



Rea & associates *a brighter way*

Muskingum Watershed Conservancy District Tuscarawas County, Ohio

Audited Financial Statements

For the Year Ended
December 31, 2015



Dave Yost • Auditor of State

Board of Directors
Muskingum Watershed Conservancy District
PO 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, 2015 through December 31, 2015. 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 15, 2016

This page intentionally left blank.

**MUSKINGUM WATERSHED CONSERVANCY DISTRICT
TUSCARAWAS COUNTY**

DECEMBER 31, 2015

Table of Contents

	<i>Page</i>
Independent Auditor’s Report	1-2
Management’s Discussion and Analysis	4-13
Statement of Net Position– Proprietary Fund	14
Statement of Revenues, Expenses and Changes in Net Position – Proprietary Fund	15-16
Statement of Cash Flows – Proprietary Fund	17
Notes to the Basic Financial Statements	18-46
Required Supplementary Information:	
Schedule of the Conservancy District’s Proportionate Share of Net Pension Liability	47
Schedule of Conservancy District Contributions	48
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	49-50

This page intentionally left blank.

April 22, 2016

To the Board of Directors
Muskingum Watershed Conservancy District
Tuscarawas County, Ohio
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 Muskingum Watershed Conservancy District, Tuscarawas County, Ohio, (the Conservancy District) as of and for the year ended December 31, 2015, 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 financial position of the Muskingum Watershed Conservancy District, Tuscarawas County, Ohio, as of December 31, 2015, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As described in Note 2, the Conservancy District restated the net position balance to account for the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedule of Conservancy District's Proportionate Share of the Net Pension Liability, and Schedule of Conservancy District Contributions on pages 4–13, 47, and 48, respectively, 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 22, 2016 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 Conservancy District's internal control over financial reporting and compliance.

Hea & Associates, Inc.

New Philadelphia, Ohio

This page intentionally left blank

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

*Management's Discussion and Analysis
For the Year Ended December 31, 2015*

The discussion and analysis of the Muskingum Watershed Conservancy District's (the "Conservancy District") financial performance provides an overall review of the Conservancy District's financial activities for the year ended December 31, 2015. 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 2015 are as follows:

- Net position decreased \$3,782,124 as a result of current year operations.
- Outstanding debt decreased from \$988,762 to \$926,887 through principal payments.
- Capital Assets increased \$8,612,606 as a result of increase in park master planning projects.
- The Conservancy District implemented GASB 68 in 2015, which reduced beginning net position by \$5,266,282.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

*Management's Discussion and Analysis
For the Year Ended December 31, 2015*

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 2015 and 2014 derived from the statement of net position and the statement of revenues, expenses, and changes in net position.

	2015	Restated 2014
Assets		
Current and Other Assets	\$ 176,134,619	\$ 188,409,945
Capital Assets, net	39,420,610	30,808,004
<i>Total Assets</i>	215,555,229	219,217,949
 Dererred Outflows of Resources		
Pensions	1,213,115	782,303
 Liabilities		
Current Liabilities	2,273,399	1,899,050
Long-Term Liabilities	7,673,646	7,611,681
<i>Total Liabilities</i>	9,947,045	9,510,731
 Deferred Inflows of Resources		
Pensions	113,902	0
 Net Position		
Net Investment in Capital Assets	37,853,296	29,228,384
Restricted	18,426,501	16,259,264
Unrestricted	150,427,600	165,001,873
<i>Total Net Position</i>	\$ 206,707,397	\$ 210,489,521

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

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

*Management's Discussion and Analysis
For the Year Ended December 31, 2015*

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

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

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

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

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

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

*Management's Discussion and Analysis
For the Year Ended December 31, 2015*

portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

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

As a result of implementing GASB 68, the District is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. This implementation also had the effect of restating net position at December 31, 2014, from \$215,755,803 to \$210,489,521.

During 2015, net position decreased \$3,782,124 which is attributable to expenditures outpacing revenues, the expenditures mainly are from park master plan planning. The decrease in current and other assets is mainly attributable to a decrease in cash and investments due to capital asset projects and park master plan planning. Capital assets increased due to a number of construction projects such as the completion of the Chestnut Grove wastewater treatment plant, paving of roadways in the Sites Lake cottage area and also in Charles Mill West Shore cottage area, and the purchase of Clendening Marina. Large projects that were in process at the end of the year were the Atwood Welcome Center and the Tappan Dredging project. There were also a number of shoreline stabilization projects completed, the vehicle and equipment fleet was upgraded, and a number of docks throughout the Conservancy District were upgraded. Current liabilities increased due to the timing of payments mostly related to the construction projects in progress at December 31, 2015.

In order to further understand what makes up the changes in net position for the current year, the following table gives readers further details regarding the results of activities for 2015 and 2014.

	2015	2014
Operating Revenues		
Timber Sales	\$ 406,911	\$ 398,276
Pine-Pulpwood Sales	130,215	139,656
Easements/Right of Ways	294,117	228,619
Mineral Rights and Royalties	5,749,753	109,566,548
Share Crop Lease	234,411	200,311
Cottage Sites	2,729,494	2,698,286
Marina Operations	1,569,020	1,305,279
Fishing Rights	62,648	62,648
Marina Camping	425,191	227,986
Water Sales	1,565,194	843,090
Beach Facilities	173,548	138,064
Water and Sewer Systems	88,370	136,569
Vacation Cabin	439,469	438,523
Park Camping	4,879,672	4,669,495
Admissions - park facilities	158,883	138,189
Special Events	119,424	135,712
Miscellaneous Income	54,081	56,917
<i>Total Operating Revenues</i>	\$ 19,080,401	\$ 121,384,168

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

*Management's Discussion and Analysis
For the Year Ended December 31, 2015*

	<u>2015</u>	<u>2014</u>
Operating Expenses		
Water Sales	\$ 63,867	\$ 80,949
Water quality	1,078,922	126,636
Vehicles and equipment	570,250	380,317
Dam Safety/Upgrades	4,007,194	8,719,291
Boundary survey	73,607	57,914
Conservation	395,178	173,959
Reservoir Maintenance	114,832	17,516
Information Systems/Technology	459,659	341,328
Shoreline Protection	194,109	197,476
Share crop	271,910	310,145
Mineral operation	482,305	544,738
Watershed management	468,916	493,055
Beach facilities	258,209	241,248
Office building	256,281	281,407
Administrative and finance	1,686,004	1,913,227
Engineering	309,632	414,598
Planning and development	199,664	283,576
GIS and Parcel Development	268,266	241,517
Forestry maintenance	242,740	166,409
Park camping	2,464,057	2,668,278
Park Master Planning	4,490,709	88,693
Cottage sites and clubs	1,042,100	988,424
General park facilities	3,532,151	2,770,621
Vacation cabin	131,271	94,321
Marina operation	1,387,993	991,297
Water and sewer system	980,524	658,158
Lake patrol operation	342,186	351,958
Education and public information	340,592	329,210
Safety	203,447	150,136
Recreation maintenance	38,454	110,723
Parks - special events	132,381	124,865
Partners in Watershed Management	844,171	513,286
Sediment Removal	110,171	381,220
Depreciation	2,356,898	1,675,492
	<u>29,798,650</u>	<u>26,881,988</u>
<i>Total Operating Expenses</i>		

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

*Management's Discussion and Analysis
For the Year Ended December 31, 2015*

	2015	2014
Non-Operating Revenues (Expenses)		
Maintenance assessments	\$ 6,262,836	\$ 11,634,517
Grants	98,527	649,282
Interest on investments	649,115	607,946
Debt retirement - Interest	(74,353)	(96,643)
<i>Total Non-Operating Revenues (Expenses)</i>	6,936,125	12,795,102
 <i>Change in Net Position</i>	 \$ (3,782,124)	 \$ 107,297,282

The information necessary to restate the 2014 beginning balances and the 2014 pension expense amounts for the effects of the initial implementation of GASB 68 is not available. Therefore, 2014 functional expenses still include pension expense of \$782,303 computed under GASB 27. GASB 27 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 68, pension expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of pension expense. Under GASB 68, the 2015 statements report pension expense of \$692,458. Consequently, in order to compare 2015 total program expenses to 2014, the following adjustments are needed:

Total 2015 program expenses under GASB 68	\$ 29,798,650
Pension expense under GASB 68	(692,458)
2015 contractually required contribution	881,653
Adjusted 2015 program expenses	29,987,845
Total 2014 program expenses under GASB 27	26,881,988
Increase in program expenses not related pension	\$ 3,105,857

The decrease in operating revenue is the result of there being no new oil and gas leases executed or bonus payments received in 2015 in contrast to the Piedmont Reservoir lease bonus payment received in 2014. In addition, royalties decreased from approximately \$12 million in 2014 to \$5.75 million in 2015, while the number of wells drilled on private property paying royalties to the Conservancy District increased from 13 in 2014 to 29 as of December 31, 2015. This was the result of the overall market conditions with oil and natural gas during 2015. Water sales increased approximately 86% though as a result of continued activity in drilling Utica shale wells during 2015. Park camping and marina operations increased in 2015. Marina revenue increased due to the Conservancy District beginning the self-operation of Clendening marina during 2015. Park revenue increased in part due to a good weather season and also continued success with the on-line reservation system.

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

*Management's Discussion and Analysis
For the Year Ended December 31, 2015*

The operating expenditures increased during 2015; the following highlight some of the main changes. Water quality expenditures increased significantly during 2015. Included in the 2015 expenditures are a couple of contracts with United States Geological Survey (USGS), one for water quality sampling and the other for stream flow, water and weather station monitoring. Vehicle and equipment increased during 2015, this is due to an increase in computer upgrades throughout the Conservancy District, and the implementation of an electronic content management system. There was also an approximate 10% increase in vehicle maintenance. Dam Safety saw a 54% reduction in expenditures due to timing of requests from the United States Army Corps of Engineers (USACE). In 2014 there was a \$7.8 million payment to the USACE for the Bolivar Dam project, in 2015 the payment was approximately \$3 million. There was a 35% increase in information systems/technology. The Conservancy District implemented district wide security training for all full time staff, implemented Office 365 during 2015, and also began the back scanning of our historical documents. Park master planning increased significantly. 2015 was the first significant year of the master plan. The increase in expenditures were a result of contracts for program management and individual park designers. Those expenditures are not capitalized since they are not assignable to a particular project. The parks also performed a task time analysis during 2015 in order to better track their expenditures. As a result, park camping expenditures decreased during 2015 and general park expenditures increased. In addition, 2015 was the first full year of the marketing program and it saw expenditures increase by approximately \$164,000. The park staff also was increased with a Program Coordinator. It was also the first full year for the Business Manager. Marina Operations increased in 2015, due to the first year the Conservancy District self-operated Clendening Marina. Water and sewer systems increased by 49%. This was the result of an increase in repair projects throughout the Conservancy District. The largest was the Sites Lake Sand Filter replacement, which was over \$100,000. In 2015, Partners in Watershed Management increased by 64% due to timing of requests from the grantees and an increase in the number of projects.

Maintenance assessment revenue decreased during 2015, as a result of the 50% reduction in the assessment as approved by the Board of Directors. Grant revenue decreased significantly due to size and scope of projects awarded during 2015.

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

*Management's Discussion and Analysis
For the Year Ended December 31, 2015*

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2015 the Conservancy District had \$39,420,610 of capital assets net of accumulated depreciation. The following table shows 2015 balances compared with 2014:

	<u>2015</u>	<u>2014</u>
Land	\$ 2,086,772	\$ 1,806,650
Capitalized Development Costs	1,189,495	1,189,495
Construction in Progress	3,816,955	1,426,462
Land Improvements	6,825,349	5,945,134
Buildings	7,080,908	5,654,498
Building Improvements	1,863,767	1,600,728
Furniture, Fixtures and Equipment	2,464,806	1,547,538
Vehicles	858,225	699,441
Infrastructure	13,234,333	10,938,058
<i>Totals</i>	<u>\$ 39,420,610</u>	<u>\$ 30,808,004</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, 2015 was \$926,887 with \$64,176 due within one year. The following table summarizes the Conservancy District's debt outstanding as of December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
OWDA #2162 - 5.56%	\$ 274,986	\$ 299,697
OWDA #5413 - 0%	132,220	141,664
OWDA #5575 - 3.25%	496,701	523,143
OWDA #5558 - 3.25%	22,980	24,258
OWDA #6104 - 3.99%	0	0
<i>Totals</i>	<u>\$ 926,887</u>	<u>\$ 988,762</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 Year Ended December 31, 2015*

CURRENT ISSUES

The Utica shale activity in Ohio has presented the Conservancy District with opportunities to utilize its natural resources. With approximately 7,000 additional acres available for lease in the heart of the shale play, the Conservancy District is continuing to develop and implement its plan for the prudent use of the resources it has available. Currently the Conservancy District has leased acreage at Clendening Reservoir, Leesville Reservoir, Seneca Reservoir, and Piedmont Reservoir. The Conservancy District is evaluating options with regards to the remaining available acres. As of December 31, 2015, the Conservancy District has 29 Utica Shale wells drilled under its property. However, 2015 was a volatile year globally for the oil and natural gas markets. This volatility has impacted the royalty revenue the Conservancy District is receiving, and has changed some of the plans the developers had for Conservancy District property.

During 2012, the Conservancy District implemented a strategic planning process and as of December 31, 2015 the Conservancy District had completed or had a significant number of items on-going as a result. Some of those items include but are not limited to reducing sedimentation and erosion in reservoir watersheds, continue the water quality monitoring programs at the Conservancy District reservoirs, create a long term cottage road maintenance program, meet the USACE cost-share obligations for repairs and modifications to dams, develop a reservoir dredging program, develop a park master plan with a prioritized list of capital improvements, develop a general evaluation of all marina operations to create closer partnerships with leased marina operators, and dedicating income in a financially responsible way assuring the long term sustainability of Conservancy District operations.

Given the volatility of the Conservancy District's largest revenue stream, and the fact the strategic plan is 3 years old, the Conservancy District is going to be going through the updating of the strategic plan during 2016. The goal of the strategic planning process will be to develop a plan that will be on-going for the next 3 to 5-year period and will continue to be used during the budgeting process to ensure proper alignment of Conservancy District resources. The Board of Directors also approved during 2015 a Utica Shale Royalty Revenue Distribution plan which will be evaluated annually. So, for 2016, 5% of Utica Shale Revenue will go to future land or building acquisitions, 45% will supplement operational needs and be set aside in a maintenance reserve account for the future, and 50% will be set aside in a reserve account for the future capital needs of the Conservancy District. This distribution will help to ensure the long term sustainability of the Conservancy District.

The park master plan, which will consist of major updates at all five parks and two marinas operated by the Conservancy District kicked off during 2015. One hundred and twenty million dollars has been set-a-side for phase I of the plan. The program manager was hired late during 2014, and over saw the hiring of the individual park designers which also happened during 2015. The individual park designers completed the 30% drawings during 2015 and are now scoping projects that will happen during 2016. The Conservancy District will see a number of projects begin during 2016 as the Board of Directors approved a park master plan budget in excess of \$23 million for 2016. The first significant park master planning projects were on-going during 2015, and include the Atwood welcome center, which will be complete in the second quarter of 2016, and the Atwood trail phase I and phase II. The Atwood trail phase I was

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

*Management's Discussion and Analysis
For the Year Ended December 31, 2015*

completed during 2015, and the trail phase II will be completed during the 2nd quarter of 2016. These trails will connect Atwood Marina West to Atwood Park with a bridge over the lake.

The Conservancy District implemented the sediment removal program during 2015, with the beginning of the Tappan Lake Dredge. The dredging of Tappan Lake began in late 2015 and will carry into 2016. In total the dredge will remove up to 375,000 cubic yards of material out of the lake. The Conservancy District expended approximately \$1.4 million in 2015 for this project, and the 2016 budget is approximately \$9 million. The sediment removal program will protect and extend the useful life of the reservoirs for many years to come by allowing for proper flow storage capacity. This multi-year project will protect people and property within the reservoirs and is a component of the Amendment to the Official Plan.

In the second half of 2014, the Board of Directors approved a 50% reduction in the collection of the maintenance assessment effective for the 2015 collection year. The Board of Directors agreed to not diminish the established plan for the maintenance assessment fund. The difference in the amount not collected was supplemented with moneys derived from the oil and gas activity. In the second half of 2015, the Board again approved a 50% reduction in the collection of the maintenance assessment effective for the 2016 collection year. Again, the board agreed not to diminish the established plan for the maintenance assessment fund, however, for the 2016 year, the Conservancy District will utilize the existing cash balance and will not supplement the maintenance assessment fund with oil and gas dollars.

The Conservancy District continues to be the local cost share sponsor in the US Army Corp of Engineer projects. The current on-going projects are the Dover and Bolivar dam rehabilitations. The board of directors approved a \$1.5 million budget for 2016 for these projects.

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, 2015

Assets	
<i>Current Assets:</i>	
Equity in Pooled Cash and Investments	\$ 171,279,039
Accrued Interest	6,150
Accounts Receivable	2,354,693
Prepays	610,067
Maintenance Assessments Receivable	<u>1,376,261</u>
<i>Total Current Assets</i>	<u>175,626,210</u>
<i>Non-Current Assets:</i>	
Capitalized Costs	491,687
Non-Depreciable Capital Assets	7,093,222
Depreciable Capital Assets, Net	32,327,388
Net Pension Asset	<u>16,722</u>
<i>Total Non-Current Assets</i>	<u>39,929,019</u>
<i>Total Assets</i>	<u>215,555,229</u>
Deferred Outflows of Resources	
Pension	<u>1,213,115</u>
<i>Total Deferred Outflows of Resources</i>	<u>1,213,115</u>
Liabilities	
<i>Current Liabilities:</i>	
Accounts Payable	547,383
Contracts Payable	531,940
Retainage Payable	223,429
Performance Bond Payable	34,700
Escrow Land Rentals	175
Escrow Funds Payable	56
Due to Other Governments	155,376
Accrued Wages and Benefits	259,889
Accrued Interest Payable	100
Accrued Life Insurance	10,353
Claims Payable	183,000
Unearned Revenue	151,293
Compensated Absences	71,271
Capital Leases Payable	40,258
OWDA Loans Payable	<u>64,176</u>
<i>Total Current Liabilities</i>	<u>2,273,399</u>
<i>Long-Term Liabilities:</i>	
Compensated Absences - net of current portion	617,913
OWDA Loans Payable - net of current portion	862,711
Net Pension Liability	<u>6,193,022</u>
<i>Total Long-Term Liabilities</i>	<u>7,673,646</u>
<i>Total Liabilities</i>	<u>9,947,045</u>
Deferred Inflows of Resources	
Pension	<u>113,902</u>
<i>Total Deferred Inflows of Resources</i>	<u>113,902</u>
Net Position	
Net Investment in Capital Assets	37,853,296
Restricted for Maintenance Assessment	18,426,501
Unrestricted	<u>150,427,600</u>
<i>Total Net Position</i>	<u>\$ 206,707,397</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, 2015

Operating Revenues	
Water Sales	\$ 1,565,194
Water and sewer systems	88,370
Timber sales	406,911
Pine/pulpwood sales	130,215
Mineral rights and royalties	5,749,753
Share crop lease	234,411
Cottage sites	2,729,494
Marina operations	1,569,020
Marina camping	425,191
Fishing rights	62,648
Easements/Right of ways	294,117
Beach facilities	173,548
Vacation cabin	439,469
Park camping	4,879,672
Parks - Special events	119,424
Admissions - park facilities	158,883
Miscellaneous income	54,081
	<hr/>
<i>Total Operating Revenues</i>	<i>19,080,401</i>
	<hr/>
Operating Expenses	
Water Sales	63,867
Water Quality	1,078,922
Vehicles and equipment	570,250
Dam safety/upgrades	4,007,194
Boundary survey	73,607
Conservation	395,178
Reservoir Maintenance	114,832
Information Systems/Technology	459,659
Shoreline Protection	194,109
Share crop	271,910
Mineral operation	482,305
Watershed management	468,916
Beach facilities	258,209
Office building	256,281
Administrative and finance	1,686,004
Engineering	309,632
Planning and development	199,664
GIS and Parcel Development	268,266
Forestry maintenance	242,740
Park camping expense	2,464,057
Park Master Planning	4,490,709
Cottage sites and clubs	1,042,100
General park facilities	3,532,151
Vacation cabin	131,271
Marina operation	1,387,993

Muskingum Watershed Conservancy District
Tuscarawas County, Ohio
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Fund
For the Year Ended December 31, 2015

		(Continued)
Water and sewer system	\$	980,524
Lake patrol operation		342,186
Education and public information		340,592
Safety		203,447
Recreation maintenance		38,454
Parks - special events		132,381
Partners in Watershed Management		844,171
Sediment Removal		110,171
Depreciation		<u>2,356,898</u>
<i>Total Operating Expenses</i>		<u>29,798,650</u>
<i>Operating Income (Loss)</i>		(10,718,249)
 Non-Operating Revenues (Expenses)		
Maintenance assessments		6,262,836
Grants		98,527
Interest on investments		649,115
Debt retirement - Interest		<u>(74,353)</u>
<i>Total Non-Operating Revenues (Expenses)</i>		<u>6,936,125</u>
<i>Change in Net Position</i>		(3,782,124)
 Net Position - Beginning of Year, Restated		 <u>210,489,521</u>
Net Position - End of Year	\$	<u>206,707,397</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, 2015

Cash flows from Operating Activities:	
Cash Received from Customers	\$ 17,801,695
Cash Payments to Suppliers for Goods and Services	(17,955,384)
Cash Payments for Employees Services and Benefits	<u>(9,784,566)</u>
<i>Net Cash Used For Operating Activities</i>	<u>(9,938,255)</u>
Cash Flows from Noncapital Financing Activities:	
Proceeds from OWDA Loans	24,772
Principal Payments on OWDA Loans	(26,050)
Intergovernmental Grants	98,527
Maintenance Assessments	3,306,093
Interest Paid on Debt	<u>(68,268)</u>
<i>Net Cash Provided by Noncapital Financing Activities</i>	<u>3,335,074</u>
Cash Flows from Capital and Related Financing Activities:	
Acquisition of Capital Assets	(10,825,830)
Maintenance Assessments	2,929,723
Principal Payments on OWDA Loans	(60,597)
Principal Payments on Capital Leases	(104,827)
Interest Paid on Debt	<u>(6,085)</u>
<i>Net Cash Used for Capital and Related Financing Activities</i>	<u>(8,067,616)</u>
Cash Flows from Investing Activities:	
Receipts of Interest	736,653
Payments for purchase of investments	(107,042,857)
Proceeds from Sale of Investments	<u>65,544,818</u>
<i>Net Cash used for Investing Activities</i>	<u>(40,761,386)</u>
<i>Net Decrease in Cash and Cash Equivalents</i>	(55,432,183)
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>114,541,147</u>
<i>Cash and Cash Equivalents End of Year</i>	<u>\$ 59,108,964</u>
Reconciliation of Operating Income To Net Cash Used For Operating Activities:	
Operating Income (Loss)	\$ (10,718,249)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	2,356,898
(Increase) Decrease in Assets	
Capitalized Costs	(245,484)
Accounts Receivable	(1,278,706)
Prepays	(274,904)
Assets held for resale	70,419
Accrued Interest	(5,482)
Net Pension Asset	(12,165)
Deferred Outflows	(430,812)
Increase (Decrease) in Liabilities:	
Accounts Payable	196,952
Performance Bond Payable	(3,850)
Escrow Funds Payable	(2,084)
Advances	42,662
Claims Payable	6,193
Accrued Wages and Benefits	57,872
Accrued Life Insurance	3,732
Compensated Absences	26,086
Due to Other Governments	18,885
Net Pension Liability	139,880
Deferred Inflows	<u>113,902</u>
<i>Net Cash Used For Operating Activities</i>	<u>\$ (9,938,255)</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	\$ 171,279,039
Investments included in balances above that are not cash equivalents	<u>(112,170,075)</u>
Cash and Cash equivalents reported on Statement of Cash Flows	<u>\$ 59,108,964</u>

Noncash Capital Financing Activities:

At December 31, 2015 the Conservancy District purchased \$755,369 in capital assets on account.
At December 31, 2014 the Conservancy District purchased \$611,695 in capital assets on account.

See accompanying notes to the basic financial statements

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

*Notes to the Basic Financial Statements
For the Year Ended December 31, 2015*

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 2015 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.

2015 Board of Directors:

- | | |
|----------------------------------|------------------------|
| • Joanne Limbach – President | Term Expires June 2018 |
| • Gordon Maupin – Vice President | Term Expires June 2019 |
| • Clark Sprang - Member | Term Expires June 2020 |
| • Richard J Pryce - Member | Term Expires June 2017 |
| • David Parham – Member | Term Expires June 2016 |
| • Harry Horstman – Member | Term Expired June 2015 |

2015 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
- (H) Water Sales

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

*Notes to the Basic Financial Statements
For the Year Ended December 31, 2015*

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

Subdistricts:

Chippewa Subdistrict, Black Fork Subdistrict, Buffalo Subdistrict, Duck Creek Subdistrict, and Clear Fork Subdistrict are blended component units of Muskingum Watershed Conservancy District. Each subdistrict was formed in accordance with Chapter 6101.71 of the Ohio Revised Code; Organization of subdistricts. They were put into action as a result of petitions of the owners of real property subject to flooding within their areas. To date the only active subdistricts are the Chippewa Subdistrict, Black Fork Subdistrict, and the Clear Fork Subdistrict. The current status of the Chippewa Subdistrict is to maintain and upgrade the dams and channels. In May of 2011, with work beginning in 2012, the Conservancy District Board of Directors, at the request of Shelby officials, re-activated the Black Fork Subdistrict for the purpose of preparing an Official Plan, as required by the Ohio Revised Code, to address flooding within the Black Fork watershed. Black Fork Subdistrict is still in progress in the development of an official plan. In June of 2014, the Conservancy Court established the Clear Fork Subdistrict based on the request by several municipalities and stakeholders along the Clear Fork. Work is beginning to create an official plan. Buffalo Creek Subdistrict and Duck Creek Subdistrict are inactive.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Conservancy District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The most significant of the Conservancy District's accounting policies are described below.

A. Basis of Presentation

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

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

B. Measurement Focus

The enterprise fund is accounted for on a flow of economic resources measurement focus. All assets, deferred outflows of resources, all liabilities, and deferred inflows of resources associated with the operation of the Conservancy District are included on the statement of net position. The statement of changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net total 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 Year Ended December 31, 2015*

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Budgetary Process

Budget:

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

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

Appropriations:

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

Encumbrances:

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

D. Property Assets/Depreciation

Capital Assets are defined by the Conservancy District as assets with an initial, individual cost of more than \$5,000. The capitalization threshold for building improvements is \$10,000 and for infrastructure is \$25,000.

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

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

*Notes to the Basic Financial Statements
For the Year Ended December 31, 2015*

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

All reported capital assets are required to be depreciated except for land, construction in progress, and capitalized development costs. Depreciation has been provided using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	20 - 25 Years
Buildings	30 - 50 Years
Building Improvements	10 - 20 Years
Furniture, Fixtures and Equipment	3 - 15 Years
Vehicles	3 - 5 Years
Infrastructure	20 - 50 Years
Land	N/A
Construction in Progress	N/A
Capitalized Development Costs	N/A

E. Compensated Absences

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

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

F. Pensions

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

G. Net Position

Net position represents the difference between assets 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.

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

*Notes to the Basic Financial Statements
For the Year Ended December 31, 2015*

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Revenue & Expenses

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

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

I. Deferred Outflows/Inflows of Resources

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

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

J. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Directors and that are either unusual in nature or infrequent in occurrence. During 2015, the Conservancy District had no extraordinary or special items.

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

For the year ended December 31, 2015, the Conservancy District implemented Governmental Accounting Standards Board GASB Statement No. 68, *“Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27,”* and GASB Statement No. 71, *“Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68.”*

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

*Notes to the Basic Financial Statements
For the Year Ended December 31, 2015*

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

GASB Statement No. 68 establishes requires recognition of the entire net pension liability and a more comprehensive measure of pension expense for defined benefit pensions and defined contribution pensions provided to the employees of state and local government employers through pension plans administered through trusts or equivalent arrangements. The implementation of GASB No. 68 resulted in the inclusion of net pension liability and pension expense components in the financial statements. See below for the effect on net position as previously reported.

GASB Statement No. 71 amends paragraph 137 of GASB Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The provisions of this statement are required to be applied simultaneously with the provisions of Statement 68. See below for the effect on net pension as previously stated.

Net Position December 31, 2014	\$ 215,755,803
Adjustments:	
Net Pension Asset	4,557
Net Pension Liability	(6,053,142)
Deferred Outflow - Payments Subsequent to Measurement Date	782,303
Restated Net Position, January 1, 2015	<u>\$ 210,489,521</u>

L. Statement of Cash Flows

For the purposes of the statement of cash flows, cash and cash equivalents are defined as cash and any investment with an original maturity of 3 months or less. As of December 31, 2015 none of the Conservancy District's investments qualified as a cash equivalent.

M. Capitalized Costs

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

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

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

*Notes to the Basic Financial Statements
For the Year Ended December 31, 2015*

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

N. Prepaids

The Conservancy District has a loan with the Ohio Water Development Authority (OWDA) to cover costs associated with preparing the Official Plan for the Black Fork Subdistrict. In 2013, the Conservancy District was required to start making principal and interest payments on the loan based on the total amount of the approved debt, even though the entire amount of the loan had not been drawn down. As of December 31, 2015, the Conservancy District had paid more on the principal of the debt than they had drawn down. This amount of \$610,067 is shown as a prepaid.

O. Unearned Revenue

The Conservancy District records unearned revenue when it has received moneys prior to having earned the revenue, or before all grant requirements have been met (other than time). At December 31, 2015 unearned revenue consisted of \$151,293 of moneys received in advance for reservations in our parks and marinas for 2016.

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.

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

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

*Notes to the Basic Financial Statements
For the Year Ended December 31, 2015*

NOTE 3: DEPOSITS AND INVESTMENTS (continued)

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Bonds and other obligations of the State of Ohio;
4. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
5. The State Treasurer's investment pool (STAROhio and Star Plus).
6. Certain bankers' acceptances and commercial paper notes for a period not to exceed two hundred and seventy days in an amount not to exceed 40 percent of the interim moneys available for investment at any time, provided no more than 5% is invested in any one issuer.

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

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

According to State law, public depositories must give security for all uninsured public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by FDIC, or may pledge a pool of government securities valued at least 105 percent of the total value of uninsured public monies on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and mature or be redeemable within five years of the date of the related repurchase agreement. State law does not require security for public deposits and investments to be maintained in the Conservancy District's name. During 2015, the Conservancy District and public depositories complied with the provisions of these statutes.

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

*Notes to the Basic Financial Statements
For the Year Ended December 31, 2015*

NOTE 3: DEPOSITS AND INVESTMENTS (continued)

Deposits with Financial Institutions

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

At fiscal year-end, the carrying amount of the Conservancy District's deposits was \$59,104,564. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures," as of December 31, 2015, \$59,096,019 of the Conservancy District's bank balance of \$59,860,640 was exposed to custodial risk as discussed above, while \$764,621 was covered by Federal Deposit Insurance Corporation.

Cash on Hand

As of December 31, 2015, the Conservancy District had \$4,400 of cash on hand.

Investments

As of December 31, 2015, the Conservancy District had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities			
		6 Months or Less	7 to 12 Months	13 to 24 Months	More than 24 Months
Federal Home Loan Mortgage Corporation	\$ 23,743,934	\$ -	\$ -	\$ 4,018,533	\$ 19,725,401
Federal National Mortgage Association	29,818,151	-	-	9,805,702	20,012,449
Federal Home Loan Bank	14,499,688	-	-	-	14,499,688
Municipal Bonds	16,344,824	6,050,095	4,005,842	4,503,825	1,785,062
Money Market	180,396	180,396	-	-	-
Treasury Bonds	14,467,897	350,116	1,250,818	5,234,079	7,632,884
CDs	7,118,312	-	-	4,176,668	2,941,644
Government National Mortgage Association	2,011,985	-	-	-	2,011,985
Commercial Paper	3,984,888	1,994,994	1,989,894	-	-
	\$ 112,170,075	\$ 8,575,601	\$ 7,246,554	\$ 27,738,807	\$ 68,609,113

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 Year Ended December 31, 2015*

NOTE 3: DEPOSITS AND INVESTMENTS (continued)

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

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

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, 2015.

Investment Type	Fair Value	Percent of Total
Federal Home Loan Mortgage Corporation	23,743,934	21%
Federal National Mortgage Association	29,818,151	26%
Federal Home Loan Bank	14,499,688	13%
Municipal Bonds	16,344,824	15%
Money Market	180,396	0%
Treasury Bonds	14,467,897	13%
CDs	7,118,312	6%
Government National Mortgage Association	2,011,985	2%
Commercial Paper	3,984,888	4%
	<u>\$ 112,170,075</u>	<u>100%</u>

The following is the net increase in the fair value of investments during for year ending December 31, 2015.

Fair Value of Investments December 31, 2015	\$ 112,170,075
Add: Proceeds of investments sold in 2015	65,544,818
Less: Cost of investments purchased in 2015	(107,042,857)
Less: Fair value at December 31, 2014	<u>(70,759,577)</u>
Change in fair value of investments	<u>\$ (87,541)</u>

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

*Notes to the Basic Financial Statements
For the Year Ended December 31, 2015*

NOTE 4: RECEIVABLES

Receivables at December 31, 2015 consisted of accounts (billed user charged services), mineral rights and royalties, and delinquent maintenance assessments. All receivables are deemed collectible in full.

NOTE 5: CAPITAL ASSETS

Proprietary capital assets – summary by category at December 31, 2015:

	Balance 12/31/2014	Additions	Deletions	Balance 12/31/2015
Capital Assets Not Being Depreciated				
Land	\$ 1,806,650	\$ 280,122	\$ 0	\$ 2,086,772
Construction in Progress	1,426,462	7,351,468	(4,960,975)	3,816,955
Capitalized Development Costs	1,189,495	0	0	1,189,495
Total Capital Assets Not Being Depreciated	4,422,607	7,631,590	(4,960,975)	7,093,222
Capital Assets Being Depreciated				
Land Improvements	7,019,121	1,264,458	0	8,283,579
Buildings	10,652,348	1,688,266	(275,833)	12,064,781
Building Improvements	2,525,410	350,517	0	2,875,927
Furniture, Fixtures and Equipment	5,519,849	1,452,495	(45,447)	6,926,897
Vehicles	2,088,155	440,631	(129,732)	2,399,054
Infrastructure	13,134,159	3,103,721	(160,973)	16,076,907
Total Capital Assets Being Depreciated	40,939,042	8,300,088	(611,985)	48,627,145
Less Accumulated Depreciation:				
Land Improvements	(1,073,987)	(384,243)	0	(1,458,230)
Buildings	(4,997,850)	(261,856)	275,833	(4,983,873)
Building Improvements	(924,682)	(87,478)	0	(1,012,160)
Furniture, Fixtures and Equipment	(3,972,311)	(534,028)	44,248	(4,462,091)
Vehicles	(1,388,714)	(281,847)	129,732	(1,540,829)
Infrastructure	(2,196,101)	(807,446)	160,973	(2,842,574)
Total Accumulated Depreciation	(14,553,645)	(2,356,898)	610,786	(16,299,757)
Total Capital Assets Being Depreciated, Net	26,385,397	5,943,190	(1,199)	32,327,388
Capital Assets, Net	\$ 30,808,004	\$ 13,574,780	\$ (4,962,174)	\$ 39,420,610

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

*Notes to the Basic Financial Statements
For the Year Ended December 31, 2015*

NOTE 6: RISK MANAGEMENT

A. Comprehensive Liability Insurance

The Conservancy District maintains comprehensive property, equipment and casualty (liability) protection through its membership in a reinsured self-insurance program for Ohio public entities, Ohio Plan Risk Management (OPRM). This membership provides comprehensive risk management services to the District and coverage for the following:

- A. Special Form Property (Building and contents, blanket)
- B. Equipment Floaters
- C. Boiler and Machinery, including equipment breakdown
- D. Business Auto
- E. Management Liability: Directors/Officers, Employment Practices
- F. Law Enforcement Professional
- G. Commercial General Liability and Umbrella Policy
- H. Ohio Employer's Liability
- I. Employee and Public Official Surety Bonds

Settled claims resulting from these risks have not exceeded the coverage provided by the District's OPRM protection in any of the past three years and there has been no significant reduction in insurance coverage in the year 2015.

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 2014 plan year ran June 1, 2014 through May 31, 2015. The 2015 plan year runs June 1, 2015 through May 31, 2016.

The monthly premium for the 2014 plan year for a single employee is \$769.10, \$1,207.44 for an employee plus 1, and for the family of an employee is \$1,824.96. The monthly premium for the 2015 plan year for a single employee is \$869.09, \$1,364.42 for an employee plus 1, and for the family of an employee is \$2,062.21.

The overall stop loss for the plan year 2014 is \$1,246,088 and for plan year 2015 is \$1,322,274.

The specific stop loss per occurrence was \$55,000 for plan years 2014 and 2015. For plan year 2014 and 2015, there was one instance with a special specific deductible in the amount of \$600,000 and \$575,000 respectively. There were three claims exceeding the limit for plan year 2014. When the Conservancy District pays claims or reimburses employees for medical bills in excess of the limits they are reimbursed by Arch Insurance Group for the 2014 and 2015 plan years.

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

*Notes to the Basic Financial Statements
For the Year Ended December 31, 2015*

NOTE 6: RISK MANAGEMENT (continued)

The claims liability of \$183,000 at December 31, 2015, 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 2015 and 2014 are as follows:

	<u>Balance Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claims Payments</u>	<u>Balance End of Year</u>
2014	\$ 205,374	\$ 1,452,538	\$ 1,481,105	\$ 176,807
2015	\$ 176,807	\$ 1,485,601	\$ 1,479,408	\$ 183,000

Note 7 - Defined Benefit Pension Plans

Net Pension Asset/Liability

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

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

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

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

*Notes to the Basic Financial Statements
For the Year Ended December 31, 2015*

Note 7 - Defined Benefit Pension Plans (continued)

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

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

Plan Description – Ohio Public Employees Retirement System (OPERS)

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

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

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

Muskingum Watershed Conservancy District
Tuscarawas County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

Note 7 - Defined Benefit Pension Plans (continued)

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

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

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

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

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

*Notes to the Basic Financial Statements
For the Year Ended December 31, 2015*

Note 7 - Defined Benefit Pension Plans (continued)

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

	State and Local	Law Enforcement
2015 Statutory Maximum Contribution Rates		
Employer	14.00 %	18.10 %
Employee	10.00 %	**
 2015 Actual Contribution Rates		
Employer:		
Pension	12.00 %	16.10 %
Post-employment Health Care Benefits	2.00	2.00
Total Employer	14.00 %	18.10 %
 Employee	 10.00 %	 13.00 %

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

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The District's contractually required contribution was \$881,653 for 2015. Of this amount, \$84,051 is reported as an intergovernmental payable.

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

The net pension asset/liability for OPERS was measured as of December 31, 2014, and the total pension liability used to calculate the net pension asset/liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension asset/liability was based on the District's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	OPERS Traditional Plan	OPERS Combined Plan	Total
Proportionate Share of the Net Pension Asset	\$ 0	\$ 16,722	\$ 16,722
Proportionate Share of the Net Pension Liability	\$ 6,193,022	\$ 0	\$ 6,193,022
Proportion of the Net Pension Asset/Liability	0.05134700%	0.04343000%	
Pension Expense	\$ 681,355	\$ 11,103	\$ 692,458

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

*Notes to the Basic Financial Statements
For the Year Ended December 31, 2015*

Note 7 - Defined Benefit Pension Plans (continued)

At December 31, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	OPERS Traditional Plan	OPERS Combined Plan	Total
Deferred Outflows of Resources			
Net difference between projected and actual earnings on pension plan investments	\$ 330,441	\$ 1,021	\$ 331,462
District contributions subsequent to the measurement date	857,447	24,206	881,653
Total Deferred Outflows of Resources	<u>\$ 1,187,888</u>	<u>\$ 25,227</u>	<u>\$ 1,213,115</u>
Deferred Inflows of Resources			
Differences between expected and actual experience	<u>\$ 108,799</u>	<u>\$ 5,103</u>	<u>\$ 113,902</u>

\$881,653 reported as deferred outflows of resources related to pension resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension asset/liability in the year ending December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	OPERS Traditional Plan	OPERS Combined Plan	Total
Year Ending December 31:			
2016	\$ 32,410	\$ (352)	\$ 32,058
2017	32,410	(352)	32,058
2018	74,211	(352)	73,859
2019	82,611	(351)	82,260
2020	0	(607)	(607)
Thereafter	0	(2,068)	(2,068)
	<u>\$ 221,642</u>	<u>\$ (4,082)</u>	<u>\$ 217,560</u>

Actuarial Assumptions - OPERS

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

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability in the December 31, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

*Notes to the Basic Financial Statements
For the Year Ended December 31, 2015*

Note 7 - Defined Benefit Pension Plans (continued)

<u>Actuarial Information</u>	<u>Traditional Plan</u>	<u>Combined Plan</u>
Wage Inflation	3.75 percent	3.75 percent
Future Salary Increases, including inflation	4.25 percent to 10.05 percent, including wage inflation	4.25 percent to 8.05 percent, including wage inflation
COLA or Ad Hoc COLA	3.00 percent, simple	3.00 percent, simple
Investment Rate of Return	8.00 percent	8.00 percent
Actuarial Cost Method	Individual Entry Age	Individual Entry Age

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

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

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

OPERS manages investments in four investment portfolios: the Defined Benefits portfolio, the Health Care portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The Defined Benefit portfolio includes the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan, the annuitized accounts of the Member-Directed Plan and the VEBA Trust. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The money weighted rate of return, net of investments expense, for the Defined Benefit portfolio is 6.95 percent for 2014.

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2014 and the long-term expected real rates of return:

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

*Notes to the Basic Financial Statements
For the Year Ended December 31, 2015*

Note 7 - Defined Benefit Pension Plans (continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)</u>
Fixed Income	23.00 %	2.31 %
Domestic Equities	19.90	5.84
Real Estate	10.00	4.25
Private Equity	10.00	9.25
International Equities	19.10	7.40
Other Investments	18.00	4.59
Total	<u>100.00 %</u>	<u>5.28 %</u>

Discount Rate The discount rate used to measure the total pension liability was 8 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the District's proportionate share of the net pension liability calculated using the current period discount rate assumption of 8 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (7 percent) or one-percentage-point higher (9 percent) than the current rate:

	<u>1% Decrease (7.00%)</u>	<u>Current Discount Rate (8.00%)</u>	<u>1% Increase (9.00%)</u>
District's proportionate share of the net pension liability:			
Traditional Plan	\$ 11,393,386	\$ 6,193,022	\$ 1,813,063
Combined Plan	2,172	(16,722)	(31,704)

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

*Notes to the Basic Financial Statements
For the Year Ended December 31, 2015*

Note 8: Post-Employment Benefits

Ohio Public Employees Retirement System

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

OPERS maintains two cost-sharing multiple-employer defined benefit post-employment health care trusts, which fund multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients of both the Traditional Pension and the Combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including OPERS sponsored health care coverage.

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined plans must have 20 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Postemployment Benefit (OPEB) as described in GASB Statement 45. Please see the Plan Statement in the OPERS 2014 CAFR details.

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

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/financial/reports.shtml>, by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Funding Policy – The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside to fund OPERS health care plans.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2015, State and Local employers contributed at a rate of 14.0 percent of earnable salary and Public Safety and Law Enforcement employers contributed at 18.1 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

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

*Notes to the Basic Financial Statements
For the Year Ended December 31, 2015*

Note 8: Post-Employment Benefits (continued)

OPERS maintains three health care trusts. The two cost-sharing, multiple-employer trusts, the 401(h) Health Care Trust and the 115 Health Care Trust, work together to provide health care funding to eligible retirees of the Traditional Pension and Combined plans. The third trust is a Voluntary Employee's Beneficiary Association (VEBA) that provides funding for a Retiree Medical Account for Member-Directed Plan members. Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 2.0 percent during calendar year 2015. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2016 remained at 2.0 percent for both plans. The Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited to the VEBA for participants in the Member-Directed Plan for 2015 was 4.5 percent.

The District's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2015, 2014, and 2013 were \$139,227, \$128,533 and \$59,551, respectively. For 2015, 90 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2014 and 2013.

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.

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

*Notes to the Basic Financial Statements
For the Year Ended December 31, 2015*

NOTE 10: LONG-TERM OBLIGATIONS

The changes in the Conservancy District's long-term obligations during the fiscal year 2015 were as follows:

	Principal			Principal Outstanding 12/31/2015	Amount Due in One Year
	Outstanding 12/31/2014	Additions	Reductions		
Long Term Obligations:					
OWDA #2162 - 5.56%	\$ 299,697	\$ 0	\$ (24,711)	\$ 274,986	\$ 26,104
OWDA #5413 - 0%	141,664	0	(9,444)	132,220	9,444
OWDA #5575 - 3.25%	523,143	0	(26,442)	496,701	27,308
OWDA #5558 - 3.25%	24,258	0	(1,278)	22,980	1,320
OWDA #6104 - 3.99%	0	24,772	(24,772)	0	0
<i>Total</i>	<u>988,762</u>	<u>24,772</u>	<u>(86,647)</u>	<u>926,887</u>	<u>64,176</u>
Other Long Term Obligations:					
Capital Leases	145,085	0	(104,827)	40,258	40,258
Net Pension Liability - See note 7	6,053,142	139,880	0	6,193,022	0
Compensated Absences	663,098	82,159	(56,073)	689,184	71,271
Total other long-term obligations	<u>6,861,325</u>	<u>222,039</u>	<u>(160,900)</u>	<u>6,922,464</u>	<u>111,529</u>
<i>Total Long-Term Liabilities:</i>	<u>\$ 7,850,087</u>	<u>\$ 246,811</u>	<u>\$ (247,547)</u>	<u>\$ 7,849,351</u>	<u>\$ 175,705</u>

Ohio Water Development Authority Loans

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

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

In 2010, the Conservancy District was awarded a loan from OWDA in the amount of \$637,001 for improvements to the Sites Lake Cottage Area wastewater treatment plant. The loan has an interest rate of 3.25 percent and matures on July 1, 2030.

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

*Notes to the Basic Financial Statements
For the Year Ended December 31, 2015*

NOTE 10: LONG-TERM OBLIGATIONS (continued)

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

In 2012 the Conservancy District was awarded a \$1,500,000 loan from OWDA for studies to develop the Black Fork Subdistrict official plan. As of December 31, 2015, only \$254,583 had been drawn down. This loan required repayment beginning in 2013 based upon the full amount of the loan. During 2015, the Conservancy District repaid more than it had drawn down. \$610,067 is shown as a prepaid which represents the amount in excess of the amount drawn down that has been paid to OWDA. Since the full amount was not drawn down, the amortization schedule is not complete, so it is not reflected in the table below.

The annual requirements to retire debt are as follows:

	Ohio Water Development Authority Loans	
	Principal	Interest
2016	\$ 64,176	\$ 31,560
2017	66,586	29,181
2018	69,109	26,658
2019	71,753	24,015
2020	74,519	21,247
2021-2025	355,683	59,596
2026-2030	225,061	15,479
	<u>\$ 926,887</u>	<u>\$ 207,736</u>

NOTE 11: CAPITAL LEASES – LESSEE DISCLOSURE

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

The assets acquired by the leases have been capitalized in the amount of \$720,322, 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, 2015:

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

*Notes to the Basic Financial Statements
For the Year Ended December 31, 2015*

NOTE 11: CAPITAL LEASES – LESSEE DISCLOSURE (continued)

	Capital Leases
Fiscal Year Ending December 31, 2015	\$ 41,586
Less: amount representing interest at the Conservancy District's incremental borrowing rate of interest	<u>(1,328)</u>
Present Value of minimum lease payments	<u>\$ 40,258</u>

NOTE 12: OPERATING LEASE

On June 17, 2011, the Conservancy District (the “Lessor”) entered into a lease agreement with Gulfport Energy Corporation (the “Lessee”). The Conservancy District leased approximately 6,468 acres of land at Clendening Reservoir to the Lessee. The 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.

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 Conservancy District received at the time of signing is \$40,630,702.

On April 22, 2014, the Conservancy District entered into a lease with Antero Resources of Colorado for all available acres at Piedmont Reservoir in Belmont, Harrison and Guernsey Counties. Antero’s lease included \$15,000 per acre paid up rental for a 5 year lease and 20% royalty payment on future production revenues. The Conservancy District received at the time of signing \$95,449,950 for 6,363.33 acres. An amendment and ratification of the Antero Resources lease at Piedmont was executed on September 8, 2014 for 135.43 additional acres, bringing total acres leased to 6,498.76. The second payment at \$15,000 per acre totaled \$2,031,450, resulting in an overall total of \$97,481,400. Approximately 146 additional acres which were defected pending future review could be added to the lease in the future.

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

*Notes to the Basic Financial Statements
For the Year Ended December 31, 2015*

NOTE 13: CONTRACTUAL COMMITMENTS

As of December 31, 2015, the Conservancy District had contractual commitments for the following projects:

	Contractual Commitment	Expended	Balance 12/31/2015
Bolivar Dam - Army Corps of Engineers	\$ 37,951,380	\$ 19,877,152	\$ 18,074,228
Dover Dam - Army Corps of Engineers	2,070,000	2,051,887	18,113
Shoreline stabilization projects	906,171	0	906,171
Master Plan Implementation Program Mgt.	1,820,000	1,119,826	700,174
Stream Gages & Weather Stations - USGS	1,092,200	1,004,200	88,000
Seneca Chestnut Grove WWTP	1,013,701	958,701	55,000
Atwood Park Welcome Center	1,786,594	1,002,044	784,550
Tappan Lake Dredging	5,000,000	931,230	4,068,770
Atwood Park Trail & Bridge Phase II	724,831	0	724,831
Nimishillen Basin Flood Warning & Maps	500,000	0	500,000
Seneca Park Master Plan IPD	945,000	483,201	461,799
Pleasant Hill Park Master Plan IPD	794,965	508,022	286,943
Atwood Park Master Plan IPD	757,974	518,859	239,115
Tappan Lake Park Master Plan IPD	829,310	691,748	137,562
Charles Mill Lake Park Master Plan IPD	539,784	455,897	83,887

NOTE 14: SUBSEQUENT EVENTS

At the March 2016 board meeting, the Board of Directors approved contract amendment number 3 for the Tappan Lake Dredging project in the amount of \$5,000,000. This makes the total amount of the contract for the project to \$10,000,000.

NOTE 15: BLENDED COMPONENT UNITS

Black Fork, Buffalo Creek, Chippewa and Duck Creek Subdivisions are blended component units under criteria of GASB Statement 61. The following represents combining financial statements for the year ended 2015.

Muskingum Watershed Conservancy District
Tuscarawas County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

NOTE 15: BLENDED COMPONENT UNITS (continued)

COMBINING STATEMENT OF NET POSITION

	Muskingum Watershed Conservancy District	Subdistricts			Eliminating Entries	Total	
		Black Fork	Buffalo Creek	Chippewa			
Assets							
<i>Current Assets:</i>							
Equity in Pooled Cash and Investments	\$ 170,194,124	\$ 0	\$ 0	\$ 1,076,494	\$ 8,421	\$ 0	\$ 171,279,039
Accrued Interest	6,150	0	0	0	0	0	6,150
Accounts Receivable	2,403,549	0	0	0	0	(48,856)	2,354,693
Prepays	610,067	0	0	0	0	0	610,067
Maintenance Assessments Receivable	1,369,628	0	0	6,633	0	0	1,376,261
Total Current Assets	174,583,518	0	0	1,083,127	8,421	(48,856)	175,626,210
<i>Non-Current Assets:</i>							
Capitalized Costs	491,687	0	0	0	0	0	491,687
Non-Depreciable Capital Assets	5,903,727	1,822	27,593	1,154,680	5,400	0	7,093,222
Depreciable Capital Assets, Net	32,322,068	0	0	5,320	0	0	32,327,388
Net Pension Asset	16,722	0	0	0	0	0	16,722
Total Non-Current Assets	38,734,204	1,822	27,593	1,160,000	5,400	0	39,929,019
Total Assets	213,317,722	1,822	27,593	2,243,127	13,821	(48,856)	215,555,229
Deferred Outflows of Resources							
Pension	1,213,115	0	0	0	0	0	1,213,115
Total Deferred Outflows of Resources	1,213,115	0	0	0	0	0	1,213,115
Liabilities							
<i>Current Liabilities:</i>							
Accounts Payable	516,919	1,822	27,593	43,868	6,037	(48,856)	547,383
Contracts Payable	531,940	0	0	0	0	0	531,940
Retainage Payable	223,429	0	0	0	0	0	223,429
Performance Bond Payable	30,400	0	0	4,300	0	0	34,700
Escrow Land Rentals	175	0	0	0	0	0	175
Escrow Funds Payable	56	0	0	0	0	0	56
Due to Other Governments	155,376	0	0	0	0	0	155,376
Accrued Wages and Benefits	259,889	0	0	0	0	0	259,889
Accrued Interest Payable	100	0	0	0	0	0	100
Accrued Life Insurance	10,353	0	0	0	0	0	10,353
Claims Payable	183,000	0	0	0	0	0	183,000
Unearned Revenue	151,293	0	0	0	0	0	151,293
Compensated Absences	71,271	0	0	0	0	0	71,271
Capital Leases Payable	40,258	0	0	0	0	0	40,258
OWDA Loans Payable	64,176	0	0	0	0	0	64,176
Total Current Liabilities	2,238,635	1,822	27,593	48,168	6,037	(48,856)	2,273,399
<i>Long-Term Liabilities:</i>							
Compensated Absences - net of current portion	617,913	0	0	0	0	0	617,913
OWDA Loans Payable - net of current portion	862,711	0	0	0	0	0	862,711
Net Pension Liability	6,193,022	0	0	0	0	0	6,193,022
Total Long-Term Liabilities	7,673,646	0	0	0	0	0	7,673,646
Total Liabilities	9,912,281	1,822	27,593	48,168	6,037	(48,856)	9,947,045
Deferred Inflows of Resources							
Pension	113,902	0	0	0	0	0	113,902
Total Deferred Inflows of Resources	113,902	0	0	0	0	0	113,902
Net Position							
Net Investment in Capital Assets	36,658,481	1,822	27,593	1,160,000	5,400	0	37,853,296
Restricted for Maintenance Assessment	18,426,501	0	0	0	0	0	18,426,501
Unrestricted	149,419,672	(1,822)	(27,593)	1,034,959	2,384	0	150,427,600
Total Net Position	\$ 204,504,654	\$ 0	\$ 0	\$ 2,194,959	\$ 7,784	\$ 0	\$ 206,707,397

Muskingum Watershed Conservancy District
Tuscarawas County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

NOTE 15: BLENDED COMPONENT UNITS (continued)

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Muskingum	Subdistricts				Eliminating	Total
	Watershed Conservancy District	Black Fork	Buffalo Creek	Chippewa	Duck Creek		
Operating Revenues							
Water Sales	\$ 1,565,194	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,565,194
Water and sewer systems	88,370	0	0	0	0	0	88,370
Timber Sales	406,911	0	0	0	0	0	406,911
Pine/Pulpwood Sales	130,215	0	0	0	0	0	130,215
Mineral rights and royalties	5,749,753	0	0	0	0	0	5,749,753
Share Crop	234,411	0	0	0	0	0	234,411
Cottage Sites and Clubs	2,729,494	0	0	0	0	0	2,729,494
Marina operations	1,569,020	0	0	0	0	0	1,569,020
Marina camping	425,191	0	0	0	0	0	425,191
Fishing rights	62,648	0	0	0	0	0	62,648
Easements/Right of Ways	294,117	0	0	0	0	0	294,117
Beach facilities	173,548	0	0	0	0	0	173,548
Vacation cabin	439,469	0	0	0	0	0	439,469
Park camping	4,879,672	0	0	0	0	0	4,879,672
Parks - Special Events	119,424	0	0	0	0	0	119,424
Admissions - park facilities	158,883	0	0	0	0	0	158,883
Miscellaneous income	54,081	0	0	0	0	0	54,081
Total Operating Revenues	19,080,401	0	0	0	0	0	19,080,401
Operating Expenses							
Water Sales	63,867	0	0	0	0	0	63,867
Water Quality	1,078,922	0	0	0	0	0	1,078,922
Vehicles and equipment	570,250	0	0	0	0	0	570,250
Dam safety/upgrades	3,300,253	0	0	706,941	0	0	4,007,194
Boundary survey	73,607	0	0	0	0	0	73,607
Conservation	395,178	0	0	0	0	0	395,178
Reservoir Maintenance	114,832	0	0	0	0	0	114,832
Information Systems/Technology	459,659	0	0	0	0	0	459,659
Shoreline Protection	194,109	0	0	0	0	0	194,109
Share crop	271,910	0	0	0	0	0	271,910
Mineral operation	482,305	0	0	0	0	0	482,305
Watershed management	468,916	0	0	0	0	0	468,916
Beach facilities	258,209	0	0	0	0	0	258,209
Office building	256,281	0	0	0	0	0	256,281
Administrative and finance	1,686,004	0	0	0	0	0	1,686,004
Engineering	309,632	0	0	0	0	0	309,632
Planning and development	199,664	0	0	0	0	0	199,664
GIS and Parcel Development	268,266	0	0	0	0	0	268,266
Forestry maintenance	242,740	0	0	0	0	0	242,740
Park camping	2,464,057	0	0	0	0	0	2,464,057
Park Master Planning	4,490,709	0	0	0	0	0	4,490,709
Cottage sites and clubs	1,042,100	0	0	0	0	0	1,042,100
General park facilities	3,532,151	0	0	0	0	0	3,532,151
Vacation cabin	131,271	0	0	0	0	0	131,271
Marina operation	1,387,993	0	0	0	0	0	1,387,993

Muskingum Watershed Conservancy District
Tuscarawas County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

NOTE 15: BLENDED COMPONENT UNITS (continued)

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Muskingum Watershed Conservancy District	Subdistricts			Eliminating Entries	Total
		Black Fork	Buffalo Creek	Chippewa		
Operating Expenses						(Continued)
Water and sewer system	\$ 980,524	\$ 0	\$ 0	\$ 0	\$ 0	\$ 980,524
Lake patrol operation	342,186	0	0	0	0	342,186
Education and public information	340,592	0	0	0	0	340,592
Safety expenses	203,447	0	0	0	0	203,447
Recreation maintenance	38,454	0	0	0	0	38,454
Parks - special events	132,381	0	0	0	0	132,381
Partners in Watershed Management	844,171	0	0	0	0	844,171
Sediment Removal	110,171	0	0	0	0	110,171
Depreciation	2,355,378	0	0	1,520	0	2,356,898
<i>Total Operating Expenses</i>	<u>29,090,189</u>	<u>0</u>	<u>0</u>	<u>708,461</u>	<u>0</u>	<u>29,798,650</u>
<i>Operating Income (Loss)</i>	(10,009,788)	0	0	(708,461)	0	(10,718,249)
Non-Operating Revenues (Expenses)						
Maintenance assessments	5,891,319	0	0	371,517	0	6,262,836
Grants	98,527	0	0	0	0	98,527
Interest on investments	648,726	0	0	385	4	649,115
Debt retirement - Interest	(74,353)	0	0	0	0	(74,353)
<i>Total Non-Operating Revenues (Expenses)</i>	<u>6,564,219</u>	<u>0</u>	<u>0</u>	<u>371,902</u>	<u>4</u>	<u>6,936,125</u>
<i>Change in Net Position</i>	(3,445,569)	0	0	(336,559)	4	(3,782,124)
Net Position - Beginning of Year, Restated	<u>207,950,223</u>	<u>0</u>	<u>0</u>	<u>2,531,518</u>	<u>7,780</u>	<u>210,489,521</u>
Net Position - End of Year	<u>\$ 204,504,654</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,194,959</u>	<u>\$ 7,784</u>	<u>\$ 206,707,397</u>

Muskingum Watershed Conservancy District
Tuscarawas County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

NOTE 15: BLENDED COMPONENT UNITS (continued)

COMBINING STATEMENT OF CASH FLOWS

	Muskingum Watershed Conservancy District	Subdistricts				Eliminating Entries	Total
		Black Fork	Buffalo Creek	Chippewa	Duck Creek		
Cash flows from Operating Activities:							
Cash Received from Customers	\$ 17,801,695	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 17,801,695
Cash Payments to Suppliers for Goods and Services	(17,381,631)	0	0	(573,753)	0	0	(17,955,384)
Cash Payments for Employees Services and Benefits	(9,691,962)	0	0	(92,604)	0	0	(9,784,566)
<i>Net Cash Provided by (Used for) Operating Activities</i>	<u>(9,271,898)</u>	<u>0</u>	<u>0</u>	<u>(666,357)</u>	<u>0</u>	<u>0</u>	<u>(9,938,255)</u>
Cash Flows from Noncapital Financing Activities:							
Proceeds from OWDA Loans	24,772	0	0	0	0	0	24,772
Principal Payments on OWDA Loans	(26,050)	0	0	0	0	0	(26,050)
Intergovernmental Grants	98,527	0	0	0	0	0	98,527
Maintenance Assessments	2,933,551	0	0	372,542	0	0	3,306,093
Interest Paid on Debt	(68,268)	0	0	0	0	0	(68,268)
<i>Net Cash Provided by Noncapital Financing Activities</i>	<u>2,962,532</u>	<u>0</u>	<u>0</u>	<u>372,542</u>	<u>0</u>	<u>0</u>	<u>3,335,074</u>
Cash Flows from Capital and Related Financing Activities:							
Acquisition of Capital Assets	(10,825,830)	0	0	0	0	0	(10,825,830)
Maintenance Assessments	2,929,723	0	0	0	0	0	2,929,723
Principal Payments on OWDA Loans	(60,597)	0	0	0	0	0	(60,597)
Principal Payments on Capital Leases	(104,827)	0	0	0	0	0	(104,827)
Interest Paid on Debt	(6,085)	0	0	0	0	0	(6,085)
<i>Net Cash Used for Capital and Related Financing Activities</i>	<u>(8,067,616)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(8,067,616)</u>
Cash Flows from Investing Activities:							
Receipts of Interest	736,264	0	0	385	4	0	736,653
Payments for Purchase of Investments	(107,042,857)	0	0	0	0	0	(107,042,857)
Proceeds from Sale of Investments	65,544,818	0	0	0	0	0	65,544,818
<i>Net Cash Provided by (Used for) Investing Activities</i>	<u>(40,761,775)</u>	<u>0</u>	<u>0</u>	<u>385</u>	<u>4</u>	<u>0</u>	<u>(40,761,386)</u>
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	(55,138,757)	0	0	(293,430)	4	0	(55,432,183)
<i>Cash and Cash Equivalents Beginning of Year</i>	113,162,806	0	0	1,369,924	8,417	0	114,541,147
<i>Cash and Cash Equivalents End of Year</i>	<u>\$ 58,024,049</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,076,494</u>	<u>\$ 8,421</u>	<u>\$ 0</u>	<u>\$ 59,108,964</u>
Reconciliation of Operating Income To Net Cash Provided by (Used for) Operating Activities:							
Operating Income (Loss)	\$ (10,009,788)	\$ 0	\$ 0	\$ (708,461)	\$ 0	\$ 0	\$ (10,718,249)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:							
Depreciation	2,355,378	0	0	1,520	0	0	2,356,898
(Increase) Decrease in Assets:							
Capitalized Costs	(245,484)	0	0	0	0	0	(245,484)
Accounts Receivable	(1,278,706)	0	0	0	0	0	(1,278,706)
Prepays	(274,904)	0	0	0	0	0	(274,904)
Assets held for resale	70,419	0	0	0	0	0	70,419
Accrued Interest	(5,482)	0	0	0	0	0	(5,482)
Net Pension Asset	(12,165)	0	0	0	0	0	(12,165)
Deferred Outflows	(430,812)	0	0	0	0	0	(430,812)
Increase (Decrease) in Liabilities:							
Accounts Payable	160,668	0	0	36,284	0	0	196,952
Performance Bonds payable	(8,150)	0	0	4,300	0	0	(3,850)
Escrow Funds Payable	(2,084)	0	0	0	0	0	(2,084)
Advances	42,662	0	0	0	0	0	42,662
Claims Payable	6,193	0	0	0	0	0	6,193
Accrued Wages and Benefits	57,872	0	0	0	0	0	57,872
Accrued Life Insurance	3,732	0	0	0	0	0	3,732
Compensated Absences	26,086	0	0	0	0	0	26,086
Due to other governments	18,885	0	0	0	0	0	18,885
Net Pension Liability	139,880	0	0	0	0	0	139,880
Deferred Inflows	113,902	0	0	0	0	0	113,902
<i>Net Cash Provided by Operating Activities</i>	<u>\$ (9,271,898)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (666,357)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (9,938,255)</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	\$ 170,194,124	\$ 0	\$ 0	\$ 1,076,494	\$ 8,421	\$ 0	\$ 171,279,039
Investments included in balances above that are not cash equivalents	(112,170,075)	0	0	0	0	0	(112,170,075)
Cash and Cash equivalents reported on Statement of Cash Flows	<u>\$ 58,024,049</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,076,494</u>	<u>\$ 8,421</u>	<u>\$ 0</u>	<u>\$ 59,108,964</u>

Noncash Capital Financing Activities:

At December 31, 2015 the Conservancy District purchased \$755,369 in capital assets on account.
At December 31, 2014 the Conservancy District purchased \$611,695 in capital assets on account.

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

	<u>2014</u>	<u>2013</u>
<i>Ohio Public Employees' Retirement System (OPERS) - Traditional Plan</i>		
Conservancy District's Proportion of the Net Pension Liability (Asset)	0.0513470%	0.0513470%
Conservancy District's Proportionate Share of the Net Pension Liability (Asset)	\$ 6,193,022	\$ 6,053,142
Conservancy District's Covered-Employee Payroll	\$ 6,022,398	\$ 5,379,079
Conservancy District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	102.83%	112.53%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	86.45%	86.36%
<i>Ohio Public Employees' Retirement System (OPERS) - Combined Plan</i>		
Conservancy District's Proportion of the Net Pension Liability (Asset)	0.0434300%	0.0434300%
Conservancy District's Proportionate Share of the Net Pension Liability (Asset)	\$ (16,722)	\$ (4,557)
Conservancy District's Covered-Employee Payroll	\$ 159,883	\$ 142,686
Conservancy District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	-10.46%	-3.19%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	114.83%	104.56%

(1) Information prior to 2013 is not available.

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

	<u>2015</u>	<u>2014</u>	<u>2013</u>
<i>Ohio Public Employees' Retirement System (OPERS Traditional Plan)</i>			
Contractually Required Contribution	\$ 857,447	763,117	\$ 736,558
Contributions in Relation to the Contractually Required Contribution	<u>(857,447)</u>	<u>(763,117)</u>	<u>(736,558)</u>
Contribution deficiency (excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Conservancy District's covered-employee payroll	\$ 6,759,620	\$ 6,022,398	\$ 5,379,079
Contributions as a percentage of covered-employee payroll	12.68%	12.67%	13.69%
<i>Ohio Public Employees' Retirement System (OPERS Combined Plan)</i>			
Contractually Required Contribution	\$ 24,206	19,186	\$ 18,549
Contributions in Relation to the Contractually Required Contribution	<u>(24,206)</u>	<u>(19,186)</u>	<u>(18,549)</u>
Contribution deficiency (excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Conservancy District's covered-employee payroll	\$ 201,717	\$ 159,883	\$ 142,686
Contributions as a percentage of covered-employee payroll	12.00%	12.00%	13.00%

(1) Information prior to 2013 is not available.

April 22, 2016

To the Board of Directors
Muskingum Watershed Conservancy District
Tuscarawas County, Ohio
P.O. Box 349
New Philadelphia, Ohio 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 Muskingum Watershed Conservancy District, Tuscarawas County, Ohio (the Conservancy District) as of and for the year ended December 31, 2015, 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 22, 2016, in which we noted the Conservancy District restated net position balances to account for the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*.

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 opinion 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.

Muskingum Watershed Conservancy District
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*
Page 2 of 2

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*.

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.

New Philadelphia, Ohio



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 28, 2016**