calendar year, all unencumbered balance of appropriations shall revert to the funds from which they were made and shall be subject to re-appropriation.

Encumbrances:

The Conservancy District is required to use the encumbrance method of accounting by virtue of Ohio Law. Under this system purchase order, contracts and other commitments for the expenditure of funds are recorded in order to reserve the portion of the applicable appropriation. At the close of the calendar year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be re-appropriated.

D. Property Assets/Depreciation

Capital Assets are defined by the Conservancy District as assets with an initial, individual cost of more than \$500.

Property, plant and equipment acquired by the Conservancy District are stated at cost (or estimated historical cost), including architectural and engineering fees where applicable.

Muskingum Watershed Conservancy District
Tuscarawas County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended December 31, 2011

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Depreciation has been provided using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	20 - 25 Years
Buildings	30 - 50 Years
Building Improvements	10 - 20 Years
Furniture, Fixtures and Equipment	3 - 15 Years
Vehicles	3 - 5 Years
Infrastructure	20 - 50 Years

E. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means. The Conservancy District records a liability for all accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the termination method. An accrual for earned sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is an estimate based on the Conservancy District's past experience of making termination payments.

F. Pensions

The provision for pension costs is recorded when the related payroll is accrued and the obligation is incurred.

G. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets.

H. Revenue & Expenses

Operating revenues consist primarily of fees for services, rents and charges for use of Conservancy District facilities and other income. Operating expenses include the cost of providing these services, including administrative expenses and depreciation on capital assets.

Non-operating revenues and expenses are all revenues and expenses not meeting the definition of operating revenues and expenses. Non-operating revenues include intergovernmental grants, interest from investments and maintenance assessment. Non-operating expenses include interest expense on long-term debt.

Muskingum Watershed Conservancy District
 Tuscarawas County, Ohio
Notes to the Basic Financial Statements
 For the Fiscal Year Ended December 31, 2011

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Directors and that are either unusual in nature or infrequent in occurrence. During 2011, the Atwood Lake Resort and Conference Center was offered for donation to public entities with the anticipation that the donation would occur in the first quarter of 2012. Land, buildings, machinery and equipment associated with the Atwood Lake Resort and Conference Center had a net carrying value of \$3,335,585. During 2011, the Conservancy District had no extraordinary items.

J. Implementation of New Accounting Policies

For the year ended December 31, 2011, the Conservancy District implemented Governmental Accounting Standards Board GASB Statement No. 59, "*Financial Instruments Omnibus.*"

GASB Statement No. 59 updated and improved existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. Implementation of this GASB statement did not affect the presentation of the financial statements of the Conservancy District.

NOTE 3: RESTATEMENT OF NET ASSETS

In prior years, several errors were made in reporting capital assets, which resulted in an overstatement of \$1,937,135. Additionally, in 2010, assets in the amount of \$102,420 related to the Atwood Resort were erroneously reclassified as assets held for sale. Beginning net assets have been restated as follows:

	Proprietary Fund
Previously Reported Net Assets, 12/31/10	\$ 25,898,657
Overstatement of Capital Assets (Net)	(1,937,135)
Overstatement of Assets Held for Sale	(102,420)
Restated Net Assets, 1/1/11	\$ 23,859,102

Muskingum Watershed Conservancy District
Tuscarawas County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended December 31, 2011

NOTE 4: DEPOSITS

State statutes classify monies held by the Conservancy District into three categories:

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the Conservancy District Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Conservancy District has identified as not required for use within the current two-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

Protection of the Conservancy District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the treasurer by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Interim monies may be deposited or invested in the following securities:

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Bonds and other obligations of the State of Ohio;
4. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
5. The State Treasurer's investment pool (STAROhio).

Muskingum Watershed Conservancy District
Tuscarawas County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended December 31, 2011

NOTE 4: DEPOSITS (continued)

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Conservancy District, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

According to State law, public depositories must give security for all uninsured public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by FDIC, or may pledge a pool of government securities valued at least 105 percent of the total value of uninsured public monies on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and mature or be redeemable within five years of the date of the related repurchase agreement. State law does not require security for public deposits and investments to be maintained in the Conservancy District's name. During 2011, the Conservancy District and public depositories complied with the provisions of these statutes.

Deposits with Financial Institutions

Custodial credit risk is the risk that, in the event of a bank failure, the Conservancy District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105 percent of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as collateral against all of the uninsured public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Conservancy District.

At fiscal year-end, the carrying amount of the Conservancy District's deposits was \$22,341,146. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures," as of December 31, 2011, \$19,942,983 of the Conservancy District's bank balance of \$22,367,180 was exposed to custodial risk as discussed above, while \$2,424,197 was covered by Federal Deposit Insurance Corporation.

Cash on Hand

As of December 31, 2011, the Conservancy District had \$3,300 of cash on hand.

Muskingum Watershed Conservancy District
Tuscarawas County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended December 31, 2011

NOTE 5: RECEIVABLES

Receivables at December 31, 2011 consisted of accounts (billed user charged services) and delinquent maintenance assessments. All receivables are deemed collectible in full.

NOTE 6: CAPITAL ASSETS

Proprietary capital assets – summary by category at December 31, 2011:

	Restated Balance 12/31/2010	Additions	Deletions	Balance 12/31/2011
Capital Assets Not Being Depreciated				
Land	\$ 1,806,650	\$ 0	\$ 0	\$ 1,806,650
Capitalized Development Costs	1,189,495	0	0	1,189,495
<i>Total Capital Assets Not Being Depreciated</i>	<u>2,996,145</u>	<u>0</u>	<u>0</u>	<u>2,996,145</u>
Capital Assets Being Depreciated				
Land Improvements	1,115,146	1,295,789	0	2,410,935
Buildings	8,001,228	0	0	8,001,228
Building Improvements	2,043,304	0	0	2,043,304
Furniture, Fixtures and Equipment	3,881,933	15,346	0	3,897,279
Vehicles	1,549,650	164,950	(202,694)	1,511,906
Infrastructure	3,697,934	288,578	0	3,986,512
<i>Total Capital Assets Being Depreciated</i>	<u>20,289,195</u>	<u>1,764,663</u>	<u>(202,694)</u>	<u>21,851,164</u>
Less Accumulated Depreciation:				
Land Improvements	(385,191)	(68,764)	0	(453,955)
Buildings	(4,920,749)	(135,431)	0	(5,056,180)
Building Improvements	(629,263)	(53,215)	0	(682,478)
Furniture, Fixtures and Equipment	(3,101,312)	(180,301)	0	(3,281,613)
Vehicles	(1,209,819)	(136,568)	202,694	(1,143,693)
Infrastructure	(1,140,281)	(162,679)	0	(1,302,960)
<i>Total Accumulated Depreciation</i>	<u>(11,386,615)</u>	<u>(736,958)</u>	<u>202,694</u>	<u>(11,920,879)</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>8,902,580</u>	<u>1,027,705</u>	<u>0</u>	<u>9,930,285</u>
<i>Capital Assets, Net</i>	<u>\$ 11,898,725</u>	<u>\$ 1,027,705</u>	<u>\$ 0</u>	<u>\$ 12,926,430</u>

Muskingum Watershed Conservancy District
 Tuscarawas County, Ohio
Notes to the Basic Financial Statements
 For the Fiscal Year Ended December 31, 2011

NOTE 7: RISK MANAGEMENT

A. Comprehensive Liability Insurance

The Conservancy District maintains comprehensive insurance coverage with private carriers for the following:

- A. All risks (Building and contents 80% coinsurance)
- B. Business auto
- C. Law enforcement
- D. Directors/Officers
- E. Boiler and machinery
- F. Umbrella liability
- G. Public employee disability
- H. Employee bonds

Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years and there has been no significant reduction in insurance coverage in the year 2011.

B. Self-insurance

Muskingum Watershed Conservancy District has a self-funded health insurance plan administered by third party administrator Aultcare.

The monthly premium in 2011 for a single employee is \$605.50, \$945.86 for an employee plus 1, and for the family of an employee is \$1,429.62.

The overall stop loss for the plan is \$869,797 at December 31, 2011.

The limit per occurrence was \$55,000 for 2011 with one claim exceeding this limit. When Muskingum Watershed Conservancy District pays claims or reimburses employees for medical bills in excess of the limits they are reimbursed by Excess Re-insurance Underwriters Agency, Inc.

The claims liability of \$149,266 at December 31, 2011, is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 30 which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Changes in claims liability for 2011 and 2010 are as follows:

	<u>Balance</u> <u>Beginning of Year</u>		<u>Current</u> <u>Year Claims</u>		<u>Claims</u> <u>Payments</u>		<u>Balance</u> <u>End of Year</u>
2010	\$ 42,125	\$	699,504	\$	548,653	\$	192,976
2011	\$ 192,976	\$	705,746	\$	749,456	\$	149,266

Muskingum Watershed Conservancy District
Tuscarawas County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended December 31, 2011

NOTE 8: DEFINED BENEFIT PENSION PLAN

Ohio Public Employees Retirement System

Plan Description - The Conservancy District participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan. Members in the State and local divisions may participate in all three plans.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions. For the year ended December 31, 2011, members in State and local classifications contributed 10 percent of covered payroll.

The Conservancy District's contribution rate for 2011 was 14.0 percent of covered payroll. The portion of the Conservancy District's contribution equal to 4.0 percent of covered payroll was allocated to fund the post-employment health care plan, during calendar year 2011. Employer contribution rates are actuarially determined. State statute sets a maximum contribution rate for the Conservancy District of 14 percent.

The Conservancy District's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2011, 2010, and 2009 were \$510,519, \$322,428 and \$311,328, respectively; 94 percent has been contributed for 2011 and 100 percent for 2010 and 2009.

Muskingum Watershed Conservancy District
Tuscarawas County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended December 31, 2011

NOTE 9: POSTEMPLOYMENT BENEFITS

Ohio Public Employees Retirement System

Plan Description – OPERS maintains a cost-sharing multiple-employer defined benefit post-employment health care plan for qualifying members of both the traditional and combined pension plans. Members of the member-directed plan do not qualify for ancillary benefits, including post-employment health care. The plan includes a medical plan, a prescription drug program and Medicare Part B premium reimbursement.

To qualify for post-employment health care coverage, age and service retirees under the traditional and combined plans must have ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and qualified survivor benefit recipients is available. The Ohio Revised Code permits, but does not require, OPERS to provide health care benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

Disclosures for the health care plan are presented separately in the OPERS financial report which may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

Funding Policy – The post-employment health care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). State statute requires that public employers fund postemployment health care through contributions to OPERS. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of post-employment health care.

Employer contribution rates are expressed as a percentage of the covered payroll of active employees. In 2011, local government employers contributed 14 percent of covered payroll. Each year, the OPERS retirement board determines the portion of the employer contribution rate that will be set aside for funding post-employment health care benefits. The amount of the employer contributions which was allocated to fund post-employment health care was 4.0 percent of covered payroll for 2011.

The retirement board is also authorized to establish rules for the payment of a portion of the health care benefits by the retiree or the retiree's surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and coverage selected. Active members do not make contributions to the post-employment health care plan.

The Conservancy District's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2011, 2010, and 2009 were \$204,208, \$234,144 and \$261,293, respectively; 94 percent has been contributed for 2011 and 100 percent for 2010 and 2009.

On September 9, 2004 the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007 and January 1, 2008, which allowed additional funds to be allocated to the health care plan.

Muskingum Watershed Conservancy District
 Tuscarawas County, Ohio
Notes to the Basic Financial Statements
 For the Fiscal Year Ended December 31, 2011

NOTE 10: LEGAL PROCEEDINGS

The Conservancy District is involved in litigation in the normal course of business. Although the eventual outcome of these matters cannot be predicted, it is the opinion of management that the ultimate liability is not expected to have a material effect on the Conservancy District's financial position.

NOTE 11: NOTES PAYABLE

In December 2010, the Conservancy District entered into a promissory note line of credit with Key Bank. The line of credit had a limit of \$1,000,000 and a variable interest rate. The proceeds were used to fund the wind down costs related to the closure of the Atwood Lodge and Conference Center.

In May 2010, the Conservancy District issued a mortgage note with Fifth Third Bank in the amount of \$2,560,000. The proceeds of this note were used to repay their existing revenue bond with Fifth Third Bank in the same amount. The mortgage note has an interest rate of 2.75 percent plus LIBO.

Changes in the note obligations of the Conservancy District during the year ended December 31, 2011 consisted of the following:

	Outstanding 1/1/2011	Additions	Reductions	Outstanding 12/31/2011	Amounts Due in One Year
Key Bank	\$ 828,273	\$ 144,625	\$ (972,898)	\$ 0	\$ 0
Fifth Third Bank	2,560,000	0	(2,560,000)	0	0
	<u>\$ 3,388,273</u>	<u>\$ 144,625</u>	<u>\$ (3,532,898)</u>	<u>\$ 0</u>	<u>\$ 0</u>

Muskingum Watershed Conservancy District
 Tuscarawas County, Ohio
Notes to the Basic Financial Statements
 For the Fiscal Year Ended December 31, 2011

NOTE 12: LONG-TERM OBLIGATIONS

The changes in the Conservancy District's long-term obligations during the fiscal year 2011 were as follows:

	Principal Outstanding 12/31/2010	Additions	Reductions	Principal Outstanding 12/31/2011	Amount Due in One Year
1998 Revenue Bonds - 4.75%	\$ 259,517	\$ 0	\$ (259,517)	\$ 0	\$ 0
1999 Revenue Bonds - 5.31%	466,386	0	(466,386)	0	0
2001 Revenue Bonds - Variable	670,616	0	(20,936)	649,680	22,550
OWDA Loan #2162 - 5.56%	386,039	0	(19,844)	366,195	20,962
OWDA Loan #4213 - 5.1%	4,914,230	0	(4,914,230)	0	0
OWDA Loan #5413 - 0%	157,580	21,860	(9,444)	169,996	9,444
OWDA Loan #5575 - 3.25%	265,250	324,999	(23,422)	566,827	23,423
OWDA Loan #5558 - 3.25%	28,942	0	(1,087)	27,855	1,160
<i>Total</i>	<u>7,148,560</u>	<u>346,859</u>	<u>(5,714,866)</u>	<u>1,780,553</u>	<u>77,539</u>
Other Long-Term Obligations:					
Capital Leases - Vehicles	0	164,950	(58,506)	106,444	52,476
Compensated Absences	401,454	159,744	(12,605)	548,593	55,759
Total other long-term obligations	<u>401,454</u>	<u>324,694</u>	<u>(71,111)</u>	<u>655,037</u>	<u>108,235</u>
<i>Total Long-Term Liabilities</i>	<u><u>\$7,550,014</u></u>	<u><u>\$ 671,553</u></u>	<u><u>\$(5,785,977)</u></u>	<u><u>\$2,435,590</u></u>	<u><u>\$ 185,774</u></u>

Revenue Bonds

On February 24, 1998 the Conservancy District issued \$1,300,000 in revenue bonds for the renovation, construction and improvement of the Conservancy District's administration building in New Philadelphia, Ohio. These fifteen year revenue bonds mature on February 24, 2013 and principal and interest payments are due on the 24th of each month. These bonds were paid off early in 2011.

Revenue Bonds totaling \$1,300,000 were issued December 17, 1999 with a maturity of December 13, 2014. These bonds were borrowed for the purpose of paying all or a portion of the costs of renovating, construction, acquiring and installing improvements to cabins and other facilities at Tappan and Atwood Parks. Principal and interest are due on the 13th of each month. These bonds were paid off early in 2011.

In 2001 the Conservancy District issued \$795,000 in revenue bonds through Aqua Ohio. The proceeds of these bonds were used to improve and upgrade the water system at Charles Mill Sites Lake cottages. The revenue bonds mature in twenty-five years and have monthly payments due on March of each year.

Muskingum Watershed Conservancy District
Tuscarawas County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended December 31, 2011

NOTE 12: LONG-TERM OBLIGATIONS (continued)

Ohio Water Development Authority Loans

In 1999, the Conservancy District was awarded a loan from the Ohio Water Development Authority (OWDA) in the amount of \$550,692. The proceeds of this loan are for the construction of a 75,000 and 10,000 gallon water tank. Also, a 3,807 linear feet of 6" water line and 3,676 linear feet of 4" water line are being constructed with these proceeds. All construction is at Tappan Lake Park. This loan agreement has a term of twenty-five years and matures July 1, 2024. Principal and interest payments are due January 1 and July 1, annually.

The Conservancy District was awarded a \$7,741,217 loan from OWDA in 2004. This loan was utilized to fund the implementation costs of the maintenance assessment and was fully repaid during 2011.

In 2009 the Conservancy District was awarded a loan from OWDA in the amount of \$188,884. The proceeds of this loan were used for painting of water towers. The loan is interest-free and matures on January 1, 2030.

In 2010, the Conservancy District was awarded a loan from OWDA in the amount of \$637,001 for improvements to the Sites Lake Cottage Area wastewater treatment plant. The loan has an interest rate of 3.25 percent and matures on July 1, 2030. As of December 31, 2011, the Conservancy District had drawn down \$601,680. Since this loan is not fully disbursed, the amortization schedule is not available and therefore, not reflected in the table below.

The Conservancy District was awarded a \$30,065 loan from OWDA in 2010 for an abandoned water well capping project. The loan has an interest rate of 3.25 percent and matures on January 1, 2030.

The annual requirements to retire debt are as follows:

	Ohio Water		Revenue Bonds		Total	
	Development Authority Loans					
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 31,566	\$ 20,969	\$ 22,550	\$ 48,101	\$ 54,116	\$ 69,070
2013	32,786	19,749	24,290	46,362	57,076	66,111
2014	34,074	18,461	26,163	44,489	60,237	62,950
2015	35,433	17,102	28,182	42,470	63,615	59,572
2016	36,869	15,668	30,355	40,296	67,224	55,964
2017-2021	208,823	53,854	190,728	162,532	399,551	216,386
2022-2026	150,329	9,761	276,546	76,714	426,875	86,475
2027-2029	34,166	337	50,866	1,915	85,032	2,252
	<u>\$ 564,046</u>	<u>\$ 155,901</u>	<u>\$ 649,680</u>	<u>\$ 462,879</u>	<u>\$ 1,213,726</u>	<u>\$ 618,780</u>

Muskingum Watershed Conservancy District
 Tuscarawas County, Ohio
Notes to the Basic Financial Statements
 For the Fiscal Year Ended December 31, 2011

NOTE 13: CAPITAL LEASES – LESSEE DISCLOSURE

In 2011 the Conservancy District entered into capitalized leases for the acquisition of vehicles. These leases meet the criteria of a capital lease as they transfer benefits and risks of ownership to the lessee.

The assets acquired by the leases have been capitalized in the governmental activities in the amount of \$164,950, which is equal to the present value of the future minimum lease payments at the time of acquisition. A corresponding liability is recorded and is reduced for each required principal payment.

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of December 31, 2011:

		<u>Capital Leases</u>
Year Ending December 31:	2012	\$ 58,506
	2013	39,715
	2014	<u>18,021</u>
Minimum lease payments		116,242
Less: amount representing interest at the Conservancy District's incremental borrowing rate of interest		<u>(9,798)</u>
Present value of minimum lease payments		<u><u>\$ 106,444</u></u>

NOTE 14: OPERATING LEASE

On June 17, 2011, the Conservancy District (the “Lessor”) entered into a lease agreement with Gulfport Energy Corporation (the “Lessee”). The Conservancy District leased approximately 6,468 acres of land at Clendening Reservoir to the Lessee. The lease has a primary term of 5 years with options to extend beyond that. The Lessee will pay the Conservancy District lease royalty payments of 16.5% of the gross proceeds attributable to the applicable wells. In addition, the Conservancy District received a bonus payment in 2011 in the amount of \$ 2,400 per acre, or approximately \$15,565,896. This payment was recorded as mineral rights and royalties revenue.

NOTE 15: CONTRACTUAL COMMITMENTS

As of December 31, 2011, the Conservancy District had contractual commitments for the following projects:

	Contractual Commitment	Expended	Balance 12/31/2011
Bolivar Dam - Army Corps of Engineers	\$ 37,951,380	\$ 3,201,779	\$ 34,749,601
Dover Dam - Army Corps of Engineers	3,570,750	1,625,679	1,945,071

Muskingum Watershed Conservancy District
Tuscarawas County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended December 31, 2011

NOTE 16: SUBSEQUENT EVENTS

On January 26, 2012, the Ohio Water Development Authority approved a loan for the Black Fork Subdistrict in the amount of \$1,500,000. The loan will be used to pay planning costs associated with a maintenance assessment. The loan has an interest rate of 3.99% and matures on January 1, 2018.

Atwood Lake Resort and Conference Center was donated to Carroll County on February 10, 2012. The donation included over 500 acres and all buildings and structures, with the exception of the water treatment facilities, 17 vacation cabins, and 2 former residences.

On April 19, 2012, the Conservancy District (the "Lessor") entered into a lease agreement with Chesapeake Exploration, L.L.C. (the "Lessee"). The Conservancy District leased approximately 3,600 acres of land at Leesville Reservoir to the Lessee. The Lessee will pay the Conservancy District lease royalty payments of 20% of the gross proceeds attributable to the applicable wells. In addition, the Conservancy District received a bonus payment in 2012 in the amount of \$5,800 per acre, or approximately \$20,880,000.

In January of 2012, the Conservancy District management decided to pay off the 2001 Revenue Bonds through Aqua Ohio, in the amount of \$649,680.

On February 15, 2013, the Conservancy District entered into a lease with Antero Resources of Colorado for more than 6,500 acres at Seneca Lake in Noble County. Antero's lease included \$6,200 per acre, paid up rental, for a 5 year lease and 20% royalty payment on future production revenues. The initial payment received by the Conservancy District due at the time of signing is \$40,630,702 which was received on February 21, 2013.

Muskingum Watershed Conservancy District and Subdistricts
Tuscarawas County, Ohio
Combining Statement of Net Assets
Proprietary Fund
December 31, 2011

	Muskingum Watershed Conservancy District	Subdistricts			Eliminating Entries	Total	
		Black Fork	Buffalo Creek	Chippewa			Duck Creek
Assets							
<i>Current Assets:</i>							
Equity in Pooled Cash and Cash Equivalents	\$ 21,013,510	\$ 0	\$ 0	\$ 1,322,530	\$ 8,406	\$ 0	\$ 22,344,446
Accounts Receivable	1,280,756	0	0	0	0	(18,724)	1,262,032
Maintenance Assessments Receivable	1,400,327	0	0	0	0	0	1,400,327
<i>Total Current Assets</i>	<u>23,694,593</u>	<u>0</u>	<u>0</u>	<u>1,322,530</u>	<u>8,406</u>	<u>(18,724)</u>	<u>25,006,805</u>
<i>Non-Current Assets:</i>							
Non-Depreciable Capital Assets	1,806,650	1,822	27,593	1,154,680	5,400	0	2,996,145
Depreciable Capital Assets, Net	9,930,285	0	0	0	0	0	9,930,285
<i>Total Non-Current Assets</i>	<u>11,736,935</u>	<u>1,822</u>	<u>27,593</u>	<u>1,154,680</u>	<u>5,400</u>	<u>0</u>	<u>12,926,430</u>
<i>Total Assets</i>	<u>35,431,528</u>	<u>1,822</u>	<u>27,593</u>	<u>2,477,210</u>	<u>13,806</u>	<u>(18,724)</u>	<u>37,933,235</u>
Liabilities							
<i>Current Liabilities:</i>							
Accounts Payable	76,643	1,822	27,593	4,272	6,037	(18,724)	97,643
Performance Bond Payable	8,475	0	0	0	0	0	8,475
Escrow Land Rentals	175	0	0	0	0	0	175
Accrued Retirement Insurance	44,840	0	0	0	0	0	44,840
Accrued Wages and Benefits	104,231	0	0	0	0	0	104,231
Accrued Interest Payable	100	0	0	0	0	0	100
Accrued Industrial Insurance	156,939	0	0	0	0	0	156,939
Accrued Disability Income	6,980	0	0	0	0	0	6,980
Claims Payable	149,266	0	0	0	0	0	149,266
Compensated Absences	55,759	0	0	0	0	0	55,759
Capital Leases Payable	52,476	0	0	0	0	0	52,476
Revenue Bonds Payable	22,550	0	0	0	0	0	22,550
OWDA Loans Payable	54,989	0	0	0	0	0	54,989
<i>Total Current Liabilities</i>	<u>733,423</u>	<u>1,822</u>	<u>27,593</u>	<u>4,272</u>	<u>6,037</u>	<u>(18,724)</u>	<u>754,423</u>
<i>Long-Term Liabilities:</i>							
Deferred Revenue	60,633	0	0	0	0	0	60,633
Compensated Absences - net of current portion	492,834	0	0	0	0	0	492,834
Capital Leases Payable - net of current portion	53,968	0	0	0	0	0	53,968
Revenue Bonds Payable - net of current portion	627,130	0	0	0	0	0	627,130
OWDA Loans Payable - net of current portion	1,075,884	0	0	0	0	0	1,075,884
<i>Total Long-Term Liabilities</i>	<u>2,310,449</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2,310,449</u>
<i>Total Liabilities</i>	<u>3,043,872</u>	<u>1,822</u>	<u>27,593</u>	<u>4,272</u>	<u>6,037</u>	<u>(18,724)</u>	<u>3,064,872</u>
Net Assets							
Invested in Capital Assets, Net of Related Debt	10,047,788	1,822	27,593	1,154,680	5,400	0	11,237,283
Restricted for Maintenance Assessment	10,140,647	0	0	0	0	0	10,140,647
Unrestricted	12,199,221	(1,822)	(27,593)	1,318,258	2,369	0	13,490,433
<i>Total Net Assets</i>	<u>\$ 32,387,656</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,472,938</u>	<u>\$ 7,769</u>	<u>\$ 0</u>	<u>\$ 34,868,363</u>

Muskingum Watershed Conservancy District and Subdistricts
Tuscarawas County, Ohio
Combining Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Fund
For the Year Ended December 31, 2011

	Muskingum Watershed Conservancy District	Subdistricts				Eliminating Entries	Total
		Black Fork	Buffalo Creek	Chippewa	Duck Creek		
Operating Revenues							
Timber sales	\$ 336,799	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 336,799
Pine/pulpwood sales	110,241	0	0	0	0	0	110,241
Land and building rentals	23,270	0	0	0	0	0	23,270
Mineral rights and royalties	15,867,706	0	0	0	0	0	15,867,706
Share crop lease	547,141	0	0	0	0	0	547,141
Road maintenance	42,671	0	0	0	0	0	42,671
Cottage sites	2,020,847	0	0	0	0	0	2,020,847
Private docks	446,491	0	0	0	0	0	446,491
Club sites	61,344	0	0	0	0	0	61,344
Lake patrol operations	41,822	0	0	0	0	0	41,822
Marina operations	686,742	0	0	0	0	0	686,742
Fishing rights	62,647	0	0	0	0	0	62,647
Marina camping	160,983	0	0	0	0	0	160,983
Water resources/flood control	38,358	0	0	0	0	0	38,358
Beach facilities	120,546	0	0	0	0	0	120,546
Water and sewer systems	713,577	0	0	0	0	0	713,577
Vacation cabin	421,654	0	0	0	0	0	421,654
Park camping	4,128,482	0	0	0	0	0	4,128,482
General park facilities	148,534	0	0	0	0	0	148,534
Special events	116,335	0	0	0	0	0	116,335
Miscellaneous income	400,566	0	0	0	0	(139,107)	261,459
Total Operating Revenues	26,496,756	0	0	0	0	(139,107)	26,357,649
Operating Expenses							
Water Quality	215,757	0	0	0	0	0	215,757
Vehicles and equipment	127,514	0	0	0	0	0	127,514
Debris removal/flood mitigation	4,262,569	0	0	773,377	0	(139,107)	4,896,839
Boundary survey	57,267	0	0	0	0	0	57,267
Conservation	28,625	0	0	0	0	0	28,625
Reservoir Maintenance	27,964	0	0	0	0	0	27,964
Office remodeling and equipment	87,313	0	0	0	0	0	87,313
Shoreline Protection	327,371	0	0	0	0	0	327,371
Land and building rentals	10,627	0	0	0	0	0	10,627
Share crop expenses	182,761	0	0	0	0	0	182,761
Atwood lodge expenses	669,525	0	0	0	0	0	669,525
Mineral operation expenses	176,596	0	0	0	0	0	176,596
Watershed management	35,638	0	0	0	0	0	35,638
Beach facilities	201,645	0	0	0	0	0	201,645
Auto and truck	201,626	0	0	0	0	0	201,626
Office building	115,461	0	0	0	0	0	115,461
Administrative and finance	1,661,321	0	0	0	0	0	1,661,321
Engineering	500,899	0	0	0	0	0	500,899
Planning and development	84,693	0	0	0	0	0	84,693
GIS and Parcel Development	411,472	0	0	0	0	0	411,472
Forestry maintenance	118,688	0	0	0	0	0	118,688
Park camping expense	2,315,617	0	0	0	0	0	2,315,617
Cottage sites and clubs	713,565	0	0	0	0	0	713,565
General park facilities expense	1,832,199	0	0	0	0	0	1,832,199
Cost of lake dredging	30	0	0	0	0	0	30
Expense of public launching facilities	29,771	0	0	0	0	0	29,771
Vacation cabin expense	141,212	0	0	0	0	0	141,212
Marina operation expenses	336,957	0	0	0	0	0	336,957

Muskingum Watershed Conservancy District and Subdistricts
Tuscarawas County, Ohio
Combining Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Fund
For the Year Ended December 31, 2011

	Muskingum Watershed Conservancy District	Subdistricts			Eliminating Entries	Total
		Black Fork	Buffalo Creek	Chippewa		
						(Continued)
Water and sewer system expense	\$ 335,747	\$ 0	\$ 0	\$ 0	\$ 0	\$ 335,747
Lake patrol operation expenses	240,486	0	0	0	0	240,486
Education and public information	177,210	0	0	0	0	177,210
Safety expenses	95,511	0	0	0	0	95,511
Recreation maintenance	171,176	0	0	0	0	171,176
Parks - special events	15,595	0	0	0	0	15,595
Assessment	4,680,777	0	0	0	0	4,680,777
Depreciation	736,958	0	0	0	0	736,958
<i>Total Operating Expenses</i>	<u>21,328,143</u>	<u>0</u>	<u>0</u>	<u>773,377</u>	<u>0</u>	<u>21,962,413</u>
<i>Operating Income</i>	5,168,613	0	0	(773,377)	0	4,395,236
Non-Operating Revenues (Expenses)						
Maintenance assessments	10,041,959	0	0	357,550	0	10,399,509
Grants	65,389	0	0	0	0	65,389
Interest on investments	50,774	0	0	784	8	51,566
Debt retirement - Interest	(566,854)	0	0	0	0	(566,854)
<i>Total Non-Operating Revenues (Expenses)</i>	<u>9,591,268</u>	<u>0</u>	<u>0</u>	<u>358,334</u>	<u>8</u>	<u>9,949,610</u>
<i>Income (Loss) Before Special Item</i>	14,759,881	0	0	(415,043)	8	14,344,846
Special Item	(3,335,585)	0	0	0	0	(3,335,585)
<i>Change in Net Assets</i>	11,424,296	0	0	(415,043)	8	11,009,261
Net Assets - Beginning of Year (Restated)	<u>20,963,360</u>	<u>0</u>	<u>0</u>	<u>2,887,981</u>	<u>7,761</u>	<u>23,859,102</u>
Net Assets - End of Year	<u>\$ 32,387,656</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,472,938</u>	<u>\$ 7,769</u>	<u>\$ 34,868,363</u>

Muskingum Watershed Conservancy District and Subdistricts
Tuscarawas County, Ohio
Combining Statement of Cash Flows
Proprietary Fund
For the Year Ended December 31, 2011

	Muskingum Watershed Conservancy District	Subdistricts				Eliminating Entries	Total
		Black Fork	Buffalo Creek	Chippewa	Duck Creek		
Cash flows from Operating Activities:							
Cash Received from Customers	\$ 25,821,453	\$ 0	\$ 0	\$ 0	\$ 0	\$ (139,107)	\$ 25,682,346
Cash Payments to Suppliers for Goods and Services	(9,598,213)	0	0	(696,883)	0	139,107	(10,155,989)
Cash Payments for Employees Services and Benefits	(6,092,183)	0	0	(124,316)	0	0	(6,216,499)
<i>Net Cash Provided by (Used for) Operating Activities</i>	<u>10,131,057</u>	<u>0</u>	<u>0</u>	<u>(821,199)</u>	<u>0</u>	<u>0</u>	<u>9,309,858</u>
Cash Flows from Noncapital Financing Activities:							
Proceeds from Line of Credit	144,625	0	0	0	0	0	144,625
Proceeds from OWDA Loans	21,860	0	0	0	0	0	21,860
Principal Payments on OWDA Loans	(4,924,761)	0	0	0	0	0	(4,924,761)
Principal Payments on Line of Credit	(972,898)	0	0	0	0	0	(972,898)
Intergovernmental Grants	65,389	0	0	0	0	0	65,389
Maintenance Assessments	8,633,952	0	0	357,550	0	0	8,991,502
Interest Paid on Debt	(239,007)	0	0	0	0	0	(239,007)
<i>Net Cash Provided by Noncapital Financing Activities</i>	<u>2,729,160</u>	<u>0</u>	<u>0</u>	<u>357,550</u>	<u>0</u>	<u>0</u>	<u>3,086,710</u>
Cash Flows from Capital and Related Financing Activities:							
Acquisition of Capital Assets	(1,599,713)	0	0	0	0	0	(1,599,713)
Maintenance Assessments	1,295,789	0	0	0	0	0	1,295,789
Proceeds from OWDA Loans	324,999	0	0	0	0	0	324,999
Principal Payments on Revenue Bonds	(746,839)	0	0	0	0	0	(746,839)
Principal Payments on OWDA Loans	(43,266)	0	0	0	0	0	(43,266)
Principal Payments on Mortgage Note	(2,560,000)	0	0	0	0	0	(2,560,000)
Principal Payments on Capital Leases	(58,506)	0	0	0	0	0	(58,506)
Interest Paid on Debt	(327,847)	0	0	0	0	0	(327,847)
<i>Net Cash Used for Capital and Related Financing Activities</i>	<u>(3,715,383)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(3,715,383)</u>
Cash Flows from Investing Activities:							
Receipts of Interest	50,774	0	0	784	8	0	51,566
<i>Net Increase (decrease) in Cash and Cash Equivalents</i>	9,195,608	0	0	(462,865)	8	0	8,732,751
<i>Cash and Cash Equivalents Beginning of Year</i>	11,817,902	0	0	1,785,395	8,398	0	13,611,695
<i>Cash and Cash Equivalents End of Year</i>	<u>\$ 21,013,510</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,322,530</u>	<u>\$ 8,406</u>	<u>\$ 0</u>	<u>\$ 22,344,446</u>
Reconciliation of Operating Income To Net Cash Provided by Operating Activities:							
Operating Income	\$ 5,168,613	\$ 0	\$ 0	\$ (773,377)	\$ 0	\$ 0	\$ 4,395,236
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:							
Depreciation	736,958	0	0	0	0	0	736,958
Deferred Charges	4,680,777	0	0	0	0	0	4,680,777
Accounts Receivable	(678,326)	0	0	0	0	0	(678,326)
Increase (Decrease) in Liabilities:							
Accounts Payable	76,643	0	0	(47,822)	0	0	28,821
Deferred Revenue	3,023	0	0	0	0	0	3,023
Claims Payable	(43,710)	0	0	0	0	0	(43,710)
Accrued Wages and Benefits	82,685	0	0	0	0	0	82,685
Accrued Disability Income	5,990	0	0	0	0	0	5,990
Compensated Absences	147,139	0	0	0	0	0	147,139
Accrued Retirement Insurance	2,576	0	0	0	0	0	2,576
Accrued Industrial Insurance	(51,311)	0	0	0	0	0	(51,311)
<i>Net Cash Provided by (Used for) Operating Activities</i>	<u>\$ 10,131,057</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (821,199)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 9,309,858</u>

Noncash Capital Financing Activities:
During 2011, capital assets were acquired through capital leases in the amount of \$164,950.

April 10, 2013

Board of Directors
Muskingum Watershed Conservancy District
P.O. Box 349
New Philadelphia, OH 44663

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Muskingum Watershed Conservancy District, Tuscarawas County, Ohio (the "Conservancy District") as of and for the year ended December 31, 2011, and the related notes to the financial statements, which collectively comprise the Conservancy District's basic financial statements, and have issued our report thereon dated April 10, 2013, wherein we noted the Conservancy District restated capital assets to correct errors from prior years.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Conservancy District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Conservancy District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Conservancy District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Conservancy District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Conservancy District in a separate letter dated April 10, 2013.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rea & Associates, Inc.

**MUSKINGUM WATERSHED CONSERVANCY DISTRICT
TUSCARAWAS COUNTY, OHIO**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2011**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2010-001	Material Weakness – Lack of controls over financial reporting.	Yes	
2010-002	Significant Deficiency – Lack of controls over financial reporting.	Yes	



Dave Yost • Auditor of State

MUSKINGUM WATERSHED CONSERVANCY DISTRICT

TUSCARAWAS COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JUNE 20, 2013**