



Dave Yost • Auditor of State

MUSKINGUM WATERSHED CONSERVANCY DISTRICT
TUSCARAWAS COUNTY
DECEMBER 31, 2016

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Muskingum Watershed Conservancy District
Tuscarawas County
P.O. Box 349
New Philadelphia, Ohio 44663

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of the Muskingum Watershed Conservancy District, Tuscarawas County, Ohio (the Conservancy District), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Conservancy District's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Conservancy District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Conservancy District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Muskingum Watershed Conservancy District, Tuscarawas County, as of December 31, 2016, and the changes in its financial position and its cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's Discussion and Analysis* and Schedules of Net Pension Liabilities and Pension Contributions listed in the Table of Contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 15, 2017, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Conservancy District's internal control over financial reporting and compliance.



Dave Yost
Auditor of State
Columbus, Ohio

June 15, 2017

**Muskingum Watershed Conservancy District
Tuscarawas County, Ohio**

*Management's Discussion and Analysis
For the Year Ended December 31, 2016*

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 year ended December 31, 2016. 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 2016 are as follows:

- Net position increased \$2,325,928 as a result of current year operations.
- Outstanding debt decreased from \$926,887 to \$862,711 through principal payments.
- Capital Assets increased \$15,951,118 as a result of increase in park master planning projects and the long-term dredging program.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – required supplementary information, the basic financial statements, and notes to 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 position represents the basic statement of position for the Conservancy District. The statement of revenues, expenses and changes in net position present increases (e.g. revenues) and decreases (e.g. expenses) in net total position. 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 Year Ended December 31, 2016*

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 2016 and 2015 derived from the statement of net position and the statement of revenues, expenses, and changes in net position.

	<u>2016</u>	<u>2015</u>
Assets		
Current and Other Assets	\$ 163,430,114	\$ 176,134,619
Capital Assets, net	55,371,728	39,420,610
<i>Total Assets</i>	<u>218,801,842</u>	<u>215,555,229</u>
 Dererred Outflows of Resources		
Pensions	<u>4,195,673</u>	<u>1,213,115</u>
 Liabilities		
Current Liabilities	2,339,429	2,273,399
Long-Term Liabilities	11,418,800	7,673,646
<i>Total Liabilities</i>	<u>13,758,229</u>	<u>9,947,045</u>
 Deferred Inflows of Resources		
Pensions	<u>205,961</u>	<u>113,902</u>
 Net Position		
Net Investment in Capital Assets	53,395,541	37,853,296
Restricted	11,355,207	18,426,501
Unrestricted	144,282,577	150,427,600
<i>Total Net Position</i>	<u>\$ 209,033,325</u>	<u>\$ 206,707,397</u>

During 2015, the Conservancy District adopted GASB Statement 68, *Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27*, which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the Conservancy District's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting the net pension asset and deferred outflows related to pension.

**Muskingum Watershed Conservancy District
Tuscarawas County, Ohio**

*Management's Discussion and Analysis
For the Year Ended December 31, 2016*

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability*. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

Under the new standards required by GASB 68, the net pension asset/liability equals the Conservancy District's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service
2. Minus plan assets available to pay these benefits

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the Conservancy District is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68, the District's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's *change* in net pension liability not accounted for as deferred inflows/outflows of resources.

**Muskingum Watershed Conservancy District
Tuscarawas County, Ohio**

*Management's Discussion and Analysis
For the Year Ended December 31, 2016*

As a result of implementing GASB 68, the District is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting.

During 2016, net position increased \$2,325,928 which is attributable to increases in the capital assets resulting from the park master plan implementation. The decrease in current and other assets is mainly attributable to a decrease in cash and investments due to capital asset projects and park master plan planning. Capital assets increased due to a number of construction projects such as the completion of the Atwood Welcome Center, the Atwood Trail Bridge, several infrastructure projects at Tappan Lake, and several shoreline stabilization projects. In addition, the District received a donation of 400 plus acres of land at Atwood during 2016 which is included in capital asset additions. Large projects that were in process at the end of the year were the Tappan restroom project, Atwood Area 20 campground, Tappan east campground, two new campground projects at Seneca and the Tappan Dredging project. Current liabilities remained consistent between 2016 and 2015.

**Muskingum Watershed Conservancy District
Tuscarawas County, Ohio**

*Management's Discussion and Analysis
For the Year Ended December 31, 2016*

In order to further understand what makes up the changes in net position for the current year, the following table gives readers further details regarding the results of activities for 2016 and 2015.

	<u>2016</u>	<u>2015</u>
Operating Revenues		
Timber Sales	\$ 489,032	\$ 406,911
Pine-Pulpwood Sales	106,621	130,215
Easements/Right of Ways	0	294,117
Mineral Rights and Royalties	7,600,835	5,749,753
Share Crop Lease	398,209	234,411
Cottage Sites	2,760,522	2,729,494
Marina Operations	1,651,083	1,569,020
Fishing Rights	62,648	62,648
Marina Camping	427,845	425,191
Water Sales	832,311	1,565,194
Beach Facilities	197,196	173,548
Water and Sewer Systems	102,942	88,370
Vacation Cabin	462,858	439,469
Park Camping	5,056,050	4,879,672
Admissions - park facilities	184,606	158,883
Special Events	130,142	119,424
Miscellaneous Income	110,674	54,081
<i>Total Operating Revenues</i>	<u>\$ 20,573,574</u>	<u>\$ 19,080,401</u>

**Muskingum Watershed Conservancy District
Tuscarawas County, Ohio**

*Management's Discussion and Analysis
For the Year Ended December 31, 2016*

	2016	2015
Operating Expenses		
Water Sales	\$ 146,343	\$ 63,867
Water quality	975,777	1,078,922
Vehicles and equipment	469,367	570,250
Dam Safety/Upgrades	1,837,448	4,007,194
Boundary survey	76,167	73,607
Conservation	268,531	395,178
Reservoir Maintenance	22,221	114,832
Information Systems/Technology	537,863	459,659
Shoreline Protection	299,858	194,109
Share crop	256,403	271,910
Mineral operation	481,735	482,305
Watershed management	617,500	468,916
Beach facilities	271,832	258,209
Office building	266,715	256,281
Administrative and finance	1,881,678	1,686,004
Engineering	294,128	309,632
Planning and development	224,013	199,664
GIS and Parcel Development	286,815	268,266
Forestry maintenance	278,125	242,740
Park camping	2,494,779	2,464,057
Park Master Planning	3,108,706	4,490,709
Cottage sites and clubs	1,220,454	1,042,100
General park facilities	3,837,519	3,532,151
Vacation cabin	132,680	131,271
Marina operation	1,415,647	1,387,993
Water and sewer system	725,332	980,524
Lake patrol operation	353,066	342,186
Education and public information	326,362	340,592
Safety	208,706	203,447
Recreation maintenance	39,840	38,454
Parks - special events	155,264	132,381
Partners in Watershed Management	559,011	844,171
Sediment Removal	33,226	110,171
Depreciation	2,691,617	2,356,898
	26,794,728	29,798,650
<i>Total Operating Expenses</i>		
	\$ (6,221,154)	\$ (10,718,249)
<i>Operating Income/(Loss)</i>		

**Muskingum Watershed Conservancy District
Tuscarawas County, Ohio**

*Management's Discussion and Analysis
For the Year Ended December 31, 2016*

	2016	2015
Non-Operating Revenues (Expenses)		
Maintenance assessments	\$ 5,932,646	\$ 6,262,836
Grants	714,223	98,527
Interest on investments	901,116	649,115
Debt retirement - Interest	(49,980)	(74,353)
<i>Total Non-Operating Revenues (Expenses)</i>	7,498,005	6,936,125
<i>Income (Loss) before Contributions</i>	1,276,851	(3,782,124)
Capital Contributions	1,049,077	0
<i>Change in Net Position</i>	\$ 2,325,928	\$ (3,782,124)

The increase in operating revenue is mainly the result of increases in oil and gas royalties in 2016. The royalties increased by approximately \$1.8 million or 32% in 2016, and the number of wells drilled on private property paying royalties to the Conservancy District increased from 29 in 2015 to 50 as of December 31, 2016. Two other line items directly tied to oil and gas activity were easements, which had no 2016 activity and water sales. There was less demand from the oil and gas operators for water from our reservoirs during 2016; thus water sales decreased by \$730,000 or 47% in 2016. Park camping and marina operations increased in 2016. Park and marina revenue increased in part due to a good weather season and also continued success with the on-line reservation system.

The operating expenditures decreased during 2016; the following highlight some of the main changes:

- Vehicle and equipment decreased during 2016, this is due to a decrease in computer upgrades throughout the Conservancy District. Also, there was a decrease in vehicle maintenance, including fuel purchases, of 20% in 2016.
- Dam Safety saw a 54% reduction in expenditures due to timing of requests from the United States Army Corps of Engineers (USACE). In 2015 there was a \$3 million payment to the USACE for the Bolivar Dam project, in 2016 the payment was approximately \$1 million.
- Park master planning decreased approximately \$1.4 million or 31% in 2016. During 2016, there was less planning as the individual park designers completed the 30% drawings, and the master plan moved more into the construction phase. The 30% drawings and the master plan oversight contracts are not capitalized as they are not identifiable with a particular project.
- Water and sewer systems decreased by 31% during 2016. This was the result of a decrease in repair projects throughout the Conservancy District. The largest was the Sites Lake Sand Filter replacement, which was over \$100,000 in 2015. There was also a reduction in salaries in 2016 due to a resignation of a position that was not filled.

**Muskingum Watershed Conservancy District
Tuscarawas County, Ohio**

*Management's Discussion and Analysis
For the Year Ended December 31, 2016*

- In 2016, Partners in Watershed Management decreased by 34% due to timing of requests from the grantees.
- Watershed management increased 31% in 2016 as the District entered into an agreement with the USACE to perform a watershed study to provide a comprehensive water resource management strategy for the Muskingum River Basin, referred to as a section 729 watershed assessment.

Maintenance assessment revenue decreased slightly during 2016, as the board again approved the 50% reduction in the assessment. Grant revenue increased significantly due to a large grant the District received for shoreline stabilization projects in 2016. In addition, interest revenue increased 39% due to more of the district funds being invested during 2016.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2016 the Conservancy District had \$55,371,728 of capital assets net of accumulated depreciation. The following table shows 2016 balances compared with 2015:

	2016	2015
Land	\$ 3,313,899	\$ 2,086,772
Capitalized Development Costs	1,189,495	1,189,495
Construction in Progress	15,583,138	3,816,955
Land Improvements	6,854,860	6,825,349
Buildings	9,201,661	7,080,908
Building Improvements	1,886,537	1,863,767
Furniture, Fixtures and Equipment	2,095,240	2,464,806
Vehicles	861,243	858,225
Infrastructure	14,385,655	13,234,333
<i>Totals</i>	\$ 55,371,728	\$ 39,420,610

Additional information on the Conservancy District's capital assets can be found in Note 5.

**Muskingum Watershed Conservancy District
Tuscarawas County, Ohio**

*Management's Discussion and Analysis
For the Year Ended December 31, 2016*

Debt

The outstanding debt for the Conservancy District as of December 31, 2016 was \$862,711 with \$66,586 due within one year. The following table summarizes the Conservancy District's debt outstanding as of December 31, 2016 and 2015:

	2016	2015
OWDA #2162 - 5.56%	\$ 248,882	\$ 274,986
OWDA #5413 - 0%	122,776	132,220
OWDA #5575 - 3.25%	469,393	496,701
OWDA #5558 - 3.25%	21,660	22,980
OWDA #6104 - 3.99%	0	0
<i>Totals</i>	<u>\$ 862,711</u>	<u>\$ 926,887</u>

Additional information on the Conservancy District's long-term debt can be found in Note 10.

CURRENT ISSUES

The Utica shale activity in Ohio has presented the Conservancy District with opportunities to utilize its natural resources. With approximately 7,000 additional acres available for lease in the heart of the shale play, the Conservancy District is continuing to develop and implement its plan for the prudent use of the resources it has available. Currently the Conservancy District has leased acreage for Utica shale development at Clendening Reservoir, Leesville Reservoir, Seneca Reservoir, Atwood Reservoir, and Piedmont Reservoir. The Conservancy District is evaluating options with regards to any remaining available acreage. As of December 31, 2016, the Conservancy District received royalty revenue from 50 producing Utica shale wells, which are included in 15 drilling units, drilled from 13 well pads. Continued development at multiple reservoirs is ongoing, and expected to continue into 2017 and beyond.

During 2012, the Conservancy District implemented a strategic planning process and as of December 31, 2016, the Conservancy District had completed or had a significant number of items on-going as a result. Some of those items include but are not limited to reducing sedimentation and erosion in reservoir watersheds, continue the water quality monitoring programs at the Conservancy District reservoirs, create a long term cottage road maintenance program, meet the USACE cost-share obligations for repairs and modifications to dams, develop a reservoir dredging program, develop a park master plan with a prioritized list of capital improvements, develop a general evaluation of all marina operations to create closer partnerships with leased marina operators, and dedicating income in a financially responsible way assuring the long term sustainability of Conservancy District operations. During 2017, the Conservancy District will review and revise its strategic plan, which will be used as the basis for the annual budget process.

Effective for 2016, the Board of Directors approved a Utica Shale Revenue Distribution plan which led to the creation of an operational reserve account, capital reserve account, and allowed for the transfer of moneys into the improvement fund for future land/building acquisitions. As of December 31, 2016 the operational reserve account had a balance of

**Muskingum Watershed Conservancy District
Tuscarawas County, Ohio**

*Management's Discussion and Analysis
For the Year Ended December 31, 2016*

approximately \$3.2 million, the capital reserve account had a balance of approximately \$3.6 million, and approximately \$360,500 was transferred into the improvement fund. During the budgeting process for 2017, the Board of Directors approved the Utica Shale Revenue Distribution for the 2017 Utica Shale revenue. The allocation remained the same as 2016, with 5% of Utica Shale revenue going to the improvement fund for future land/building acquisitions, 45% will supplement operational needs and be set aside in a maintenance reserve account, and 50% will be set aside in a reserve account for the future capital needs of the District.

The park master plan, which will consist of major updates at all five parks and two marinas operated by the Conservancy District kicked off during 2015. One hundred and twenty million dollars has been set-a-side for phase I of the plan. The program manager was hired late during 2014, and over saw the hiring of the individual park designers which also happened during 2015. The individual park designers completed the 30% drawings during 2016. The Conservancy District had a couple park master plan projects completed in 2016, the Atwood Welcome Center and Atwood Trail Bridge (phase II) were completed and open for use during the 2016 recreation season. In 2017 the completion of the prototype restroom facility at Tappan Lake, as well as several new campgrounds at Atwood Lake, Seneca Lake and Tappan Lake will occur. The 2017 budget for the park master plan is approximately \$31 million.

The Conservancy District implemented the sediment removal program during 2015, with the beginning of the Tappan Lake Dredge. The dredging of Tappan Lake began in late 2015 and will be completed in the first quarter of 2017. In total, the dredge will remove up to 344,000 cubic yards of material out of the lake. The Conservancy District expended approximately \$1.4 million in 2015 for this project, and approximately \$9 million in 2016. The contract has approximately \$800,000 left on it as of December 31, 2016. The sediment removal program will protect and extend the useful life of the reservoirs for many years to come by allowing for proper flow storage capacity. This multi-year project will protect people and property within the reservoirs and is a component of the Amendment to the Official Plan. During 2017, a targeted dredging program will be initiated at Seneca Lake, with a focus on isolated pockets where dredging will improve the winter flood storage capacity as well as increase boater access in problem areas.

Beginning with the 2015 collection year, the Board of Directors approved a 50% reduction in the maintenance assessment collections. This continued again for the 2017 collection year, however the Board of Directors recommended curtailing expenditures for the maintenance assessment, so that the expenditures were more in line with the revenues being generated. This resulted in an approved budget for the 2017 maintenance assessment of \$7.3 million. Within the maintenance assessment budget is a contract in the amount of \$714,000 to outsource the creation of the billing files for 2017. Included in this contract, will be upgraded software platforms used in processing the assessment files.

The Conservancy District continues to be the local cost share sponsor in the US Army Corp of Engineer projects. The current on-going projects are the Dover and Bolivar dam rehabilitations. The board of directors approved a \$1.5 million budget for 2017 for these projects.

**Muskingum Watershed Conservancy District
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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.

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Muskingum Watershed Conservancy District
Tuscarawas County, Ohio
Statement of Net Position
Proprietary Fund
December 31, 2016

Assets	
<i>Current Assets:</i>	
Equity in Pooled Cash and Investments	\$ 159,587,522
Accrued Interest	29,556
Accounts Receivable	1,045,930
Prepays	513,744
Maintenance Assessments Receivable	<u>1,246,429</u>
<i>Total Current Assets</i>	<u>162,423,181</u>
<i>Non-Current Assets:</i>	
Capitalized Costs	980,130
Non-Depreciable Capital Assets	20,086,532
Depreciable Capital Assets, Net	35,285,196
Net Pension Asset	<u>26,803</u>
<i>Total Non-Current Assets</i>	<u>56,378,661</u>
<i>Total Assets</i>	<u>218,801,842</u>
Deferred Outflows of Resources	
Pension	<u>4,195,673</u>
<i>Total Deferred Outflows of Resources</i>	<u>4,195,673</u>
Liabilities	
<i>Current Liabilities:</i>	
Accounts Payable	200,976
Contracts Payable	729,898
Retainage Payable	398,534
Performance Bond Payable	57,000
Escrow Land Rentals	175
Escrow Funds Payable	379
Due to Other Governments	159,697
Accrued Wages and Benefits	281,791
Accrued Interest Payable	100
Accrued Life Insurance	7,754
Claims Payable	170,000
Advances	166,555
Compensated Absences	77,748
Capital Leases Payable	22,236
OWDA Loans Payable	<u>66,586</u>
<i>Total Current Liabilities</i>	<u>2,339,429</u>
<i>Long-Term Liabilities:</i>	
Compensated Absences - net of current portion	645,777
Capital Leases Payable - net of current portion	107,244
OWDA Loans Payable - net of current portion	796,125
Net Pension Liability	<u>9,869,654</u>
<i>Total Long-Term Liabilities</i>	<u>11,418,800</u>
<i>Total Liabilities</i>	<u>13,758,229</u>
Deferred Inflows of Resources	
Pension	<u>205,961</u>
<i>Total Deferred Inflows of Resources</i>	<u>205,961</u>
Net Position	
Net Investment in Capital Assets	53,395,541
Restricted for Maintenance Assessment	11,355,207
Unrestricted	<u>144,282,577</u>
<i>Total Net Position</i>	<u>\$ 209,033,325</u>

See accompanying notes to the basic financial statements

Muskingum Watershed Conservancy District
Tuscarawas County, Ohio
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Fund
For the Year Ended December 31, 2016

Operating Revenues

Water Sales	\$ 832,311
Water and sewer systems	102,942
Timber sales	489,032
Pine/pulpwood sales	106,621
Mineral rights and royalties	7,600,835
Share crop lease	398,209
Cottage sites	2,760,522
Marina operations	1,651,083
Marina camping	427,845
Fishing rights	62,648
Beach facilities	197,196
Vacation cabin	462,858
Park camping	5,056,050
Parks - Special events	130,142
Admissions - park facilities	184,606
Miscellaneous income	<u>110,674</u>
<i>Total Operating Revenues</i>	<u>20,573,574</u>

Operating Expenses

Water Sales	146,343
Water Quality	975,777
Vehicles and equipment	469,367
Dam safety/upgrades	1,837,448
Boundary survey	76,167
Conservation	268,531
Reservoir Maintenance	22,221
Information Systems/Technology	537,863
Shoreline Protection	299,858
Share crop	256,403
Mineral operation	481,735
Watershed management	617,500
Beach facilities	271,832
Office building	266,715
Administrative and finance	1,881,678
Engineering	294,128
Planning and development	224,013
GIS and Parcel Development	286,815
Forestry maintenance	278,125
Park camping expense	2,494,779
Park Master Planning	3,108,706
Cottage sites and clubs	1,220,454
General park facilities	3,837,519
Vacation cabin	132,680
Marina operation	1,415,647

Muskingum Watershed Conservancy District
Tuscarawas County, Ohio
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Fund
For the Year Ended December 31, 2016

		(Continued)
Water and sewer system	\$	725,332
Lake patrol operation		353,066
Education and public information		326,362
Safety		208,706
Recreation maintenance		39,840
Parks - special events		155,264
PWM		559,011
Sediment Removal		33,226
Depreciation		<u>2,691,617</u>
<i>Total Operating Expenses</i>		<u>26,794,728</u>
<i>Operating Loss</i>		(6,221,154)
Non-Operating Revenues (Expenses)		
Maintenance assessments		5,932,646
Grants		714,223
Interest on investments		901,116
Debt retirement - Interest		<u>(49,980)</u>
<i>Total Non-Operating Revenues (Expenses)</i>		<u>7,498,005</u>
<i>Income before Contributions</i>		1,276,851
Capital Contributions		<u>1,049,077</u>
<i>Change in Net Position</i>		2,325,928
Net Position - Beginning of Year		<u>206,707,397</u>
Net Position - End of Year	\$	<u><u>209,033,325</u></u>

See accompanying notes to the basic financial statements

Muskingum Watershed Conservancy District
Tuscarawas County, Ohio
Statement of Cash Flows
Proprietary Fund
For the Year Ended December 31, 2016

Cash flows from Operating Activities:	
Cash Received from Customers	\$ 21,895,985
Cash Payments to Suppliers for Goods and Services	(13,984,035)
Cash Payments for Employees Services and Benefits	<u>(10,012,349)</u>
<i>Net Cash Used For Operating Activities</i>	<u>(2,100,399)</u>
Cash Flows from Noncapital Financing Activities:	
Proceeds from OWDA Loans	408,074
Principal Payments on OWDA Loans	(444,942)
Intergovernmental Grants	54,886
Maintenance Assessments	340,340
Interest Paid on Debt	<u>(31,449)</u>
<i>Net Cash Provided by Noncapital Financing Activities</i>	<u>326,909</u>
Cash Flows from Capital and Related Financing Activities:	
Acquisition of Capital Assets	(17,053,270)
Maintenance Assessments	5,690,137
Intergovernmental Grants	659,337
Principal Payments on OWDA Loans	(27,308)
Principal Payments on Capital Leases	(46,107)
Interest Paid on Debt	<u>(18,531)</u>
<i>Net Cash Used for Capital and Related Financing Activities</i>	<u>(10,795,742)</u>
Cash Flows from Investing Activities:	
Receipts of Interest	1,105,370
Payments for purchase of investments	(121,600,479)
Proceeds from Sale of Investments	<u>98,214,930</u>
<i>Net Cash Used for Investing Activities</i>	<u>(22,280,179)</u>
<i>Net (Decrease) in Cash and Cash Equivalents</i>	(34,849,411)
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>59,108,964</u>
<i>Cash and Cash Equivalents End of Year</i>	<u>\$ 24,259,553</u>
Reconciliation of Operating Loss To Net Cash Used by Operating Activities:	
Operating Loss	\$ (6,221,154)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	2,691,617
(Increase) Decrease in Assets	
Capitalized Costs	(488,443)
Accounts Receivable	1,322,411
Prepays	96,323
Net Pension Asset	(10,081)
Deferred Outflows	(2,982,558)
Increase (Decrease) in Liabilities:	
Accounts Payable	(360,057)
Performance Bond Payable	22,300
Escrow Funds Payable	323
Advances	15,262
Claims Payable	(13,000)
Accrued Wages and Benefits	21,902
Accrued Life Insurance	(2,599)
Compensated Absences	34,342
Due to Other Governments	4,321
Net Pension Liability	3,676,633
Deferred Inflows	<u>92,059</u>
<i>Net Cash Used for Operating Activities</i>	<u>\$ (2,100,399)</u>
Reconciliation of cash and investments reported on the Statement of Net Position to cash and cash equivalents reported on the Statement of Cash Flows:	
Statement of Net Position cash and cash equivalents and investments	\$ 159,587,522
Investments included in balances above that are not cash equivalents	<u>(135,327,969)</u>
Cash and Cash equivalents reported on Statement of Cash Flows	<u>\$ 24,259,553</u>

Noncash Capital Financing Activities:

During 2016, \$135,329 of capital assets were acquired on capital leases.
During 2016, \$1,049,077 of capital assets were donated to the Conservancy District.
At December 31, 2016, the Conservancy District purchased \$1,128,432 in capital assets on account.
At December 31, 2015, the Conservancy District purchased \$755,369 in capital assets on account.

See accompanying notes to the basic financial statements

**Muskingum Watershed Conservancy District
Tuscarawas County, Ohio**

*Notes to the Basic Financial Statements
For the Year Ended December 31, 2016*

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 Chapter 6101 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 2016 appointed by the court. All other officers and employees are hired in accordance with the provisions of Chapter 6101 of the Ohio Revised Code. The Conservancy District is a separate governmental entity within the eighteen county area served by the Conservancy District.

2016 Board of Directors:

- | | |
|---------------------------------|--------------------------|
| • Gordon Maupin – President | Term Expires June 2019 |
| • Clark Sprang – Vice President | Term Expired June 2020 |
| • Richard J Pryce - Member | Term Expires July 2017 |
| • Joanne Limbach – Member | Term Expires June 2018 |
| • Robert Moorehead – Member | Term Expires August 2021 |
| • David Parham – Member | Term Expired June 2016 |

2016 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 Chapter 6101.04 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 operations 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
- (G) Oil and Gas royalties
- (H) Water Sales

**Muskingum Watershed Conservancy District
Tuscarawas County, Ohio**

*Notes to the Basic Financial Statements
For the Year Ended December 31, 2016*

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

Subdistricts:

Chippewa Subdistrict, Black Fork Subdistrict, Buffalo Subdistrict, Duck Creek Subdistrict, and Clear Fork 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 subdistricts are the Chippewa Subdistrict, Black Fork Subdistrict, and the Clear Fork Subdistrict. The current status of the Chippewa Subdistrict is to maintain and upgrade the dams and channels. In May of 2011, with work beginning in 2012, the Conservancy District Board of Directors, at the request of Shelby officials, re-activated the Black Fork Subdistrict for the purpose of preparing an Official Plan, as required by the Ohio Revised Code, to address flooding within the Black Fork watershed. Black Fork Subdistrict is still in progress in the development of an official plan. In June of 2014, the Conservancy Court established the Clear Fork Subdistrict based on the request by several municipalities and stakeholders along the Clear Fork. Work is beginning to create an official plan. 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 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 policies applicable to governmental enterprise funds.

B. Measurement Focus

The enterprise fund is accounted for on a flow of economic resources measurement focus. All assets, deferred outflows of resources, all liabilities, and deferred inflows of resources associated with the operation of the Conservancy District are included on the statement of net position. The statement of changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net total position. 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 Year Ended December 31, 2016*

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 or before 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 \$5,000. The capitalization threshold for building improvements is \$10,000 and for infrastructure is \$25,000.

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 Year Ended December 31, 2016*

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

All reported capital assets are required to be depreciated except for land, construction in progress, and capitalized development costs. 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
Land	N/A
Construction in Progress	N/A
Capitalized Development Costs	N/A

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

For purposes of measuring the net pension liability, net pension asset, deferred outflows and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension system. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

G. Net Position

Net position represents the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources. Net investment in capital assets, 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. Restricted for maintenance assessment represents the net position of the maintenance assessment fund, which are restricted by the official plan as to how it can be used.

**Muskingum Watershed Conservancy District
Tuscarawas County, Ohio**

*Notes to the Basic Financial Statements
For the Year Ended December 31, 2016*

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Conservancy District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

H. Revenue & Expenses

Operating revenues consist primarily of fees for services, rents and charges for use of Conservancy District facilities, oil and gas royalties, 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.

I. Deferred Outflows/Inflows of Resources

In addition to assets, the Statements of Net Position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expenditure) until then. The Conservancy District has a deferred outflow related to pension. See note 7 for additional information.

In addition to liabilities, the Statements of Net Position will sometimes report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. The Conservancy District has a deferred inflow related to pension. See note 7 for additional information.

J. 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 2016, the Conservancy District had no extraordinary or special items.

K. Implementation of New Accounting Policies and Restatement of Net Position

For the year ended December 31, 2016, the Conservancy District implemented Governmental Accounting Standards Board (GASB) Statement No. 72, *"Fair Value Measurement and Application,"* and GASB Statement No. 73, *"Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68,"* GASB Statement No. 76, *"The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments,"* GASB Statement No. 78, *"Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans,"* and GASB Statement No. 79, *"Certain External Investment Pools and Pool Participants."*

**Muskingum Watershed Conservancy District
Tuscarawas County, Ohio**

*Notes to the Basic Financial Statements
For the Year Ended December 31, 2016*

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

GASB Statement No. 72 clarifies the definition of fair value for financial reporting purposes, establishes general principles for measuring fair value, provides additional fair value application guidance, and enhances disclosures about fair value measurements. The implementation of GASB Statement No. 72 did not have an effect on the financial statements of the Conservancy District.

GASB Statement No. 73 establishes requirements for defined benefit pensions that are not within the scope of GASB Statement No. 68 as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also clarifies the application of certain provisions of GASB Statements 67 and 68. The implementation of GASB Statement No. 73 did not have an effect on the financial statements of the Conservancy District.

GASB Statement No. 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The implementation of GASB Statement No. 76 did not have an effect on the financial statements of the Conservancy District.

GASB Statement No. 78 amends the scope of GASB Statement No. 68 to exclude certain multiple-employer defined benefit pension plans provided to employees of state and local governments on the basis that obtaining the measurements and other information required by GASB Statement No. 68 was not feasible. The implementation of GASB Statement No. 78 did not have an effect on the financial statements of the Conservancy District.

GASB Statement No. 79 establishes accounting and financial reporting standards for qualifying external investment pools that elect to measure for financial reporting purposes all of their investments at amortized cost. This Statement provides accounting and financial reporting guidance also establishes additional note disclosure requirements for governments that participate in those pools. The implementation of GASB Statement No. 79 did not have an effect on the financial statements of the Conservancy District.

L. Statement of Cash Flows

For the purposes of the statement of cash flows, cash and cash equivalents are defined as cash and any investment with an original maturity of 3 months or less. As of December 31, 2016 none of the Conservancy District's investments qualified as a cash equivalent.

M. Capitalized Costs

The Conservancy District has a loan with the Ohio Water Development Authority (OWDA) to cover the costs associated with planning and preparing the Official Plan for the Black Fork Subdistrict. The costs incurred with this project are accumulating until the plan is complete and the subdistrict has a maintenance assessment in place. Once the project is complete the charges will be amortized over the life of the loan with OWDA.

**Muskingum Watershed Conservancy District
Tuscarawas County, Ohio**

*Notes to the Basic Financial Statements
For the Year Ended December 31, 2016*

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Conservancy District is covering the costs associated with planning and preparing the Official Plan for the Clear Fork Subdistrict. The costs incurred with this project are accumulating until the plan is complete and the subdistrict has a maintenance assessment in place. Once the project is complete the charges will be amortized over the payback period from the maintenance assessment.

N. Prepaids

The Conservancy District has a loan with the Ohio Water Development Authority (OWDA) to cover costs associated with planning and preparing the Official Plan for the Black Fork Subdistrict. In 2013, the Conservancy District was required to start making principal and interest payments on the loan based on the total amount of the approved debt, even though the entire amount of the loan had not been drawn down. As of December 31, 2016, the Conservancy District had paid more on the principal of the debt than they had drawn down. This amount of \$513,744 is shown as a prepaid.

O. Advances

The Conservancy District records unearned revenue when it has received moneys prior to having earned the revenue, or before all grant requirements have been met (other than time). At December 31, 2016 unearned revenue consisted of \$166,555 of moneys received in advance for reservations in our parks and marinas for 2017.

P. Capital Contribution

In December of 2016, Carroll County Commissioners donated 418 acres of land in the Atwood Lake region to the Conservancy District, which was a portion of the former Atwood Lodge property. This land had a fair market appraisal completed totaling \$1,049,077.

Q. Reserve Account Balances

As part of the Conservancy District's strategic plan, there was an initiative to optimize fiscal balance. Therefore, in 2016, the Board of Directors approved a Deep Shale Royalty Revenue distribution plan which called for the creation of two reserve funds. One operational reserve fund which has a balance of approx. \$3.2 million, and a capital reserve fund which has a balance of approx. \$3.6 million as of December 31, 2016. These reserve balances are part of the unrestricted net position.

NOTE 3: DEPOSITS AND INVESTMENTS

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.

**Muskingum Watershed Conservancy District
Tuscarawas County, Ohio**

*Notes to the Basic Financial Statements
For the Year Ended December 31, 2016*

NOTE 3: DEPOSITS AND INVESTMENTS (continued)

Inactive deposits are public deposits that the Conservancy District has identified as not required for use within the current five-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 and Star Plus).
6. Certain bankers' acceptances and commercial paper notes for a period not to exceed two hundred and seventy days in an amount not to exceed 40 percent of the interim moneys available for investment at any time, provided no more than 5% is invested in any one issuer.

**Muskingum Watershed Conservancy District
Tuscarawas County, Ohio**

*Notes to the Basic Financial Statements
For the Year Ended December 31, 2016*

NOTE 3: DEPOSITS AND INVESTMENTS (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 2016, 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 \$24,255,153. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures," as of December 31, 2016, \$24,223,222 of the Conservancy District's bank balance of \$24,987,848 was exposed to custodial risk as discussed above, while \$764,626 was covered by Federal Deposit Insurance Corporation.

Cash on Hand

As of December 31, 2016, the Conservancy District had \$4,400 of cash on hand.

**Muskingum Watershed Conservancy District
Tuscarawas County, Ohio**

*Notes to the Basic Financial Statements
For the Year Ended December 31, 2016*

NOTE 3: DEPOSITS AND INVESTMENTS (continued)

Investments

As of December 31, 2016, the Conservancy District had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities			
		6 Months or Less	7 to 12 Months	13 to 24 Months	More than 24 Months
Federal Home Loan Mortgage Corporation	\$ 16,116,692	\$ -	\$ 4,022,613	\$ 1,444,513	\$ 10,649,566
Federal National Mortgage Association	22,317,115	-	9,851,042	-	12,466,073
Federal Home Loan Bank	3,444,930	-	-	-	3,444,930
Municipal Bonds	33,162,321	17,849,588	11,580,883	1,520,895	2,210,955
Money Market Account	107,497	107,497	-	-	-
Treasury Bonds	19,633,872	-	2,743,166	4,237,008	12,653,698
Certificate of Deposits	17,164,225	491,380	4,444,497	5,162,329	7,066,019
Commercial Paper	23,381,317	14,458,176	8,923,141	-	-
	<u>\$ 135,327,969</u>	<u>\$ 32,906,641</u>	<u>\$ 41,565,342</u>	<u>\$ 12,364,745</u>	<u>\$ 48,491,241</u>

The Conservancy District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs. The above table identifies the Conservancy District's recurring fair value measurements as of December 31, 2016. All investments of the Conservancy District are valued using quoted market prices (Level 1 inputs).

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the Conservancy District's investment policy limits portfolio maturities to five years or less.

Credit Risk: The FHLMC, FNMA and FHLB, and Treasuries all have Aaa or AA+ ratings from Moody's and S&P respectively. Nearly all of the securities carry the Aaa rating, which is the highest on the respective scales from Moody's. The Commercial paper is rated A-1, which is the highest rating on the scale for short term debt. Most of the municipal bond anticipation notes, and the money market funds are not rated by Moody's. The CDs are not rated by Moody's but are covered under the issuing bank FDIC.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of failure of the counterparty, the Conservancy District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Conservancy District has no investment policy dealing with investment custodial risk beyond the requirement in the State statute that prohibits payment for the investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

**Muskingum Watershed Conservancy District
Tuscarawas County, Ohio**

*Notes to the Basic Financial Statements
For the Year Ended December 31, 2016*

NOTE 3: DEPOSITS AND INVESTMENTS (continued)

Concentration of Credit Risk: The Conservancy District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage to total of each investment type as of December 31, 2016.

Investment Type	Fair Value	Percent of Total
Federal Home Loan Mortgage Corporation	\$ 16,116,692	12%
Federal National Mortgage Association	22,317,115	16%
Federal Home Loan Bank	3,444,930	3%
Municipal Bonds	33,162,321	24%
Money Market	107,497	0%
Treasury Bonds	19,633,872	15%
CDs	17,164,225	13%
Commercial Paper	23,381,317	17%
	<u>\$ 135,327,969</u>	<u>100%</u>

The following is the net increase in the fair value of investments during for year ending December 31, 2016.

Fair Value of Investments December 31, 2016	\$ 135,327,969
Add: Proceeds of investments sold in 2016	98,214,930
Less: Cost of investments purchased in 2016	(121,600,479)
Less: Fair value at December 31, 2015	<u>(112,170,075)</u>
Change in fair value of investments	<u>\$ (227,655)</u>

NOTE 4: RECEIVABLES

Receivables at December 31, 2016 consisted of accounts (billed user charged services), mineral rights and royalties, and delinquent maintenance assessments. All receivables are deemed collectible in full.

**Muskingum Watershed Conservancy District
Tuscarawas County, Ohio**

*Notes to the Basic Financial Statements
For the Year Ended December 31, 2016*

NOTE 5: CAPITAL ASSETS

Proprietary capital assets – summary by category at December 31, 2016:

	Balance 12/31/2015	Additions	Deletions	Balance 12/31/2016
Capital Assets Not Being Depreciated				
Land	\$ 2,086,772	\$ 1,227,127	\$ 0	\$ 3,313,899
Construction in Progress	3,816,955	16,570,141	(4,803,958)	15,583,138
Capitalized Development Costs	1,189,495	0	0	1,189,495
Total Capital Assets Not Being Depreciated	<u>7,093,222</u>	<u>17,797,268</u>	<u>(4,803,958)</u>	<u>20,086,532</u>
Capital Assets Being Depreciated				
Land Improvements	8,283,579	456,784	0	8,740,363
Buildings	12,064,781	2,410,196	(30,185)	14,444,792
Building Improvements	2,875,927	122,062	0	2,997,989
Furniture, Fixtures and Equipment	6,926,897	322,961	(172,338)	7,077,520
Vehicles	2,399,054	338,769	(294,570)	2,443,253
Infrastructure	16,076,907	1,963,541	0	18,040,448
Total Capital Assets Being Depreciated	<u>48,627,145</u>	<u>5,614,313</u>	<u>(497,093)</u>	<u>53,744,365</u>
Less Accumulated Depreciation:				
Land Improvements	(1,458,230)	(427,273)	0	(1,885,503)
Buildings	(4,983,873)	(310,523)	51,265	(5,243,131)
Building Improvements	(1,012,160)	(99,292)	0	(1,111,452)
Furniture, Fixtures and Equipment	(4,462,091)	(685,275)	165,086	(4,982,280)
Vehicles	(1,540,829)	(335,751)	294,570	(1,582,010)
Infrastructure	(2,842,574)	(833,503)	21,284	(3,654,793)
Total Accumulated Depreciation	<u>(16,299,757)</u>	<u>(2,691,617)</u>	<u>532,205</u>	<u>(18,459,169)</u>
Total Capital Assets Being Depreciated, Net	<u>32,327,388</u>	<u>2,922,696</u>	<u>35,112</u>	<u>35,285,196</u>
Capital Assets, Net	<u>\$ 39,420,610</u>	<u>\$ 20,719,964</u>	<u>\$ (4,768,846)</u>	<u>\$ 55,371,728</u>

**Muskingum Watershed Conservancy District
Tuscarawas County, Ohio**

*Notes to the Basic Financial Statements
For the Year Ended December 31, 2016*

NOTE 6: RISK MANAGEMENT

A. Comprehensive Liability Insurance

The Conservancy District belongs to the Ohio Plan Risk Management, Inc. (OPRM) – formerly known as the Ohio Government Risk Management Plan, (the “Plan”), a non-assessable, unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to Ohio governments (“Members”). The Plan is legally separate from its member governments.

Pursuant to Section 2744.081 of the Ohio Revised Code, the plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages to its members sold through fourteen appointed independent agents in the State of Ohio.

OPRM coverage programs are developed specific to each member’s risk management needs and the related premiums for coverage are determined through the application of uniform underwriting criteria addressing the member’s exposure to loss. Effective November 1, 2012 (and through October 2014) the plan increased its retention to 50% of the first \$250,000 casualty treaty. Effective November 1, 2014, the OPRM retained 47% of the premium and losses on the first \$250,000 casualty treaty and 10% of the first \$1,000,000 property treaty. Members are only responsible for their self-retention (deductible) amounts, which vary from member to member. OPRM had 772 and 783 members as of December 31, 2015 and 2014 respectively.

Plan members are responsible to notify the Plan of their intent to renew coverage by their renewal date. If a member chooses not to renew with the Plan, they have no other financial obligation to the Plan, but still need to promptly notify the Plan of any potential claims occurring during their membership period. The former member’s covered claims, which occurred during their membership period, remain the responsibility of the Plan.

Settlement amounts did not exceed insurance coverage for the past three fiscal years.

The Pool’s audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities, and equity at December 31, 2015 and 2014 (the latest information available).

	2015	2014
Assets	\$ 14,643,667	\$ 14,830,185
Liabilities	(9,112,030)	(8,942,504)
Members Equity	\$ 5,531,637	\$ 5,887,681

You can read the complete audited financial statements for OPRM at the Plan’s website, www.ohioplan.org

**Muskingum Watershed Conservancy District
Tuscarawas County, Ohio**

*Notes to the Basic Financial Statements
For the Year Ended December 31, 2016*

NOTE 6: RISK MANAGEMENT (continued)

B. Self-insurance

Muskingum Watershed Conservancy District has a self-funded health insurance plan administered by third party administrator Aultcare. The plan year runs June 1 through May 31. The 2015 plan year ran June 1, 2015 through May 31, 2016. The 2016 plan year runs June 1, 2016 through May 31, 2017.

The monthly premium for the 2015 plan year for a single employee is \$869.09, \$1,364.42 for an employee plus 1, and for the family of an employee is \$2,062.21. The monthly premium for the 2016 plan year for a single employee is \$799.57, \$1,255.26 for an employee plus 1, and for the family of an employee is \$1,897.24.

The overall stop loss for the plan year 2015 is \$1,322,274 and for plan year 2016 is \$1,494,982.

The specific stop loss per occurrence was \$55,000 for plan years 2015 and 2016. For plan year 2015 and 2016, there was one instance with a special specific deductible in the amount of \$575,000 each year. There were three claims exceeding the limit for plan year 2015. When the Conservancy District pays claims or reimburses employees for medical bills in excess of the limits they are reimbursed by Arch Insurance Group for the 2015 and 2016 plan years.

The claims liability of \$170,000 at December 31, 2016, 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 2016 and 2015 are as follows:

		<u>Balance Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claims Payments</u>	<u>Balance End of Year</u>
2015	\$	176,807	\$ 1,485,601	\$ 1,479,408	\$ 183,000
2016	\$	183,000	\$ 1,439,625	\$ 1,452,625	\$ 170,000

NOTE 7 – DEFINED BENEFIT PENSION PLANS

Net Pension Asset/Liability

The net pension asset/liability reported on the statement of net position represents an asset/liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

**Muskingum Watershed Conservancy District
Tuscarawas County, Ohio**

*Notes to the Basic Financial Statements
For the Year Ended December 31, 2016*

NOTE 7 – DEFINED BENEFIT PENSION PLANS (continued)

The net pension asset/liability represents the Conservancy District's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension asset/liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the Conservancy District's obligation for this liability to annually required payments. The Conservancy District cannot control benefit terms or the manner in which pensions are financed; however, the Conservancy District does receive the benefit of employees' services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension asset/liability. Resulting adjustments to the net pension asset/liability would be effective when the changes are legally enforceable.

The proportionate share of each plan's unfunded benefits is presented as a long-term *net pension asset/liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting.

Plan Description – Ohio Public Employees Retirement System (OPERS)

Plan Description – Conservancy District employees participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional pension plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan and the combined plan is a cost-sharing, multiple-employer defined benefit pension plan with defined contribution features. While members (e.g. Conservancy District employees) may elect the member-directed plan, substantially all employee members are in OPERS' traditional and combined plans; therefore, the following disclosure focuses on these two plans.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional and combined plans. Authority to establish and

**Muskingum Watershed Conservancy District
Tuscarawas County, Ohio**

*Notes to the Basic Financial Statements
For the Year Ended December 31, 2016*

NOTE 7 – DEFINED BENEFIT PENSION PLANS (continued)

amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS' fiduciary net position that may be obtained by visiting <https://www.opers.org/financial/reports.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 800-222-7377.

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. The following table provides age and service requirements for retirement and the retirement formula applied to final average salary (FAS) for the three member groups under the traditional and combined plans as per the reduced benefits adopted by SB 343 (see OPERS CAFR referenced above for additional information):

**Muskingum Watershed Conservancy District
Tuscarawas County, Ohio**

*Notes to the Basic Financial Statements
For the Year Ended December 31, 2016*

NOTE 7 – DEFINED BENEFIT PENSION PLANS (continued)

Group A	Group B	Group C
Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	Members not in other Groups and members hired on or after January 7, 2013
State and Local	State and Local	State and Local
Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 57 with 25 years of service credit or Age 62 with 5 years of service credit
Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Formula: 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35
Public Safety	Public Safety	Public Safety
Age and Service Requirements: Age 48 with 25 years of service credit or Age 52 with 15 years of service credit	Age and Service Requirements: Age 48 with 25 years of service credit or Age 52 with 15 years of service credit	Age and Service Requirements: Age 52 with 25 years of service credit or Age 56 with 15 years of service credit
Law Enforcement	Law Enforcement	Law Enforcement
Age and Service Requirements: Age 52 with 15 years of service credit	Age and Service Requirements: Age 48 with 25 years of service credit or Age 52 with 15 years of service credit	Age and Service Requirements: Age 48 with 25 years of service credit or Age 56 with 15 years of service credit
Public Safety and Law Enforcement	Public Safety and Law Enforcement	Public Safety and Law Enforcement
Formula: 2.5% of FAS multiplied by years of service for the first 25 years and 2.1% for service years in excess of 25	Formula: 2.5% of FAS multiplied by years of service for the first 25 years and 2.1% for service years in excess of 25	Formula: 2.5% of FAS multiplied by years of service for the first 25 years and 2.1% for service years in excess of 25

Final average salary (FAS) represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career.

Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

**Muskingum Watershed Conservancy District
Tuscarawas County, Ohio**

*Notes to the Basic Financial Statements
For the Year Ended December 31, 2016*

NOTE 7 – DEFINED BENEFIT PENSION PLANS (continued)

When a benefit recipient has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3 percent simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3 percent.

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

	State and Local	Public Safety	Law Enforcement
2016 Statutory Maximum Contribution Rates			
Employer	14.00 %	18.10 %	18.10 %
Employee	10.00 %	*	**
2016 Actual Contribution Rates			
Employer:			
Pension	12.00 %	16.10 %	16.10 %
Post-employment Health Care Benefits	2.00	2.00	2.00
Total Employer	14.00 %	18.10 %	18.10 %
Employee	10.00 %	12.00 %	13.00 %

* This rate is determined by OPERS' Board and has no maximum rate established by ORC.

** This rate is also determined by OPERS' Board, but is limited by ORC to not more than 2 percent greater than the Public Safety rate.

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The Conservancy District's contractually required contribution was \$834,780 for 2016. Of this amount, \$60,097 is reported as an intergovernmental payable.

NOTE 7 – DEFINED BENEFIT PENSION PLANS (continued)

Pension Assets/Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension asset/liability for OPERS was measured as of December 31, 2015, and the total pension asset/liability used to calculate the net pension asset/liability was determined by an actuarial valuation as of that date. The Conservancy District's proportion of the net pension asset/liability was based on the Conservancy District's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

**Muskingum Watershed Conservancy District
Tuscarawas County, Ohio**

*Notes to the Basic Financial Statements
For the Year Ended December 31, 2016*

NOTE 7 – DEFINED BENEFIT PENSION PLANS (continued)

	OPERS Traditional Plan	OPERS Combined Plan	Total
Proportionate Share of the Net Pension Asset	\$ 0	\$ 26,803	\$ 26,803
Proportionate Share of the Net Pension Liability	\$ 9,869,654	\$ 0	\$ 9,869,654
Proportion of the Net Pension Asset/Liability	0.05698000%	0.05508000%	
Pension Expense	\$ 1,597,101	\$ 13,731	\$ 1,610,832

At December 31, 2016, the Conservancy reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	OPERS Traditional Plan	OPERS Combined Plan	Total
Deferred Outflows of Resources			
Net difference between projected and actual earnings on pension plan investments	\$ 2,901,062	\$ 11,572	\$ 2,912,634
Changes in proportionate share	448,259	0	448,259
Conservancy District contributions subsequent to the measurement date	811,542	23,238	834,780
Total Deferred Outflows of Resources	<u>\$ 4,160,863</u>	<u>\$ 34,810</u>	<u>\$ 4,195,673</u>
Deferred Inflows of Resources			
Differences between expected and actual experience	\$ 190,701	\$ 12,230	\$ 202,931
Changes in proportionate share	0	3,030	3,030
Total Deferred Inflows of Resources	<u>\$ 190,701</u>	<u>\$ 15,260</u>	<u>\$ 205,961</u>

\$834,780 reported as deferred outflows of resources related to pension resulting from Conservancy District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability or addition of the net pension asset in the year ending December 31, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

**Muskingum Watershed Conservancy District
Tuscarawas County, Ohio**

*Notes to the Basic Financial Statements
For the Year Ended December 31, 2016*

NOTE 7 – DEFINED BENEFIT PENSION PLANS (continued)

Year Ending December 31:	OPERS		Total
	Traditional Plan	Combined Plan	
2017	\$ 841,320	\$ 1,068	\$ 842,388
2018	887,706	1,068	888,774
2019	773,084	1,066	774,150
2020	656,510	746	657,256
2021	0	(1,906)	(1,906)
Thereafter	0	(5,730)	(5,730)
	<u>\$ 3,158,620</u>	<u>\$ (3,688)</u>	<u>\$ 3,154,932</u>

Actuarial Assumptions - OPERS

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension asset/liability in the December 31, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

<u>Actuarial Information</u>	<u>Traditional Pension Plan</u>	<u>Combined Pension Plan</u>
Wage Inflation	3.75 percent	3.75 percent
Future Salary Increases, including inflation	including wage inflation at 3.75 percent	including wage inflation at 3.75 percent
COLA or Ad Hoc COLA	3.00 percent, simple	3.00 percent
Investment Rate of Return	8.00 percent	8.00 percent
Actuarial Cost Method	Individual Entry Age	Individual Entry Age

Mortality rates were based on the RP-2000 Mortality Table projected 20 years using Projection Scale AA. For males, 105 percent of the combined healthy male mortality rates were used. For females, 100 percent of the combined healthy female mortality rates were used. The mortality rates used in evaluating disability allowances were based on the RP-2000 mortality table with no projections. For males 120 percent of the disabled female mortality rates were used set forward two years. For females, 100 percent of the disabled female mortality rates were used.

**Muskingum Watershed Conservancy District
Tuscarawas County, Ohio**

*Notes to the Basic Financial Statements
For the Year Ended December 31, 2016*

NOTE 7 – DEFINED BENEFIT PENSION PLANS (continued)

The most recent experience study was completed for the five year period ended December 31, 2010.

The long-term rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

OPERS manages investments in four investment portfolios: the Defined Benefits portfolio, the Health Care portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The Defined Benefit portfolio includes the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan, the annuitized accounts of the Member-Directed Plan and the VEBA Trust. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The money weighted rate of return, net of investments expense, for the Defined Benefit portfolio is 0.40 percent for 2015.

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2015 and the long-term expected real rates of return:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)</u>
Fixed Income	23.00 %	2.31 %
Domestic Equities	20.70	5.84
Real Estate	10.00	4.25
Private Equity	10.00	9.25
International Equities	18.30	7.40
Other Investments	18.00	4.59
Total	<u>100.00 %</u>	<u>5.27 %</u>

Discount Rate The discount rate used to measure the total pension asset/liability was eight percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension asset/liability.

**Muskingum Watershed Conservancy District
Tuscarawas County, Ohio**

*Notes to the Basic Financial Statements
For the Year Ended December 31, 2016*

NOTE 7 – DEFINED BENEFIT PENSION PLANS (continued)

Sensitivity of the Conservancy’s Proportionate Share of the Net Pension Asset/Liability to Changes in the Discount Rate The following table presents the Conservancy District’s proportionate share of the net pension asset/liability calculated using the current period discount rate assumption of eight percent, as well as what the Conservancy District’s proportionate share of the net pension asset/liability would be if it were calculated using a discount rate that is one-percentage-point lower (seven percent) or one-percentage-point higher (nine percent) than the current rate:

Conservancy District’s proportionate share of the net pension (asset)/liability:	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
Traditional Plan	\$ 15,724,771	9,869,654	\$ 4,931,049
Combined Plan	(551)	\$ (26,803)	(47,920)

NOTE 8 – POST-EMPLOYMENT BENEFITS

Ohio Public Employees Retirement System

Plan Description – Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional Pension Plan – a cost sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan – a defined contribution plan; and the Combined Plan – a cost sharing, multiple employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

In March 2016, OPERS received two favorable rulings from the Internal Revenue Service (IRS) allowing OPERS to consolidate all health care assets into the OPERS 115 Health Care Trust. Transition to the new health care trust structure was completed July 1, 2016. As of December 31, 2016, OPERS maintains a cost-sharing multiple-employer defined benefit post-employment health care trust, which funds multiple health care plans including medical coverage, prescription drug coverage and deposits to a Health Reimbursement Arrangement to qualifying benefit recipients of both the Traditional Pension and the Combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including OPERS sponsored health care coverage. OPERS funds a Retiree Medical Account (RMA) for participants in the Member-Directed Plan. At retirement or refund, participants can be reimbursed for qualified medical expenses from their vested RMA balance.

**Muskingum Watershed Conservancy District
Tuscarawas County, Ohio**

*Notes to the Basic Financial Statements
For the Year Ended December 31, 2016*

NOTE 8 – POST-EMPLOYMENT BENEFITS (continued)

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined plans must have 20 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Postemployment Benefit (OPEB) as described in GASB Statement 45. Please see the Plan Statement in the OPERS 2015 CAFR details.

The Ohio Revised Code permits, but does not mandate, OPERS to provide health care benefits to its eligible benefit recipients. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/financial/reports.shtml>, 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 the statutory authority requiring public employers to fund post-retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside to fund OPERS health care plans.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2016, State and Local employers contributed at a rate of 14.0 percent of earnable salary and Public Safety and Law Enforcement employers contributed at 18.1 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of the employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 2.0% during calendar year 2016. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2017 decreased to 1% for both plans. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited into the RMA for participants in the Member-Directed plan for 2016 was 4.0%.

The Conservancy District's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2016, 2015, and 2014 were \$131,851, \$139,227 and \$128,533, respectively. For 2016, 93 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2015 and 2014.

**Muskingum Watershed Conservancy District
Tuscarawas County, Ohio**

*Notes to the Basic Financial Statements
For the Year Ended December 31, 2016*

NOTE 9: 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 10: LONG-TERM OBLIGATIONS

The changes in the Conservancy District's long-term obligations during the fiscal year 2016 were as follows:

	Principal			Principal Outstanding 12/31/2016	Amount Due in One Year
	Outstanding 12/31/2015	Additions	Reductions		
Long Term Obligations:					
OWDA #2162 - 5.56%	\$ 274,986	\$ 0	\$ (26,104)	\$ 248,882	\$ 27,576
OWDA #5413 - 0%	132,220	0	(9,444)	122,776	9,444
OWDA #5575 - 3.25%	496,701	0	(27,308)	469,393	28,203
OWDA #5558 - 3.25%	22,980	0	(1,320)	21,660	1,363
OWDA #6104 - 3.99%	0	408,074	(408,074)	0	0
<i>Total</i>	<u>926,887</u>	<u>408,074</u>	<u>(472,250)</u>	<u>862,711</u>	<u>66,586</u>
Other Long Term Obligations:					
Capital Leases	40,258	135,329	(46,107)	129,480	22,236
Net Pension Liability - See note 7	6,193,022	3,676,632	0	9,869,654	0
Compensated Absences	689,184	106,450	(72,109)	723,525	77,748
Total other long-term obligations	<u>6,922,464</u>	<u>3,918,411</u>	<u>(118,216)</u>	<u>10,722,659</u>	<u>99,984</u>
<i>Total Long-Term Liabilities:</i>	<u>\$7,849,351</u>	<u>\$4,326,485</u>	<u>\$(590,466)</u>	<u>\$11,585,370</u>	<u>\$166,570</u>

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.

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 a water tower. 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.

**Muskingum Watershed Conservancy District
Tuscarawas County, Ohio**

*Notes to the Basic Financial Statements
For the Year Ended December 31, 2016*

NOTE 10: LONG-TERM OBLIGATIONS (continued)

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.

In 2012 the Conservancy District was awarded a \$1,500,000 planning loan from OWDA for studies to develop the Black Fork Subdistrict official plan. As of December 31, 2015, only \$661,941 had been drawn down. This loan required repayment beginning in 2013 based upon the full amount of the loan. During 2016, the Conservancy District repaid more than it had drawn down. \$513,744 is shown as a prepaid which represents the amount in excess of the amount drawn down that has been paid to OWDA. Since the full amount was not drawn down, the amortization schedule is not complete, so it is not reflected in the table below.

The annual requirements to retire debt are as follows:

	Ohio Water Development Authority Loans	
	Principal	Interest
2017	\$ 66,586	\$ 29,181
2018	69,109	26,658
2019	71,751	24,015
2020	74,519	21,247
2021	77,419	18,347
2022-2026	327,227	49,017
2027-2031	176,100	9,710
	<u>\$ 862,711</u>	<u>\$ 178,175</u>

NOTE 11: CAPITAL LEASES – LESSEE DISCLOSURE

The Conservancy District has entered into capitalized leases for the acquisition of vehicles and equipment. 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 amount of \$135,329, which is equal to the present value of the future minimum lease payments at the time of acquisition. Accumulated depreciation was \$13,533 as of December 31, 2016, leaving a current book value of \$121,796. 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, 2016:

**Muskingum Watershed Conservancy District
Tuscarawas County, Ohio**

*Notes to the Basic Financial Statements
For the Year Ended December 31, 2016*

NOTE 11: CAPITAL LEASES – LESSEE DISCLOSURE (continued)

		Capital Leases
Fiscal Year Ending December 31:	2017	\$ 34,919
	2018	34,919
	2019	34,919
	2020	34,919
	2021	<u>25,893</u>
Less: amount representing interest at the Conservancy District's incremental borrowing rate of interest		<u>(36,089)</u>
Present Value of minimum lease payments		<u>\$ 129,480</u>

NOTE 12: 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 Lessee will pay the Conservancy District lease royalty payments of 16%. Several wells have been drilled under the terms of this lease agreement and additional rental payments are also currently being paid on an annual basis for any undeveloped acreage.

On May 7, 2012, the Conservancy District (the "Lessor") entered into a lease agreement with Chesapeake Exploration, L.L.C. (the "Lessee"). The Conservancy District leased approximately 3,700 acres of land at Leesville Reservoir to the Lessee. The Lessee will pay the Conservancy District lease royalty payments of 20%. Several wells have been drilled under the terms of this lease agreement and additional rental payments will commence in 2017 on an annual basis for any undeveloped acreage.

On February 21, 2013, the Conservancy District (the "Lessor") entered into a lease with Antero Resources (the "Lessee") for an initial term of 5 years with the option to extend. The Conservancy District leased approximately 7,000 acres of land at Seneca Lake. The lessee will pay the Conservancy District lease royalty payments of 20%. Several wells have been drilled under the terms of this lease agreement.

On April 22, 2014, the Conservancy District (the "Lessor") entered into a lease with Antero Resources (the "Lessee") for an initial term of 5 years with the option to extend. The Conservancy District leased approximately 6,300 acres of land at Piedmont Reservoir. The Lessee will pay the Conservancy District royalty payments of 20%. One well has been drilled to date under the terms of this lease agreement.

**Muskingum Watershed Conservancy District
Tuscarawas County, Ohio**

*Notes to the Basic Financial Statements
For the Year Ended December 31, 2016*

NOTE 13: CONTRACTUAL COMMITMENTS

As of December 31, 2016, the Conservancy District had contractual commitments for the following projects:

	Contractual Commitment	Expended	Balance 12/31/2016
Bolivar Dam - Army Corps of Engineers	\$ 37,951,380	\$ 20,932,589	\$ 17,018,791
Dover Dam - Army Corps of Engineers	2,070,000	2,051,887	18,113
Master Plan Implementation Program Mgt.	2,420,000	2,385,774	34,226
Tappan Lake Dredging	10,429,611	9,565,510	864,101
Nimishillen Basin Flood Warning & Maps	500,000	200,000	300,000
Blackfork Subdistrict Development	505,475	402,355	103,120
Tappan ADA Restroom	853,759	533,533	320,226
Seneca Parkside Campground Final Design	524,017	335,886	188,131
Atwood Campground Area 20	6,795,392	272,891	6,522,501
Seneca Beach Concession Building	549,707	54,970	494,737
Seneca Parkside Sanitary Sewer	941,339	-	941,339
Districtwide Restroom Construction	823,683	-	823,683
Pleasant Hill Campground Area 22	2,876,024	-	2,876,024

NOTE 14: SUBSEQUENT EVENTS

At the September 2016 Board of Directors meeting, the Board approved the transfer of Kokosing campground back to the U.S. Army Corps of Engineers (USACE) effective for the 2017 season. This campground was under lease from the USACE. The USACE approved this transfer in March of 2017.

At the November 2016 Board of Directors meeting, the Board approved the purchase of Leesville Petersburg marina for \$600,000. This sale closed in February of 2017. The Conservancy District has entered into a lease/concession arrangement for operation of the marina.

At the January 2017 Board of Directors meeting, the Board authorized the bid and award of the Tappan East Campground project. Engineers estimate of construction is \$5,750,000.

At the January 2017 Board of Directors meeting, the board authorized the purchase agreement for a property in New Philadelphia, OH which will be used as a field services office. The purchase price of the property was \$1,200,000 and the Conservancy District closed on the property in February of 2017.

**Muskingum Watershed Conservancy District
Tuscarawas County, Ohio**

*Notes to the Basic Financial Statements
For the Year Ended December 31, 2016*

NOTE 14: SUBSEQUENT EVENTS (continued)

At the February 2017 Board of Directors meeting, the board approved entering into contracts totaling \$1,631,740 for park master plan construction services for the 2017 construction year.

NOTE 15: BLENDED COMPONENT UNITS

Black Fork, Buffalo Creek, Chippewa and Duck Creek Subdivisions are blended component units under criteria of GASB Statement 61. The following represents combining financial statements for the year ended 2016.

Muskingum Watershed Conservancy District
Tuscarawas County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

NOTE 15: BLENDED COMPONENT UNITS (continued)

COMBINING STATEMENT OF NET POSITION

	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 Investments	\$ 158,773,587	\$ 0	\$ 0	\$ 805,509	\$ 8,426	\$ 0	\$ 159,587,522
Accrued Interest	29,556	0	0	0	0	0	29,556
Accounts Receivable	1,081,136	0	0	0	0	(35,206)	1,045,930
Prepays	513,744	0	0	0	0	0	513,744
Maintenance Assessments Receivable	1,231,634	0	0	14,795	0	0	1,246,429
<i>Total Current Assets</i>	<u>161,629,657</u>	<u>0</u>	<u>0</u>	<u>820,304</u>	<u>8,426</u>	<u>(35,206)</u>	<u>162,423,181</u>
<i>Non-Current Assets:</i>							
Capitalized Costs	980,130	0	0	0	0	0	980,130
Non-Depreciable Capital Assets	18,897,037	1,822	27,593	1,154,680	5,400	0	20,086,532
Depreciable Capital Assets, Net	35,252,595	0	0	32,601	0	0	35,285,196
Net Pension Asset	26,803	0	0	0	0	0	26,803
<i>Total Non-Current Assets</i>	<u>55,156,565</u>	<u>1,822</u>	<u>27,593</u>	<u>1,187,281</u>	<u>5,400</u>	<u>0</u>	<u>56,378,661</u>
<i>Total Assets</i>	<u>216,786,222</u>	<u>1,822</u>	<u>27,593</u>	<u>2,007,585</u>	<u>13,826</u>	<u>(35,206)</u>	<u>218,801,842</u>
Deferred Outflows of Resources							
Pension	4,195,673	0	0	0	0	0	4,195,673
<i>Total Deferred Outflows of Resources</i>	<u>4,195,673</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>4,195,673</u>
Liabilities							
<i>Current Liabilities:</i>							
Accounts Payable	178,901	1,822	27,593	21,829	6,037	(35,206)	200,976
Contracts Payable	729,898	0	0	0	0	0	729,898
Retainage Payable	398,534	0	0	0	0	0	398,534
Performance Bond Payable	57,000	0	0	0	0	0	57,000
Escrow Land Rentals	175	0	0	0	0	0	175
Escrow Funds Payable	379	0	0	0	0	0	379
Due to Other Governments	159,697	0	0	0	0	0	159,697
Accrued Wages and Benefits	281,791	0	0	0	0	0	281,791
Accrued Interest Payable	100	0	0	0	0	0	100
Accrued Life Insurance	7,754	0	0	0	0	0	7,754
Claims Payable	170,000	0	0	0	0	0	170,000
Advances	166,555	0	0	0	0	0	166,555
Compensated Absences	77,748	0	0	0	0	0	77,748
Capital Leases Payable	22,236	0	0	0	0	0	22,236
OWDA Loans Payable	66,586	0	0	0	0	0	66,586
<i>Total Current Liabilities</i>	<u>2,317,354</u>	<u>1,822</u>	<u>27,593</u>	<u>21,829</u>	<u>6,037</u>	<u>(35,206)</u>	<u>2,339,429</u>
<i>Long-Term Liabilities:</i>							
Compensated Absences - net of current portion	645,777	0	0	0	0	0	645,777
Capital Leases Payable - net of current portion	107,244	0	0	0	0	0	107,244
OWDA Loans Payable - net of current portion	796,125	0	0	0	0	0	796,125
Net Pension Liability	9,869,654	0	0	0	0	0	9,869,654
<i>Total Long-Term Liabilities</i>	<u>11,418,800</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>11,418,800</u>
<i>Total Liabilities</i>	<u>13,736,154</u>	<u>1,822</u>	<u>27,593</u>	<u>21,829</u>	<u>6,037</u>	<u>(35,206)</u>	<u>13,758,229</u>
Deferred Inflows of Resources							
Pension	205,961	0	0	0	0	0	205,961
<i>Total Deferred Inflows of Resources</i>	<u>205,961</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>205,961</u>
Net Position							
Net Investment in Capital Assets	52,173,445	1,822	27,593	1,187,281	5,400	0	53,395,541
Restricted for Maintenance Assessment	10,556,732	0	0	798,475	0	0	11,355,207
Unrestricted	144,309,603	(1,822)	(27,593)	0	2,389	0	144,282,577
<i>Total Net Position</i>	<u>\$ 207,039,780</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,985,756</u>	<u>\$ 7,789</u>	<u>\$ 0</u>	<u>\$ 209,033,325</u>

Muskingum Watershed Conservancy District
Tuscarawas County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

NOTE 15: BLENDED COMPONENT UNITS (continued)

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Muskingum Watershed Conservancy District	Subdistricts				Eliminating Entries	Total
		Black Fork	Buffalo Creek	Chippewa	Duck Creek		
Operating Revenues							
Water Sales	\$ 832,311	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 832,311
Water and sewer systems	102,942	0	0	0	0	0	102,942
Timber Sales	489,032	0	0	0	0	0	489,032
Pine/Pulpwood Sales	106,621	0	0	0	0	0	106,621
Mineral rights and royalties	7,600,835	0	0	0	0	0	7,600,835
Share Crop	398,209	0	0	0	0	0	398,209
Cottage Sites and Clubs	2,760,522	0	0	0	0	0	2,760,522
Marina operations	1,651,083	0	0	0	0	0	1,651,083
Marina camping	427,845	0	0	0	0	0	427,845
Fishing rights	62,648	0	0	0	0	0	62,648
Beach facilities	197,196	0	0	0	0	0	197,196
Vacation cabin	462,858	0	0	0	0	0	462,858
Park camping	5,056,050	0	0	0	0	0	5,056,050
Parks - Special Events	130,142	0	0	0	0	0	130,142
Admissions - park facilities	184,606	0	0	0	0	0	184,606
Miscellaneous income	110,674	0	0	0	0	0	110,674
<i>Total Operating Revenues</i>	<i>20,573,574</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>20,573,574</i>
Operating Expenses							
Water Sales	146,343	0	0	0	0	0	146,343
Water Quality	975,777	0	0	0	0	0	975,777
Vehicles and equipment	469,367	0	0	0	0	0	469,367
Dam safety/upgrades	1,251,748	0	0	585,700	0	0	1,837,448
Boundary survey	76,167	0	0	0	0	0	76,167
Conservation	268,531	0	0	0	0	0	268,531
Reservoir Maintenance	22,221	0	0	0	0	0	22,221
Information Systems/Technology	537,863	0	0	0	0	0	537,863
Shoreline Protection	299,858	0	0	0	0	0	299,858
Share crop	256,403	0	0	0	0	0	256,403
Mineral operation	481,735	0	0	0	0	0	481,735
Watershed management	617,500	0	0	0	0	0	617,500
Beach facilities	271,832	0	0	0	0	0	271,832
Office building	266,715	0	0	0	0	0	266,715
Administrative and finance	1,881,678	0	0	0	0	0	1,881,678
Engineering	294,128	0	0	0	0	0	294,128
Planning and development	224,013	0	0	0	0	0	224,013
GIS and Parcel Development	286,815	0	0	0	0	0	286,815
Forestry maintenance	278,125	0	0	0	0	0	278,125
Park camping	2,494,779	0	0	0	0	0	2,494,779
Park Master Planning	3,108,706	0	0	0	0	0	3,108,706
Cottage sites and clubs	1,220,454	0	0	0	0	0	1,220,454
General park facilities	3,837,519	0	0	0	0	0	3,837,519
Vacation cabin	132,680	0	0	0	0	0	132,680
Marina operation	1,415,647	0	0	0	0	0	1,415,647

Muskingum Watershed Conservancy District
Tuscarawas County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

NOTE 15: BLENDED COMPONENT UNITS (continued)

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Muskingum Watershed Conservancy District	Subdistricts			Eliminating Entries	Total
		Black Fork	Buffalo Creek	Chippewa		
						(Continued)
Water and sewer system	\$ 725,332	\$ 0	\$ 0	\$ 0	\$ 0	\$ 725,332
Lake patrol operation	353,066	0	0	0	0	353,066
Education and public information	326,362	0	0	0	0	326,362
Safety expenses	208,706	0	0	0	0	208,706
Recreation maintenance	39,840	0	0	0	0	39,840
Parks - special events	155,264	0	0	0	0	155,264
PWM	559,011	0	0	0	0	559,011
Sediment Removal	33,226	0	0	0	0	33,226
Depreciation	2,686,897	0	0	4,720	0	2,691,617
<i>Total Operating Expenses</i>	<u>26,204,308</u>	<u>0</u>	<u>0</u>	<u>590,420</u>	<u>0</u>	<u>26,794,728</u>
<i>Operating Loss</i>	(5,630,734)	0	0	(590,420)	0	(6,221,154)
Non-Operating Revenues (Expenses)						
Maintenance assessments	5,552,143	0	0	380,503	0	5,932,646
Grants	714,223	0	0	0	0	714,223
Interest on investments	900,397	0	0	714	5	901,116
Debt retirement - Interest	(49,980)	0	0	0	0	(49,980)
<i>Total Non-Operating Revenues (Expenses)</i>	<u>7,116,783</u>	<u>0</u>	<u>0</u>	<u>381,217</u>	<u>5</u>	<u>7,498,005</u>
<i>Income (loss) before Contributions</i>	1,486,049	0	0	(209,203)	5	1,276,851
Capital Contributions	1,049,077	0	0	0	0	1,049,077
<i>Change in Net Position</i>	2,535,126	0	0	(209,203)	5	2,325,928
Net Position - Beginning of Year	<u>204,504,654</u>	<u>0</u>	<u>0</u>	<u>2,194,959</u>	<u>7,784</u>	<u>206,707,397</u>
Net Position - End of Year	<u>\$ 207,039,780</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,985,756</u>	<u>\$ 7,789</u>	<u>\$ 209,033,325</u>

Muskingum Watershed Conservancy District
Tuscarawas County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

NOTE 15: BLENDED COMPONENT UNITS (continued)

COMBINING STATEMENT OF CASH FLOWS

	Muskingum Watershed Conservancy District	Subdistricts				Eliminating Entries	Total
		Black Fork	Buffalo Creek	Chippewa	Duck Creek		
Cash flows from Operating Activities:							
Cash Received from Customers	\$ 21,895,985	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 21,895,985
Cash Payments to Suppliers for Goods and Services	(13,468,881)	0	0	(515,154)	0	0	(13,984,035)
Cash Payments for Employees Services and Benefits	(9,915,464)	0	0	(96,885)	0	0	(10,012,349)
<i>Net Cash Used for Operating Activities</i>	<u>(1,488,360)</u>	<u>0</u>	<u>0</u>	<u>(612,039)</u>	<u>0</u>	<u>0</u>	<u>(2,100,399)</u>
Cash Flows from Noncapital Financing Activities:							
Proceeds from OWDA Loans	408,074	0	0	0	0	0	408,074
Principal Payments on OWDA Loans	(444,942)	0	0	0	0	0	(444,942)
Intergovernmental Grants	54,886	0	0	0	0	0	54,886
Maintenance Assessments	0	0	0	340,340	0	0	340,340
Interest Paid on Debt	(31,449)	0	0	0	0	0	(31,449)
<i>Net Cash Provided by (Used for) Noncapital Financing Activities</i>	<u>(13,431)</u>	<u>0</u>	<u>0</u>	<u>340,340</u>	<u>0</u>	<u>0</u>	<u>326,909</u>
Cash Flows from Capital and Related Financing Activities:							
Acquisition of Capital Assets	(17,053,270)	0	0	0	0	0	(17,053,270)
Maintenance Assessments	5,690,137	0	0	0	0	0	5,690,137
Intergovernmental Grants	659,337	0	0	0	0	0	659,337
Principal Payments on OWDA Loans	(27,308)	0	0	0	0	0	(27,308)
Principal Payments on Capital Leases	(46,107)	0	0	0	0	0	(46,107)
Interest Paid on Debt	(18,531)	0	0	0	0	0	(18,531)
<i>Net Cash Used for Capital and Related Financing Activities</i>	<u>(10,795,742)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(10,795,742)</u>
Cash Flows from Investing Activities:							
Receipts of Interest	1,104,651	0	0	714	5	0	1,105,370
Payments for Purchase of Investments	(121,600,479)	0	0	0	0	0	(121,600,479)
Proceeds from Sale of Investments	98,214,930	0	0	0	0	0	98,214,930
<i>Net Cash Provided by (Used for) Investing Activities</i>	<u>(22,280,898)</u>	<u>0</u>	<u>0</u>	<u>714</u>	<u>5</u>	<u>0</u>	<u>(22,280,179)</u>
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	<u>(34,578,431)</u>	<u>0</u>	<u>0</u>	<u>(270,985)</u>	<u>5</u>	<u>0</u>	<u>(34,849,411)</u>
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>58,024,049</u>	<u>0</u>	<u>0</u>	<u>1,076,494</u>	<u>8,421</u>	<u>0</u>	<u>59,108,964</u>
<i>Cash and Cash Equivalents End of Year</i>	<u>\$ 23,445,618</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 805,509</u>	<u>\$ 8,426</u>	<u>\$ 0</u>	<u>\$ 24,259,553</u>
Reconciliation of Operating Loss To Net Cash Used by Operating Activities:							
Operating Loss	\$ (5,630,734)	\$ 0	\$ 0	\$ (590,420)	\$ 0	\$ 0	\$ (6,221,154)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:							
Depreciation	2,686,897	0	0	4,720	0	0	2,691,617
(Increase) Decrease in Assets:							
Capitalized Costs	(488,443)	0	0	0	0	0	(488,443)
Accounts Receivable	1,322,411	0	0	0	0	0	1,322,411
Prepays	96,323	0	0	0	0	0	96,323
Net Pension Asset	(10,081)	0	0	0	0	0	(10,081)
Deferred Outflows	(2,982,558)	0	0	0	0	0	(2,982,558)
Increase (Decrease) in Liabilities:							
Accounts Payable	(338,018)	0	0	(22,039)	0	0	(360,057)
Performance Bonds payable	26,600	0	0	(4,300)	0	0	22,300
Escrow Funds Payable	323	0	0	0	0	0	323
Advances	15,262	0	0	0	0	0	15,262
Claims Payable	(13,000)	0	0	0	0	0	(13,000)
Accrued Wages and Benefits	21,902	0	0	0	0	0	21,902
Accrued Life Insurance	(2,599)	0	0	0	0	0	(2,599)
Compensated Absences	34,342	0	0	0	0	0	34,342
Due to other governments	4,321	0	0	0	0	0	4,321
Net Pension Liability	3,676,633	0	0	0	0	0	3,676,633
Deferred Inflows	92,059	0	0	0	0	0	92,059
<i>Net Cash Used for Operating Activities</i>	<u>\$ (1,488,360)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (612,039)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (2,100,399)</u>
Reconciliation of cash and investments reported on the Statement of Net Position to cash and cash equivalents reported on the Statement of Cash Flows:							
Statement of Net Position cash and cash equivalents and investments	\$ 158,773,587	\$ 0	\$ 0	\$ 805,509	\$ 8,426	\$ 0	\$ 159,587,522
Investments included in balances above that are not cash equivalents	(135,327,969)	0	0	0	0	0	(135,327,969)
Cash and Cash equivalents reported on Statement of Cash Flows	<u>\$ 23,445,618</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 805,509</u>	<u>\$ 8,426</u>	<u>\$ 0</u>	<u>\$ 24,259,553</u>

Noncash Capital Financing Activities:

During 2016, \$135,329 of capital assets were acquired on capital leases.
During 2016, \$1,049,077 of capital assets were donated to the Conservancy District.
At December 31, 2016, the Conservancy District purchased \$1,128,432 in capital assets on account.
At December 31, 2015, the Conservancy District purchased \$755,369 in capital assets on account.

Muskingum Watershed Conservancy District
Tuscarawas County, Ohio
Required Supplementary Information
Schedule of the District's Proportionate Share of the Net Pension Asset/Liability
Last Three Years (1)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Ohio Public Employees' Retirement System (OPERS) - Traditional Plan			
District's Proportion of the Net Pension Liability	0.0569800%	0.0513470%	0.0513470%
District's Proportionate Share of the Net Pension Liability	\$ 9,869,654	\$ 6,193,022	\$ 6,053,142
District's Covered-Employee Payroll	\$ 6,759,620	\$ 6,022,398	\$ 5,379,079
District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	146.01%	102.83%	112.53%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	81.08%	86.45%	86.36%
Ohio Public Employees' Retirement System (OPERS) - Combined Plan			
District's Proportion of the Net Pension (Asset)	0.0550800%	0.0434300%	0.0434300%
District's Proportionate Share of the Net Pension (Asset)	\$ (26,803)	\$ (16,722)	\$ (4,557)
District's Covered-Employee Payroll	\$ 201,717	\$ 159,883	\$ 142,686
District's Proportionate Share of the Net Pension (Asset) as a Percentage of its Covered-Employee Payroll	-13.29%	-10.46%	-3.19%
Plan Fiduciary Net Position as a Percentage of the Total Pension Asset	116.90%	114.83%	104.56%

(1) Information prior to 2014 is not available.

Muskingum Watershed Conservancy District
Tuscarawas County, Ohio
Required Supplementary Information
Schedule of District Contributions
Last Four Years (1)

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Ohio Public Employees' Retirement System (OPERS) - Traditional Plan				
Contractually Required Contribution	\$ 811,542	\$ 857,447	\$ 763,117	\$ 736,558
Contributions in Relation to the Contractually Required Contribution	<u>(811,542)</u>	<u>(857,447)</u>	<u>(763,117)</u>	<u>(736,558)</u>
Contribution deficiency (excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
District's covered-employee payroll	\$ 6,398,882	\$ 6,759,620	\$ 6,022,398	\$ 5,379,079
Contributions as a percentage of covered-employee payroll	12.68%	12.68%	12.67%	13.67%
Ohio Public Employees' Retirement System (OPERS) - Combined Plan				
Contractually Required Contribution	\$ 23,238	\$ 24,206	\$ 19,186	\$ 18,549
Contributions in Relation to the Contractually Required Contribution	<u>(23,238)</u>	<u>(24,206)</u>	<u>(19,186)</u>	<u>(18,549)</u>
Contribution deficiency (excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
District's covered-employee payroll	\$ 193,650	\$ 201,717	\$ 159,883	\$ 142,686
Contributions as a percentage of covered-employee payroll	12.00%	12.00%	12.00%	13.00%

(1) Information prior to 2013 is not available.



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

Muskingum Watershed Conservancy District
Tuscarawas County
P.O. Box 349
New Philadelphia, Ohio 44663

To the Board of Directors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Muskingum Watershed Conservancy District, Tuscarawas County, Ohio (the Conservancy District), as of and for the year ended December 31, 2016, 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 June 15, 2017.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Conservancy District's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the Conservancy District's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Conservancy District's financial statements. 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 internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

As part of reasonably assuring whether the Conservancy District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective

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of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Conservancy District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Conservancy District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State
Columbus, Ohio

June 15, 2017



Dave Yost • Auditor of State

MUSKINGUM WATERSHED CONSERVATION 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 27, 2017**