

MUSKINGUM WATERSHED CONSERVANCY DISTRICT

AUDIT REPORT

DECEMBER 31, 2005



Mary Taylor, CPA
Auditor of State

Board of Directors
Muskingum Watershed Conservancy District
1319 Third Street, NW
P.O. Box 349
New Philadelphia, Ohio 44663-0349

We have reviewed the *Independent Auditor's Report* of the Muskingum Watershed Conservancy District, Tuscarawas County, prepared by S.R. Snodgrass, A.C., for the audit period January 1, 2005 through December 31, 2005. 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

June 25, 2008

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Muskingum Watershed Conservancy District
New Philadelphia, OH 44663

We have audited the accompanying basic financial statements of Muskingum Watershed Conservancy District, (the District) and the aggregate discretely presented component units (sub-districts) as of and for the year ended December 31, 2005, as listed in the table of contents. These financial statements are the responsibility of the 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.

As described in Note 1.B, the accompanying financial statements and notes follow the modified cash accounting basis. This is a comprehensive accounting basis other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2005, and the respective changes in net assets and cash flows for the year then ended in conformity with accounting basis Note 1.B describes.

For the year ended December 31, 2005, the District revised its financial presentation comparable to the requirements of Governmental Accounting Standard No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2008 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. 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 conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 4 through 8 are not a required part of the basic financial statements but are supplementary information required by 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.

S. R. Sandgren, A.C.

Steubenville, Ohio
March 28, 2008

**MUSKINGUM WATERSHED CONSERVANCY DISTRICT
NEW PHILADELPHIA, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005**

The discussion and analysis of the Muskingum Watershed Conservancy District's (the District) financial performance provides an overall review of the District's financial activities for the fiscal year ended December 31, 2005. The intent of this discussion and analysis is to look at the 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 District's financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2005 are as follows:

- Total net assets increased .45%. This increase is due to primarily to expenditures associated with capitalized cost of putting an assessment in place.
- Total operating receipts increased 18% versus 2004.

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 District. The statement of net assets represents the basic statement of position for the District. The statement of receipts, disbursements and changes in net assets present increases (e.g. receipts) and decreases (e.g. disbursements) in net total assets. The statement of cash flows reflects how the 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
NEW PHILADELPHIA, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District is not required to present government-wide financial statements as the 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 District's condensed financial information for 2005 and 2004 derived from the statement of net assets and the statement of receipts, disbursements, and changes in net assets.

	<u>2005</u>	<u>Restated 2004</u>
Current assets	\$ 3,311,215.41	\$ 2,738,308.46
Capital asset, net	<u>17,824,608.88</u>	<u>16,709,171.24</u>
Total assets	<u>21,135,824.29</u>	<u>19,447,479.70</u>
Current liabilities	1,576,519.67	1,347,031.47
Long-term debt outstanding	<u>7,379,740.46</u>	<u>5,975,475.31</u>
Total liabilities	<u>8,956,260.13</u>	<u>7,322,506.78</u>
Equity:		
Invested in capital assets net of related debt	10,210,569.73	10,560,088.46
Unrestricted	<u>1,968,994.43</u>	<u>1,564,884.46</u>
Total net assets	<u>\$12,179,564.16</u>	<u>\$12,124,972.92</u>

**MUSKINGUM WATERSHED CONSERVANCY DISTRICT
NEW PHILADELPHIA, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005**

Changes in Net Assets – The following shows the changes in net assets for 2005 and 2004.

	<u>2005</u>	<u>2004</u>
Receipts		
Charges for services	\$ 8,073,433.35	\$7,737,744.16
Other operating receipts	<u>1,937,203.00</u>	<u>740,993.03</u>
Total receipts	<u>10,010,636.35</u>	<u>8,478,737.19</u>
Disbursements		
Personnel costs	4,326,529.00	3,722,700.24
Contractual services	4,928,970.91	3,700,873.85
Depreciation	<u>732,255.50</u>	<u>251,945.75</u>
Total disbursements	<u>9,987,755.41</u>	<u>7,675,519.84</u>
Operating receipts over operating disbursements	<u>22,880.94</u>	<u>803,217.35</u>
Nonoperating Activities		
Investment earnings	<u>31,710.30</u>	<u>9,770.68</u>
Total change in net assets	54,591.24	812,988.03
Beginning net assets	<u>12,124,972.92</u>	<u>11,311,984.89</u>
Ending net assets	<u>\$12,179,564.16</u>	<u>\$12,124,972.92</u>

Net assets increased by \$54,591.24. This increase was primarily the result of the expenditures incurred for capitalized cost associated with putting an assessment in place.

**MUSKINGUM WATERSHED CONSERVANCY DISTRICT
NEW PHILADELPHIA, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2005 the District had \$17,824,608.88 net of accumulated depreciation invested in capital assets. The following table shows 2005 and 2004 balances:

	<u>2005</u>	<u>Restated 2004</u>	<u>Increase (Decrease)</u>
Land	\$ 2,171,278.93	\$ 2,171,278.93	\$ -
Capitalized development costs and land purchases	4,783,261.83	3,143,871.27	1,639,390.56
Buildings and improvements	20,342,354.88	20,342,354.88	-
Machinery and equipment	4,633,251.89	4,534,543.59	98,708.30
Office furnitures and fixtures	530,681.33	526,777.05	3,904.28
Autos and trucks	1,204,913.04	1,163,397.04	41,516.00
Less: accumulated depreciation	<u>(15,841,133.02)</u>	<u>(15,173,051.52)</u>	<u>(668,084.50)</u>
	<u>\$ 17,824,608.88</u>	<u>\$ 16,709,171.24</u>	<u>\$ 1,115,437.64</u>

Additional information on the District's capital assets can be found in Note 3.

DEBT

The following table summarizes the District's debt outstanding as of December 31, 2005 and 2004:

	<u>2005</u>	<u>Restated 2004</u>
Promissory notes payable	\$1,232,537.00	\$1,258,879.09
Revenue bonds payable	4,635,049.15	4,890,203.69
Promissory notes payable (effective 2010)	<u>1,746,453.00</u>	<u>-</u>
	<u>\$7,614,039.15</u>	<u>\$6,149,082.78</u>

Additional information on the District's long-term debt can be found in Note 8 and 9.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, investors and creditors with a general overview of the District's finances and to show the 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 NET ASSETS – MODIFIED CASH BASIS -
MAIN DISTRICT AND SUB-DISTRICTS COMBINED
AS OF DECEMBER 31, 2005**

	<u>Main District</u>	<u>Sub-Districts</u>	<u>Total Memorandum Only</u>
ASSETS:			
Current Assets			
Pooled cash and cash equivalents	\$ 958,473.39	\$ -	\$ 958,473.39
Cash in bank	-	779,290.78	779,290.78
Accounts receivable	<u>2,352,742.02</u>	<u>-</u>	<u>2,352,742.02</u>
Total current assets	<u>3,311,215.41</u>	<u>779,290.78</u>	<u>4,090,506.19</u>
Property Assets			
Land	2,171,278.93	-	2,171,278.93
Capitalized development costs and land purchases	4,734,390.56	3,266,193.98	8,000,584.54
Easements and right of way	48,871.27	-	48,871.27
Buildings and improvements	20,342,354.88	-	20,342,354.88
Machinery and equipment	4,633,251.89	-	4,633,251.89
Office furniture and fixtures	530,681.33	-	530,681.33
Autos and trucks	<u>1,204,913.04</u>	<u>-</u>	<u>1,204,913.04</u>
Total property assets	33,665,741.90	3,266,193.98	36,931,935.88
Less: accumulated depreciation	<u>(15,841,133.02)</u>	<u>-</u>	<u>(15,841,133.02)</u>
Net property assets	<u>17,824,608.88</u>	<u>3,266,193.98</u>	<u>21,090,802.86</u>
Total Assets	<u>\$ 21,135,824.29</u>	<u>\$4,045,484.76</u>	<u>\$ 25,181,309.05</u>

The notes to the financial statements are an integral part of this statement.

**MUSKINGUM WATERSHED CONSERVANCY DISTRICT
STATEMENT NET ASSETS – MODIFIED CASH BASIS -
MAIN DISTRICT AND SUB-DISTRICTS COMBINED
AS OF DECEMBER 31, 2005**

	<u>Main District</u>	<u>Sub-Districts</u>	<u>Total Memorandum Only</u>
LIABILITIES & FUND BALANCE:			
Current Liabilities			
Accounts payable	\$ 503,956.95	\$ -	\$ 503,956.95
Bonds payable – portion due within one year	297,491.08	-	297,491.08
Accrued interest payable	100.00	-	100.00
Performance bond payable	6,200.00	-	6,200.00
Escrow land rentals	825.00	-	825.00
Accrued health insurance	504,623.21	-	504,623.21
Accrued taxes	363.56	-	363.56
Accrued life insurance	5,238.96	-	5,238.96
Accrued industrial insurance	223,819.11	-	223,819.11
Accrued disability income	4,799.45	-	4,799.45
Accrued retirement insurance	29,102.35	-	29,102.35
Total current liabilities	<u>1,576,519.67</u>	<u>-</u>	<u>1,576,519.67</u>
Long-Term Liabilities			
Accounts payable	-	14,451.69	14,451.69
Loan payable – local committee	-	15,000.00	15,000.00
Loan payable - Ohio water commission	-	6,000.00	6,000.00
Bonds payable – portion due after one year	7,316,548.07	-	7,316,548.07
Deferred revenue	63,192.39	-	63,192.39
Total long-term liabilities	<u>7,379,740.46</u>	<u>35,451.69</u>	<u>7,415,192.15</u>
Total Liabilities	<u>8,956,260.13</u>	<u>35,451.69</u>	<u>8,991,711.82</u>
Net Assets	<u>\$12,179,564.16</u>	<u>\$4,010,033.07</u>	<u>\$16,189,597.23</u>

The notes to the financial statements are an integral part of this statement.

**MUSKINGUM WATERSHED CONSERVANCY DISTRICT
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS -
MAIN DISTRICT AND SUB-DISTRICTS COMBINED
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Main District	Sub-Districts	Total Memorandum Only
OPERATING RECEIPTS:			
Timber sales	\$ 397,828.49	\$ -	\$ 397,828.49
Pine/pulpwood sales	177,871.57	-	177,871.57
Land and building rentals	35,037.27	-	35,037.27
Collection of Assessments	-	370,117.65	370,117.65
Interest on deposits	-	19,564.62	19,564.62
Land rental and miscellaneous	-	240.00	240.00
Mineral rights and royalties	334,656.68	-	334,656.68
Share crop leases	204,641.90	-	204,641.90
Assessments	1,746,452.74	-	1,746,452.74
Watershed management	22,793.75	-	22,793.75
Road maintenance	8,262.00	-	8,262.00
Cottage sites	1,529,013.36	-	1,529,013.36
Private docks	400,500.00	-	400,500.00
Clubs	59,641.27	-	59,641.27
Water and sewage maintenance	41,056.05	-	41,056.05
Lake patrol operations	41,177.12	-	41,177.12
Marina operations	574,778.56	-	574,778.56
Fishing rights	62,646.74	-	62,646.74
Marina camping	75,918.29	-	75,918.29
Easements/right of ways	1.00	-	1.00
Water resources/flood control	27,125.00	-	27,125.00
Cottage construction permits	6,541.00	-	6,541.00
Capital credit refunds	14,588.47	-	14,588.47
Chippewa subdistrict reimbursement	54,471.46	-	54,471.46
Miscellaneous income	41,212.09	-	41,212.09
Rental boats	17,810.00	-	17,810.00
Refreshment stand	4,178.00	-	4,178.00
Vacation cabins	330,727.79	-	330,727.79
Activity centers	62,169.11	-	62,169.11
Park camping	3,387,900.34	-	3,387,900.34
Firewood	18,167.50	-	18,167.50
Trailer storage	158,391.46	-	158,391.46
Trailer pump out	28,566.00	-	28,566.00
Admissions – park facilities	130,673.85	-	130,673.85
Safety	4,617.19	-	4,617.19
Special events	11,220.30	-	11,220.30
Total operating receipts	10,010,636.35	389,922.27	10,400,558.62

The notes to the financial statements are an integral part of this statement.

**MUSKINGUM WATERSHED CONSERVANCY DISTRICT
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS -
MAIN DISTRICT AND SUB-DISTRICTS COMBINED
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Main District</u>	<u>Sub-Districts</u>	<u>Total Memorandum Only</u>
OPERATING DISBURSEMENTS:			
Water resources/flood control expense	5,491.36	-	5,491.36
Improvements to district properties	51,546.89	-	51,546.89
Office remodeling and equipment	42,451.75	-	42,451.75
Lake access improvements	2,237.18	-	2,237.18
Land and building rentals	11,326.61	-	11,326.61
Share crop expenses	142,618.93	-	142,618.93
Atwood lodge – net loss	593,724.02	-	593,724.02
Mineral operation expenses	6,835.75	-	6,835.75
Watershed management	70,438.86	-	70,438.86
Assessment	2,060,885.27	-	2,060,885.27
Auto and truck repairs and maintenance	149,830.97	-	149,830.97
Office building repairs and maintenance	64,608.64	-	64,608.64
Administrative and finance	984,729.24	-	984,729.24
Engineering	252,903.75	-	252,903.75
Forestry maintenance expense	160,996.93	-	160,996.93
Park camping expense	1,598,468.90	-	1,598,468.90
Cottage site expenses	429,278.84	-	429,278.84
General park facilities expense	1,072,386.82	-	1,072,386.82
Cost of lake dredging	4,412.86	-	4,412.86
Expense of public launching facilities	48,404.67	-	48,404.67
Vacation cabin expense	128,868.83	-	128,868.83
Marina operation expenses	78,175.79	-	78,175.79
Water and sewer system expenses	327,581.84	-	327,581.84
Lake patrol operation expenses	128,998.74	-	128,998.74
Public information expense	87,989.41	-	87,989.41
Safety expenses	75,264.23	-	75,264.23
Depreciation expense	732,255.50	-	732,255.50
Other recreation maintenance expense	675,042.83	-	675,042.83
Total operating disbursements	<u>9,987,755.41</u>	<u>-</u>	<u>9,987,755.41</u>
Excess of operating receipts			
Over operating disbursements	22,880.94	389,922.27	412,803.21
Non-Operating Activities			
Inter-Fund Transfers In	16,764.53	-	16,764.53
Inter-Fund Transfers Out	(16,764.53)	-	(16,764.53)
Interest on Investments	<u>31,710.30</u>	<u>-</u>	<u>31,710.30</u>
Net Income (Loss)	54,591.24	389,922.27	444,513.51
Net Assets – January 1, 2005	4,154,690.69	3,620,110.80	7,774,801.49
Prior Period Adjustments	<u>7,970,282.23</u>	<u>-</u>	<u>7,970,282.23</u>
Net Assets – January 1, 2005 RESTATED	12,124,972.92	3,620,110.80	15,745,083.72
Net Assets – December 31, 2005	<u>\$12,179,564.16</u>	<u>\$4,010,033.07</u>	<u>\$16,189,597.23</u>

The notes to the financial statements are an integral part of this statement.

**MUSKINGUM WATERSHED CONSERVANCY DISTRICT
STATEMENT OF CASH FLOWS – MODIFIED CASH BASIS -
MAIN DISTRICT
FOR THE YEAR ENDED DECEMBER 31, 2005**

<u>Cash Flows from Operating Activities</u>	
Cash received from customers	\$8,082,231.00
Cash payments to suppliers for goods and services	(3,210,445.00)
Cash payments to employees	<u>(4,326,529.00)</u>
Net cash provided by operating activities	<u>545,257.00</u>
<u>Cash Flows from Capital and Related Financing Activities</u>	
Proceeds from capital debt	1,682,279.00
Capital contributions	203,996.00
Interest paid on capital debt	(171,474.00)
Acquisitions and construction of assets	(1,920,934.00)
Principal payment on revenue and note payable	<u>(205,710.00)</u>
Net cash used in capital and related financing activities	<u>(411,843.00)</u>
<u>Cash Flows from Investing Activities</u>	
Receipts of interest earnings	<u>31,707.11</u>
Net cash provided by investing activities	<u>31,707.11</u>
Net increase in cash and cash equivalents	165,121.11
Cash and cash equivalents at beginning of year	<u>793,352.28</u>
Cash and cash equivalents at end of year	<u>\$ 958,473.39</u>
<u>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</u>	
Excess of operating receipts over operating disbursements	\$ 22,880.94
Adjustments to reconcile excess of operating receipts over Operating disbursements to net cash provided by operating activities:	
Depreciation	732,255.50
Changes in assets and liabilities:	
Increase in accounts receivable	(407,785.84)
Increase in accounts payable	111,416.58
Increase in performance bond payables	500.00
Increase in accrued health insurance	20,506.50
Increase in accrued life insurance	550.04
Decrease in accrued industrial insurance	(22,251.47)
Decrease in accrued disability income	(828.69)
Increase in accrued retirement insurance	14,153.42
Increase in deferred revenue	50,486.37
Increase in other	<u>23,373.65</u>
Total adjustments	<u>522,376.06</u>
Net cash provided by operating activities	<u>\$ 545,257.00</u>

The notes to the financial statements are an integral part of this statement.

**MUSKINGUM WATERSHED CONSERVANCY DISTRICT
STATEMENT OF NET ASSETS -
MODIFIED CASH BASIS – SUB-DISTRICTS
AS OF DECEMBER 31, 2005**

	<u>Chippewa</u>	<u>Duck Creek</u>	<u>Blackfork</u>	<u>Buffalo Creek</u>	<u>Total</u>
ASSETS:					
Current Assets					
Cash in bank	\$ 771,137.95	\$ 8,152.83	\$ -	\$ -	\$ 779,290.78
Non-Current Assets					
Capitalized development costs and land costs	<u>3,231,378.52</u>	<u>5,400.32</u>	<u>1,822.26</u>	<u>27,592.88</u>	<u>3,266,193.98</u>
Total Assets	<u>\$4,002,516.47</u>	<u>\$13,553.15</u>	<u>\$1,822.26</u>	<u>\$27,592.88</u>	<u>\$4,045,484.76</u>
LIABILITIES AND NET ASSETS:					
Long-Term Liabilities					
Accounts payable	\$ -	\$ 36.55	\$1,822.26	\$12,464.98	\$ 14,323.79
Receipts and advances	-	-	-	127.90	127.90
Loan from local committee	-	-	-	15,000.00	15,000.00
Ohio water commission	<u>-</u>	<u>6,000.00</u>	<u>-</u>	<u>-</u>	<u>6,000.00</u>
Total long-term liabilities	<u>-</u>	<u>6,036.55</u>	<u>1,822.26</u>	<u>27,592.88</u>	<u>35,451.69</u>
Total Net Assets	<u>\$4,002,516.47</u>	<u>\$ 7,516.60</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$4,010,033.07</u>

**MUSKINGUM WATERSHED CONSERVANCY DISTRICT
STATEMENT OF ACTIVITIES -
MODIFIED CASH BASIS – SUB-DISTRICTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Chippewa</u>	<u>Duck Creek</u>	<u>Blackfork</u>	<u>Buffalo Creek</u>	<u>Total</u>
Operating Receipts:					
Collection of assessments	\$ 370,117.65	\$ -	\$ -	\$ -	\$ 370,117.65
Interest on deposits	19,516.76	47.86	-	-	19,564.62
Land rental and miscellaneous	<u>240.00</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>240.00</u>
Total operating receipts	<u>389,874.41</u>	<u>47.86</u>	<u>-</u>	<u>-</u>	<u>389,922.27</u>
Operating Disbursements:					
Repairs and maintenance (\$55,323.93 capitalized)	-	-	-	-	-
Contract services (\$82,090.65 capitalized)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total operating disbursements	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of operating receipts over operating disbursements	389,874.41	47.86	-	-	389,922.27
NET ASSETS JANUARY 1, 2005	<u>3,612,642.06</u>	<u>7,468.74</u>	<u>-</u>	<u>-</u>	<u>3,620,110.80</u>
NET ASSETS DECEMBER 31, 2005	<u>\$4,002,516.47</u>	<u>\$7,516.60</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$4,010,033.07</u>

**MUSKINGUM WATERSHED CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005**

1. Summary of Significant Accounting Policies:

A. Type of Reporting Entity:

The Muskingum Watershed Conservancy District was created as a separate political subdivision by the Ohio Legislature in 1933. The Muskingum Watershed 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 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 2005 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 district is a separate governmental entity within the eighteen county area served by the district.

2005 Board of Directors:

David E. Brightbill - Member	Term Expires July 18, 2007
Steve Kokovich – Vice President	Term Expires June 3, 2008
Thomas L. Tribbie - Member	Term Expires July 18, 2009
Harry Horstman – President	Term Expires June 3, 2010
Joanne Limbach - Member	Term Expires June 8, 2006

2005 Officers:

John M. Hoopingarner – Executive Director/Secretary
Richard A. Bible – Manager of Operations/Chief Engineer
James B. Cugliari – Chief Financial Officer/Treasurer

Services provided by the 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.

**MUSKINGUM WATERSHED CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
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The 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

Sub-districts:

Chippewa sub-district, Black Fork Sub-district, Buffalo sub-district and Duck Creek Sub-district are 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 conservancy district is going through a readjustment of the assessment of Chippewa sub-district so that additional maintenance funds can be obtained to maintain the project. Black Fork sub-district, Buffalo Creed Sub-district and Duck Creek sub-districts are inactive.

B. Basis of Accounting:

The district keeps its books on a modified cash basis of accounting.

New Accounting Pronouncements:

The District has implemented a new financial reporting model, as required by the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments; GASB Statement No. 37, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus and Statement No. 38, Certain Financial Statement Note Disclosures, as amended and interpreted, as of January 1, 2004. These statements revise accounting and reporting standards for general purpose external financial reporting by governmental units. These statements change the District's presentation of net assets and require the inclusion of management's discussion and analysis.

The Authority will continue applying all applicable pronouncements issued by the GASB.

Receipts/Receivables:

Under this modified cash method of accounting the following operating receipts (as reported on the enterprise fund statements of receipts, disbursements and changes in fund balances) are accrued (billed):

- Water sales (to City of Cambridge)
- Land, building and cottage rentals
- State of Ohio & Division of Water Craft/Wildlife expense reimbursements for safety patrol rangers, use of lakes for fishing, etc.
- Private dock income
- Club income
- Billings for water and sewage for cottages
- Division of wildlife conservation lease
- Reimbursement of utility and maintenance fees for Atwood Lodge

Other items of operating receipts are recorded as received.

**MUSKINGUM WATERSHED CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005**

Disbursements/Payables:

Under this modified cash method of accounting the following items of expenses are accrued (set up as payables):

- Employee health insurance premiums
- Industrial insurance

Insurance is recorded as paid and prepaid insurance is not recorded.
Accumulated unpaid vacation and sick pay is not accrued (see Note G)

Payroll is not accrued and checks for withheld federal, state, and city income tax withheld are prepared with individual payrolls so no accrual is necessary for these at year end.

Other disbursements are not accrued.

Enterprise Funds:

The district reports its activity in an enterprise fund. The enterprise fund is accounted for in a manner similar to private business enterprises where the intent of management is that the costs and expenses of providing goods and services to the general public on a continuing basis be covered primarily through user charges.

C. Cash and Investments:

Investments are reported as assets. Accordingly, purchases of investments are not reported as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively. The district had no investments during 2005 and 2004.

D. Fund Accounting:

Main District:

The district maintains its accounting records in accordance with the principles of "Fund" accounting.

The district had four separate activities included in its enterprise fund during 2005:

- (1) Improvement activity
- (2) Maintenance activity
- (3) Recreation Improvement activity
- (4) Bond activity

The transactions of each activity are reflected in a self-balancing group of accounts.

Fund Accounting:

There are four sub-districts: Chippewa sub-district, Duck Creek sub-district, Black Fork sub-district, and Buffalo Creek sub-district. Chippewa sub-district has Improvement, Maintenance, Bond and Preliminary Funds. Duck Creek sub-district, Black Fork sub-district and Buffalo Creek sub-district have only Preliminary Funds.

**MUSKINGUM WATERSHED CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005**

E. Budgetary Process:

Budget:

The 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 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 District's revenues and expense 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 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 reappropriation.

Encumbrances:

The 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 reappropriated.

F. Property Assets/Depreciation:

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

Property, plant and equipment acquired by the 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 (in years)</u>
Machinery, equipment, vehicles, furniture and fixtures	5-10
Buildings and building improvements	39.5

**MUSKINGUM WATERSHED CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005**

G. Accumulated Unpaid Vacation, Sick Leave, Compensatory and Personal Items:

Accumulated unpaid vacation, sick leave, compensatory and personal time are not accrued under the modified cash basis of accounting described in Note 1.B. All leave will either be absorbed by time off from work or, within certain limitations, be paid to the employees.

2. Pooled Cash and Cash Equivalents:

A. Classification:

The district maintains a cash and investment pool used by all funds. The pooled cash and investments are presented on the financial statements as “pooled cash and cash equivalents”.

B. Legal Requirements:

GASB 3 requires that the pooled cash and investments of the District/sub-districts be presented in accordance with the following credit risk categories:

Category 1:

Bank balances insured or collateralized with securities held by the District/sub-district or its agent in the District/sub-district’s name.

Investments insured or registered, or securities held by the District/sub-district or its agent in the District/sub-district’s name.

Category 2:

Bank balances collateralized with securities held by the pledging financial institution’s trust department or agent in the District/sub-district’s name.

Investments uninsured and unregistered, with securities held by the counterparty’s trust department or agent in the District/sub-district’s name.

Category 3:

Bank balances uncollateralized (this includes any bank balance that is collateralized with securities held by the pledging financial institution, or by the pledging financial institution, or by its trust department or agent but not in the District/sub-district’s name.

Investments uninsured and unregistered, with securities held by the counterpart, or by its trust department or agent but not in the District/sub-district’s name.

C. GASB 3 Classification of Pooled Cash and Cash Equivalents by Risk Category:

Main District:

12/31/2005 Pooled Cash and Cash Equivalents:

Category 1:

1. Petty cash and change funds	\$ 2,500.00
Category 1 Total	<u>\$ 2,500.00</u>

Category 2:

1. Cash in Bank (General checking, credit card accounts)	\$168,852.82
2. Bank Certificates of Deposit and Construction Accounts	787,020.57
3. Bond coupons with State Treasurer	<u>100.00</u>
Category 2 Total	<u>\$955,973.39</u>

Main District – 12/31/05 Totaled Pooled cash and Cash Equivalents	<u>\$958,473.39</u>
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**MUSKINGUM WATERSHED CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005**

12/31/05 Pooled Cash and Cash Equivalents:

Chippewa Sub-district:

Category 2:

1. Cash in Bank – general checking and Certificates of Deposit	<u>\$771,137.95</u>
Category 2 Total	<u>\$771,137.95</u>

Chippewa sub-district 12/31/05 Total Cash and Cash Equivalents \$771,137.95

Duck Creek Sub-district:

Category 2:

1. Cash in Bank – general checking and Certificates of Deposit	<u>\$ 8,152.83</u>
Category 2 Total	<u>\$ 8,152.83</u>

Duck Creek sub-district – 12/31/05 Total Cash and Cash Equivalents \$ 8,152.83

Sub-districts – 12/31/05 Total Pooled Cash and Cash Equivalents \$779,290.78

3. Capital Assets

Proprietary capital assets – summary by category at December 31, 2005

Historical Cost:

Class	December 31, 2004	Additions	Deletions	December 31, 2005
Capital assets not being depreciated:				
Land	\$ 2,171,278.93	\$ -	\$ -	\$ 2,171,278.93
Development costs and land purchases	<u>6,272,650.67</u>	<u>1,776,805.14</u>	-	<u>8,049,455.81</u>
Subtotal	<u>8,443,929.60</u>	<u>1,776,805.14</u>	-	<u>10,220,734.74</u>
Capital assets being depreciated:				
Building and improvements	20,342,354.88	-	-	20,342,354.88
Machinery and equipment	4,534,543.59	98,708.30	-	4,633,251.89
Office furniture and fixtures	526,777.05	3,904.28	-	530,681.33
Autos and trucks	<u>1,163,397.04</u>	<u>41,516.00</u>	-	<u>1,204,913.04</u>
Subtotal	<u>26,567,072.56</u>	<u>144,128.58</u>	-	<u>26,711,201.14</u>
Total cost	<u>\$35,011,002.16</u>	<u>\$1,920,933.72</u>	<u>\$ -</u>	<u>\$36,931,935.88</u>

**MUSKINGUM WATERSHED CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005**

Accumulated Depreciation

<u>Class</u>	<u>Restated December 31, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>December 31, 2005</u>
Capital assets being depreciated:				
Building and improvements	\$11,308,994.51	\$301,772.05	\$ -	\$11,610,766.56
Machinery and equipment	2,751,710.52	296,994.24	-	3,048,704.76
Office furniture and fixtures	229,334.33	52,905.45	-	282,239.78
Autos and trucks	<u>883,012.16</u>	<u>80,583.76</u>	<u>(64,174.00)</u>	<u>899,421.92</u>
Total depreciation	<u>15,173,051.52</u>	<u>732,255.50</u>	<u>(64,174.00)</u>	<u>15,841,133.02</u>
Net value	<u>\$19,837,950.64</u>			<u>\$21,090,802.86</u>

4. Risk Management

4A. Comprehensive Liability Insurance:

The 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. Aviation liability
- G. Umbrella liability
- H. Public employee disability
- I. 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 years 2005 and 2004.

4B. Self-insurance:

Muskingum Watershed Conservancy District has a self-funded health insurance plan administered by third party administrator Aultcare. Healthcare costs expended during 2005 were \$217,688, not including administrative costs of the plan of \$97,800.

The monthly premium in 2005 for a single employee is \$305.14, \$479.07 for an employee plus 1, and for the family of an employee is \$724.11.

The overall stop loss for the plan is \$427,452 at 12/31/2005.

The limit per occurrence was \$40,000 in 2005 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.

**MUSKINGUM WATERSHED CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005**

5. Retirement System:

1. Pension Benefit Obligation

All employees of the District participate in the Public Employees Retirement System of Ohio (the "PERS of Ohio"), a cost-sharing multiple employer defined benefit pension plan. PERS of Ohio provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Chapter 145 of the Ohio Revised Code provides statutory authority to establish and amend benefits. The Public Employees Retirement System of Ohio issues a stand-alone financial report that includes financial statements and required supplementary information for the PERS of Ohio. Interested parties may obtain a copy by making "written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or 1-800-'222-PERS (7377).

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rates are 8.5% for employees other than law enforcement and public safety. The law enforcement classification consists of sheriffs, deputy sheriffs, and township police with an employee contribution rate of 10.1%. Public safety division members contribute at 9%. The 2005 employer contribution rate for local government employer units the rate was 13.55% of covered payroll. The 2005 employer contribution rate for both the law enforcement and public safety divisions was 16.70% of covered payroll. The District's contributions to the PERS of Ohio for the year ending 2003, 2004 and 2005 was \$525,082, \$499,385, and \$441,350 respectively.

2. Other Postemployment Benefits

Ohio Public Employees Retirement System (OPERS) provides postemployment health care benefits to age service retirants with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is also available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to the OPERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The OPERS law enforcement program is separated into two divisions, law enforcement and public safety, with separate employee contribution rates and benefits. The 2005 employer contribution rate for state employers was 13.55 % of covered payroll of which 4% was the portion used to fund health care for the year. For both the public safety and law enforcement divisions the 2005 employer rate was 16.70% and 4.00% was used to fund health care.

**MUSKINGUM WATERSHED CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005**

The health inflation and significant actuarial assumptions and calculations relating to postemployment ; health care benefits were based on the OPERS latest actuarial review performed as of December 31, 2004. OPEBs are advance-funded on an actuarially determined basis. There were 355,285 active contributing participants in the OPERS as of December 31, 2004. An entry age normal actuarial cost method of valuation was used in determining the present value of benefit liabilities and normal cost. The difference between assumed and actual experience (actuarial gains and losses) became part of unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets. The investment assumption rate for 2004 was 8%. An annual increase of 4% compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4% *base increase*, were assumed to range from .5% to 6.3%. Health care costs were assumed to increase at the project wage inflation rate plus an additional factor ranging from 1% to 6% for the next 8 years. In subsequent years health care costs were assumed to increase at 4% annually.

\$10.8 billion represents the actuarial value of the Retirement System's net assets available for OPEB at December 31, 2004. The actuarially accrued liability and the unfounded actuarial accrued liability, based on the actuarial cost method used, were \$29.5 billion and \$18.7 billion, respectively.

6. Ohio Public Employees' Deferred Compensation Program:

Employees of the Muskingum Watershed Conservancy District may elect to participate in the Ohio Public Employees Deferred Compensation Program. Under this program, employees elect to have a portion of their pay deferred until a future time, usually after retirement. The deferred pay and interest earned on it is not subject to income taxation until actually received by the employee. This program was established pursuant to Ohio Revised Code Sections 145.71 – 145.76.

Under the terms of the deferred compensation plan agreement these funds are held in trust for the exclusive benefit of the participants and their beneficiaries. These amounts are not included in the District's financial statements.

7. Legal Proceedings:

The 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 district's financial position.

**MUSKINGUM WATERSHED CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005**

8. Bonds Payable:

Muskingum Watershed Conservancy District has three bonds payable outstanding at December 2005, as follows:

- 8A.** This is a \$1,300,000.00, 4.75%, fifteen year Revenue Bond dated February 24, 1998, and maturing February 24, 2013. This bond was purchased by Key Bank of Cleveland, Ohio. Funds were borrowed for the renovation, construction and improvement to the Muskingum Watershed Conservancy District administration building in New Philadelphia, Ohio. Principal and interest is due the 24th day of each month starting March 24, 1998.

Bond principal is due as follows:

2006	\$ 88,295.27
2007	92,581.79
2008	97,076.46
2009	101,789.30
2010	106,730.97
Thereafter	<u>249,363.62</u>
Total	<u>\$735,837.41</u>

- 8B.** This is a \$1,300,000.00, 5.31%, fifteen year Revenue Bond dated December 17, 1999 and maturing December 13, 2014. This bond was purchased by Key Bank of Cleveland, Ohio. Funds 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 and all necessary appurtenances thereto. Principal and interest is due the 13th day of each month starting January 13, 2000.

Bond principal is due as follows:

2006	\$ 80,079.81
2007	84,437.06
2008	89,031.41
2009	93,875.77
2010	98,983.69
Thereafter	<u>452,804.00</u>
Total	<u>\$899,211.74</u>

**MUSKINGUM WATERSHED CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005**

- 8C.** This is a \$550,692.22, 5.56% Cooperative Agreement with Ohio Water Development Authority for construction of a 75,000 and a 10,000 gallon water tank and 3,807 linear feet of 6" water line and 3,676 linear feet of 4" water line at Tappan Lake Park. The agreement date is April 15, 1999 with a contract term of twenty-five years with the first semi-annual payment due January 1, 2000 and the final payment due July 1, 2024. Principal and interest is due January 1 and July 1 with the first payment due January 1, 2000.

Bond principal is due as follows:

2006	\$ 14,677.00
2007	15,935.00
2008	16,833.31
2009	17,782.25
2010	18,784.69
Thereafter	<u>393,684.75</u>
Total	<u>\$477,697.00</u>

- 8D.** This is a \$795,000 agreement with Consumers Ohio Water Company for improved and upgraded water system at Charles Mill Sites Lake cottages. The agreement is dated December, 2002 with a contract term of twenty five years with monthly payments due March 1, 2003.

Bond principal is due as follows:

2006	\$ 14,439.00
2007	14,782.22
2008	15,929.80
2009	17,166.47
2010	18,499.14
Thereafter	<u>674,023.37</u>
Total	<u>\$754,840.00</u>

- 8E.** This is a \$1,746,453 open-ended loan up to \$3,800,000 from OWDA. This is a 5.0% interest bearing loans with a balloon payment due fives years from the December 16, 2004 signing date,

- 8F.** This is a \$3,095.00 revenue bond issued by Fifth Third Bank for Atwood Resort renovations. This 20-year variable rate note was issued on April 23, 2003.

Bond principal is due as follows:

2006	\$ 100,000.00
2007	105,000.00
2008	115,000.00
2009	120,000.00
2010	125,000.00
2011	135,000.00
Thereafter	<u>2,300,000.00</u>
Total	<u>\$3,000,000.00</u>

**MUSKINGUM WATERSHED CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005**

9. Long-Term Debt

Long-term debt obligations of the District at December 31, 2005 were as follows:

	<u>December 31, 2004</u>	<u>Additions (Deletions)</u>	<u>December 31, 2005</u>	<u>Amount Due Within One Year</u>
Long-term debt				
4.75% Revenue Bond	\$ 820,044.58	\$ (84,207.17)	\$ 735,837.41	\$ 88,295.27
5.31% Revenue Bond	975,159.11	(75,947.37)	899,211.74	80,079.81
5.56% OH Water Dev. Auth.	484,739.06	(7,042.06)	477,697.00	14,677.00
7.50% Con OH Water Co.	774,140.03	(19,300.03)	754,840.00	14,439.00
Variable Rate Revenue Bond	3,095,000.00	(95,000.00)	3,000,000.00	100,000.00
5.00% OH Water Dev. Auth.	<u>-</u>	<u>1,746,453.00</u>	<u>1,746,453.00</u>	<u>-</u>
Total long-term debt	<u>6,149,082.78</u>	<u>1,464,956.37</u>	<u>7,614,039.15</u>	<u>297,491.08</u>

A summary of the District's future long-term debt funding requirements, including principal and interest payments as of December 3, 2005 follows:

<u>Years</u>	<u>Revenue Bonds</u>		<u>Promissory Notes</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 268,375.00	\$ 78,864.00	\$ 29,116.00	\$ 82,572.00
2007	282,019.00	70,221.00	31,057.00	80,630.00
2008	301,107.00	61,131.00	33,130.00	78,557.00
2009	315,665.00	51,574.00	1,784,466.00	162,059.00
2010	330,715.00	41,525.00	37,713.00	73,975.00
Thereafter	<u>3,137,168.00</u>	<u>64,330.00</u>	<u>1,063,508.00</u>	<u>686,868.00</u>
	<u>\$4,635,049.00</u>	<u>\$367,645.00</u>	<u>\$2,978,990.00</u>	<u>\$1,164,661.00</u>

10. Prior Period Adjustment

The following activity resulted in the January 1, 2005 net assets to be restated:

Increase in notes payable for note not recorded in 2004	\$(3,095,000.00)
Decrease in accumulated depreciation for change in method from 100% expensing to straight-line	7,970,282.23
Increase in fixed assets for assets not recorded in 2004	<u>3,095,000.00</u>
	<u>\$ 7,970,282.23</u>



**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***

Board of Directors
Muskingum Watershed Conservancy District
New Philadelphia, Ohio 44663

We have audited the financial statements of Muskingum Watershed Conservancy District (the District) and the aggregate discretely presented component units (sub-districts) as of and for the year ended December 31, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 28, 2008. 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

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the District's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the District's internal control will not prevent or detect a material financial misstatement.

**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*
(CONTINUED)**

Internal Control Over Financial Reporting (Continued)

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

This report is intended solely for the information and use of the audit committee, management, the Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

S. R. Smolgrass, A.C.

Steubenville, Ohio
March 28, 2008



Mary Taylor, CPA
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
JULY 8, 2008**