

**Muskingum Watershed  
Conservancy District**  
**Tuscarawas County, Ohio**  
*Audited Financial Statements*

*December 31, 2010*



**Rea & Associates, Inc.**

ACCOUNTANTS AND BUSINESS CONSULTANTS

*Focused on Your Future.*





# Dave Yost • Auditor of State

Board of Directors  
Muskingum Watershed Conservancy District  
1319 Third Street NW  
New Philadelphia, Ohio 44663

We have reviewed the *Independent Auditor's Report* of the Muskingum Watershed Conservancy District, Tuscarawas County, prepared by Rea & Associates, Inc., for the audit period January 1, 2010 through December 31, 2010. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost  
Auditor of State

December 7, 2011

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**MUSKINGUM WATERSHED CONSERVANCY DISTRICT  
TUSCARAWAS COUNTY**

**DECEMBER 31, 2010**

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October 12, 2011

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

### **INDEPENDENT AUDITOR'S REPORT**

We have audited the accompanying financial statements of the business-type activities of Muskingum Watershed Conservancy District (the "Conservancy District") as of and for the year ended December 31, 2010, which collectively comprise the Conservancy District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Conservancy District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Conservancy District as of December 31, 2010, and the respective changes in net assets and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2011 on our consideration of the Conservancy District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Muskingum Watershed Conservancy District  
Independent Auditor's Report  
Page 2

The Management's Discussion and Analysis on pages 3 through 8 is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Rea & Associates, Inc.*



**Muskingum Watershed Conservancy District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended December 31, 2010*

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The discussion and analysis of the Muskingum Watershed Conservancy District's (the "Conservancy District") financial performance provides an overall review of the Conservancy District's financial activities for the fiscal year ended December 31, 2010. 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 2010 are as follows:

- Current and other assets increased \$7,663,616. This increase is due to an increase in pooled cash and cash equivalents of \$5,391,811 and an increase in assets held for sale for the closing of the Atwood Lodge Resort and Conference Center (the "Resort"). During 2010, Conservancy District management decided to close the Resort due to continued operating losses and the Conservancy District is attempting to sell the property. The assets associated with the Resort have been reclassified as "Assets Held for Sale". This is also the primary cause of the decrease in capital assets of \$3,292,949.
- Net assets increased \$4,604,779 as a result of the increase in cash and the decrease in long-term liabilities.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

**Muskingum Watershed Conservancy District**  
*Management's Discussion and Analysis*  
For the Fiscal Year Ended December 31, 2010

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**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 2010 and 2009 derived from the statement of net assets and the statement of receipts, disbursements, and changes in net assets.

	<u>2010</u>	<u>2009</u>
<b>Assets</b>		
Current and Other Assets	\$ 23,554,470	\$ 15,890,854
Capital Assets, net	13,835,860	17,128,809
<i>Total Assets</i>	<u>37,390,330</u>	<u>33,019,663</u>
 <b>Liabilities</b>		
Current Liabilities	5,745,958	2,235,495
Long-Term Liabilities	5,745,715	9,490,290
<i>Total Liabilities</i>	<u>11,491,673</u>	<u>11,725,785</u>
 <b>Net Assets</b>		
Invested in Capital Assets, Net of Related Debt	11,788,053	12,543,979
Restricted	12,250,271	6,051,123
Unrestricted	1,860,333	2,698,776
<i>Total Net Assets</i>	<u>\$ 25,898,657</u>	<u>\$ 21,293,878</u>

**Muskingum Watershed Conservancy District**  
*Management's Discussion and Analysis*  
For the Fiscal Year Ended December 31, 2010

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Changes in Net Assets – The following shows the changes in net assets for 2010 and 2009.

	<u>2010</u>	<u>2009</u>
<b>Operating Revenues</b>		
Timber Sales	\$ 340,476	\$ 322,592
Pine-Pulpwood Sales	108,670	131,403
Land and Building Rentals	24,690	26,066
Mineral Rights and Royalties	273,321	239,296
Share Crop Lease	374,167	365,636
Atwood Lodge Receipts	2,548,680	3,441,611
Road Maintenance	4,187	67,649
Cottage Sites	1,982,197	1,886,398
Private Docks	435,240	433,506
Club Sites	64,187	65,250
Lake Patrol Operations	36,020	47,463
Marina Operations	729,236	494,888
Fishing Rights	62,647	62,647
Marina Camping	136,072	66,072
Water Resources/Flood Control	37,825	37,174
Rental Boats	15,258	16,055
Water and Sewer Systems	36,650	22,015
Refreshment Stand	84,616	75,490
Vacation Cabin	387,444	369,083
Park Camping	3,903,282	3,885,345
Trailer Storage	186,485	179,275
Admissions - Park Facilities	129,655	130,069
Miscellaneous Income	194,757	113,951
<i>Total Operating Revenues</i>	<u>\$ 12,095,762</u>	<u>\$ 12,478,934</u>

**Muskingum Watershed Conservancy District**  
*Management's Discussion and Analysis*  
For the Fiscal Year Ended December 31, 2010

	<u>2010</u>	<u>2009</u>
<b>Operating Expenses</b>		
Improvements to district properties	\$ 9,211	\$ 41,187
Office remodeling and equipment	0	27,045
Dam Safety Upgrades	740,617	473,396
Shoreline Protection	347,581	0
Share crop expenses	217,199	174,212
Atwood lodge expenses	4,723,231	4,575,696
Assessment	1,560,259	1,560,259
Auto and truck	188,170	232,271
Office building	98,902	135,190
Administrative and finance	1,224,109	1,233,941
Legal and Legislative	63,738	194,054
Engineering	619,549	553,969
GIS and Parcel Development	409,160	89,815
Forestry maintenance expenses	290,910	188,570
Park camping expense	1,786,906	1,962,867
Cottage site expense	593,817	521,498
General park facilities expense	1,654,365	1,616,812
Vacation cabin expense	108,813	135,111
Marina operation expenses	295,855	51,107
Water and sewer system expense	304,170	147,512
Lake patrol operation expenses	252,173	268,942
Public information expense	179,155	259,329
Safety expenses	89,994	112,523
Other recreation maintenance exp	1,494,473	1,349,234
Other expenses	72,957	33,585
Depreciation	<u>815,809</u>	<u>865,640</u>
<i>Total Operating Expenses</i>	<u>18,141,123</u>	<u>16,803,765</u>
<i>Operating Loss</i>	(6,045,361)	(4,324,831)
<b>Non-Operating Revenues (Expenses)</b>		
Maintenance assessments	10,536,440	10,187,987
Grants	525,033	0
Interest on investments	41,605	42,097
Debt retirement - Interest	<u>(452,938)</u>	<u>(581,956)</u>
<i>Total Non-Operating Revenues (Expenses)</i>	<u>10,650,140</u>	<u>9,648,128</u>
<i>Net Income</i>	<u>\$ 4,604,779</u>	<u>\$ 5,323,297</u>

The decrease in the Atwood Lodge receipts is due to the closing of the Lodge in October 2010. The increase in the marina operations is due to the Conservancy District taking over the operations of a marina during 2010.

**Muskingum Watershed Conservancy District**  
*Management's Discussion and Analysis*  
For the Fiscal Year Ended December 31, 2010

In 2010 the Conservancy District received grants for Sites Lake cottage area wastewater treatment plant, abandoned water well capping and water tower painting. There were also multiple projects started during 2010 utilizing assessment collections. These included dam safety upgrades and shoreline stabilization projects. Also, as noted for operating revenue, the Conservancy District took over operation of a marina, thus increasing expenditures.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of 2010 the Conservancy District had \$13,835,860 of capital assets net of accumulated depreciation. The following table shows 2010 balances compared with 2009:

	<u>2010</u>	<u>2009</u>
Land	\$ 1,757,779	\$ 2,171,279
Construction in Progress	442,861	207,655
Capitalized Development Costs and Land Purchases	6,310,633	6,159,931
Buildings and Building Improvements	4,201,994	7,019,006
Machinery and Equipment	493,839	786,875
Furniture and Fixtures	142,481	229,449
Vehicles	<u>486,273</u>	<u>554,614</u>
<i>Totals</i>	<u>\$ 13,835,860</u>	<u>\$ 17,128,809</u>

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

**Debt**

The outstanding debt for the Conservancy District as of December 31, 2010 was \$7,148,560 with \$1,847,179 due within one year. The following table summarizes the Conservancy District's debt outstanding as of December 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
1998 Revenue Bonds - 4.75%	\$ 259,517	\$ 365,608
1999 Revenue Bonds - 5.31%	466,386	564,346
2001 Revenue Bonds - Variable	670,616	690,052
2003 Revenue Bonds - Variable	0	2,560,000
OWDA #2162 - 5.56%	386,039	404,824
OWDA #4213 - 5.1%	4,914,230	6,394,104
OWDA #5413 - 0%	157,580	659
OWDA #5575 - 3.25%	265,250	0
OWDA #5558 - 3.25%	<u>28,942</u>	<u>0</u>
<i>Totals</i>	<u>\$ 7,148,560</u>	<u>\$ 10,979,593</u>

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

**Muskingum Watershed Conservancy District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended December 31, 2010*

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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.

**Muskingum Watershed Conservancy District**

*Statement of Net Assets  
Proprietary Fund  
December 31, 2010*

<b>Assets:</b>	
<i>Current Assets:</i>	
Equity in Pooled Cash and Cash Equivalents	\$ 13,611,695
Accounts Receivable	535,884
Maintenance Assessments Receivable	1,288,109
Assets Held for Sale	<u>3,438,005</u>
<i>Total Current Assets</i>	<u>18,873,693</u>
<i>Non-Current Assets:</i>	
Deferred Charges - See Note 2H	4,680,777
Non-Depreciable Capital Assets	8,511,273
Depreciable Capital Assets, Net	<u>5,324,587</u>
<i>Total Non-Current Assets</i>	<u>18,516,637</u>
<i>Total Assets</i>	<u>37,390,330</u>
<b>Liabilities</b>	
<i>Current Liabilities:</i>	
Accounts Payable	21,000
Performance Bond Payable	8,475
Escrow Land Rentals	175
Accrued Retirement Insurance	42,264
Accrued Life Insurance	21,546
Accrued Interest Payable	100
Accrued Industrial Insurance	208,250
Accrued Disability Income	990
Claims Payable	192,976
Compensated Absences	14,730
Notes Payable	3,388,273
Revenue Bonds Payable	237,217
OWDA Loans Payable	<u>1,609,962</u>
<i>Total Current Liabilities</i>	<u>5,745,958</u>
<i>Long-Term Liabilities:</i>	
Deferred Revenue	57,610
Compensated Absences - net of current portion	386,724
Revenue Bonds Payable - net of current portion	1,159,301
OWDA Loans Payable - net of current portion	<u>4,142,080</u>
<i>Total Long-Term Liabilities</i>	<u>5,745,715</u>
<i>Total Liabilities</i>	<u>11,491,673</u>
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	11,788,053
Restricted for Maintenance Assessment	12,250,271
Unrestricted	<u>1,860,333</u>
<i>Total Net Assets</i>	<u>\$ 25,898,657</u>

See accompanying notes to the basic financial statements.

Muskingum Watershed Conservancy District

Statement of Revenues, Expenses and Changes in Net Assets  
Proprietary Fund  
For the Year Ended December 31, 2010

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<b>Operating Revenues</b>	
Timber sales	\$ 340,476
Pine/pulpwood sales	108,670
Land and building rentals	24,690
Mineral rights and royalties	273,321
Share crop lease	374,167
Atwood Lodge receipts	2,548,680
Road maintenance	4,187
Cottage sites	1,982,197
Private docks	435,240
Club sites	64,187
Lake patrol operations	36,020
Marina operations	729,236
Fishing rights	62,647
Marina camping	136,072
Water resources/flood control	37,825
Rental boats	15,258
Water and sewer systems	36,650
Refreshment stand	84,616
Vacation cabin	387,444
Park camping	3,903,282
Trailer storage	186,485
Admissions - park facilities	129,655
Miscellaneous income	194,757
<i>Total Operating Revenues</i>	<u>12,095,762</u>

(Continued)



Muskingum Watershed Conservancy District

Statement of Revenues, Expenses and Changes in Net Assets  
Proprietary Fund  
For the Year Ended December 31, 2010

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<b>Operating Expenses</b>	
Improvements to district properties	\$ 9,211
Dam Safety Upgrades	740,617
Shoreline Protection	347,581
Share crop expenses	217,199
Atwood lodge expenses	4,723,231
Maintenance assessment expense	1,560,259
Auto and truck	188,170
Office building	98,902
Administrative and finance	1,224,109
Legal and Legislative	63,738
Engineering	619,549
GIS and Parcel Development	409,160
Forestry maintenance expenses	290,910
Park camping expense	1,786,906
Cottage site expense	593,817
General park facilities expense	1,654,365
Vacation cabin expense	108,813
Marina operation expenses	295,855
Water and sewer system expense	304,170
Lake patrol operation expenses	252,173
Public information expense	179,155
Safety expenses	89,994
Other recreation maintenance expense	1,494,473
Other expenses	72,957
Depreciation	815,809
<i>Total Operating Expenses</i>	<u>18,141,123</u>
<i>Operating Loss</i>	(6,045,361)
<b>Non-Operating Revenues (Expenses)</b>	
Maintenance assessments	10,536,440
Grants	525,033
Interest on investments	41,605
Debt retirement - Interest	(452,938)
<i>Total Non-Operating Revenues (Expenses)</i>	<u>10,650,140</u>
Net Income	4,604,779
<b>Net Assets - Beginning of Year</b>	<u>21,293,878</u>
<b>Net Assets - End of Year</b>	<u>\$ 25,898,657</u>

See accompanying notes to the basic financial statements.

Muskingum Watershed Conservancy District

Statement of Cash Flows  
 Proprietary Fund  
 For the Year Ended December 31, 2010

**Increase (Decrease) in Cash and Cash Equivalents:**

**Cash flows from Operating Activities:**

Cash Received from Customers	\$ 12,239,487
Cash Payments to Suppliers for Goods and Services	(9,414,716)
Cash Payments for Employees Services and Benefits	<u>(6,061,863)</u>

*Net Cash Used for Operating Activities* (3,237,092)

**Cash Flows from Noncapital Financing Activities:**

Proceeds from Line of Credit	828,273
Proceeds from OWDA Loans	327,640
Principal Payments on OWDA Loans	(1,621,650)
Intergovernmental Grants	182,771
Maintenance Assessments	9,918,828
Interest Paid on Debt	<u>(320,061)</u>

*Net Cash Provided by Noncapital Financing Activities* 9,315,801

**Cash Flows from Capital and Related Financing Activities:**

Acquisition of Capital Assets	(960,865)
Intergovernmental Grants	342,262
Proceeds from Mortgage Note	2,560,000
Proceeds from OWDA	276,681
Principal Payments on Revenue Bonds	(2,783,488)
Principal Payments on OWDA	(30,216)
Interest Paid on Debt	<u>(132,877)</u>

*Net Cash Used for Capital and Related Financing Activities* (728,503)

**Cash Flows from Investing Activities:**

Receipts of Interest	<u>41,605</u>
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*Net Increase in Cash and Cash Equivalents* 5,391,811

*Cash and Cash Equivalents Beginning of Year* 8,219,884

*Cash and Cash Equivalents End of Year* \$ 13,611,695

**Reconciliation of Operating Loss To Net**

**Cash Provided by Operating Activities:**

Operating Loss	\$ (6,045,361)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	815,809
(Increase) Decrease in Assets:	
Deferred Charges	1,560,259
Accounts Receivable	223,553
Increase (Decrease) in Liabilities:	
Performance Bonds Payable	(6,927)
Deferred Revenue	40,012
Claims Payable	150,851
Accrued Life Insurance	6,673
Accrued Disability Income	(914)
Compensated Absences	50,266
Accrued Retirement Insurance	3,655
Accrued Industrial Insurance	(34,968)
<i>Net Cash Used for Operating Activities</i>	<u>\$ (3,237,092)</u>

See accompanying notes to the basic financial statements.

**Muskingum Watershed Conservancy District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended December 31, 2010*

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**NOTE 1: NATURE OF BASIC OPERATIONS AND DESCRIPTION OF ENTITY**

The Muskingum Watershed Conservancy District was created as a separate political subdivision by the Ohio Legislature in 1933. The Muskingum Watershed Conservancy District (the "Conservancy District") was created in accordance with Section 101 of the Ohio Revised Code which is concerned with the formation and governing of conservancy Districts. The Conservancy District operates under an elected conservancy court consisting of eighteen court of common pleas judges, with one judge serving on the court from each county. Muskingum Watershed Conservancy District had a five member board of directors in 2010 appointed by the court. All other officers and employees are hired in accordance with the provisions of Section 6101 of the Ohio Revised Code. The Conservancy District is a separate governmental entity within the eighteen county area served by the Conservancy District.

**2010 Board of Directors:**

- |                                   |                            |
|-----------------------------------|----------------------------|
| • Harry C. Horstman – President   | Term Expires June 3, 2015  |
| • Steve Kokovich – Vice President | Term Expires June 3, 2013  |
| • David Parham – Member           | Term Expires June 8, 2011  |
| • Richard J. Pryce - Member       | Term Expires July 18, 2012 |
| • William P. Boyle, Jr. – Member  | Term Expires July 18, 2014 |

**2010 Officers:**

- John M. Hoopingarner – Executive Director/Secretary
- Boris E. Slogar, P.E. – Chief Engineer
- James B. Cugliari – Chief Financial Officer/Treasurer
- Scott D. Barhnart – Chief of Recreation/Chief Ranger

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

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

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

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

**Muskingum Watershed Conservancy District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended December 31, 2010*

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

***Sub-Districts:***

Chippewa sub-district, Black Fork sub-district, Buffalo sub-district and Duck Creek sub-district are blended component units of Muskingum Watershed Conservancy District. Each sub-district was formed in accordance with Chapter 6101-71 of the Ohio Revised Code; organization of sub-districts. 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 sub-district is the Chippewa sub-district. Currently the Muskingum Watershed Conservancy District is going through a readjustment of the assessment of Chippewa sub-Conservancy District so that additional maintenance funds can be obtained to maintain the project. Black Fork sub-Conservancy District, Buffalo Creed Sub-Conservancy District and Duck Creek sub-Conservancy Districts are inactive.

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

***A. Basis of Presentation***

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

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

***B. Measurement Focus***

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

***C. Budgetary Process***

**Budget:**

The Conservancy District’s annual budget of revenues, expenses, and capital expenditures is prepared under the modified 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.

**Muskingum Watershed Conservancy District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended December 31, 2010*

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**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

**Appropriations:**

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

**Encumbrances:**

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

***D. Assets Held for Resale***

At December 31, 2010, the land, buildings, machinery and equipment associated with the Atwood Lodge Resort and Conference Center have been reclassified as "Assets Held for Sale" on the statement of net assets and are no longer being depreciated.

***E. Property Assets/Depreciation***

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

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

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

<u>Description</u>	<u>Estimated Lives</u>
Machinery, Equipment, Vehicles, Furniture & Fixtures	5-20 Years
Buildings and Building Improvements	39.5 Years

**Muskingum Watershed Conservancy District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended December 31, 2010*

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**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

***F. 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.

***G. Pensions***

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

***H. Deferred Charges***

Assessment study costs for the Conservancy District's maintenance assessment are being amortized using the straight-line method over five years. In 2005, the Conservancy District entered into a loan agreement with the Ohio Water Development Authority to finance the assessment study. The Conservancy District began repaying the loan in 2009 when they began receiving assessment revenue.

***I. Net Assets***

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

***J. Revenue & Expenses***

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

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

***K. Implementation of New Accounting Policies***

For the year ended December 31, 2010, the Conservancy District has implemented GASB Statement No. 51, "Accounting and Financial Reporting for Intangible Assets," GASB Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments," and GASB Statement No. 58, "Accounting and Financial Reporting for Chapter 9 Bankruptcies."

**Muskingum Watershed Conservancy District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended December 31, 2010*

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**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

GASB Statement No. 51 establishes standards of accounting and financial reporting for intangible assets for all state and local governments. Inconsistencies in the accounting and financial reporting for intangible assets, particularly in the areas of recognition, initial measurement, and amortization, have occurred in practice due to the absence of sufficiently specific authoritative guidance that addresses these questions. The objective of this Statement is to establish accounting and financial reporting requirements for intangible assets to reduce these inconsistencies, thereby enhancing the comparability of the accounting and financial reporting of such assets among state and local governments.

GASB Statement No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments.

GASB Statement No. 58 provides accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code.

Implementation of these GASB Statements did not affect the presentation of the financial statements of the Conservancy District.

**NOTE 3: DEPOSITS**

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

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

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

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

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

**Muskingum Watershed Conservancy District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended December 31, 2010*

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**NOTE 3: DEPOSITS (continued)**

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).

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 2010, the Conservancy District and public depositories complied with the provisions of these statutes.



**Muskingum Watershed Conservancy District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended December 31, 2010*

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**NOTE 3: DEPOSITS (continued)**

***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 \$13,607,595. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures," as of December 31, 2010, \$10,515,208 of the Conservancy District's bank balance of \$14,721,492 was exposed to custodial risk as discussed above, while \$4,206,284 was covered by Federal Deposit Insurance Corporation.

***Cash on Hand***

As of December 31, 2010, the Conservancy District had \$4,100 of cash on hand.

**NOTE 4: RECEIVABLES**

Receivables at December 31, 2010 consisted of accounts (billed user charged services) and delinquent maintenance assessments. All receivables are deemed collectible in full.

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**Muskingum Watershed Conservancy District**  
*Notes to the Basic Financial Statements*  
For the Fiscal Year Ended December 31, 2010

**NOTE 5: CAPITAL ASSETS**

Proprietary capital assets – summary by category at December 31, 2010:

	Balance 12/31/2009	Additions	Deletions	Reclass	Balance 12/31/2010
<b><i>Capital Assets Not Being Depreciated</i></b>					
Land	\$ 2,171,279	\$ 0	\$ 0	\$ (413,500)	\$ 1,757,779
Construction in Progress	207,655	844,366	(609,160)	0	442,861
Capitalized Development Costs and Land Purchases	6,159,931	150,702	0	0	6,310,633
<b><i>Total Capital Assets Not Being Depreciated</i></b>	<b>8,538,865</b>	<b>995,068</b>	<b>(609,160)</b>	<b>(413,500)</b>	<b>8,511,273</b>
<b><i>Capital Assets Being Depreciated</i></b>					
Buildings and Building Improvements	20,342,355	458,458	0	(11,031,902)	9,768,911
Machinery and Equipment	4,879,660	86,451	0	(1,537,098)	3,429,013
Furniture and Fixtures	686,894	0	0	(301,257)	385,637
Vehicles	1,570,833	30,048	0	0	1,600,881
<b><i>Total Capital Assets Being Depreciated</i></b>	<b>27,479,742</b>	<b>574,957</b>	<b>0</b>	<b>(12,870,257)</b>	<b>15,184,442</b>
<b><i>Less Accumulated Depreciation:</i></b>					
Buildings and Building Improvements	(13,323,349)	(480,648)	0	8,237,080	(5,566,917)
Machinery and Equipment	(4,092,785)	(196,314)	0	1,353,925	(2,935,174)
Furniture and Fixtures	(457,445)	(40,458)	0	254,747	(243,156)
Vehicles	(1,016,219)	(98,389)	0	0	(1,114,608)
<b><i>Total Accumulated Depreciation</i></b>	<b>(18,889,798)</b>	<b>(815,809)</b>	<b>0</b>	<b>9,845,752</b>	<b>(9,859,855)</b>
<b><i>Total Capital Assets Being Depreciated, Net</i></b>	<b>8,589,944</b>	<b>(240,852)</b>	<b>0</b>	<b>(3,024,505)</b>	<b>5,324,587</b>
<b><i>Capital Assets, Net</i></b>	<b>\$ 17,128,809</b>	<b>\$ 754,216</b>	<b>\$ (609,160)</b>	<b>\$ (3,438,005)</b>	<b>\$ 13,835,860</b>

Conservancy District management decided to close the Atwood Lodge Resort and Conference Center, effective October 1, 2010 due to continued operating losses. The Conservancy District is actively attempting to sell the property. The land, buildings, machinery and equipment associated with the Resort have been reclassified as "Assets Held for Sale" on the statement of net assets as of December 31, 2010, and are no longer being depreciated.

**Muskingum Watershed Conservancy District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended December 31, 2010*

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**NOTE 6: RISK MANAGEMENT**

***A. Comprehensive Liability Insurance***

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

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

Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years and there has been no significant reduction in insurance coverage in the year 2010.

***B. Self-insurance***

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

The monthly premium in 2010 for a single employee is \$572.54, \$898.84 for an employee plus 1, and for the family of an employee is \$1,358.56.

The overall stop loss for the plan is \$758,012 at December 31, 2010.

The limit per occurrence was \$45,000 in 2010 with no exceptions on individual employees for either year. When Muskingum Watershed Conservancy District pays claims or reimburses employees for medical bills in excess of the limits they are reimbursed by Excess Re-insurance Underwriters Agency, Inc.

**NOTE 7: DEFINED BENEFIT PENSION PLAN**

***Ohio Public Employees Retirement System***

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

**Muskingum Watershed Conservancy District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended December 31, 2010*

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**NOTE 7: DEFINED BENEFIT PENSION PLAN (continued)**

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

Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions. For the year ended December 31, 2010, members in State and local classifications contributed 10 percent of covered payroll.

The Conservancy District's contribution rate for 2010 was 14.0 percent of covered payroll. For the period January 1 through February 28, a portion of the Conservancy District's contribution equal to 5.5 percent of covered payroll was allocated to fund the post-employment health care plan, and 5.0 percent from February 1, through December 31, 2010. Employer contribution rates are actuarially determined. State statute sets a maximum contribution rate for the Conservancy District of 14 percent.

The Conservancy District's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2010, 2009, and 2008 were \$322,428, \$311,328 and \$524,970, respectively; which were equal to the required contributions for each year.

**NOTE 8: POSTEMPLOYMENT BENEFITS**

***Ohio Public Employees Retirement System***

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

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

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

**Muskingum Watershed Conservancy District**  
*Notes to the Basic Financial Statements*  
For the Fiscal Year Ended December 31, 2010

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**NOTE 8: POSTEMPLOYMENT BENEFITS (continued)**

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

Employer contribution rates are expressed as a percentage of the covered payroll of active employees. In 2010, local government employers contributed 14 percent of covered payroll. Each year, the OPERS retirement board determines the portion of the employer contribution rate that will be set aside for funding post-employment health care benefits. The amount of the employer contributions which was allocated to fund post-employment health care was 5.0 percent of covered payroll for the period January 1 through February 28, and 5.0 percent from March 1, through December 31, 2010.

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

The Conservancy District’s contributions allocated to fund post-employment health care benefits for the years ended December 31, 2010, 2009, and 2008 were \$234,144, \$261,293 and \$524,970, respectively; which were equal to the required contributions for each year.

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

**NOTE 9: CONTRACTUAL COMMITMENTS**

As of December 31, 2010, the Conservancy District had contractual commitments for the following projects:

	<u>Contractual Commitment</u>	<u>Expended</u>	<u>Balance 12/31/2010</u>
Tappan Lake Seawall Project	\$ 137,795	\$ 0	\$ 137,795
Atwood Lake Shoreline Erosion Project	312,907	0	312,907
Chippewa Subdistrict Sediment Removal	535,478	0	535,478
Sites Lake Wastewater Treatment Plant	458,458	442,861	15,597

**Muskingum Watershed Conservancy District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended December 31, 2010*

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**NOTE 10: LEGAL PROCEEDINGS**

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

**NOTE 11: NOTES PAYABLE**

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

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

Changes in the note obligations of the Conservancy District during the year ended December 31, 2010 consisted of the following:

	<u>Outstanding 1/1/2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding 12/31/2010</u>	<u>Amounts Due in One Year</u>
Key Bank	\$ 0	\$ 828,273	\$ 0	\$ 828,273	\$ 828,273
Fifth Third Bank	0	2,560,000	0	2,560,000	2,560,000
	<u>\$ 0</u>	<u>\$ 3,388,273</u>	<u>\$ 0</u>	<u>\$ 3,388,273</u>	<u>\$ 3,388,273</u>

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**Muskingum Watershed Conservancy District**  
*Notes to the Basic Financial Statements*  
For the Fiscal Year Ended December 31, 2010

**NOTE 12: LONG-TERM OBLIGATIONS**

The changes in the Conservancy District's long-term obligations during the fiscal year 2010 were as follows:

	Principal Outstanding 12/31/2009	Additions	Reductions	Principal Outstanding 12/31/2010	Amount Due in One Year
1998 Revenue Bonds - 4.75%	\$ 365,608	\$ 0	\$ (106,091)	\$ 259,517	\$ 111,912
1999 Revenue Bonds - 5.31%	564,346	0	(97,960)	466,386	104,370
2001 Revenue Bonds - Variable	690,052	0	(19,436)	670,616	20,935
2003 Revenue Bonds - Variable	2,560,000	0	(2,560,000)	0	0
OWDA #2162 - 5.56%	404,824	0	(18,785)	386,039	19,844
OWDA #4213 - 5.1%	6,394,104	0	(1,479,874)	4,914,230	1,556,309
OWDA #5413 - 0%	659	166,365	(9,444)	157,580	9,444
OWDA #5413 - ARRA	0	100,000	(100,000)	0	0
OWDA #5575 - 3.25%	0	276,681	(11,431)	265,250	23,233
OWDA #5558 - 3.25%	0	30,065	(1,123)	28,942	1,132
OWDA #5558 - ARRA	0	31,210	(31,210)	0	0
<i>Total</i>	<u>10,979,593</u>	<u>604,321</u>	<u>(4,435,354)</u>	<u>7,148,560</u>	<u>1,847,179</u>
Compensated Absences	<u>351,188</u>	<u>64,912</u>	<u>(14,646)</u>	<u>401,454</u>	<u>14,730</u>
<i>Total Long-Term Liabilities</i>	<u>\$ 11,330,781</u>	<u>\$ 669,233</u>	<u>\$ (4,450,000)</u>	<u>\$ 7,550,014</u>	<u>\$ 1,861,909</u>

**Revenue Bonds:** On February 24, 1998 the Conservancy District issued \$1,300,000 in revenue bonds for the renovation, construction and improvement of the Conservancy District's administration building in New Philadelphia, Ohio. These fifteen year revenue bonds mature on February 24, 2013 and principal and interest payments are due on the 24<sup>th</sup> of each month.

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

The Conservancy District issued revenue bonds with a variable interest rate in 2003 totaling \$3,095,000. This issuance was used to finance construction at Atwood Resort.

In 2001 the Conservancy District issued \$795,000 in revenue bonds through Aqua Ohio. The proceeds of this debt are for an improved and upgraded water system at Charles Mill Sites Lake cottages. The revenue bonds mature in twenty-five years and have monthly payments due on March of each year.

**Muskingum Watershed Conservancy District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended December 31, 2010*

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**NOTE 12: LONG-TERM OBLIGATIONS (continued)**

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

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

In 2009 the Conservancy District was awarded a loan from OWDA in the amount of \$188,884. The proceeds of this loan are being used for painting of water towers. As of December 31, 2010, the Conservancy District had drawn down \$167,024. Since this loan is not fully disbursed, the amortization schedule is not available and therefore, not reflected in the table below.

In 2010, the Conservancy District was awarded a loan from OWDA in the amount of \$637,001 for improvements to the Sites Lake Cottage Area wastewater treatment plant. The loan has an interest rate of 3.25 percent and matures on July 1, 2030. As of December 31, 2010, the Conservancy District had drawn down \$276,681. Since this loan is not fully disbursed, the amortization schedule is not available and therefore, not reflected in the table below.

The Conservancy District was awarded a \$31,029 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. As of December 31, 2010, the Conservancy District had drawn down \$30,065. Since this loan is not fully disbursed, the amortization schedule is not available and therefore, not reflected in the table below.

During 2010, OWDA approved two loans totaling \$131,210 to the Conservancy District for various projects. The entire amount of these loans was forgiven through assistance from funding through the American Recovery and Reinvestment Act of 2009 (ARRA).



**Muskingum Watershed Conservancy District**  
*Notes to the Basic Financial Statements*  
For the Fiscal Year Ended December 31, 2010

**NOTE 12: LONG-TERM OBLIGATIONS (continued)**

The annual requirements to retire debt are as follows:

	Ohio Water					
	Development Authority Loans		Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 1,576,153	\$ 252,225	\$ 237,219	\$ 80,673	\$ 1,813,372	\$ 332,898
2012	1,657,655	170,722	249,944	67,946	1,907,599	238,668
2013	1,743,373	85,004	170,584	56,342	1,913,957	141,346
2014	23,392	17,643	162,095	48,037	185,487	65,680
2015	24,711	16,324	28,182	42,470	52,893	58,794
2016-2020	146,089	59,088	177,069	176,190	323,158	235,278
2021-2025	128,896	14,726	256,742	96,518	385,638	111,244
2026-2027	0	0	114,684	8,749	114,684	8,749
	<u>\$ 5,300,269</u>	<u>\$ 615,732</u>	<u>\$ 1,396,519</u>	<u>\$ 576,925</u>	<u>\$ 6,696,788</u>	<u>\$ 1,192,657</u>

**NOTE 13: SUBSEQUENT EVENT**

On January 15, 2011, the Conservancy District extended the 2010 mortgage note until July 13, 2011. The Conservancy District repaid \$1,560,000 of this mortgage note, and issued a term note with Fifth Third Bank for the remaining \$1,000,000 on July 13, 2011. The term note has a variable interest rate and matured on August 5, 2011. The Conservancy District has now repaid the entire term note.

On September 23, 2011, the Board approved the purchase of Piedmont Marina through bankruptcy mediation settlement for \$375,000.

The Conservancy District entered into a lease with Gulfport Energy for 6,485.79 acres at Clendening Lake in Harrison County. Gulfport's lease included \$2,400 per acre, paid up rental, for a 5 year lease and 16% royalty payment on future production revenues. The initial payment of \$2,334,885 due at the time of signing, July 1, 2011, represented 15% of the total \$15,565,896. The balance of \$13,231,012 was received on August 30, 2011.



## Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

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

October 12, 2011

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

We have audited the accompanying financial statements of the business-type activities of Muskingum Watershed Conservancy District (the "Conservancy District") as of and for the year ended December 31, 2010, and have issued our report thereon dated October 12, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### **Internal Control over Financial Reporting**

Management of the Conservancy District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Conservancy District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Conservancy District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Conservancy District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as finding #2010-01 to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and responses as finding #2010-02 to be a significant deficiency.

#### **Compliance and Other Matters**

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

We noted certain matters that we reported to management of the Conservancy District in a separate letter dated October 12, 2011.

The Conservancy District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Conservancy District's responses, and accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Board of Directors and other specified parties and is not intended to be and should not be used by anyone other than those specified parties.

*Rea & Associates, Inc.*

**Muskingum Watershed Conservancy District  
Tuscarawas County, Ohio  
Schedule of Findings & Responses  
December 31, 2010**

<b>1. SUMMARY OF AUDITOR'S RESULTS</b>
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Type of Financial Statement Opinion	Unqualified
Were there any material internal control weaknesses reported at the financial statement level (GAGAS)?	Yes
Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS) which are not considered to be material?	Yes
Was there any reported material non-compliance at the financial statement level (GAGAS)?	No

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**MATERIAL WEAKNESS**

Finding Number: #2010-001

**Criteria:** In 2009, the American Institute of Certified Public Accountants (AICPA), the national professional organization for certified public accountants, issued its statement on Auditing Standards (SAS) No. 115, Communicating Internal Control Related Matters Identified in an Audit, which supersedes SAS no. 112. This standard became effective for audits of financial statements for periods ending on or after December 15, 2009.

The AICPA establishes auditing standards generally accepted in the United States that certified public accountants and government auditors must follow in conducting audits of state and local governments. SAS No. 115 establishes standards, responsibilities and guidance for auditors during a financial statement engagement for identifying and evaluating a client's internal control over financial reporting. This new standard requires the audit to report in writing to management and the governing body any control deficiencies found during the audit that are considered significant deficiencies and/or material weaknesses. To this end, SAS No. 115 lists specific control deficiencies that should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

**Muskingum Watershed Conservancy District  
Tuscarawas County, Ohio  
Schedule of Findings & Responses  
December 31, 2010 (Continued)**

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**Condition:** There were material adjustments to the trial balance presented to us for audit. These adjustments included significant balances that were originally omitted from the report, including compensated absences, claims payable and delinquent maintenance assessment receivable. In addition, there was a lack of necessary controls in place regarding the tracking of capital assets.

**Cause:** The Conservancy District's general ledger is not properly set up to track all line items required to be reported in accordance with Generally Accepted Accounting Standards. In addition, the Conservancy District does not have the controls in place or the required expertise on staff to produce the financial statements.

**Effect:** Significant adjustments were made to the original trial balance presented to us for audit including the following: Accounts Receivable was adjusted by \$5,542,000 in 2010 as a result of including inter-company receivables, directly related to the Atwood Lake Resort, which should have been eliminated. Maintenance Assessment receivable for the delinquents were not included on the original trial balance and resulted in adjustments of \$1,288,000 in 2010. Compensated Absences (sick and vacation leave) were not originally reported and resulted in an adjustment of \$469,000 for 2010. Claims payable, related to the self-funding of health insurance, were not originally reported and resulted in adjustments of \$193,900 in 2010. In addition, significant work was required in order to properly report the capital assets on the financial statements. Upon the initial discovery of these errors, the Conservancy District contracted with an independent accounting firm, specializing in governmental accounting to complete the financial statements for 2010. The above mentioned contract included blending the financial information of the sub-districts, which were erroneously discretely presented.

**Recommendation:** We recommend the Conservancy District consider hiring someone with expertise in governmental accounting and financial reporting that would report to the Treasurer/CFO; or contract with an independent accounting firm to prepare the financial statements. In order to ease the burden of producing the financial statements in the required format, the Conservancy District should set up their general ledger to include all required asset and liability accounts required by Generally Accepted Accounting Principles.

**Client Response:** In an effort to improve this aspect of the general ledger financial reporting, the Conservancy District will be presenting to the Board of Directors soon the addition of an accounting staff member who has the knowledge and expertise in governmental accounting and financial reporting. This has been a need for a period of time, but has been unable to be filled because of budgetary constraints. With the addition of the maintenance assessment funds, this need becomes even greater.

**Muskingum Watershed Conservancy District  
Tuscarawas County, Ohio  
Schedule of Findings & Responses  
December 31, 2010 (Continued)**

**SIGNIFICANT DEFICIENCY**

Finding Number: #2010-002

**Criteria:** In 2009, the American Institute of Certified Public Accountants (AICPA), the national professional organization for certified public accountants, issued its statement on Auditing Standards (SAS) No. 115, Communicating Internal Control Related Matters Identified in an Audit, which supersedes SAS no. 112. This standard became effective for audits of financial statements for periods ending on or after December 15, 2009.

The AICPA establishes auditing standards generally accepted in the United States that certified public accountants and government auditors must follow in conducting audits of state and local governments. SAS No. 115 establishes standards, responsibilities and guidance for auditors during a financial statement engagement for identifying and evaluating a client's internal control over financial reporting. This new standard requires the audit to report in writing to management and the governing body any control deficiencies found during the audit that are considered significant deficiencies and/or material weaknesses. To this end, SAS No. 115 lists specific control deficiencies that should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

**Condition:** Our testing of controls in 2009 showed strong controls over the cash collections revenue cycle; however, there were multiple control failures in our test of controls over these procedures for the Atwood Resort during 2010.

**Cause:** The Atwood Resort ceased operations in October 2010, and the outcome was known by the employees of the resort (management company) prior to the official closing.

**Effect:** Although the results of our testing did not indicate any misstatements over revenue, the risk of the misstatement/misclassification of moneys received at the Atwood Resort for 2010 was increased due to the lack of internal control over the process.

**Recommendation:** The Atwood Resort ceased operations in October of 2010, and therefore there is no recommendation.

**Client Response:** The Atwood Resort facility has been a drain on the Conservancy District for a period of time, much to the detriment of the over-all operations. The resort ceased operations in October 2010 and the Conservancy District continues its efforts to dispose of the facility.



# Dave Yost • Auditor of State

MUSKINGUM WATERSHED CONSERVANCY DISTRICT

TUSCARAWAS COUNTY

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
DECEMBER 20, 2011