

Muskingum Watershed Conservancy District
Tuscarawas County, Ohio

Audited Financial Statements

For the Fiscal Year Ended
December 31, 2012



Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Muskingum Watershed Conservancy District, Tuscarawas County, prepared by Rea & Associates, Inc., for the audit period January 1, 2012 through December 31, 2012. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost
Auditor of State

June 7, 2013

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**MUSKINGUM WATERSHED CONSERVANCY DISTRICT
TUSCARAWAS COUNTY**

DECEMBER 31, 2012

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April 10, 2013

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

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Muskingum Watershed Conservancy District, Tuscarawas County, Ohio, (the "Conservancy District") as of and for the year ended December 31, 2012, 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 the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 Muskingum Watershed Conservancy District, Tuscarawas County, Ohio, as of December 31, 2012, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with 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 that the Management's Discussion and Analysis on pages 4–9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Conservancy District's basic financial statements. The combining financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 10, 2013 on our consideration of the Conservancy District's internal control over financial reporting and on 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 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.

Kea & Associates, Inc.

Muskingum Watershed Conservancy District
Tuscarawas County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2012

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, 2012. 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 2012 are as follows:

- Total assets increased \$27,161,536. This increase is due to a large increase in pooled cash, cash equivalents and investments, which was directly related to proceeds received from the lease of oil and gas rights during 2012.
- Net position increased \$26,968,121 as a result of the increase in cash and the decrease in long-term liabilities.
- Outstanding debt decreased from \$1,780,553 to \$1,184,903 through principal payments.

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 position represents the basic statement of position for the Conservancy District. The statement of activities and changes in net position present increases (e.g. revenues) and decreases (e.g. expenses) in net total assets. The statement of cash flows reflects how the Conservancy District finances and meets its cash flow needs. Finally, the notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided on the basic financial statements.

Muskingum Watershed Conservancy District
 Tuscarawas County, Ohio
Management's Discussion and Analysis
 For the Fiscal Year Ended December 31, 2012

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 2012 and 2011 derived from the statement of net position and the statement of receipts, disbursements, and changes in net position.

	2012	2011
Assets		
Current and Other Assets	\$ 48,966,335	\$ 25,006,805
Capital Assets, net	16,128,436	12,926,430
<i>Total Assets</i>	65,094,771	37,933,235
Liabilities		
Current Liabilities	1,436,437	754,423
Long-Term Liabilities	1,821,850	2,310,449
<i>Total Liabilities</i>	3,258,287	3,064,872
Net Position		
Net Investment in Capital Assets	14,838,785	11,237,283
Restricted	15,417,119	10,140,647
Unrestricted	31,580,580	13,490,433
<i>Total Net Assets</i>	\$ 61,836,484	\$ 34,868,363

Net position increased \$26,968,121 which is mainly attributable to an increase in cash equivalents and investments, as well as an increase in capital assets. The increase in cash equivalents and investments is directly related to an additional lease of oil and gas rights during 2012. Capital assets increased due to a number of construction projects such as the Atwood Water Treatment Plant and the Seneca Welcome Center. In addition there were numerous shoreline stabilization projects completed and the vehicle and equipment fleet was upgraded. Current liabilities increased due to an increase in payables, mostly related to the construction projects in progress at December 31, 2012. Long term liabilities decreased due to debt being paid off in 2012.

Muskingum Watershed Conservancy District
 Tuscarawas County, Ohio
Management's Discussion and Analysis
 For the Fiscal Year Ended December 31, 2012

Changes in Net Assets/Position – The following shows the changes in net assets for 2012 and 2011.

	<u>2012</u>	<u>2011</u>
Operating Revenues		
Timber Sales	\$ 186,734	\$ 336,799
Pine-Pulpwood Sales	145,088	110,241
Easements/Right of Ways	32,959	-
Mineral Rights and Royalties	22,141,892	15,867,706
Share Crop Lease	666,486	547,141
Cottage Sites and Clubs	2,646,648	2,571,353
Marina Operations	985,963	686,742
Fishing Rights	62,647	62,647
Marina Camping	202,473	160,983
Water Resources/Flood Control	226,286	38,358
Beach Facilities	130,953	120,546
Water and Sewer Systems	63,588	713,577
Vacation Cabin	435,216	421,654
Park Camping	4,257,947	4,128,482
General Park Facilities	138,472	148,534
Special Events	136,569	116,335
Miscellaneous Income	76,848	326,551
<i>Total Operating Revenues</i>	<u>\$ 32,536,769</u>	<u>\$ 26,357,649</u>

Muskingum Watershed Conservancy District
 Tuscarawas County, Ohio
Management's Discussion and Analysis
 For the Fiscal Year Ended December 31, 2012

	<u>2012</u>	<u>2011</u>
Operating Expenses		
Water quality	\$ 306,308	\$ 59,826
Vehicles and equipment	330,688	329,140
Dam Safety/Upgrades	2,221,688	4,698,095
Boundary survey	42,294	57,267
Conservation	128,807	28,625
Reservoir Maintenance	8,499	27,964
Information Systems/Technology	266,793	87,313
Shoreline Protection	250,138	327,371
Share crop	295,773	182,761
Atwood lodge	0	669,525
Mineral operation	225,118	176,596
Watershed management	128,837	5,650
Beach facilities	233,102	201,645
Office building	138,662	115,461
Administrative and finance	1,906,055	1,661,321
Engineering	625,159	530,670
Planning and development	392,228	84,693
GIS and Parcel Development	330,265	411,472
Forestry maintenance	70,369	118,688
Park camping	2,346,275	2,315,617
Cottage sites and clubs	745,959	713,565
General park facilities	2,058,716	1,832,199
Lake Dredging	0	30
Vacation cabin	163,272	141,212
Marina operation	789,225	336,957
Water and sewer system	669,682	335,747
Lake patrol operation	277,558	240,486
Education and public information	222,002	177,210
Safety	132,050	95,511
Recreation maintenance	123,506	181,803
Parks - special events	84,469	15,595
Partners in Watershed Management	539,171	384,663
Special Clean up	88,698	0
Assessment	0	4,680,777
Depreciation	<u>960,320</u>	<u>736,958</u>
 <i>Total Operating Expenses</i>	 <u>17,101,686</u>	 <u>21,962,413</u>
 <i>Operating Income/(Loss)</i>	 <u>15,435,083</u>	 <u>4,395,236</u>

Muskingum Watershed Conservancy District
Tuscarawas County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2012

	2012	2011
Non-Operating Revenues (Expenses)		
Maintenance assessments	\$ 11,261,798	\$ 10,399,509
Grants	259,012	65,389
Interest on investments	57,811	51,566
Debt retirement - Interest	(45,583)	(566,854)
<i>Total Non-Operating Revenues (Expenses)</i>	11,533,038	9,949,610
<i>Income Before Special Item</i>	26,968,121	14,344,846
Special Item	-	(3,335,585)
<i>Change in Net Assets/Position</i>	\$ 26,968,121	\$ 11,009,261

The increase in operating revenues is mainly attributable to mineral rights and royalties and marina operations. The mineral rights and royalties increased due to the lease of an additional 3600 acres during 2012. Water sales also increased due to a short term agreement with the oil and gas industry to purchase water which was used in their operations. Marina operations increased due to the Conservancy District operating Seneca marina during 2012. Timber sales decreased in part due to staff turnover in 2012.

The decrease in dam safety/upgrades in 2012 was the result of timing of payments to the Army Corp of Engineers for the local share in their projects. The decrease in those expenditures was approximately \$2 million. The increase in information systems and technology is the result of the upgrading of the IT infrastructure within the Conservancy District. There were no direct expenses related to the Atwood Resort during 2012 since it was not operated or maintained by the Conservancy District during 2012. The donation of the resort assets resulted in the special item during 2011. There was an increase in water and sewer system expenses which is the result of older systems requiring more maintenance. The operation of the water system at Atwood Resort which has continued since the closing of the resort is now recognized in this line item. The increase in planning and development is the result of the strategic planning, park master planning and branding initiatives the Conservancy District undertook during 2012. The assessment expense of \$4.6 million was the full amortization of deferred charges related to the maintenance assessment study. Interest expense decreased due to the majority of the Conservancy District debt being paid off during 2011.

Muskingum Watershed Conservancy District
 Tuscarawas County, Ohio
Management's Discussion and Analysis
 For the Fiscal Year Ended December 31, 2012

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2012 the Conservancy District had \$16,128,436 of capital assets net of accumulated depreciation. The following table shows 2012 balances compared with 2011:

	<u>2012</u>	<u>2011</u>
Land	\$ 1,806,650	\$ 1,806,650
Capitalized Development Costs	1,189,495	1,189,495
Construction in Progress	688,333	-
Land Improvements	3,304,363	1,956,980
Buildings	2,996,852	2,945,048
Building Improvements	1,424,561	1,360,826
Furniture, Fixtures and Equipment	1,019,532	615,666
Vehicles	612,462	368,213
Infrastructure	3,086,188	2,683,552
<i>Totals</i>	<u>\$ 16,128,436</u>	<u>\$ 12,926,430</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, 2012 was \$1,184,903 with \$56,975 due within one year. The following table summarizes the Conservancy District's debt outstanding as of December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
2001 Revenue Bonds - Variable	-	649,680
OWDA #2162 - 5.56%	345,233	366,195
OWDA #5413 - 0%	160,552	169,996
OWDA #5575 - 3.25%	573,084	566,827
OWDA #5558 - 3.25%	26,694	27,855
OWDA #6104 - 3.99%	79,340	-
<i>Totals</i>	<u>\$ 1,184,903</u>	<u>\$ 1,780,553</u>

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

Muskingum Watershed Conservancy District
Tuscarawas County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2012

CURRENT ISSUES

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

The Conservancy District is in the process of implementing the five year strategic plan, which includes a scorecard process to maintain accountability. The strategic plan is being integrated with the park master plan, which is scheduled to be completed in the summer of 2013, and will include a detailed plan for the five major parks and the two marinas operated by the Conservancy District. The updated brand of the Conservancy District will be rolled out during the first quarter of 2013, consisting of signage within the parks and on the Conservancy District vehicles as some of the main outcomes.

Included in the 2013 budget approved by the board of directors were \$8.5 million of expenditures related to deferred maintenance projects. These projects are high need areas throughout the Conservancy District that had not been addressed in the past due to budget constraints.

The Conservancy District began construction of a new water treatment facility at Atwood Park and also the Atwood Resort area in the fourth quarter of 2012. This is a project that had been considered for a couple years and now will be done in order to meet EPA guidelines with an estimated cost in excess of \$4 million.

In the fourth quarter of 2012, the board of directors approved entering into a contract with URS Corporation for the development of a Reservoir Sediment Removal Program. This will include designing the program, developing goals, objectives, milestones, tasks, and internal and external communication protocols. It will also look at and evaluate environmental and operational management services, permitting, the potential uses of the sediment, and an economic analysis. The Conservancy District hopes to implement this plan beginning in 2014.

The Conservancy District continues to be the local cost share in the US Army Corp of Engineer projects. The current projects on-going are the Dover and Bolivar dam rehabilitations. The board of directors approved payment in excess of \$4 million in the first quarter of 2013 for these projects which are paid from the maintenance assessment.

REQUESTS FOR INFORMATION

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

Muskingum Watershed Conservancy District
Tuscarawas County, Ohio
Statement of Net Position
Proprietary Fund
December 31, 2012

Assets	
<i>Current Assets:</i>	
Equity in Pooled Cash and Investments	\$ 46,307,484
Accrued Interest	5,470
Accounts Receivable	1,285,146
Maintenance Assessments Receivable	<u>1,288,895</u>
<i>Total Current Assets</i>	<u>48,886,995</u>
<i>Non-Current Assets:</i>	
Capitalized Costs	79,340
Non-Depreciable Capital Assets	3,684,478
Depreciable Capital Assets, Net	<u>12,443,958</u>
<i>Total Non-Current Assets</i>	<u>16,207,776</u>
<i>Total Assets</i>	<u>65,094,771</u>
Liabilities	
<i>Current Liabilities:</i>	
Accounts Payable	266,068
Contracts Payable	407,582
Retainage Payable	32,826
Performance Bond Payable	20,475
Escrow Land Rentals	175
Escrow Funds Payable	28,666
Due to Other Governments	115,608
Accrued Wages and Benefits	121,668
Accrued Interest Payable	100
Accrued Life Insurance	14,075
Claims Payable	167,576
Compensated Absences	52,422
Capital Leases Payable	152,221
OWDA Loans Payable	<u>56,975</u>
<i>Total Current Liabilities</i>	<u>1,436,437</u>
<i>Long-Term Liabilities:</i>	
Compensated Absences - net of current portion	474,810
Capital Leases Payable - net of current portion	219,112
OWDA Loans Payable - net of current portion	<u>1,127,928</u>
<i>Total Long-Term Liabilities</i>	<u>1,821,850</u>
<i>Total Liabilities</i>	<u>3,258,287</u>
Net Position	
Net Investment in Capital Assets	14,838,785
Restricted for Maintenance Assessment	15,417,119
Unrestricted	<u>31,580,580</u>
<i>Total Net Position</i>	<u>\$ 61,836,484</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, 2012

Operating Revenues	
Water Sales	\$ 226,286
Water and sewer systems	63,588
Timber sales	186,734
Pine/pulpwood sales	145,088
Mineral rights and royalties	22,141,892
Share crop lease	666,486
Cottage sites	2,646,648
Marina operations	985,963
Marina camping	202,473
Fishing rights	62,647
Easements/Right of ways	32,959
Beach facilities	130,953
Vacation cabin	435,216
Park camping	4,257,947
Parks - Special events	136,569
Admissions - park facilities	138,472
Miscellaneous income	76,848
<i>Total Operating Revenues</i>	<i>32,536,769</i>
Operating Expenses	
Water Quality	306,308
Vehicles and equipment	330,688
Dam safety/upgrades	2,221,688
Boundary survey	42,294
Conservation	128,807
Reservoir Maintenance	8,499
Information Systems/Technology	266,793
Shoreline Protection	250,138
Share crop	295,773
Mineral operation	225,118
Watershed management	128,837
Beach facilities	233,102
Office building	138,662
Administrative and finance	1,906,055
Engineering	625,159
Planning and development	392,228
GIS and Parcel Development	330,265
Forestry maintenance	70,369
Park camping expense	2,346,275
Cottage sites and clubs	745,959
General park facilities	2,058,716
Vacation cabin	163,272
Marina operation	789,225

Muskingum Watershed Conservancy District
Tuscarawas County, Ohio
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Fund
For the Year Ended December 31, 2012

		(Continued)
Water and sewer system	\$	669,682
Lake patrol operation		277,558
Education and public information		222,002
Safety		132,050
Recreation maintenance		123,506
Parks - special events		84,469
PWM		539,171
Special Clean up		88,698
Depreciation		<u>960,320</u>
<i>Total Operating Expenses</i>		<u>17,101,686</u>
<i>Operating Income</i>		15,435,083
Non-Operating Revenues (Expenses)		
Maintenance assessments		11,261,798
Grants		259,012
Interest on investments		57,811
Debt retirement - Interest		<u>(45,583)</u>
<i>Total Non-Operating Revenues (Expenses)</i>		<u>11,533,038</u>
<i>Change in Net Position</i>		26,968,121
Net Position - Beginning of Year		<u>34,868,363</u>
Net Position - End of Year		<u>\$ 61,836,484</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, 2012

Cash flows from Operating Activities:	
Cash Received from Customers	\$ 32,510,967
Cash Payments to Suppliers for Goods and Services	(9,148,173)
Cash Payments for Employees Services and Benefits	<u>(6,991,546)</u>
<i>Net Cash Provided by Operating Activities</i>	<u>16,371,248</u>
Cash Flows from Noncapital Financing Activities:	
Proceeds from OWDA Loans	79,320
Principal Payments on OWDA Loans	(10,604)
Intergovernmental Grants	56,463
Maintenance Assessments	10,082,648
Interest Paid on Debt	<u>(896)</u>
<i>Net Cash Provided by Noncapital Financing Activities</i>	<u>10,206,931</u>
Cash Flows from Capital and Related Financing Activities:	
Acquisition of Capital Assets	(3,270,231)
Maintenance Assessments	1,290,582
Intergovernmental Grants	202,549
Proceeds from OWDA Loans	30,466
Principal Payments on Revenue Bonds	(649,680)
Principal Payments on OWDA Loans	(45,152)
Principal Payments on Capital Leases	(186,798)
Interest Paid on Debt	<u>(44,687)</u>
<i>Net Cash Used for Capital and Related Financing Activities</i>	<u>(2,672,951)</u>
Cash Flows from Investing Activities:	
Receipts of Interest	96,346
Payments for purchase of investments	<u>(30,990,230)</u>
<i>Net Cash used for Investing Activities</i>	<u>(30,893,884)</u>
<i>Net (Decrease) in Cash and Cash Equivalents</i>	(6,988,656)
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>22,344,446</u>
<i>Cash and Cash Equivalents End of Year</i>	<u>\$ 15,355,790</u>
Reconciliation of Operating Income To Net	
Cash Provided by Operating Activities:	
Operating Income	\$ 15,435,083
Adjustments to Reconcile Operating Income to	
<i>Net Cash Provided by Operating Activities:</i>	
Depreciation	960,320
(Increase) Decrease in Assets	
Capitalized Costs	(79,340)
Accounts Receivable	(25,802)
Accrued Interest	(5,470)
Increase (Decrease) in Liabilities:	
Accounts Payable	171,113
Performance Bond Payable	12,000
Escrow Funds Payable	28,666
Deferred Revenue	(60,633)
Claims Payable	18,310
Accrued Wages and Benefits	17,437
Accrued Disability Income	7,095
Compensated Absences	(21,361)
Due to Other Governments	<u>(86,170)</u>
<i>Net Cash Provided by Operating Activities</i>	<u>\$ 16,371,248</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	\$ 46,307,484
Investments included in balances above that are not cash equivalents	<u>(30,951,694)</u>
Cash and Cash equivalents reported on Statement of Cash Flows	<u>\$ 15,355,790</u>

Noncash Capital Financing Activities:
During 2012, capital assets were acquired through capital leases in the amount of \$451,687.

See accompanying notes to the basic financial statements

Muskingum Watershed Conservancy District
Tuscarawas County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended December 31, 2012

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 2012 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.

2012 Board of Directors:

- | | |
|-------------------------------------|----------------------------|
| • Harry C. Horstman – Member | Term Expires June 3, 2015 |
| • Steve Kokovich – Member | Term Expires June 3, 2013 |
| • David Parham – Vice President | Term Expires June 8, 2016 |
| • Richard J. Pryce - Member | Term Expires July 18, 2017 |
| • William P. Boyle, Jr. – President | Term Expires July 18, 2014 |

2012 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 6104.04 of the Ohio Revised Code and include among other duties the following:

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

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

Muskingum Watershed Conservancy District
Tuscarawas County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended December 31, 2012

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

Subdistricts:

Chippewa Subdistrict, Black Fork Subdistrict, Buffalo Subdistrict and Duck Creek Subdistrict are blended component units of Muskingum Watershed Conservancy District. Each subdistrict was formed in accordance with Chapter 6101-71 of the Ohio Revised Code; organization of subdistricts. They were put into action as a result of petitions of the owners of real property subject to flooding within their areas. To date the only active subdistricts are the Chippewa Subdistrict and the Black 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. Buffalo Creek Subdistrict and Duck Creek Subdistrict are inactive.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

The Conservancy District operates as a self-supporting governmental enterprise and uses accounting 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 and all liabilities 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 assets. The statement of cash flows provides information about how the Conservancy District finances and meets the cash flow needs of its enterprise activity.

Muskingum Watershed Conservancy District
Tuscarawas County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended December 31, 2012

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. Prior to 2012, the Conservancy District had a capitalization threshold of \$500 for all types of capital assets.

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

Muskingum Watershed Conservancy District
Tuscarawas County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended December 31, 2012

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

E. Compensated Absences

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

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

F. Pensions

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

G. Net Position

Net position represents the difference between assets and liabilities. 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.

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

Muskingum Watershed Conservancy District
Tuscarawas County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended December 31, 2012

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

intergovernmental grants, interest from investments and maintenance assessment. Non-operating expenses include interest expense on long-term debt.

I. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Directors and that are either unusual in nature or infrequent in occurrence. During 2012, the Conservancy District had no extraordinary or special items.

J. Implementation of New Accounting Policies

For the year ended December 31, 2012, the Conservancy District implemented Governmental Accounting Standards Board GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in the Pre-November 30, 1989 FASB and AICPA Pronouncements*, and GASB Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, GASB Statement No. 64 *Derivative Instruments: Application of Hedge Accounting Termination Provisions*, GASB Statement No. 65 *Items Previously Reported as Assets and Liabilities*

GASB Statement No. 60 improved financial reporting by addressing issues related to service concession arrangements (SCAs) which are a type of public-private or public-public partnership. Implementation of this GASB statement did not affect the presentation of the financial statements of the Conservancy District.

GASB Statement No. 62 incorporated into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements: 1) Financial Accounting Standards Board (FASB) Statements and Interpretations, 2) Accounting Principles Board Opinions, 3) Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. Implementation of this GASB statement did not affect the presentation of the financial statements of the Conservancy District.

GASB Statement No. 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. It also amends the net asset reporting requirements of GASB Statement 34 by incorporating deferred outflows and inflows into the definitions and renaming the residual measure as net position, rather than net assets.

GASB Statement No. 64 clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. Implementation of this GASB statement did not affect the presentation of the financial statements of the Conservancy District.

Muskingum Watershed Conservancy District
Tuscarawas County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended December 31, 2012

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. Implementation of this GASB statement did not affect the presentation of the financial statements of the Conservancy District.

K. 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, 2012 none of the Conservancy District's investments qualified as a cash equivalent.

L. CAPITALIZED COSTS

The Conservancy District has a loan with the Ohio Water Development Authority (OWDA) to cover the costs associated with 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.

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.

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.

Muskingum Watershed Conservancy District
Tuscarawas County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended December 31, 2012

NOTE 3: DEPOSITS AND INVESTMENTS (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).
6. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed 25 percent of the interim moneys available for investment at any time.

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

Muskingum Watershed Conservancy District
Tuscarawas County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended December 31, 2012

NOTE 3: DEPOSITS AND INVESTMENTS (continued)

maintained in the Conservancy District's name. During 2012, 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 \$15,352,090. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures," as of December 31, 2012, \$14,434,692 of the Conservancy District's bank balance of \$15,363,655 was exposed to custodial risk as discussed above, while \$928,963 was covered by Federal Deposit Insurance Corporation.

Cash on Hand

As of December 31, 2012, the Conservancy District had \$3,700 of cash on hand.

Investments

As of December 31, 2012, 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
Abbey National Commercial Paper	\$ 8,744,215	\$ 8,744,215	\$ -	\$ -	\$ -
Federal Home Loan Mortgage Corporatio	10,893,435	-	-	3,977,900	6,915,535
Federal National Mortgage Association	8,295,888	-	-	-	8,295,888
Federal Farm Credit Bank	1,500,015	-	-	1,500,015	-
US Treasury Note	1,518,141	-	1,518,141	-	-
	<u>\$ 30,951,694</u>	<u>\$ 8,744,215</u>	<u>\$ 1,518,141</u>	<u>\$ 5,477,915</u>	<u>\$ 15,211,423</u>

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.

Muskingum Watershed Conservancy District
 Tuscarawas County, Ohio
Notes to the Basic Financial Statements
 For the Fiscal Year Ended December 31, 2012

NOTE 3: DEPOSITS AND INVESTMENTS (continued)

Credit Risk: The Conservancy District's investments in Abbey National Commercial Paper have a P-1 rating from Moody's. The FHLMC, FNMA, FFCB and US Treasury notes all have Aaa ratings from Moody's. All ratings are the highest on the respective scales from Moody's.

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.

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, 2012.

Investment Type	Fair Value	Percent of Total
Abbey National Commercial Paper	\$ 8,744,215	28%
Federal Home Loan Mortgage Corporatio	10,893,435	35%
Federal National Mortgage Association	8,295,888	27%
Federal Farm Credit Bank	1,500,015	5%
US Treasury Note	1,518,141	5%
	<u>\$ 30,951,694</u>	<u>100%</u>

The following is the net increase in the fair value of investments during for year ending December 31, 2012.

Fair Value at December 31, 2012	\$ 30,951,694
Add: Proceeds of investments sold 2012	-
Less: Cost of investments purchased in 2012	(30,990,230)
Less: Fair value at December 31, 2011	-
Change in fair value of investments	<u>\$ (38,536)</u>

NOTE 4: RECEIVABLES

Receivables at December 31, 2012 consisted of accounts (billed user charged services) 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 Fiscal Year Ended December 31, 2012

NOTE 5: CAPITAL ASSETS

Proprietary capital assets – summary by category at December 31, 2012:

	Balance 12/31/2011	Additions	Deletions	Balance 12/31/2012
<i>Capital Assets Not Being Depreciated</i>				
Land	\$ 1,806,650	\$ 0	\$ 0	\$ 1,806,650
Construction in Progress	0	688,333	0	688,333
Capitalized Development Costs	1,189,495	0	0	1,189,495
<i>Total Capital Assets Not Being Depreciated</i>	2,996,145	688,333	0	3,684,478
<i>Capital Assets Being Depreciated</i>				
Land Improvements	2,410,935	1,460,152	0	3,871,087
Buildings	8,001,228	192,664	0	8,193,892
Building Improvements	2,043,304	169,189	0	2,212,493
Furniture, Fixtures and Equipment	3,897,279	647,355	(118,287)	4,426,347
Vehicles	1,511,906	416,682	(182,264)	1,746,324
Infrastructure	3,986,512	602,487	0	4,588,999
<i>Total Capital Assets Being Depreciated</i>	21,851,164	3,488,529	(300,551)	25,039,142
<i>Less Accumulated Depreciation:</i>				
Land Improvements	(453,955)	(112,769)	0	(566,724)
Buildings	(5,056,180)	(140,860)	0	(5,197,040)
Building Improvements	(682,478)	(105,454)	0	(787,932)
Furniture, Fixtures and Equipment	(3,281,613)	(228,953)	103,751	(3,406,815)
Vehicles	(1,143,693)	(172,433)	182,264	(1,133,862)
Infrastructure	(1,302,960)	(199,851)	0	(1,502,811)
<i>Total Accumulated Depreciation</i>	(11,920,879)	(960,320)	286,015	(12,595,184)
<i>Total Capital Assets Being Depreciated, Net</i>	9,930,285	2,528,209	(14,536)	12,443,958
<i>Capital Assets, Net</i>	\$ 12,926,430	\$ 3,216,542	\$ (14,536)	\$ 16,128,436

Muskingum Watershed Conservancy District
Tuscarawas County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended December 31, 2012

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 2012.

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 2012 plan year ran June 1, 2011 through May 31, 2012. The 2013 plan year runs June 1, 2012 through May 31, 2013.

The monthly premium for the 2012 plan year for a single employee is \$605.50, \$945.86 for an employee plus 1, and for the family of an employee is \$1,429.62. The monthly premium for the 2013 plan year for a single employee is \$697.10, \$1,094.36 for an employee plus 1, and for the family of an employee is \$1,654.07.

The overall stop loss for the plan year 2012 is \$885,497 and for plan year 2013 is \$947,268.

The specific stop loss per occurrence was \$55,000 for plan years 2012 and 2013. For plan year 2013, there was one instance with a special specific deductible. The limit for that instance was \$480,000. The Conservancy District has a potential to have two additional instances with special specific deductibles for plan year 2013 totaling \$220,000, but as of December 31, 2012 the events triggering those increases had not happened. There was one claim exceeding the limit for plan year 2012. When the 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.

Muskingum Watershed Conservancy District
 Tuscarawas County, Ohio
Notes to the Basic Financial Statements
 For the Fiscal Year Ended December 31, 2012

NOTE 6: RISK MANAGEMENT (continued)

The claims liability of \$167,575 at December 31, 2012, 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 2012 and 2011 are as follows:

		<u>Balance</u> <u>Beginning of Year</u>	<u>Current</u> <u>Year Claims</u>	<u>Claims</u> <u>Payments</u>	<u>Balance</u> <u>End of Year</u>
2011	\$	192,976	\$ 705,746	\$ 749,456	\$ 149,266
2012	\$	149,266	\$ 1,147,639	\$ 1,129,329	\$ 167,576

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, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to, but less than, the traditional pension plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the member-directed plan.

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 visiting <https://www.opers.org/investments/cafr.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 statutory authority for member and employer contributions. For the year ended December 31, 2012, members in State and local classifications contributed 10 percent of covered payroll. Law enforcement members contributed 12.1%.

The Conservancy District’s contribution rate for 2012 was 14.0 percent of covered payroll. The law enforcement contribution rate was 18.1% of covered payroll.

Muskingum Watershed Conservancy District
Tuscarawas County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended December 31, 2012

NOTE 7: DEFINED BENEFIT PENSION PLAN (continued)

The Conservancy District's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2012, 2011, and 2010 were \$518,418, \$510,519 and \$322,428, respectively; 93 percent has been contributed for 2012 and 100 percent for 2011 and 2010.

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 visiting <https://www.opers.org/investments/cafr.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 coverage through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care coverage.

Employer contribution rates are expressed as a percentage of the covered payroll of active employees. In 2012, local government employers contributed 14 percent of covered payroll and law enforcement employers contributed at 18.1%. These are the maximum employer contributions rates permitted by the Ohio Revised Code. Active members do not make contributions to the OPEB plan.

OPERS' post employment health care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of post employment health care and benefits. The portion of the employer contributions allocated to health care for members in the traditional plan was 4% during calendar year 2012. The OPERS Board of Trustees is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care benefits provided. Payment amounts vary depending on the number of covered dependents and the coverage selected.

Muskingum Watershed Conservancy District
 Tuscarawas County, Ohio
Notes to the Basic Financial Statements
 For the Fiscal Year Ended December 31, 2012

NOTE 8: POSTEMPLOYMENT BENEFITS (continued)

The Conservancy District's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2012, 2011, and 2010 were \$207,367, \$204,208 and \$234,144, respectively; 93 percent has been contributed for 2012 and 100 percent for 2011 and 2010.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under SB 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4% of the employer contributions toward the health care fund after the end of the transition period.

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 2012 were as follows:

	Principal Outstanding 12/31/2011	Additions	Reductions	Principal Outstanding 12/31/2012	Amount Due in One Year
2001 Revenue Bonds - Variable	\$ 649,680	\$ -	\$ (649,680)	\$ -	\$ -
OWDA Loan #2162 - 5.56%	366,195	-	(20,962)	345,233	22,144
OWDA Loan #5413 - 0%	169,996	-	(9,444)	160,552	9,444
OWDA Loan #5575 - 3.25%	566,827	30,446	(24,189)	573,084	24,189
OWDA Loan #5558 - 3.25%	27,855	0	(1,161)	26,694	1,198
OWDA Loan #6104 - 3.99%	-	79,340	-	79,340	0
<i>Total</i>	<u>1,780,553</u>	<u>109,786</u>	<u>(705,436)</u>	<u>1,184,903</u>	<u>56,975</u>
Other Long-Term Obligations:					
Capital Leases	106,444	451,687	(186,798)	371,333	152,221
Compensated Absences	548,593	74,433	(95,794)	527,232	52,422
Total other long-term obligation	<u>655,037</u>	<u>526,120</u>	<u>(282,592)</u>	<u>898,565</u>	<u>204,643</u>
<i>Total Long-Term Liabilities</i>	<u>\$ 2,435,590</u>	<u>\$ 635,906</u>	<u>\$ (988,028)</u>	<u>\$ 2,083,468</u>	<u>\$ 261,618</u>

Muskingum Watershed Conservancy District
Tuscarawas County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended December 31, 2012

NOTE 10: LONG-TERM OBLIGATIONS (continued)

Revenue Bonds

In 2001 the Conservancy District issued \$795,000 in revenue bonds through Aqua Ohio. The proceeds of these bonds were used to improve and upgrade the water system at Charles Mill Sites Lake cottages. The revenue bonds were to mature in twenty-five years and have monthly payments due on March of each year. However, management decided to pay off the loan balance in 2012.

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. As of December 31, 2012, the Conservancy District had drawn down the full amount; however, the final amortization schedule was not complete. Since the amortization schedule is not available it is not reflected in the table below.

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

In 2012 the Conservancy District was awarded a \$1,500,000 loan from OWDA for studies to develop the Black Fork Subdistrict official plan. As of December 31, 2012, only \$79,340 had been drawn down. Since the full amount was not drawn down, the amortization schedule is not complete, so it is not reflected in the table below.

Muskingum Watershed Conservancy District
 Tuscarawas County, Ohio
Notes to the Basic Financial Statements
 For the Fiscal Year Ended December 31, 2012

NOTE 10: LONG-TERM OBLIGATIONS (continued)

The annual requirements to retire debt are as follows:

	Ohio Water Development Authority Loans	
	Principal	Interest
2013	\$ 32,786	\$ 19,750
2014	34,074	18,461
2015	35,433	17,103
2016	36,868	15,668
2017	38,383	14,153
2018-2022	217,766	44,887
2023-2027	114,330	4,721
2028-2030	22,839	162
	<u>\$ 532,479</u>	<u>\$ 134,905</u>

NOTE 11: CAPITAL LEASES – LESSEE DISCLOSURE

In 2012 the Conservancy District 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 \$616,637, which is equal to the present value of the future minimum lease payments at the time of acquisition. A corresponding liability is recorded and is reduced for each required principal payment.

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of December 31, 2012:

		<u>Capital Leases</u>
Year Ending December 31:	2013	\$ 174,037
	2014	152,343
	2015	74,781
	2016	<u>10,078</u>
Minimum lease payments		411,239
Less: amount representing interest at the Conservancy District's incremental borrowing rate of interest		<u>(39,906)</u>
Present value of minimum lease payments		<u>\$ 371,333</u>

Muskingum Watershed Conservancy District
 Tuscarawas County, Ohio
Notes to the Basic Financial Statements
 For the Fiscal Year Ended December 31, 2012

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 lease has a primary term of 5 years with options to extend beyond that. The Lessee will pay the Conservancy District lease royalty payments of 16.5% of the gross proceeds attributable to the applicable wells. In addition, the Conservancy District received a bonus payment in 2011 in the amount of \$ 2,400 per acre, or approximately \$15,565,896. This payment was recorded as mineral rights and royalties revenue.

On April 19, 2012, the Conservancy District (the “Lessor”) entered into a lease agreement with Chesapeake Exploration, L.L.C. (the “Lessee”). The Conservancy District leased approximately 3,600 acres of land at Leesville Reservoir to the Lessee. The lease has a primary term of 5 years with options to extend beyond that. The Lessee will pay the Conservancy District lease royalty payments of 20% of the gross proceeds attributable to the applicable wells. In addition, the Conservancy District received a bonus payment in 2012 in the amount of \$5,800 per acre, or approximately \$20,880,000. This payment was recorded as mineral rights and royalties revenue.

NOTE 13: CONTRACTUAL COMMITMENTS

As of December 31, 2012, the Conservancy District had contractual commitments for the following projects:

	Contractual Commitment	Expended	Balance 12/31/2012
Bolivar Dam - Army Corps of Engineers	\$ 37,951,380	\$ 4,780,679	\$ 33,170,701
Dover Dam - Army Corps of Engineers	3,570,750	1,893,675	1,677,075
Atwood Wastewater Treatment Plant	4,497,420	-	4,497,420
Seneca Welcome Center	630,924	151,119	479,805
Shoreline stabilization projects	1,253,733	-	1,253,733

NOTE 14: SUBSEQUENT EVENTS

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

Muskingum Watershed Conservancy District and Subdistricts
Tuscarawas County, Ohio
Combining Statement of Net Position
Proprietary Fund
December 31, 2012

	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	\$ 44,742,775	\$ 0	\$ 0	\$ 1,556,301	\$ 8,408	\$ 0	\$ 46,307,484
Accrued Interest	5,470	0	0	0	0	0	5,470
Accounts Receivable	1,306,558	0	0	0	0	(21,412)	1,285,146
Maintenance Assessments Receivable	1,288,895	0	0	0	0	0	1,288,895
<i>Total Current Assets</i>	<u>47,343,698</u>	<u>0</u>	<u>0</u>	<u>1,556,301</u>	<u>8,408</u>	<u>(21,412)</u>	<u>48,886,995</u>
<i>Non-Current Assets:</i>							
Capitalized Costs	79,340	0	0	0	0	0	79,340
Non-Depreciable Capital Assets	2,494,983	1,822	27,593	1,154,680	5,400	0	3,684,478
Depreciable Capital Assets, Net	12,443,958	0	0	0	0	0	12,443,958
<i>Total Non-Current Assets</i>	<u>15,018,281</u>	<u>1,822</u>	<u>27,593</u>	<u>1,154,680</u>	<u>5,400</u>	<u>0</u>	<u>16,207,776</u>
<i>Total Assets</i>	<u>62,361,979</u>	<u>1,822</u>	<u>27,593</u>	<u>2,710,981</u>	<u>13,808</u>	<u>(21,412)</u>	<u>65,094,771</u>
Liabilities							
<i>Current Liabilities:</i>							
Accounts Payable	244,903	1,822	27,593	7,125	6,037	(21,412)	266,068
Contracts Payable	407,582	0	0	0	0	0	407,582
Retainage Payable	32,826	0	0	0	0	0	32,826
Performance Bond Payable	20,475	0	0	0	0	0	20,475
Escrow Land Rentals	175	0	0	0	0	0	175
Escrow Funds Payable	28,666	0	0	0	0	0	28,666
Due to Other Governments	115,608	0	0	0	0	0	115,608
Accrued Wages and Benefits	121,668	0	0	0	0	0	121,668
Accrued Interest Payable	100	0	0	0	0	0	100
Accrued Life Insurance	14,075	0	0	0	0	0	14,075
Claims Payable	167,576	0	0	0	0	0	167,576
Compensated Absences	52,422	0	0	0	0	0	52,422
Capital Leases Payable	152,221	0	0	0	0	0	152,221
OWDA Loans Payable	56,975	0	0	0	0	0	56,975
<i>Total Current Liabilities</i>	<u>1,415,272</u>	<u>1,822</u>	<u>27,593</u>	<u>7,125</u>	<u>6,037</u>	<u>(21,412)</u>	<u>1,436,437</u>
<i>Long-Term Liabilities:</i>							
Compensated Absences - net of current portion	474,810	0	0	0	0	0	474,810
Capital Leases Payable - net of current portion	219,112	0	0	0	0	0	219,112
OWDA Loans Payable - net of current portion	1,127,928	0	0	0	0	0	1,127,928
<i>Total Long-Term Liabilities</i>	<u>1,821,850</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,821,850</u>
<i>Total Liabilities</i>	<u>3,237,122</u>	<u>1,822</u>	<u>27,593</u>	<u>7,125</u>	<u>6,037</u>	<u>(21,412)</u>	<u>3,258,287</u>
Net Position							
Net Investment in Capital Assets	13,649,290	1,822	27,593	1,154,680	5,400	0	14,838,785
Restricted for Maintenance Assessment	15,417,119	0	0	0	0	0	15,417,119
Unrestricted	30,058,448	(1,822)	(27,593)	1,549,176	2,371	0	31,580,580
<i>Total Net Position</i>	<u>\$ 59,124,857</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,703,856</u>	<u>\$ 7,771</u>	<u>\$ 0</u>	<u>\$ 61,836,484</u>

Muskingum Watershed Conservancy District and Subdistricts
Tuscarawas County, Ohio
Combining Statement of Revenues, Expenses and Changes in Net Position
Proprietary Fund
For the Year Ended December 31, 2012

	Muskingum Watershed Conservancy District	Subdistricts				Eliminating Entries	Total
		Black Fork	Buffalo Creek	Chippewa	Duck Creek		
Operating Revenues							
Water Sales	\$ 226,286	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 226,286
Water and sewer systems	63,588	0	0	0	0	0	63,588
Timber Sales	186,734	0	0	0	0	0	186,734
Pine/Pulpwood Sales	145,088	0	0	0	0	0	145,088
Mineral rights and royalties	22,141,892	0	0	0	0	0	22,141,892
Share Crop	666,486	0	0	0	0	0	666,486
Cottage Sites and Clubs	2,646,648	0	0	0	0	0	2,646,648
Marina operations	985,963	0	0	0	0	0	985,963
Marina camping	202,473	0	0	0	0	0	202,473
Fishing rights	62,647	0	0	0	0	0	62,647
Easements/Right of Ways	32,959	0	0	0	0	0	32,959
Beach facilities	130,953	0	0	0	0	0	130,953
Vacation cabin	435,216	0	0	0	0	0	435,216
Park camping	4,257,947	0	0	0	0	0	4,257,947
Parks - Special Events	136,569	0	0	0	0	0	136,569
Admissions - park facilities	138,472	0	0	0	0	0	138,472
Miscellaneous income	75,723	0	0	1,125	0	0	76,848
<i>Total Operating Revenues</i>	<u>32,535,644</u>	<u>0</u>	<u>0</u>	<u>1,125</u>	<u>0</u>	<u>0</u>	<u>32,536,769</u>
Operating Expenses							
Water Quality	306,308	0	0	0	0	0	306,308
Vehicles and equipment	330,688	0	0	0	0	0	330,688
Dam safety/upgrades	2,092,499	0	0	129,189	0	0	2,221,688
Boundary survey	42,294	0	0	0	0	0	42,294
Conservation	128,807	0	0	0	0	0	128,807
Reservoir Maintenance	8,499	0	0	0	0	0	8,499
Information Systems/Technology	266,793	0	0	0	0	0	266,793
Shoreline Protection	250,138	0	0	0	0	0	250,138
Share crop	295,773	0	0	0	0	0	295,773
Mineral operation	225,118	0	0	0	0	0	225,118
Watershed management	128,837	0	0	0	0	0	128,837
Beach facilities	233,102	0	0	0	0	0	233,102
Office building	138,662	0	0	0	0	0	138,662
Administrative and finance	1,906,055	0	0	0	0	0	1,906,055
Engineering	625,159	0	0	0	0	0	625,159
Planning and development	392,228	0	0	0	0	0	392,228
GIS and Parcel Development	330,265	0	0	0	0	0	330,265
Forestry maintenance	70,369	0	0	0	0	0	70,369
Park camping	2,346,275	0	0	0	0	0	2,346,275
Cottage sites and clubs	745,959	0	0	0	0	0	745,959
General park facilities	2,058,716	0	0	0	0	0	2,058,716
Vacation cabin	163,272	0	0	0	0	0	163,272
Marina operation	789,225	0	0	0	0	0	789,225

Muskingum Watershed Conservancy District and Subdistricts
Tuscarawas County, Ohio
Combining Statement of Revenues, Expenses and Changes in Net Position
Proprietary Fund
For the Year Ended December 31, 2012

	Muskingum Watershed Conservancy District	Subdistricts				Eliminating Entries	Total
		Black Fork	Buffalo Creek	Chippewa	Duck Creek		
							(Continued)
Water and sewer system	\$ 669,682	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 669,682
Lake patrol operation	277,558	0	0	0	0	0	277,558
Education and public information	222,002	0	0	0	0	0	222,002
Safety expenses	132,050	0	0	0	0	0	132,050
Recreation maintenance	123,506	0	0	0	0	0	123,506
Parks - special events	84,469	0	0	0	0	0	84,469
PWM	539,171	0	0	0	0	0	539,171
Special Clean up	88,698	0	0	0	0	0	88,698
Depreciation	960,320	0	0	0	0	0	960,320
<i>Total Operating Expenses</i>	<u>16,972,497</u>	<u>0</u>	<u>0</u>	<u>129,189</u>	<u>0</u>	<u>0</u>	<u>17,101,686</u>
<i>Operating Income</i>	15,563,147	0	0	(128,064)	0	0	15,435,083
Non-Operating Revenues (Expenses)							
Maintenance assessments	10,903,520	0	0	358,278	0	0	11,261,798
Grants	259,012	0	0	0	0	0	259,012
Interest on investments	57,105	0	0	704	2	0	57,811
Debt retirement - Interest	(45,583)	0	0	0	0	0	(45,583)
<i>Total Non-Operating Revenues (Expenses)</i>	<u>11,174,054</u>	<u>0</u>	<u>0</u>	<u>358,982</u>	<u>2</u>	<u>0</u>	<u>11,533,038</u>
<i>Change in Net Position</i>	26,737,201	0	0	230,918	2	0	26,968,121
Net Position - Beginning of Year	<u>32,387,656</u>	<u>0</u>	<u>0</u>	<u>2,472,938</u>	<u>7,769</u>	<u>0</u>	<u>34,868,363</u>
Net Position - End of Year	<u>\$ 59,124,857</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,703,856</u>	<u>\$ 7,771</u>	<u>\$ 0</u>	<u>\$ 61,836,484</u>

Muskingum Watershed Conservancy District and Subdistricts
Tuscarawas County, Ohio
Combining Statement of Cash Flows
Proprietary Fund
For the Year Ended December 31, 2012

	Muskingum Watershed Conservancy District	Subdistricts				Eliminating Entries	Total
		Black Fork	Buffalo Creek	Chippewa	Duck Creek		
Cash flows from Operating Activities:							
Cash Received from Customers	\$ 32,509,842	\$ 0	\$ 0	\$ 1,125	\$ 0	\$ 0	\$ 32,510,967
Cash Payments to Suppliers for Goods and Services	(9,072,593)	0	0	(75,580)	0	0	(9,148,173)
Cash Payments for Employees Services and Benefits	(6,940,790)	0	0	(50,756)	0	0	(6,991,546)
<i>Net Cash Provided by Operating Activities</i>	<u>16,496,459</u>	<u>0</u>	<u>0</u>	<u>(125,211)</u>	<u>0</u>	<u>0</u>	<u>16,371,248</u>
Cash Flows from Noncapital Financing Activities:							
Proceeds from OWDA Loans	79,320	0	0	0	0	0	79,320
Principal Payments on OWDA Loans	(10,604)	0	0	0	0	0	(10,604)
Intergovernmental Grants	56,463	0	0	0	0	0	56,463
Maintenance Assessments	9,724,370	0	0	358,278	0	0	10,082,648
Interest Paid on Debt	(896)	0	0	0	0	0	(896)
<i>Net Cash Provided by Noncapital Financing Activities</i>	<u>9,848,653</u>	<u>0</u>	<u>0</u>	<u>358,278</u>	<u>0</u>	<u>0</u>	<u>10,206,931</u>
Cash Flows from Capital and Related Financing Activities:							
Acquisition of Capital Assets	(3,270,231)	0	0	0	0	0	(3,270,231)
Maintenance Assessments	1,290,582	0	0	0	0	0	1,290,582
Intergovernmental Grants	202,549	0	0	0	0	0	202,549
Proceeds from OWDA Loans	30,466	0	0	0	0	0	30,466
Principal Payments on Revenue Bonds	(649,680)	0	0	0	0	0	(649,680)
Principal Payments on OWDA Loans	(45,152)	0	0	0	0	0	(45,152)
Principal Payments on Capital Leases	(186,798)	0	0	0	0	0	(186,798)
Interest Paid on Debt	(44,687)	0	0	0	0	0	(44,687)
<i>Net Cash Used for Capital and Related Financing Activities</i>	<u>(2,672,951)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(2,672,951)</u>
Cash Flows from Investing Activities:							
Receipts of Interest	95,640	0	0	704	2	0	96,346
Payments for Purchase of Investments	(30,990,230)						(30,990,230)
<i>Net Cash Provided by (Used for) Investing Activities</i>	<u>(30,894,590)</u>	<u>0</u>	<u>0</u>	<u>704</u>	<u>2</u>	<u>0</u>	<u>(30,893,884)</u>
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	(7,222,429)	0	0	233,771	2	0	(6,988,656)
<i>Cash and Cash Equivalents Beginning of Year</i>	21,013,510	0	0	1,322,530	8,406	0	22,344,446
<i>Cash and Cash Equivalents End of Year</i>	<u>\$ 13,791,081</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,556,301</u>	<u>\$ 8,408</u>	<u>\$ 0</u>	<u>\$ 15,355,790</u>
Reconciliation of Operating Income To Net Cash Provided by Operating Activities:							
Operating Income	\$ 15,563,147	\$ 0	\$ 0	\$ (128,064)	\$ 0	\$ 0	\$ 15,435,083
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:							
Depreciation	960,320	0	0	0	0	0	960,320
(Increase) Decrease in Assets:							
Capitalized Costs	(79,340)	0	0	0	0	0	(79,340)
Accounts Receivable	(25,802)	0	0	0	0	0	(25,802)
Accrued Interest	(5,470)						(5,470)
Increase (Decrease) in Liabilities:							
Accounts Payable	168,260	0	0	2,853	0	0	171,113
Performance Bonds payable	12,000	0	0	0	0	0	12,000
Escrow Funds Payable	28,666						28,666
Deferred Revenue	(60,633)	0	0	0	0	0	(60,633)
Claims Payable	18,310	0	0	0	0	0	18,310
Accrued Wages and Benefits	17,437	0	0	0	0	0	17,437
Accrued Life Insurance	7,095	0	0	0	0	0	7,095
Compensated Absences	(21,361)	0	0	0	0	0	(21,361)
Due to other governments	(86,170)	0	0	0	0	0	(86,170)
<i>Net Cash Provided by Operating Activities</i>	<u>\$ 16,496,459</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (125,211)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 16,371,248</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	\$ 44,742,775	\$ 0	\$ 0	\$ 1,556,301	\$ 8,408	\$ 0	\$ 46,307,484
Investments included in balances above that are not cash equivalents	(30,951,694)	-	-	-	-	-	(30,951,694)
Cash and Cash equivalents reported on Statement of Cash Flows	<u>\$ 13,791,081</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,556,301</u>	<u>\$ 8,408</u>	<u>\$ 0</u>	<u>\$ 15,355,790</u>

Noncash Capital Financing Activities:
During 2012, capital assets were acquired through capital leases in the amount of \$451,687.

April 10, 2013

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Muskingum Watershed Conservancy District, Tuscarawas County, Ohio (the "Conservancy District") as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Conservancy District's basic financial statements, and have issued our report thereon dated April 10, 2013.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

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

Purpose of this Report

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

Rea & Associates, Inc.



Dave Yost • Auditor of State

MUSKINGUM WATERSHED CONSERVANCY DISTRICT

TUSCARAWAS COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JUNE 20, 2013**