



Dave Yost • Auditor of State

MUSKINGUM WATERSHED CONSERVANCY DISTRICT
TUSCARAWAS COUNTY
DECEMBER 31, 2017

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of the Muskingum Watershed Conservancy District, Tuscarawas County, Ohio (the Conservancy District), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Conservancy District's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

We believe the audit evidence we obtained is sufficient and appropriate to support 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, 2017, and the changes in its financial position and its cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 31, 2018, on our consideration of the Conservancy District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Conservancy District's internal control over financial reporting and compliance.



Dave Yost
Auditor of State
Columbus, Ohio

May 31, 2018

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

*Management's Discussion and Analysis
For the Year Ended December 31, 2017*

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, 2017. 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 2017 are as follows:

- Net position increased \$6,109,815 as a result of current year operations.
- Outstanding debt decreased from \$862,711 to \$796,125 through principal payments.
- Capital Assets increased \$32,376,677 as a result of an increase in park master planning projects.

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, 2017*

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 2017 and 2016 derived from the statement of net position and the statement of revenues, expenses, and changes in net position.

	<u>2017</u>	<u>2016</u>
Assets		
Current and Other Assets	\$ 140,230,054	\$ 163,430,114
Capital Assets, net	87,748,405	55,371,728
<i>Total Assets</i>	<u>227,978,459</u>	<u>218,801,842</u>
 Dererred Outflows of Resources		
Pensions	<u>5,336,134</u>	<u>4,195,673</u>
 Liabilities		
Current Liabilities	3,406,260	2,339,429
Long-Term Liabilities	14,687,026	11,418,800
<i>Total Liabilities</i>	<u>18,093,286</u>	<u>13,758,229</u>
 Deferred Inflows of Resources		
Pensions	<u>78,167</u>	<u>205,961</u>
 Net Position		
Net Investment in Capital Assets	84,940,313	53,395,541
Restricted	11,605,186	11,355,207
Unrestricted	118,597,641	144,282,577
<i>Total Net Position</i>	<u>\$ 215,143,140</u>	<u>\$ 209,033,325</u>

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

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

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

*Management's Discussion and Analysis
For the Year Ended December 31, 2017*

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

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

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

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

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

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

*Management's Discussion and Analysis
For the Year Ended December 31, 2017*

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

During 2017, net position increased \$6,109,815 which is attributable to increases in the capital assets resulting from the park master plan implementation. The decrease in current and other assets is mainly attributable to a decrease in cash and investments due to capital asset projects and park master plan planning.

Capital assets increased due to a number of construction projects such as the beginning of several large campground renovation projects in the park master plan. Pleasant Hill Area 22, Atwood Area 20, and Tappan East Campground were the largest projects in 2017. All of those projects were still in process at the end of 2017, with anticipated completion dates in 2018. The Conservancy District also acquired two marinas in 2017, Leesville North Fork Marina and Tappan Marina. Those marinas were situated on our lakes, however were previously owned by private operators. In addition, the District received a donation (Johnny Appleseed) of an outdoor amphitheater, a building, and a water and sewer plant during 2017 which is included in capital asset additions. In 2017, the Conservancy District also purchased a building (main office annex) which acts as an office for our engineering and recreation park staff and has the on-site capacity to store a lot of our large machinery and equipment. This building is also included in capital assets. 2017 was the largest year for construction of the park master plan. There are numerous projects that are in the design phase and/or still being constructed as of December 31, 2017.

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 2017 and 2016.

	2017	2016
Operating Revenues		
Timber Sales	\$ 534,371	\$ 489,032
Pine-Pulpwood Sales	69,252	106,621
Easements/Right of Ways	265,000	0
Mineral Rights and Royalties	9,657,093	7,600,835
Share Crop Lease	221,071	398,209
Cottage Sites	2,822,871	2,760,522
Marina Operations	1,699,788	1,651,083
Fishing Rights	62,648	62,648
Marina Camping	425,621	427,845
Water Sales	463,498	832,311
Beach Facilities	170,375	197,196
Water and Sewer Systems	91,020	102,942
Vacation Cabin	460,433	462,858
Park Camping	5,146,684	5,056,050
Admissions - park facilities	185,718	184,606
Special Events	128,361	130,142
Miscellaneous Income	156,400	110,674
<i>Total Operating Revenues</i>	\$ 22,560,204	\$ 20,573,574

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

*Management's Discussion and Analysis
For the Year Ended December 31, 2017*

	2017	2016
Operating Expenses		
Water Sales	\$ 187,190	\$ 146,343
Water quality	675,134	975,777
Vehicles and equipment	401,998	469,367
Dam Safety/Upgrades	1,143,415	1,837,448
Boundary survey	71,396	76,167
Conservation	286,146	268,531
Reservoir Maintenance	65,443	22,221
Information Systems/Technology	713,041	537,863
Shoreline Protection	185,423	299,858
Share crop	137,868	256,403
Mineral operation	436,685	481,735
Watershed management	475,181	617,500
Beach facilities	257,575	271,832
Office building	344,619	266,715
Administrative and finance	2,104,426	1,881,678
Engineering	358,723	294,128
Planning and development	305,501	224,013
GIS and Parcel Development	787,355	286,815
Forestry maintenance	228,705	278,125
Park camping	2,653,746	2,494,779
Park Master Planning	1,819,768	3,108,706
Cottage sites and clubs	1,332,484	1,220,454
General park facilities	4,263,787	3,837,519
Vacation cabin	162,969	132,680
Marina operation	1,620,447	1,415,647
Water and sewer system	778,551	725,332
Lake patrol operation	497,982	353,066
Education and public information	374,696	326,362
Safety	227,891	208,706
Recreation maintenance	34,185	39,840
Parks - special events	160,929	155,264
Partners in Watershed Management	146,688	559,011
Sediment Removal	27,714	33,226
Depreciation	3,232,903	2,691,617
	26,500,564	26,794,728
<i>Total Operating Expenses</i>		
<i>Operating (Loss)</i>	\$ (3,940,360)	\$ (6,221,154)

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

*Management's Discussion and Analysis
For the Year Ended December 31, 2017*

	2017	2016
Non-Operating Revenues (Expenses)		
Maintenance assessments	\$ 6,067,371	\$ 5,932,646
Grants	937,622	714,223
Interest on investments	1,137,972	901,116
Debt retirement - Interest	(49,660)	(49,980)
<i>Total Non-Operating Revenues (Expenses)</i>	8,093,305	7,498,005
<i>Income (Loss) before Contributions</i>	4,152,945	1,276,851
Capital Contributions	1,956,870	1,049,077
<i>Change in Net Position</i>	\$ 6,109,815	\$ 2,325,928

The increase in operating revenue is mainly the result of increases in oil and gas activity in 2017. The oil and gas activity increased by approximately \$2 million or 27% in 2017, and the number of wells drilled on private property paying royalties to the Conservancy District increased from 50 in 2016 to 58 as of December 31, 2017. Two other line items directly tied to oil and gas activity were easements, which had \$265,000 of revenue in 2017 when it had no 2016 activity, and water sales. Water sales decreased \$368,000 or 44% and was the result of less demand coupled with water availability from our reservoirs. The Conservancy District places a safeguard on the water sale contracts by requiring a minimum amount of water to be in each reservoir prior to withdraw so as to protect the recreational activity. Park camping and marina operations increased in 2017. Park and marina revenue increased in part due to a good weather season and continued demand for our sites, amenities, and activities.

The operating expenses remained consistent in 2017; the following highlight some of the main changes:

- Dam Safety saw a 38% reduction in expenses due to timing of requests from the United States Army Corps of Engineers (USACE). In 2016 there was approximately \$1 million spent with the USACE for the Bolivar Dam project, in 2017 the payment was approximately \$600,000. The expenses for the Chippewa system also decreased in 2017 as a result of a significant portion of their activity being capitalized for their aerial imagery mapping project during 2017.
- Park master planning decreased approximately \$1.2 million or 41% in 2017. 2017 was the first year of significant construction during the master planning, therefore there were less conceptual planning costs and more of the spend was capitalized during 2017.
- In 2017, Partners in Watershed Management decreased by 74% due to timing of requests from the grantees.
- Lake Patrol Operations increased 40% in 2017 due to the hiring of three additional full time rangers.

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

*Management's Discussion and Analysis
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- GIS and Parcel Development increased 175% or approximately \$500,000 due to a contract for the creation of the billing file for the maintenance assessment. Prior to 2017, this was a function that was done in house.
- Water quality decreased approximately \$300,000 or 31%. This is attributed to the completion of a multi-year water quality baseline study which will be used in the water quality program going forward.
- Information systems and technology increased approximately \$175,000 or 33%. The majority of this increase is due to the Electronic Content Management (ECM) system costs incurred during 2017. In 2017, the recreation lease department went live with ECM for the maintenance and tracking of new and existing leases.

Grant revenue increased significantly due to an increased number of grants the Conservancy District received for shoreline stabilization projects in 2017. In addition, interest revenue increased 26% due to more of the district funds being invested during 2017 and the improving of interest rates throughout 2017.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2017 the Conservancy District had \$87,848,405 of capital assets net of accumulated depreciation. The following table shows 2017 balances compared with 2016:

	2017	2016
Land	\$ 3,313,899	\$ 3,313,899
Capitalized Development Costs	1,189,495	1,189,495
Construction in Progress	25,217,166	15,583,138
Land Improvements	20,219,040	6,854,860
Buildings	16,759,721	9,201,661
Building Improvements	2,908,500	1,886,537
Furniture, Fixtures and Equipment	2,002,886	2,095,240
Vehicles	695,684	861,243
Infrastructure	15,442,014	14,385,655
<i>Totals</i>	\$ 87,748,405	\$ 55,371,728

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

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

*Management's Discussion and Analysis
For the Year Ended December 31, 2017*

Debt

The outstanding debt for the Conservancy District as of December 31, 2017 was \$796,125 with \$69,109 due within one year. The following table summarizes the Conservancy District's debt outstanding as of December 31, 2017 and 2016:

	2017	2016
OWDA #2162 - 5.56%	\$ 221,306	\$ 248,882
OWDA #5413 - 0%	113,332	122,776
OWDA #5575 - 3.25%	441,190	469,393
OWDA #5558 - 3.25%	20,297	21,660
OWDA #6104 - 3.99%	0	0
<i>Totals</i>	<u>\$ 796,125</u>	<u>\$ 862,711</u>

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

CURRENT ISSUES

The Utica shale activity in Ohio has presented the Conservancy District with opportunities to utilize its natural resources. With approximately 7,000 additional acres available for lease in the heart of the shale play, the Conservancy District is continuing to develop and implement its plan for the prudent use of the resources it has available. Currently the Conservancy District has leased acreage for Utica shale development at Clendening Reservoir, Leesville Reservoir, Seneca Reservoir, Atwood Reservoir, and Piedmont Reservoir. The Conservancy District is evaluating options with regards to any remaining available acreage. As of December 31, 2017, the Conservancy District received royalty revenue from 58 producing Utica shale wells, which are included in 15 drilling units, drilled from 13 well pads. As of December 31, 2017, the Conservancy District also continues to receive delay rental revenue for several leases for any undeveloped acreage. Continued development at multiple reservoirs is ongoing, and expected to continue into 2018 and beyond.

With the completion of the 2012 Strategic Plan, the Conservancy District embarked on a new strategic plan with the process of reviewing the initiatives that were completed in the 2012 plan and gathering input from staff members for development of the 2017 Strategic Plan. As a result, the 2017 plan identified a number of high-priority initiatives which include the following: Review of the annual budget process, specifically looking at the possibility of developing a two year capital budget; Develop and implement a long-term plan for the Conservation areas; Address funding options for Phase 2 of the Park Master Plan; Preparation of a Marina Master Plan since the Conservancy District has acquired three additional marinas since the 2012 plan; Develop a financially equitable and responsible subdistrict creation process. These are just a few of the initiatives outlined in the plan with the full plan being available for review. This again is being viewed as a five-year plan with a scorecard being prepared to track all the initiatives.

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

*Management's Discussion and Analysis
For the Year Ended December 31, 2017*

Effective for 2017, the Board of Directors approved a Utica Shale Revenue Distribution plan which led to the creation of an operational reserve account, capital reserve account, and allowed for the transfer of moneys into the improvement fund for future land/building acquisitions. As of December 31, 2017 the operational reserve account had a balance of approximately \$6.7 million, the capital reserve account had a balance of approximately \$7.4 million, and approximately \$386,500 was transferred into the improvement fund. During the budgeting process for 2018, the Board of Directors approved the Utica Shale Revenue Distribution for the 2018 Utica Shale revenue. The allocation remained the same as 2017, with 5% of Utica Shale revenue going to the improvement fund for future land/building acquisitions, 45% will supplement operational needs and be set aside in a maintenance reserve account, and 50% will be set aside in a reserve account for the future capital needs of the Conservancy District.

The park master plan, which will consist of major updates at all five parks and two marinas operated by the Conservancy District was in full swing during 2017. One hundred and twenty million dollars has been set-a-side for phase I of the plan. The Conservancy District had significant projects at all locations during 2017. The ADA restroom at Tappan, a concession stand at Seneca Beach, and a renovation of the Piedmont Marina building were all completed during 2017. Several significant new campground projects at Atwood, Tappan and Pleasant Hill will be complete and available for use during the 2018 camping season. As of December 31, 2017, the Conservancy District has spent approximately \$41 million in park master plan expenditures.

At the end of 2017, the Conservancy District agreed to purchase Tappan Lake Marina. 2018 will be the first year the Conservancy District will operate the marina, as it had been privately operated since its inception. After evaluating the operations, the Conservancy District will operate the marina (docking, boat rentals, etc.) and will lease out boat sales and service and the restaurant operations. Given the prime location of Tappan Marina, and the state of some of the facilities, there is an organizational goal to establish a master plan for the future of marina with work beginning on this during 2018.

In 2017, a lessee of the Conservancy District, Johnny Appleseed Heritage Center Inc., relinquished their lease, and as a result, the property improvements reverted to the Conservancy District. This includes a 1700 seat outdoor amphitheater and a 90 seat indoor auditorium. During 2018, the Conservancy District will establish a plan for the best use of the facilities going forward.

Beginning with the 2015 collection year, the Board of Directors approved a 50% reduction in the maintenance assessment collections. This continued again for the 2018 collection year, however the Board of Directors recommended curtailing expenditures for the maintenance assessment, so that the expenditures were more in line with the revenues being generated. This resulted in an approved budget for the 2018 maintenance assessment of \$6.8 million. The Conservancy District will outsource the billing file again for the 2018 collection year. Several of the other large initiatives in the maintenance assessment will be the ongoing shoreline protection work which will be largely supplemented by grant revenue, and continued work with sediment removal or dredging. The dredge removal at Tappan Lake was completed during 2017. The next project will be to begin dredging at Seneca Lake which will happen during 2018.

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The reactivation of the Black Fork Subdistrict occurred in 2011 at the request from officials of the City of Shelby. Since then, numerous meetings have been held to discuss the findings of the studies that were performed to look at the potential solutions to the flooding issues in the Black Fork. Thus, in 2018 it is anticipated that a final flood mitigation strategy and proposed project will be presented to Shelby city officials for consideration. Should officials accept this proposed project, the Conservancy District will move forward for the eventual implementation of this strategy with appropriate funding considerations to be evaluated.

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 \$100,000 budget for 2018 for these projects.

During 2017 and continuing into 2018, the Conservancy District is in the process of updating/upgrading a number of systems that impact the financial statements. Effective in November of 2017, a new payroll and HR system was implemented. This system will provide a much more stream-lined approach to the recruitment and on-boarding process for new hires. In 2018, the Conservancy District will be switching accounting systems with a go-live date in February. This will be a major upgrade and will provide a more robust software which will allow for better reporting and analysis. Finally, the Parks will be switching campground reservation systems in 2018, which will provide for on-line reservations and tracking of docks at the marinas in addition to the same availability for campsites and other amenities. This system will go-live in April.

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, 2017

Assets	
<i>Current Assets:</i>	
Equity in Pooled Cash and Investments	\$ 135,984,656
Accrued Interest	9,121
Accounts Receivable	1,024,257
Prepays	480,365
Maintenance Assessments Receivable	<u>1,218,484</u>
<i>Total Current Assets</i>	<u>138,716,883</u>
<i>Non-Current Assets:</i>	
Capitalized Costs	1,513,171
Non-Depreciable Capital Assets	29,720,560
Depreciable Capital Assets, Net	<u>58,027,845</u>
<i>Total Non-Current Assets</i>	<u>89,261,576</u>
<i>Total Assets</i>	<u>227,978,459</u>
Deferred Outflows of Resources	
Pension	<u>5,336,134</u>
<i>Total Deferred Outflows of Resources</i>	<u>5,336,134</u>
Liabilities	
<i>Current Liabilities:</i>	
Accounts Payable	323,294
Contracts Payable	1,126,940
Retainage Payable	877,018
Performance Bond Payable	64,000
Escrow Land Rentals	22
Due to Other Governments	171,105
Accrued Wages and Benefits	296,857
Accrued Interest Payable	100
Accrued Life Insurance	8,116
Claims Payable	190,000
Advances	181,806
Compensated Absences	64,990
Capital Leases Payable	32,903
OWDA Loans Payable	<u>69,109</u>
<i>Total Current Liabilities</i>	<u>3,406,260</u>
<i>Long-Term Liabilities:</i>	
Compensated Absences - net of current portion	708,788
Capital Leases Payable - net of current portion	116,956
OWDA Loans Payable - net of current portion	727,016
Net Pension Liability	<u>13,134,266</u>
<i>Total Long-Term Liabilities</i>	<u>14,687,026</u>
<i>Total Liabilities</i>	<u>18,093,286</u>
Deferred Inflows of Resources	
Pension	<u>78,167</u>
<i>Total Deferred Inflows of Resources</i>	<u>78,167</u>
Net Position	
Net Investment in Capital Assets	84,940,313
Restricted for Maintenance Assessment	11,605,186
Unrestricted	<u>118,597,641</u>
<i>Total Net Position</i>	<u>\$ 215,143,140</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, 2017

Operating Revenues

Water Sales	\$ 463,498
Water and sewer systems	91,020
Timber sales	534,371
Pine/pulpwood sales	69,252
Mineral rights and royalties	9,657,093
Share crop lease	221,071
Cottage sites	2,822,871
Marina operations	1,699,788
Marina camping	425,621
Fishing rights	62,648
Easements/Right of ways	265,000
Beach facilities	170,375
Vacation cabin	460,433
Park camping	5,146,684
Parks - Special events	128,361
Admissions - park facilities	185,718
Miscellaneous income	156,400
<i>Total Operating Revenues</i>	<u>22,560,204</u>

Operating Expenses

Water Sales	187,190
Water Quality	675,134
Vehicles and equipment	401,998
Dam safety/upgrades	1,143,415
Boundary survey	71,396
Conservation	286,146
Reservoir Maintenance	65,443
Information Systems/Technology	713,041
Shoreline Protection	185,423
Share crop	137,868
Mineral operation	436,685
Watershed management	475,181
Beach facilities	257,575
Office building	344,619
Administrative and finance	2,104,426
Engineering	358,723
Planning and development	305,501
GIS and Parcel Development	787,355
Forestry maintenance	228,705
Park camping expense	2,653,746
Park Master Planning	1,819,768
Cottage sites and clubs	1,332,484
General park facilities	4,263,787
Vacation cabin	162,969
Marina operation	1,620,447

Muskingum Watershed Conservancy District
Tuscarawas County, Ohio
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Fund
For the Year Ended December 31, 2017

		(Continued)
Water and sewer system	\$	778,551
Lake patrol operation		497,982
Education and public information		374,696
Safety		227,891
Recreation maintenance		34,185
Parks - special events		160,929
PWM		146,688
Sediment Removal		27,714
Depreciation		<u>3,232,903</u>
<i>Total Operating Expenses</i>		<u>26,500,564</u>
<i>Operating Loss</i>		(3,940,360)
Non-Operating Revenues (Expenses)		
Maintenance assessments		6,067,371
Grants		937,622
Interest on investments		1,137,972
Debt retirement - Interest		<u>(49,660)</u>
<i>Total Non-Operating Revenues (Expenses)</i>		<u>8,093,305</u>
<i>Income before Contributions</i>		4,152,945
Capital Contributions		<u>1,956,870</u>
<i>Change in Net Position</i>		6,109,815
Net Position - Beginning of Year		<u>209,033,325</u>
Net Position - End of Year	\$	<u><u>215,143,140</u></u>

See accompanying notes to the basic financial statements

Muskingum Watershed Conservancy District
Tuscarawas County, Ohio
Statement of Cash Flows
Proprietary Fund
For the Year Ended December 31, 2017

Cash flows from Operating Activities:	
Cash Received from Customers	\$ 22,596,043
Cash Payments to Suppliers for Goods and Services	(11,223,079)
Cash Payments for Employees Services and Benefits	<u>(10,294,123)</u>
<i>Net Cash Used For Operating Activities</i>	<u>1,078,841</u>
Cash Flows from Noncapital Financing Activities:	
Proceeds from OWDA Loans	357,694
Principal Payments on OWDA Loans	(396,703)
Maintenance Assessments	4,595,116
Interest Paid on Debt	<u>(24,249)</u>
<i>Net Cash Provided by Noncapital Financing Activities</i>	<u>4,531,858</u>
Cash Flows from Capital and Related Financing Activities:	
Acquisition of Capital Assets	(32,729,302)
Maintenance Assessments	1,500,201
Intergovernmental Grants	937,622
Principal Payments on OWDA Loans	(27,576)
Principal Payments on Capital Leases	(27,505)
Interest Paid on Debt	<u>(25,411)</u>
<i>Net Cash Used for Capital and Related Financing Activities</i>	<u>(30,371,971)</u>
Cash Flows from Investing Activities:	
Receipts of Interest	1,619,532
Payments for purchase of investments	(90,462,489)
Proceeds from Sale of Investments	<u>96,269,159</u>
<i>Net Cash Used for Investing Activities</i>	<u>7,426,202</u>
<i>Net (Decrease) in Cash and Cash Equivalents</i>	(17,335,070)
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>24,259,553</u>
<i>Cash and Cash Equivalents End of Year</i>	<u><u>\$ 6,924,483</u></u>
Reconciliation of Operating Loss To Net Cash Used by Operating Activities:	
Operating Loss	\$ (3,940,360)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	3,232,903
(Increase) Decrease in Assets	
Capitalized Costs	(533,041)
Accounts Receivable	35,839
Prepays	33,379
Net Pension Asset	26,803
Deferred Outflows	(1,140,461)
Increase (Decrease) in Liabilities:	
Accounts Payable	108,152
Performance Bond Payable	7,000
Escrow Funds Payable	(532)
Advances	15,251
Claims Payable	20,000
Accrued Wages and Benefits	15,066
Accrued Life Insurance	362
Compensated Absences	50,254
Due to Other Governments	11,408
Net Pension Liability	3,264,612
Deferred Inflows	<u>(127,794)</u>
<i>Net Cash Used for Operating Activities</i>	<u><u>\$ 1,078,841</u></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	\$ 135,984,656
Investments included in balances above that are not cash equivalents	<u>(129,060,173)</u>
Cash and Cash equivalents reported on Statement of Cash Flows	<u>\$ 6,924,483</u>

Noncash Capital Financing Activities:

During 2017, \$47,884 of capital assets were acquired on capital leases.
During 2017, \$1,956,870 of capital assets were donated to the Conservancy District.
At December 31, 2017, the Conservancy District purchased \$1,995,736 in capital assets on account.
At December 31, 2016, the Conservancy District purchased \$1,128,432 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, 2017*

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 2017 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.

2017 Board of Directors:

- | | |
|-------------------------------------|--------------------------|
| • Clark Sprang – President | Term Expires June 2020 |
| • Robert Moorehead – Vice President | Term Expires August 2021 |
| • Joanne Limbach – Member | Term Expires July 2018 |
| • Gordon Maupin – Member | Term Expires July 2019 |
| • Stephen Paquette – Member | Term Expires July 2022 |
| • Richard J Pryce - Member | Term Expired July 2017 |

2017 Officers:

- John M. Hoopingarner – Executive Director/Secretary
- James B. Cugliari – Chief Financial Officer/Treasurer

Services provided by the Conservancy District are defined in detail in the Ohio Conservancy District Act and Chapter 6101.04 of the Ohio Revised Code and include among other duties the following:

- (A) Preventing Floods
- (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 their waters

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, 2017*

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 City officials, re-activated the Black Fork Subdistrict for the purpose of preparing an Official Plan, as required by the Ohio Revised Code, to address flooding within the Black Fork watershed. Black Fork Subdistrict is still in progress in the development of an official plan. In June of 2014, the Conservancy Court established the Clear Fork Subdistrict based on the request by several municipalities and stakeholders along the Clear Fork. Work is beginning to create an official plan. Buffalo Creek Subdistrict and Duck Creek Subdistrict are inactive.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

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

B. Measurement Focus

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

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

*Notes to the Basic Financial Statements
For the Year Ended December 31, 2017*

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 orders, 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 and land improvements 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, 2017*

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

G. Net Position

Net position represents the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources. Net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Restricted for maintenance assessment represents the net position of the maintenance assessment fund, which are restricted by the official plan as to how it can be used.

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

*Notes to the Basic Financial Statements
For the Year Ended December 31, 2017*

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

H. Revenue & Expenses

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

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

I. Deferred Outflows/Inflows of Resources

In addition to assets, the statements of net position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) 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 2017, 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, 2017, the Conservancy District has implemented Governmental Accounting Standards Board (GASB) Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*, GASB Statement No. 81, *Irrevocable Split-Interest Agreements* and GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*.

GASB Statement No. 80 amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion

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

*Notes to the Basic Financial Statements
For the Year Ended December 31, 2017*

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The implementation of GASB Statement No. 80 did not have an effect on the financial statements of the Conservancy District.

GASB Statement No. 81 requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, it requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement also requires that a government recognize revenue when the resources become applicable to the reporting period. The implementation of GASB Statement No. 81 did not have an effect on the financial statements of the Conservancy District.

GASB Statement No. 82 improves consistency in the application of pension accounting. These changes were incorporated in the Conservancy District's 2017 financial statements; however, there was no effect on beginning net position/fund balance.

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, 2017 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 an assessment in place. As of December 31, 2017, the entire amount of the loan has been repaid, however, it has not all been drawn down (see section N. below). Once the project is complete the charges will be amortized over the payback period from the assessment.

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 an assessment in place. Once the project is complete the charges will be amortized over the payback period from the assessment.

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, 2017, the Conservancy District had repaid the entire amount of the loan. The amount of \$480,365, represents the amount paid but yet to be drawn down, and is shown as a prepaid.

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

*Notes to the Basic Financial Statements
For the Year Ended December 31, 2017*

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

O. Advances

The Conservancy District records unearned revenue when it has received moneys prior to having earned the revenue, or before all grant requirements have been met (other than time). At December 31, 2017 unearned revenue consisted of \$181,806 of moneys received in advance for reservations in our parks and marinas for 2018.

P. Capital Contribution

In September of 2017, Johnny Appleseed Heritage Center Inc. donated an Amphitheater, a building (the Heritage Center), a water plant and a sewer plant to the Conservancy District. This property was donated because the outdoor drama, which was situated on the Conservancy District land, became defunct. This property had a fair market value of \$1,956,870.

Q. Reserve Account Balances

As part of the Conservancy District's strategic plan, there was an initiative to optimize fiscal balance. Therefore, in 2017, the Board of Directors approved a Deep Shale Royalty Revenue distribution plan which called for the creation of two reserve funds. One operational reserve fund which has a balance of approx. \$6.7 million, and a capital reserve fund which has a balance of approx. \$7.4 million as of December 31, 2017.

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 or by savings or deposit accounts including passbook accounts.

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

*Notes to the Basic Financial Statements
For the Year Ended December 31, 2017*

NOTE 3: DEPOSITS AND INVESTMENTS (continued)

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

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

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

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

*Notes to the Basic Financial Statements
For the Year Ended December 31, 2017*

NOTE 3: DEPOSITS AND INVESTMENTS (continued)

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 2017, the Conservancy District and public depositories complied with the provisions of these statutes.

Deposits with Financial Institutions

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

At fiscal year-end, the carrying amount of the Conservancy District's deposits was \$6,920,233. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures," as of December 31, 2017, \$9,012,707 of the Conservancy District's bank balance of \$9,607,592 was exposed to custodial risk as discussed above, while \$594,885 was covered by Federal Deposit Insurance Corporation.

Cash on Hand

As of December 31, 2017, the Conservancy District had \$4,250 of cash on hand.

Investments

As of December 31, 2017, the Conservancy District had the following investments and maturities:

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

*Notes to the Basic Financial Statements
For the Year Ended December 31, 2017*

NOTE 3: DEPOSITS AND INVESTMENTS (continued)

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	\$ 15,586,233	\$ 499,367	\$ -	\$ 1,489,330	\$ 13,597,536
Federal National Mortgage Association	9,509,376	-	-	2,748,863	6,760,513
Federal Home Loan Bank	14,390,166	-	-	-	14,390,166
Federal Farm Credit Bank	4,960,139	-	-	-	4,960,139
Municipal Bonds	11,285,182	4,036,171	2,207,994	2,169,369	2,871,648
Money Market	2,324,898	2,324,898	-	-	-
Treasury Bonds	19,645,396	519,771	1,985,391	5,095,563	12,044,671
Negotiable CDs	16,669,263	2,454,499	4,326,427	4,854,256	5,034,081
Commercial Paper	34,689,520	29,252,391	5,437,129	-	-
	\$ 129,060,173	\$ 39,087,097	\$ 13,956,941	\$ 16,357,381	\$ 59,658,754

The Conservancy District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs. The above table identifies the Conservancy District's recurring fair value measurements as of December 31, 2017. All investments of the Conservancy District are valued using quoted market prices (Level 1 inputs).

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

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

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

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

*Notes to the Basic Financial Statements
For the Year Ended December 31, 2017*

NOTE 3: DEPOSITS AND INVESTMENTS (continued)

Concentration of Credit Risk: The Conservancy District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage to total of each investment type as of December 31, 2017.

Investment Type	Fair Value	Percent of Total
Federal Home Loan Mortgage Corporation	\$ 15,586,233	12%
Federal National Mortgage Association	9,509,376	7%
Federal Home Loan Bank	14,390,166	11%
Federal Farm Credit Bank	4,960,139	4%
Municipal Bonds	11,285,182	9%
Money Market	2,324,898	2%
Treasury Bonds	19,645,396	15%
Negotiable CDs	16,669,263	13%
Commercial Paper	34,689,520	27%
	<u>\$ 129,060,173</u>	<u>100%</u>

The following is the net increase in the fair value of investments during for year ending December 31, 2017.

Fair Value of Investments December 31, 2017	\$ 129,060,173
Add: Proceeds of investments sold in 2017	96,269,159
Less: Cost of investments purchased in 2017	(90,462,489)
Less: Fair value at December 31, 2016	<u>(135,327,969)</u>
Change in fair value of investments	<u>\$ (461,126)</u>

NOTE 4: RECEIVABLES

Receivables at December 31, 2017 consisted of accounts (billed user charged services) and delinquent maintenance assessments. All receivables are deemed collectible in full.

Muskingum Watershed Conservancy District
Tuscarawas County, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

NOTE 5: CAPITAL ASSETS

Proprietary capital assets – summary by category at December 31, 2017:

	Balance 12/31/2016	Additions	Deletions	Balance 12/31/2017
Capital Assets Not Being Depreciated				
Land	\$ 3,313,899	\$ 0	\$ 0	\$ 3,313,899
Construction in Progress	15,583,138	27,742,430	(18,108,402)	25,217,166
Capitalized Development Costs	1,189,495	0	0	1,189,495
Total Capital Assets Not Being Depreciated	20,086,532	27,742,430	(18,108,402)	29,720,560
Capital Assets Being Depreciated				
Land Improvements	8,740,363	14,144,483	0	22,884,846
Buildings	14,444,792	7,937,085	0	22,381,877
Building Improvements	2,997,989	1,149,158	0	4,147,147
Furniture, Fixtures and Equipment	7,077,520	611,877	(101,855)	7,587,542
Vehicles	2,443,253	181,065	(87,868)	2,536,450
Infrastructure	18,040,448	1,962,126	0	20,002,574
Total Capital Assets Being Depreciated	53,744,365	25,985,794	(189,723)	79,540,436
Less Accumulated Depreciation:				
Land Improvements	(1,885,503)	(780,303)	0	(2,665,806)
Buildings	(5,243,131)	(379,025)	0	(5,622,156)
Building Improvements	(1,111,452)	(127,195)	0	(1,238,647)
Furniture, Fixtures and Equipment	(4,982,280)	(693,989)	91,613	(5,584,656)
Vehicles	(1,582,010)	(346,624)	87,868	(1,840,766)
Infrastructure	(3,654,793)	(905,767)	0	(4,560,560)
Total Accumulated Depreciation	(18,459,169)	(3,232,903)	179,481	(21,512,591)
Total Capital Assets Being Depreciated, Net	35,285,196	22,752,891	(10,242)	58,027,845
Capital Assets, Net	\$ 55,371,728	\$ 50,495,321	\$ (18,118,644)	\$ 87,748,405

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

*Notes to the Basic Financial Statements
For the Year Ended December 31, 2017*

NOTE 6: RISK MANAGEMENT

A. Comprehensive Liability Insurance

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

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

OPRM coverage programs are developed specific to each member's risk management needs and the related premiums for coverage are determined through the application of uniform underwriting criteria addressing the member's exposure to loss. Until November 1, 2016, the OPRM retained 47% of the premium and losses on the first \$250,000 casualty treaty and 10% of the first \$1,000,000 property treaty. Effective November 1, 2016, the OPRM retained 50% of the premium and losses on the first \$250,000 casualty treaty and 30% of the first \$1,000,000 property treaty. Members are only responsible for their self-retention (deductible) amounts, which vary from member to member. OPRM had 762 members as of December 31, 2016.

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

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

The Pool's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and equity at December 31, 2016 (the latest information available).

	<u>2016</u>
Assets	\$14,765,712
Liabilities	<u>(9,531,506)</u>
Members' Equity	<u>\$ 5,234,206</u>

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

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

*Notes to the Basic Financial Statements
For the Year Ended December 31, 2017*

NOTE 6: RISK MANAGEMENT (continued)

B. Self-insurance

Muskingum Watershed Conservancy District has a self-funded health insurance plan administered by third party administrator Aultcare. The plan year runs June 1 through May 31. The 2016 plan year ran June 1, 2016 through May 31, 2017. The 2017 plan year runs June 1, 2017 through May 31, 2018. For the 2017 plan year, the Conservancy District created a second plan with a higher deductible (Plan B).

The monthly premium for the 2016 plan year for a single employee is \$799.57, \$1,255.26 for an employee plus 1, and for the family of an employee is \$1,897.24. The monthly premium for the traditional plan (Plan A) for the 2017 year for a single employee is \$565.20, \$1,177.80 for an employee plus 1, and for the family of an employee is \$1,822.80. The monthly premium for Plan B for a single employee is \$435.72, \$904.56 for an employee plus one, and for the family of an employee is \$1,398.80.

The overall stop loss for the plan year 2016 is \$1,494,982 and for plan year 2017 is \$1,604,414.

The specific stop loss per occurrence was \$55,000 for plan year 2016 and \$65,000 for plan year 2017. For plan year 2016 and 2017, there was one instance with a special specific deductible in the amount of \$575,000 each year. There was one claim exceeding the limit for plan year 2016. 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 2016 plan year and Aultcare Insurance Company for the 2017 plan year.

The claims liability of \$190,000 at December 31, 2017, 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 2017 and 2016 are as follows:

	<u>Balance</u> <u>Beginning of Year</u>	<u>Current</u> <u>Year Claims</u>	<u>Claims</u> <u>Payments</u>	<u>Balance</u> <u>End of Year</u>
2016	\$ 183,000	\$ 1,439,625	\$ 1,452,625	\$ 170,000
2017	\$ 170,000	\$ 1,533,912	\$ 1,513,912	\$ 190,000

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

*Notes to the Basic Financial Statements
For the Year Ended December 31, 2017*

Note 7 - Defined Benefit Pension Plans

Net Pension Liability

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

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

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

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

*Notes to the Basic Financial Statements
For the Year Ended December 31, 2017*

Note 7 - Defined Benefit Pension Plans (continued)

Plan Description – Ohio Public Employees Retirement System (OPERS)

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

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional plan. 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, 2017

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.

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

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

*Notes to the Basic Financial Statements
For the Year Ended December 31, 2017*

Note 7 - Defined Benefit Pension Plans (continued)

	State and Local	Law Enforcement
2017 Statutory Maximum Contribution Rates		
Employer	14.00 %	18.10 %
Employee	10.00 %	*
 2017 Actual Contribution Rates		
Employer:		
Pension	13.00 %	17.10 %
Post-employment Health Care Benefits	1.00	1.00
Total Employer	14.00 %	18.10 %
 Employee	 10.00 %	 13.00 %

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

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The Conservancy District's contractually required contribution was \$964,697 for 2017. Of this amount, \$74,736 is reported as due to other governments.

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

The net pension liability for OPERS was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Conservancy District's proportion of the net pension liability was based on the Conservancy District's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	OPERS Traditional Plan
Proportion of the Net Pension Liability:	
Current Measurement Period	0.05783906%
Prior Measurement Period	0.05698000%
Change in Proportion	0.00085906%
 Proportionate Share of the Net	
Pension Liability	\$ 13,134,266
Pension Expense	\$ 2,987,857

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

*Notes to the Basic Financial Statements
For the Year Ended December 31, 2017*

Note 7 - Defined Benefit Pension Plans (continued)

Other than contributions made subsequent to the measurement date and differences between projected and actual earnings on investments; deferred inflows/outflows of resources are recognized in pension expense beginning in the current period, using a straight line method over a closed period equal to the average of the expected remaining services lives of all employees that are provided with pensions, determined as of the beginning of the measurement period. Net deferred inflows/outflows of resources pertaining to the differences between projected and actual investment earnings are similarly recognized over a closed five-year period. At December 31, 2017, the Conservancy District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	OPERS Traditional Plan
Deferred Outflows of Resources	
Net Difference between Projected and Actual	
Earnings on Pension Plan Investments	\$ 1,955,994
Differences between Expected and	
Actual Experience	17,802
Changes of Assumptions	2,083,253
Changes in Proportionate Share	314,388
Conservancy District Contributions	
Subsequent to the Measurement Date	964,697
Total Deferred Outflows of Resources	\$ 5,336,134
Deferred Inflows of Resources	
Differences between Expected and	
Actual Experience	\$ 78,167
Total Deferred Inflows of Resources	\$ 78,167

\$964,697 reported as deferred outflows of resources related to pension resulting from Conservancy District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2018. 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
Year Ending December 31:	
2018	1,883,030
2019	1,769,276
2020	698,300
2021	(57,336)
	\$ 4,293,270

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

*Notes to the Basic Financial Statements
For the Year Ended December 31, 2017*

Note 7 - Defined Benefit Pension Plans (continued)

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 was determined by an actuarial valuation as of December 31, 2016, using the following actuarial assumptions applied to all prior periods included in the measurement in accordance with the requirements of GASB 67. In 2016, the Board's actuarial consultants conducted an experience study for the period 2011 through 2015, comparing assumptions to actual results. The experience study incorporates both a historical review and forward-looking projections to determine the appropriate set of assumptions to keep the plan on a path toward full funding. Information from this study led to changes in both demographic and economic assumptions, with the most notable being a reduction in the actuarially assumed rate of return from 8.0 percent down to 7.5 percent, for the defined benefit investments. Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, are presented below:

<u>Actuarial Information</u>	<u>Traditional Pension Plan</u>
Actuarial Cost Method	Individual Entry Age
Investment Rate of Return	7.50 percent
Wage Inflation	3.25 percent
Projected Salary Increases, including wage inflation	3.25 percent to 10.75 percent (includes wage inflation at 3.25 percent)
Cost-of-Living Adjustments	Pre-1/7/2013 Retirees: 3.00 percent Simple Post-1/7/2013 Retirees: 3.00 percent Simple through 2018, then 2.15 percent Simple

Mortality rates were based on the RP-2014 Healthy Annuitant mortality table. For males, Healthy Annuitant Mortality tables were used, adjusted for mortality improvement back to the observation period base of 2006 and then established the base year as 2015. For females, Healthy Annuitant Mortality tables were used, adjusted for mortality improvements back to the observation period base year of 2006 and then established the base year as 2010. The mortality rates used in evaluating disability allowances were based on the RP-2014 Disabled mortality tables, adjusted for mortality improvement back to the observation base year of 2006 and then established the base year as 2015 for males and 2010 for females. Mortality rates for a particular calendar year for both healthy and disabled retiree mortality tables are determined by applying the MP-2015 mortality improvement scale to the above described tables.

The most recent experience study was completed for the five-year period ended December 31, 2015.

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

*Notes to the Basic Financial Statements
For the Year Ended December 31, 2017*

Note 7 - Defined Benefit Pension Plans (continued)

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.

During 2016, OPERS managed investments in four investment portfolios: the Defined Benefit portfolio, the 401(h) Health Care Trust portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The 401(h) Health Care Trust portfolio was closed as of June 30, 2016 and the net position transferred to the 115 Health Care Trust portfolio on July 1, 2016. The Defined Benefit portfolio contains the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan and the annuitized accounts of the Member-Directed Plan. The Defined Benefit portfolio historically included the assets of the Member-Directed retiree medical accounts funded through the VEBA Trust. However, the VEBA Trust was closed as of June 30, 2016 and the net position transferred to the 115 Health Care Trust portfolio on July 1, 2016. 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 annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Defined Benefit portfolio is 8.3 percent for 2016.

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 2016 and the long-term expected real rates of return:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)</u>
Fixed Income	23.00 %	2.75 %
Domestic Equities	20.70	6.34
Real Estate	10.00	4.75
Private Equity	10.00	8.97
International Equities	18.30	7.95
Other Investments	18.00	4.92
Total	<u>100.00 %</u>	<u>5.66 %</u>

Discount Rate The discount rate used to measure the total pension liability was 7.50 percent, post-experience study results. 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.

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

*Notes to the Basic Financial Statements
For the Year Ended December 31, 2017*

Note 7 - Defined Benefit Pension Plans (continued)

Sensitivity of the Conservancy District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the Conservancy District's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.50 percent, as well as what the Conservancy 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 (6.50 percent) or one-percentage-point higher (8.50 percent) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Conservancy District's proportionate share of the net pension liability:	\$ 20,065,525	\$ 13,134,266	\$ 7,358,285

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 a cost-sharing, multiple-employer defined benefit post-employment health care trust, which funds multiple health care plans including medical coverage, prescription drug coverage and deposits to a Health Reimbursement Arrangement to qualifying benefit recipients of both the Traditional Pension and the Combined plans. This trust is also used to fund health care for Member-Directed Plan participants, in the form of a Retiree Medical Account (RMA). At retirement or refund, Member-Directed Plan participants may be eligible for reimbursement of qualified medical expenses from their vested RMA balance.

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. See OPERS CAFR reference below for additional information.

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.

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

*Notes to the Basic Financial Statements
For the Year Ended December 31, 2017*

Note 8: Post-Employment Benefits (continued)

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 2017, State and Local employers contributed at a rate of 14.0 percent of earnable salary and Public Safety and Law Enforcement employers contributed at 18.1 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

Each year the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 1 percent during calendar year 2017. As recommended by OPERS’ actuary, the portion of employer contributions allocated to health care beginning January 1, 2018 decreased to 0 percent for both plans. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited into the RMA for participants in the Member-Directed Plan for 2017 was 4 percent.

Substantially all of the Conservancy District’s contributions allocated to fund post-employment health care benefits relates to the cost-sharing, multiple employer trusts. The corresponding contributions for the years ended December 31, 2017, 2016, and 2015 were \$70,407, \$131,851, and \$139,227 respectively. For 2017, 93 percent has been contributed with the balance being reported as due to other governments. The full amount has been contributed for 2016 and 2015.

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, 2017*

NOTE 10: LONG-TERM OBLIGATIONS

The changes in the Conservancy District's long-term obligations during the fiscal year 2017 were as follows:

	Principal			Principal Outstanding 12/31/2017	Amount Due in One Year
	Outstanding 12/31/2016	Additions	Reductions		
Long Term Obligations:					
OWDA #2162 - 5.56%	\$ 248,882	\$ 0	\$ (27,576)	\$ 221,306	\$ 29,130
OWDA #5413 - 0%	122,776	0	(9,444)	113,332	9,444
OWDA #5575 - 3.25%	469,393	0	(28,203)	441,190	29,127
OWDA #5558 - 3.25%	21,660	0	(1,363)	20,297	1,408
OWDA #6104 - 3.99%	0	357,694	(357,694)	0	0
<i>Total</i>	862,711	357,694	(424,280)	796,125	69,109
Other Long Term Obligations:					
Capital Leases	129,480	47,884	(27,505)	149,859	32,903
Net Pension Liability - See note 7	9,869,654	3,264,612	0	13,134,266	0
Compensated Absences	723,525	130,316	(80,063)	773,778	64,990
Total other long-term obligations	10,722,659	3,442,812	(107,568)	14,057,903	97,893

Ohio Water Development Authority Loans

In 1999, the Conservancy District was awarded a loan (#2162) 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 (#5413) 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 (#5575) 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, 2017*

NOTE 10: LONG-TERM OBLIGATIONS (continued)

The Conservancy District was awarded a \$30,065 loan from OWDA (#5558) 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 (#6104) for studies to develop the Black Fork Subdistrict official plan. As of December 31, 2017, only \$1,019,635 had been drawn down. This loan required repayment beginning in 2013 based upon the full amount of the loan and was completely repaid as of December 31, 2017. \$480,365 is shown as a prepaid which represents the amount in excess of the amount drawn down that has been paid to OWDA.

The annual requirements to retire debt are as follows:

	Ohio Water Development Authority Loans	
	Principal	Interest
2018	69,109	26,658
2019	71,751	24,015
2020	74,519	21,247
2021	77,419	18,347
2022	80,457	15,310
2023-2027	297,027	38,181
2028-2032	125,843	5,237
	<u>\$ 796,125</u>	<u>\$ 148,995</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 \$183,213, which is equal to the present value of the future minimum lease payments at the time of acquisition. Accumulated depreciation was \$45,387 as of December 31, 2017, leaving a current book value of \$137,826. 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, 2017:

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

*Notes to the Basic Financial Statements
For the Year Ended December 31, 2017*

NOTE 11: CAPITAL LEASES – LESSEE DISCLOSURE (continued)

		Capital Leases
Fiscal Year Ending December 31:	2018	\$ 47,264
	2019	47,264
	2020	47,264
	2021	38,241
	2022	4,078
Less: amount representing interest at the Conservancy District's incremental borrowing rate of interest		(34,252)
Present Value of minimum lease payments		\$ 149,859

NOTE 12: OPERATING LEASE

On June 17, 2011, the Conservancy District (the "Lessor") entered into a lease agreement with Gulfport Energy Corporation (the "Lessee"). The Conservancy District leased approximately 6,468 acres of land at Clendening Reservoir to the Lessee. The Lessee will pay the Conservancy District lease royalty payments of 16%. Several wells have been drilled under the terms of this lease agreement and additional rental payments are also currently being paid on an annual basis for any undeveloped acreage.

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

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

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

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

*Notes to the Basic Financial Statements
For the Year Ended December 31, 2017*

NOTE 13: CONTRACTUAL COMMITMENTS

As of December 31, 2017, the Conservancy District had contractual commitments for the following projects:

	Contractual Commitment	Expended	Balance 12/31/2017
Bolivar Dam - Army Corps of Engineers	\$ 37,951,380	\$ 21,576,746	\$ 16,374,634
Dover Dam - Army Corps of Engineers	2,070,000	2,051,887	18,113
Nimishillen Basin Flood Warning & Maps	500,000	300,000	200,000
Blackfork Subdistrict Development	1,124,134	669,906	454,228
Atwood Campground Area 20	7,745,016	7,159,696	585,320
Seneca Parkside Sanitary Sewer	1,017,404	829,364	188,040
Pleasant Hill Campground Area 22	3,038,732	2,977,093	61,639
Awood Main Campground Improvements Ph. 1	5,857,297	-	5,857,297
Charles Mill Water & Wastewater Utility Imp.	2,920,178	-	2,920,178
Charles Mill Campground Redevelopment Ph. 1	2,462,906	-	2,462,906
Piedmont Marina Campground Redevelopment	2,096,296	64,354	2,031,942
Pleasant Hill Sanitary Sewer	1,455,390	281,307	1,174,083
Pleasant Hill Campground Redevelopment Ph. 1	2,637,960	-	2,637,960
Seneca Parkside and Woodlands Campground Design	844,537	803,249	41,288
Seneca Parkside and Woodlands Campground	11,530,152	1,801,436	9,728,716
Seneca Marina Point Campground Ph. 1 Design	524,484	52,864	471,620
Tappan East Campground	4,069,272	3,755,590	313,682
Tappan Campground Redevelopment Ph. 1	3,115,693	-	3,115,693
Master Plan Program Management	2,190,000	1,021,223	1,168,777
Master Plan Construction Administration	899,949	609,575	290,374
Master Plan Construction Administration	537,160	258,366	278,794
Seneca Lake Dredging	1,069,425	145,746	923,679

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

*Notes to the Basic Financial Statements
For the Year Ended December 31, 2017*

NOTE 14: SUBSEQUENT EVENTS

At the January 2018 Board of Directors meeting, the Board approved a new contract with the Fraternal Order of Police Ohio Labor Council, Inc. The agreement was effective January 1, 2018.

At the February 2018 Board of Directors meeting, the Board authorized entering into contracts for construction administration and inspection services with two different firms in amount of \$756,035 and \$856,655.

At the March 2018 Board of Directors meeting, the Board authorized a new lease for a portion of the undeveloped land at Seneca reservoir (1,876 acres), and a release of a portion of the initial lease (2,488 acres). The Conservancy District will receive \$1,240 per acre per year, for the 1,876 acres, for three years, or a total of \$6,978,720.

At the March 2018 Board of Directors meeting, the Board authorized to advertise for bid and award a contract for the Pleasant Hill Park Cabin Roadway and Infrastructure project. The engineer estimate for this project is \$1,500,400.

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 2017.

Muskingum Watershed Conservancy District
Tuscarawas County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

NOTE 15: BLENDED COMPONENT UNITS (continued)

COMBINING STATEMENT OF NET POSITION

	Muskingum Watershed Conservancy District	Subdistricts			Eliminating Entries	Total	
		Black Fork	Buffalo Creek	Chippewa			Duck Creek
Assets							
<i>Current Assets:</i>							
Equity in Pooled Cash and Investments	\$ 135,309,937	\$ 0	\$ 0	\$ 666,289	\$ 8,430	\$ 0	\$ 135,984,656
Accrued Interest	9,121	0	0	0	0	0	9,121
Accounts Receivable	1,045,297	0	0	0	0	(21,040)	1,024,257
Prepays	480,365	0	0	0	0	0	480,365
Maintenance Assessments Receivable	1,208,684	0	0	9,800	0	0	1,218,484
Total Current Assets	138,053,404	0	0	676,089	8,430	(21,040)	138,716,883
<i>Non-Current Assets:</i>							
Capitalized Costs	1,513,171	0	0	0	0	0	1,513,171
Non-Depreciable Capital Assets	28,402,527	1,822	27,593	1,283,218	5,400	0	29,720,560
Depreciable Capital Assets, Net	57,991,964	0	0	35,881	0	0	58,027,845
Total Non-Current Assets	87,907,662	1,822	27,593	1,319,099	5,400	0	89,261,576
Total Assets	225,961,066	1,822	27,593	1,995,188	13,830	(21,040)	227,978,459
Deferred Outflows of Resources							
Pension	5,336,134	0	0	0	0	0	5,336,134
Total Deferred Outflows of Resources	5,336,134	0	0	0	0	0	5,336,134
Liabilities							
<i>Current Liabilities:</i>							
Accounts Payable	302,129	1,822	27,593	6,753	6,037	(21,040)	323,294
Contracts Payable	1,118,718	0	0	8,222	0	0	1,126,940
Retainage Payable	877,018	0	0	0	0	0	877,018
Performance Bond Payable	64,000	0	0	0	0	0	64,000
Escrow Land Rentals	22	0	0	0	0	0	22
Due to Other Governments	171,105	0	0	0	0	0	171,105
Accrued Wages and Benefits	296,857	0	0	0	0	0	296,857
Accrued Interest Payable	100	0	0	0	0	0	100
Accrued Life Insurance	8,116	0	0	0	0	0	8,116
Claims Payable	190,000	0	0	0	0	0	190,000
Advances	181,806	0	0	0	0	0	181,806
Compensated Absences	64,990	0	0	0	0	0	64,990
Capital Leases Payable	32,903	0	0	0	0	0	32,903
OWDA Loans Payable	69,109	0	0	0	0	0	69,109
Total Current Liabilities	3,376,873	1,822	27,593	14,975	6,037	(21,040)	3,406,260
<i>Long-Term Liabilities:</i>							
Compensated Absences - net of current portion	708,788	0	0	0	0	0	708,788
Capital Leases Payable - net of current portion	116,956	0	0	0	0	0	116,956
OWDA Loans Payable - net of current portion	727,016	0	0	0	0	0	727,016
Net Pension Liability	13,134,266	0	0	0	0	0	13,134,266
Total Long-Term Liabilities	14,687,026	0	0	0	0	0	14,687,026
Total Liabilities	18,063,899	1,822	27,593	14,975	6,037	(21,040)	18,093,286
Deferred Inflows of Resources							
Pension	78,167	0	0	0	0	0	78,167
Total Deferred Inflows of Resources	78,167	0	0	0	0	0	78,167
Net Position							
Net Investment in Capital Assets	83,586,399	1,822	27,593	1,319,099	5,400	0	84,940,313
Restricted for Maintenance Assessment	10,944,072	0	0	661,114	0	0	11,605,186
Unrestricted	118,624,663	(1,822)	(27,593)	0	2,393	0	118,597,641
Total Net Position	\$ 213,155,134	\$ 0	\$ 0	\$ 1,980,213	\$ 7,793	\$ 0	\$ 215,143,140

Muskingum Watershed Conservancy District
Tuscarawas County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

NOTE 15: BLENDED COMPONENT UNITS (continued)

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Muskingum Watershed Conservancy District	Subdistricts				Eliminating Entries	Total
		Black Fork	Buffalo Creek	Chippewa	Duck Creek		
Operating Revenues							
Water Sales	\$ 463,498	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 463,498
Water and sewer systems	91,020	0	0	0	0	0	91,020
Timber Sales	534,371	0	0	0	0	0	534,371
Pine/Pulpwood Sales	69,252	0	0	0	0	0	69,252
Mineral rights and royalties	9,657,093	0	0	0	0	0	9,657,093
Share Crop	221,071	0	0	0	0	0	221,071
Cottage Sites and Clubs	2,822,871	0	0	0	0	0	2,822,871
Marina operations	1,699,788	0	0	0	0	0	1,699,788
Marina camping	425,621	0	0	0	0	0	425,621
Fishing rights	62,648	0	0	0	0	0	62,648
Easements/Right of Ways	265,000	0	0	0	0	0	265,000
Beach facilities	170,375	0	0	0	0	0	170,375
Vacation cabin	460,433	0	0	0	0	0	460,433
Park camping	5,146,684	0	0	0	0	0	5,146,684
Parks - Special Events	128,361	0	0	0	0	0	128,361
Admissions - park facilities	185,718	0	0	0	0	0	185,718
Miscellaneous income	156,400	0	0	0	0	0	156,400
<i>Total Operating Revenues</i>	<u>22,560,204</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>22,560,204</u>
Operating Expenses							
Water Sales	187,190	0	0	0	0	0	187,190
Water Quality	675,134	0	0	0	0	0	675,134
Vehicles and equipment	401,998	0	0	0	0	0	401,998
Dam safety/upgrades	818,774	0	0	324,641	0	0	1,143,415
Boundary survey	71,396	0	0	0	0	0	71,396
Conservation	286,146	0	0	0	0	0	286,146
Reservior Maintenance	65,443	0	0	0	0	0	65,443
Information Systems/Technology	713,041	0	0	0	0	0	713,041
Shoreline Protection	185,423	0	0	0	0	0	185,423
Share crop	137,868	0	0	0	0	0	137,868
Mineral operation	436,685	0	0	0	0	0	436,685
Watershed management	475,181	0	0	0	0	0	475,181
Beach facilities	257,575	0	0	0	0	0	257,575
Office building	344,619	0	0	0	0	0	344,619
Administrative and finance	2,104,426	0	0	0	0	0	2,104,426
Engineering	358,723	0	0	0	0	0	358,723
Planning and development	305,501	0	0	0	0	0	305,501
GIS and Parcel Development	787,355	0	0	0	0	0	787,355
Forestry maintenance	228,705	0	0	0	0	0	228,705
Park camping	2,653,746	0	0	0	0	0	2,653,746
Park Master Planning	1,819,768	0	0	0	0	0	1,819,768
Cottage sites and clubs	1,332,484	0	0	0	0	0	1,332,484
General park facilities	4,263,787	0	0	0	0	0	4,263,787
Vacation cabin	162,969	0	0	0	0	0	162,969
Marina operation	1,620,447	0	0	0	0	0	1,620,447

Muskingum Watershed Conservancy District
Tuscarawas County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

NOTE 15: BLENDED COMPONENT UNITS (continued)

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Muskingum Watershed Conservancy District	Subdistricts			Eliminating Entries	Total
		Black Fork	Buffalo Creek	Chippewa		
						(Continued)
Water and sewer system	\$ 778,551	\$ 0	\$ 0	\$ 0	\$ 0	\$ 778,551
Lake patrol operation	497,982	0	0	0	0	497,982
Education and public information	374,696	0	0	0	0	374,696
Safety expenses	227,891	0	0	0	0	227,891
Recreation maintenance	34,185	0	0	0	0	34,185
Parks - special events	160,929	0	0	0	0	160,929
PWM	146,688	0	0	0	0	146,688
Sediment Removal	27,714	0	0	0	0	27,714
Depreciation	3,223,738	0	0	9,165	0	3,232,903
<i>Total Operating Expenses</i>	<u>26,166,758</u>	<u>0</u>	<u>0</u>	<u>333,806</u>	<u>0</u>	<u>26,500,564</u>
<i>Operating Loss</i>	(3,606,554)	0	0	(333,806)	0	(3,940,360)
Non-Operating Revenues (Expenses)						
Maintenance assessments	5,741,229	0	0	326,142	0	6,067,371
Grants	937,622	0	0	0	0	937,622
Interest on investments	1,135,847	0	0	2,121	4	1,137,972
Debt retirement - Interest	(49,660)	0	0	0	0	(49,660)
<i>Total Non-Operating Revenues (Expenses)</i>	<u>7,765,038</u>	<u>0</u>	<u>0</u>	<u>328,263</u>	<u>4</u>	<u>8,093,305</u>
<i>Income (loss) before Contributions</i>	4,158,484	0	0	(5,543)	4	4,152,945
Capital Contributions	<u>1,956,870</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,956,870</u>
<i>Change in Net Position</i>	6,115,354	0	0	(5,543)	4	6,109,815
Net Position - Beginning of Year	<u>207,039,780</u>	<u>0</u>	<u>0</u>	<u>1,985,756</u>	<u>7,789</u>	<u>209,033,325</u>
Net Position - End of Year	<u>\$ 213,155,134</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,980,213</u>	<u>\$ 7,793</u>	<u>\$ 215,143,140</u>

Muskingum Watershed Conservancy District
Tuscarawas County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

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	\$ 22,596,043	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 22,596,043
Cash Payments to Suppliers for Goods and Services	(10,989,451)	0	0	(233,628)	0	0	(11,223,079)
Cash Payments for Employees Services and Benefits	(10,188,034)	0	0	(106,089)	0	0	(10,294,123)
<i>Net Cash Provided by (Used for) Operating Activities</i>	<u>1,418,558</u>	<u>0</u>	<u>0</u>	<u>(339,717)</u>	<u>0</u>	<u>0</u>	<u>1,078,841</u>
Cash Flows from Noncapital Financing Activities:							
Proceeds from OWDA Loans	357,694	0	0	0	0	0	357,694
Principal Payments on OWDA Loans	(396,703)	0	0	0	0	0	(396,703)
Maintenance Assessments	4,396,740	0	0	198,376	0	0	4,595,116
Interest Paid on Debt	(24,249)	0	0	0	0	0	(24,249)
<i>Net Cash Provided by (Used for) Noncapital Financing Activities</i>	<u>4,333,482</u>	<u>0</u>	<u>0</u>	<u>198,376</u>	<u>0</u>	<u>0</u>	<u>4,531,858</u>
Cash Flows from Capital and Related Financing Activities:							
Acquisition of Capital Assets	(32,596,541)	0	0	(132,761)	0	0	(32,729,302)
Maintenance Assessments	1,367,440	0	0	132,761	0	0	1,500,201
Intergovernmental Grants	937,622	0	0	0	0	0	937,622
Principal Payments on OWDA Loans	(27,576)	0	0	0	0	0	(27,576)
Principal Payments on Capital Leases	(27,505)	0	0	0	0	0	(27,505)
Interest Paid on Debt	(25,411)	0	0	0	0	0	(25,411)
<i>Net Cash Used for Capital and Related Financing Activities</i>	<u>(30,371,971)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(30,371,971)</u>
Cash Flows from Investing Activities:							
Receipts of Interest	1,617,407	0	0	2,121	4	0	1,619,532
Payments for Purchase of Investments	(89,801,249)	0	0	(661,240)	0	0	(90,462,489)
Proceeds from Sale of Investments	96,269,159	0	0	0	0	0	96,269,159
<i>Net Cash Provided by (Used for) Investing Activities</i>	<u>8,085,317</u>	<u>0</u>	<u>0</u>	<u>(659,119)</u>	<u>4</u>	<u>0</u>	<u>7,426,202</u>
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	<u>(16,534,614)</u>	<u>0</u>	<u>0</u>	<u>(800,460)</u>	<u>4</u>	<u>0</u>	<u>(17,335,070)</u>
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>23,445,618</u>	<u>0</u>	<u>0</u>	<u>805,509</u>	<u>8,426</u>	<u>0</u>	<u>24,259,553</u>
<i>Cash and Cash Equivalents End of Year</i>	<u>\$ 6,911,004</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 5,049</u>	<u>\$ 8,430</u>	<u>\$ 0</u>	<u>\$ 6,924,483</u>
Reconciliation of Operating Loss To Net Cash Used by Operating Activities:							
Operating Loss	\$ (3,606,554)	\$ 0	\$ 0	\$ (333,806)	\$ 0	\$ 0	\$ (3,940,360)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:							
Depreciation	3,223,738	0	0	9,165	0	0	3,232,903
(Increase) Decrease in Assets:							
Capitalized Costs	(533,041)	0	0	0	0	0	(533,041)
Accounts Receivable	35,839	0	0	0	0	0	35,839
Prepays	33,379	0	0	0	0	0	33,379
Net Pension Asset	26,803	0	0	0	0	0	26,803
Deferred Outflows	(1,140,461)	0	0	0	0	0	(1,140,461)
Increase (Decrease) in Liabilities:							
Accounts Payable	123,228	0	0	(15,076)	0	0	108,152
Performance Bonds payable	7,000	0	0	0	0	0	7,000
Escrow Funds Payable	(532)	0	0	0	0	0	(532)
Advances	15,251	0	0	0	0	0	15,251
Claims Payable	20,000	0	0	0	0	0	20,000
Accrued Wages and Benefits	15,066	0	0	0	0	0	15,066
Accrued Life Insurance	362	0	0	0	0	0	362
Compensated Absences	50,254	0	0	0	0	0	50,254
Due to other governments	11,408	0	0	0	0	0	11,408
Net Pension Liability	3,264,612	0	0	0	0	0	3,264,612
Deferred Inflows	(127,794)	0	0	0	0	0	(127,794)
<i>Net Cash Provided by (Used for) Operating Activities</i>	<u>\$ 1,418,558</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (339,717)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,078,841</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	\$ 135,309,937	\$ 0	\$ 0	\$ 666,289	\$ 8,430	\$ 0	\$ 135,984,656
Investments included in balances above that are not cash equivalents	(128,398,933)	0	0	(661,240)	0	0	(129,060,173)
Cash and Cash equivalents reported on Statement of Cash Flows	<u>\$ 6,911,004</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 5,049</u>	<u>\$ 8,430</u>	<u>\$ 0</u>	<u>\$ 6,924,483</u>

Noncash Capital Financing Activities:

During 2017, \$47,884 of capital assets were acquired on capital leases.
During 2017, \$1,956,870 of capital assets were donated to the Conservancy District.
At December 31, 2017, the Conservancy District purchased \$1,995,736 in capital assets on account.
At December 31, 2016, the Conservancy District purchased \$1,128,432 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 Four Years (1)

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Ohio Public Employees' Retirement System (OPERS)				
Conservancy District's Proportion of the Net Pension Liability	0.0578391%	0.0569800%	0.0513470%	0.0513470%
Conservancy District's Proportionate Share of the Net Pension Liability	\$ 13,134,266	\$ 9,869,654	\$ 6,193,022	\$ 6,053,142
Conservancy District's Covered Payroll	\$ 6,398,882	\$ 6,759,620	\$ 6,022,398	\$ 5,379,079
Conservancy District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	205.26%	146.01%	102.83%	112.53%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	77.25%	81.08%	86.45%	86.36%

(1) Information prior to 2014 is not available.

Note: The amounts presented for each fiscal year were determined as of the measurement date, which is the prior fiscal year.

Notes:

Ohio Public Employees' Retirement System (OPERS)

Changes of Benefit Terms: None.

Changes of Assumptions: Amounts reported in 2017 reflect an adjustment of the rates of withdrawal, disability, retirement and mortality to more closely reflect actual experience. The expectation of retired life mortality was based on RP-2014 Healthy Annuitant mortality table and RP-2014 Disabled mortality table. The following reductions were also made to the actuarial assumptions:

- Discount rate from 8.00% to 7.50%
- Wage inflation rate from 3.75% to 3.25%
- Price inflation from 3.00% to 2.50%

Muskingum Watershed Conservancy District
Tuscarawas County, Ohio
Required Supplementary Information
Schedule of Conservancy District Contributions
Last Ten Years

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
<i>Ohio Public Employees' Retirement System (OPERS)</i>					
<i>Traditional Plan</i>					
Contractually Required Contribution	\$ 964,697	\$ 811,542	\$ 857,447	\$ 763,117	\$ 736,558
Contributions in Relation to the Contractually Required Contribution	<u>(964,697)</u>	<u>(811,542)</u>	<u>(857,447)</u>	<u>(763,117)</u>	<u>(736,558)</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Conservancy District's Covered Payroll	\$ 7,040,696	\$ 6,398,882	\$ 6,759,620	\$ 6,022,398	\$ 5,379,079
Contributions as a Percentage of Covered Payroll	13.70%	12.68%	12.68%	12.67%	13.69%

(n/a) Information prior to 2013 is not available.



Dave Yost • Auditor of State

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

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

To the Board of Directors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Muskingum Watershed Conservancy District, Tuscarawas County, Ohio (the Conservancy District), as of and for the year ended December 31, 2017, 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 May 31, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of reasonably assuring whether the Conservancy District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Purpose of this Report

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

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

Dave Yost
Auditor of State
Columbus, Ohio

May 31, 2018



Dave Yost • Auditor of State

MUSKINGUM WATERSHED CONSERVANCY

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 12, 2018**