



**MAUMEE WATERSHED CONSERVANCY DISTRICT  
DEFIANCE COUNTY**

**REGULAR AUDIT**

**FOR THE YEAR ENDED DECEMBER 31, 2005**



**Auditor of State  
Betty Montgomery**



**MAUMEE WATERSHED CONSERVANCY DISTRICT  
DEFIANCE COUNTY**

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

Maumee Watershed Conservancy District  
Defiance County  
1464 Pinehurst Drive  
Defiance, Ohio 43512-8670

To the Board of Directors:

We have audited the accompanying financial statements of the governmental activities and each major fund of the Maumee Watershed Conservancy District, Defiance County, Ohio (the District), as of and for the year ended December 31, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash financial position of the governmental activities and each major fund of the Maumee Watershed Conservancy District, Defiance County, Ohio, as of December 31, 2005, and the respective changes in modified cash financial position and the respective budgetary comparison for the Preliminary, Grassy Creek Maintenance, and Little Auglaize Maintenance Funds thereof for the year then ended in conformity with the basis of accounting Note 1 describes.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated April 12, 2006, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information the accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

April 12, 2006

**MAUMEE WATERSHED CONSERVANCY DISTRICT  
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
UNAUDITED**

This discussion and analysis of the Maumee Watershed Conservancy District's (the District) financial performance provides an overall review of the District's financial activities for the year ended December 31, 2005, within the limitations of the District's modified cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the District's financial performance.

**Highlights**

Key highlights for 2005 are as follows:

- Net assets of governmental activities decreased \$48,521, or 13.4 percent, a significant change from the prior year. The fund most affected by the decrease in cash and cash equivalents was the Little Auglaize Maintenance Fund, which realized the greatest burden of increased costs in 2005; however, cost increases affected most funds.
- The District's primary revenue source is special assessments. These receipts represent 96.6 percent of the total cash received for governmental activities during the year. Special assessment receipts for 2005 changed very little compared to 2004 as improvements within the District have slowed.

**Using the Basic Financial Statements**

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the District's modified cash basis of accounting.

**Report Components**

The statement of net assets and the statement of activities provide information about the cash activities of the District as a whole.

Fund financial statements provide a greater level of detail. Funds are created and maintained on the financial records of the District as a way to segregate money whose use is restricted to a particular specified purpose. These statements present financial information by fund, presenting funds with the largest balances or most activity in separate columns.

The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

**Basis of Accounting**

The basis of accounting is a set of guidelines that determine when financial events are recorded. The District has elected to present its financial statements on a modified cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the District's modified cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

**MAUMEE WATERSHED CONSERVANCY DISTRICT  
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
UNAUDITED  
(Continued)**

As a result of using the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the modified cash basis of accounting.

**Reporting the Government as a Whole**

This annual report includes all activities for which the Maumee Watershed Conservancy District is fiscally responsible. These activities, defined as the District's reporting entity, are operated within separate legal entities that make up the primary government. The primary government consists of the Maumee Watershed Conservancy District.

The statement of net assets and the statement of activities reflect how the District did financially during 2005, within the limitations of modified cash basis accounting. The statement of net assets presents the cash balances of the governmental activities of the District at year end. The statement of activities compares cash disbursements with program receipts for each governmental program activity. Program receipts include charges paid by the recipient of the program's goods or services restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function activity draws from the District's general receipts.

These statements report the District's cash position and the changes in cash position. Keeping in mind the limitations of the modified cash basis of accounting, you can think of these changes as one way to measure the District's financial health. Over time, increases or decreases in the District's cash position is one indicator of whether the District's financial health is improving or deteriorating. When evaluating the District's financial condition, you should also consider other nonfinancial factors as well such as the District's property tax base, the condition of the District's capital assets, the extent of the District's debt obligations, the reliance on non-local financial resources for operations and the need for continued growth in the major local revenue sources such as special assessments.

In the statement of net assets and the statement of activities, we report governmental activities, which include the District's basic services such as channel and structure maintenance. Special assessments finance most of these activities.

**Reporting the District's Most Significant Funds**

Fund financial statements provide detailed information about the District's major funds – not the District as a whole. The District establishes separate funds to better manage its many activities and to help demonstrate that money that is restricted as to how it may be used is being spent for the intended purpose. The funds of the District are reported in governmental funds.

The governmental fund financial statements provide a detailed view of the District's governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent to finance the District's programs. The District's significant governmental funds are presented on the financial statements in separate columns. The District's major governmental funds are the Preliminary Fund, Grassy Creek Maintenance Fund, Little Auglaize Maintenance Fund, Bond Retirement Fund, and Little Auglaize Improvement Fund. The programs reported in governmental funds are closely related to those reported in the governmental activities section of the entity-wide statements.



**MAUMEE WATERSHED CONSERVANCY DISTRICT  
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
UNAUDITED  
(Continued)**

**The District as a Whole**

Table 1 provides a summary of the District's net assets for 2005 compared to 2004 on a modified cash basis:

(Table 1)  
**Net Assets**

	Governmental Activities	
	2005	2004
<b>Assets</b>		
Cash and Cash Equivalents	\$312,410	\$360,931
Total Assets	312,410	360,931
<b>Net Assets</b>		
Restricted for:		
Capital Projects	2,353	2,704
Debt Service	67,921	48,436
Other Purposes	242,136	309,791
Total Net Assets	\$312,410	\$360,931

As mentioned previously, net assets of governmental activities decreased \$48,521 or 13.4 percent during 2005. The primary reason contributing to the decrease in cash balances was that the District had more maintenance repairs on the Little Auglaize River Watershed in 2005.

Table 2 reflects the changes in net assets in 2005. Since the District did not prepare financial statements in this format for 2004, a comparative analysis of government-wide data has not been presented. In future years, when prior year information is available, a comparative analysis will be presented.

**MAUMEE WATERSHED CONSERVANCY DISTRICT  
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
UNAUDITED  
(Continued)**

(Table 2)  
**Changes in Net Assets**

	Governmental Activities 2005
Receipts:	
Program Receipts:	
Charges for Services and Sales	\$413,323
Total Program Receipts	413,323
General Receipts:	
Interest	8,857
Miscellaneous	5,734
Total General Receipts	14,591
Total Receipts	427,914
Disbursements:	
Maintenance - Channels & Structures	149,909
Administration	49,346
Salaries	170,191
Miscellaneous	17,639
Debt Service	89,350
Total Disbursements	476,435
Decrease in Net Assets	(48,521)
Net Assets, January 1, 2005	360,931
Net Assets, December 31, 2005	\$312,410

Program receipts represent 96.6 percent of total receipts and are comprised of special assessments paid by property owners within the Little Auglaize River and Grassy Creek Watersheds.

General receipts represent 3.4 percent of the District's total receipts, and of this amount, two percent is interest earnings. Miscellaneous revenue makes up the balance of the District's general receipts, which is very insignificant and a somewhat unpredictable revenue source.

Disbursements for Maintenance – Channels & Structures represent the costs for maintenance, repairs, and improvements to the watersheds within the District. Administration represents the overhead costs for running the District, other than payroll, and the support services provided for the other District activities. Salaries represent payroll and fringe benefits paid to the Board of Directors, management, and District personnel. Miscellaneous represent various miscellaneous costs not otherwise associated with the daily operations of the District. These costs are generally insignificant, unpredictable in nature, and can vary from year to year. Debt Service is the principal and interest associated with the special assessment bonds related to improvements on the Little Auglaize River Watershed.

**MAUMEE WATERSHED CONSERVANCY DISTRICT  
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
UNAUDITED  
(Continued)**

**Governmental Activities**

If you look at the Statement of Activities, you will see that the first column lists the major services provided by the District. The next column identifies the costs of providing these services. The major program disbursements for governmental activities are for maintenance of channels and structures and salaries, which account for 31.5 and 35.7 percent of all governmental disbursements, respectively. Debt service also represents a significant cost, about 19 percent. The next column of the Statement entitled Program Cash Receipts identify amounts paid by people who are directly charged for the service that must be used to provide a specific service. The net Receipt (Disbursement) column compares the program receipts to the cost of the service. This "net cost" amount represents the cost of the service which ends up being paid from money provided by local taxpayers. These net costs are paid from the general receipts which are presented at the bottom of the Statement. A comparison between the total cost of services and the net cost is presented in Table 3.

(Table 3)

**Governmental Activities**

	Total Cost Of Services 2005	Net Cost of Services 2005
Maintenance-Channels & Structures	\$149,909	(\$263,414)
Administration	49,346	49,346
Salaries	170,191	170,191
Miscellaneous	17,639	17,639
Debt Service	89,350	89,350
Total Expenses	\$476,435	\$63,112

**The District's Funds**

Total governmental funds had receipts of \$427,914 and disbursements of \$476,435. The greatest change within governmental funds occurred within the Little Auglaize Maintenance Fund. The fund balance of the Little Auglaize Maintenance Fund decreased \$66,339 as the result of increased maintenance repairs on the Little Auglaize River Watershed in 2005.

**Capital Assets and Debt Administration**

Capital Assets

The District does not record capital assets in the accompanying basic financial statements, but records payments for capital assets as disbursements.

Debt

At December 31, 2005, the District's outstanding debt included \$90,000 in special assessment bonds related to improvements on the Little Auglaize River Watershed. For further information regarding the District's debt, refer to Note 8 to the basic financial statements.

**MAUMEE WATERSHED CONSERVANCY DISTRICT  
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
UNAUDITED  
(Continued)**

**Current Issues**

The challenge for all Governments is to provide quality services to the public while staying within the restrictions imposed by limited, and in some cases shrinking, funding. We rely heavily on special assessments.

**Contacting the District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the District's finances and to reflect the District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Sandra J. Barnette, District Treasurer, Maumee Watershed Conservancy District, 1464 Pinehurst Drive, Defiance, Ohio 43512-8670.

**MAUMEE WATERSHED CONSERVANCY DISTRICT  
DEFIANCE COUNTY**

*Statement of Net Assets - Modified Cash Basis  
December 31, 2005*

	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$312,410</u>
<i>Total Assets</i>	<u><u>\$312,410</u></u>
<b>Net Assets</b>	
Restricted for:	
Capital Projects	\$2,353
Debt Service	67,921
Other Purposes	<u>242,136</u>
<i>Total Net Assets</i>	<u><u>\$312,410</u></u>

See accompanying notes to the basic financial statements

**MAUMEE WATERSHED CONSERVANCY DISTRICT  
DEFIANCE COUNTY**

*Statement of Activities - Modified Cash Basis  
For the Year Ended December 31, 2005*

	<u>Cash Disbursements</u>	<u>Program Cash Receipts</u>	<u>Net (Disbursements) Receipts and Changes in Net Assets</u>
		<u>Charges for Services and Sales</u>	<u>Governmental Activities</u>
<b>Governmental Activities</b>			
Maintenance-Channels & Structures	\$149,909	\$413,323	\$263,414
Administration	49,346		(49,346)
Salaries	170,191		(170,191)
Miscellaneous	17,639		(17,639)
Debt Service	89,350		(89,350)
	<u>          </u>	<u>          </u>	<u>          </u>
Total	<u>\$476,435</u>	<u>\$413,323</u>	<u>(63,112)</u>
		<b>General Receipts</b>	
		Interest	8,857
		Miscellaneous	5,734
			<u>          </u>
		<i>Total General Receipts</i>	14,591
		Change in Net Assets	(48,521)
		<i>Net Assets Beginning of Year</i>	360,931
			<u>          </u>
		<i>Net Assets End of Year</i>	<u>\$312,410</u>

See accompanying notes to the basic financial statements

**MAUMEE WATERSHED CONSERVANCY DISTRICT  
DEFIANCE COUNTY**

*Statement of Modified Cash Basis Assets and Fund Balances  
Governmental Funds  
December 31, 2005*

	Preliminary Fund	Grassy Creek Maintenance Fund	Little Auglaize Maintenance Fund	Bond Retirement Fund	Little Auglaize Improvement Fund	Total Governmental Funds
<b>Assets</b>						
Equity in Pooled Cash and Cash Equivalents	\$74,361	\$71,334	\$96,441	\$67,921	\$2,353	\$312,410
<i>Total Assets</i>	<u>\$74,361</u>	<u>\$71,334</u>	<u>\$96,441</u>	<u>\$67,921</u>	<u>\$2,353</u>	<u>\$312,410</u>
<b>Fund Balances</b>						
Unreserved:						
Undesignated, Reported in:						
Special Revenue Funds	\$74,361	\$71,334	\$96,441			\$242,136
Debt Service Fund				\$67,921		67,921
Capital Projects Fund					\$2,353	2,353
<i>Total Fund Balances</i>	<u>\$74,361</u>	<u>\$71,334</u>	<u>\$96,441</u>	<u>\$67,921</u>	<u>\$2,353</u>	<u>\$312,410</u>

See accompanying notes to the basic financial statements

**MAUMEE WATERSHED CONSERVANCY DISTRICT  
DEFIANCE COUNTY**

*Statement of Cash Receipts, Disbursements and Changes in Modified Cash Basis Fund Balances  
Governmental Funds  
For the Year Ended December 31, 2005*

	Preliminary Fund	Grassy Creek Maintenance Fund	Little Auglaize Maintenance Fund	Bond Retirement Fund	Little Auglaize Improvement Fund	Total Governmental Funds
<b>Receipts</b>						
Special Assessments		\$60,568	\$246,010	\$106,745		\$413,323
Interest	\$1,289	1,434	4,008	2,090	\$36	8,857
Miscellaneous	254	764	4,702		14	5,734
<i>Total Receipts</i>	<u>1,543</u>	<u>62,766</u>	<u>254,720</u>	<u>108,835</u>	<u>50</u>	<u>427,914</u>
<b>Disbursements</b>						
Current:						
Maintenance-Channels & Structures		11,222	138,687			149,909
Administration	5,095	11,875	32,376			49,346
Salaries	8,105	25,654	136,432			170,191
Miscellaneous	247	3,427	13,564		401	17,639
Debt Service:						
Principal				80,000		80,000
Interest				9,350		9,350
<i>Total Disbursements</i>	<u>13,447</u>	<u>52,178</u>	<u>321,059</u>	<u>89,350</u>	<u>401</u>	<u>476,435</u>
<i>Net Change in Fund Balances</i>	(11,904)	10,588	(66,339)	19,485	(351)	(48,521)
<i>Fund Balances Beginning of Year</i>	<u>86,265</u>	<u>60,746</u>	<u>162,780</u>	<u>48,436</u>	<u>2,704</u>	<u>360,931</u>
<i>Fund Balances End of Year</i>	<u><u>\$74,361</u></u>	<u><u>\$71,334</u></u>	<u><u>\$96,441</u></u>	<u><u>\$67,921</u></u>	<u><u>\$2,353</u></u>	<u><u>\$312,410</u></u>

See accompanying notes to the basic financial statements



**MAUMEE WATERSHED CONSERVANCY DISTRICT  
DEFIANCE COUNTY**

*Statement of Receipts, Disbursements and Changes  
In Fund Balance - Budget and Actual - Budget Basis  
Preliminary Fund  
For the Year Ended December 31, 2005*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Receipts</b>				
Interest	\$406	\$406	\$1,289	\$883
Miscellaneous	80	80	254	174
<i>Total Receipts</i>	486	486	1,543	1,057
<b>Disbursements</b>				
Current:				
Administration	16,186	16,204	5,095	11,109
Salaries	8,349	8,349	8,105	244
Miscellaneous	265	265	247	18
<i>Total Disbursements</i>	24,800	24,818	13,447	11,371
<i>Net Change in Fund Balance</i>	(24,314)	(24,332)	(11,904)	12,428
<i>Fund Balance Beginning of Year</i>	86,265	86,265	86,265	
<i>Fund Balance End of Year</i>	\$61,951	\$61,933	\$74,361	\$12,428

See accompanying notes to the basic financial statements

**MAUMEE WATERSHED CONSERVANCY DISTRICT  
DEFIANCE COUNTY**

*Statement of Receipts, Disbursements and Changes  
In Fund Balance - Budget and Actual - Budget Basis  
Grassy Creek Maintenance Fund  
For the Year Ended December 31, 2005*

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Receipts</b>				
Special Assessments	\$59,771	\$59,771	\$60,568	\$797
Interest	1,415	1,415	1,434	19
Miscellaneous	754	754	764	10
<i>Total Receipts</i>	<u>61,940</u>	<u>61,940</u>	<u>62,766</u>	<u>826</u>
<b>Disbursements</b>				
Current:				
Maintenance-Channels & Structures	15,500	15,615	11,222	4,393
Administration	12,468	12,578	11,875	703
Salaries	27,881	27,881	25,654	2,227
Miscellaneous	3,660	3,673	3,427	246
<i>Total Disbursements</i>	<u>59,509</u>	<u>59,747</u>	<u>52,178</u>	<u>7,569</u>
<i>Net Change in Fund Balance</i>	2,431	2,193	10,588	8,395
<i>Fund Balance Beginning of Year</i>	<u>60,746</u>	<u>60,746</u>	<u>60,746</u>	
<i>Fund Balance End of Year</i>	<u><u>\$63,177</u></u>	<u><u>\$62,939</u></u>	<u><u>\$71,334</u></u>	<u><u>\$8,395</u></u>

See accompanying notes to the basic financial statements

**MAUMEE WATERSHED CONSERVANCY DISTRICT  
DEFIANCE COUNTY**

*Statement of Receipts, Disbursements and Changes  
In Fund Balance - Budget and Actual - Budget Basis  
Little Auglaize Maintenance Fund  
For the Year Ended December 31, 2005*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Receipts</b>				
Special Assessments	\$247,915	\$247,915	\$246,010	(\$1,905)
Interest	4,039	4,039	4,008	(31)
Miscellaneous	4,738	4,738	4,702	(36)
<i>Total Receipts</i>	256,692	256,692	254,720	(1,972)
<b>Disbursements</b>				
Current:				
Maintenance-Channels & Structures	117,000	188,035	138,687	49,348
Administration	34,293	34,530	32,376	2,154
Salaries	141,795	142,795	136,432	6,363
Miscellaneous	13,975	15,185	13,564	1,621
<i>Total Disbursements</i>	307,063	380,545	321,059	59,486
<i>Net Change in Fund Balance</i>	(50,371)	(123,853)	(66,339)	57,514
<i>Fund Balance Beginning of Year</i>	162,780	162,780	162,780	
<i>Fund Balance End of Year</i>	\$112,409	\$38,927	\$96,441	\$57,514

See accompanying notes to the basic financial statements

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**MAUMEE WATERSHED CONSERVANCY DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

**NOTE 1 – REPORTING ENTITY**

The Maumee Watershed Conservancy District, Defiance County, Ohio (the District), is a body politic and corporate established in 1960 to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is directed by a three-member Board of Directors. The Board members are appointed by the Court of Common Pleas. The District is comprised of the following counties: Wood County, Williams County, Defiance County, Henry County, Fulton County, Lucas County, Hardin County, Shelby County, Auglaize County, Allen County, Mercer County, Paulding County, Putnam County, and Van Wert County.

The reporting entity is comprised of the primary government.

A. Primary Government

The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. The District provides flood prevention and management, land waste reclamation, channel regulation, water conservation, and irrigation to certain areas within Mercer, Paulding, Putnam, Van Wert and Wood Counties.

B. Component Units

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide support to, the organization; or the District is obligated for the debt of the organization. The District is also financially accountable for any organizations that are fiscally dependent on the District in that the District approves their budget, the issuance of their debt or the levying of their taxes. Component units also include legally separate, tax-exempt entities whose resources are for the direct benefit of the District, are accessible to the District and are significant in amount to the District. The District does not have any component units.

The District's management believes these financial statements present all activities for which the District is financially accountable.

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

As discussed further in Note 2.C, these financial statements are presented on a modified cash basis of accounting. This modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the modified cash basis of accounting. In the government-wide financial statements, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. Following are the more significant of the District's accounting policies.

**MAUMEE WATERSHED CONSERVANCY DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
(Continued)**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)**

A. Basis of Presentation

The District's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government. The statement of net assets presents the cash balances of the governmental activities of the District at year end. The statement of activities compares disbursements with program receipts for each of the District's governmental activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the District is responsible. Program receipts include charges paid by the recipient of the program's goods or services. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function activity is self-financing on a modified cash basis or draws from the District's general receipts.

Fund Financial Statements

During the year, the District segregates transactions related to certain District functions or activities in separate funds to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the District at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column.

B. Fund Accounting

The District uses fund accounting to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. Funds are used to segregate resources that are restricted as to use. The various funds of the District are grouped into the governmental category.

Governmental Funds

The District classifies funds financed primarily from special assessment receipts as governmental funds. The District has the following major funds:

1. Preliminary Fund – This fund receives interest earnings and other miscellaneous revenue for expenses associated with initiating future work projects.
2. Grassy Creek Maintenance Fund – This fund receives special assessment monies for the operation of maintenance of the Grassy Creek project and expenses of the District.
3. Little Auglaize Maintenance Fund – This fund receives special assessment monies for the operation of maintenance of the Little Auglaize project and expenses of the District.

**MAUMEE WATERSHED CONSERVANCY DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
(Continued)**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)**

4. Bond Retirement Fund – This fund receives special assessment monies to make payments on the District outstanding bond issue.
5. Little Auglaize Improvement Fund – This fund receives interest earnings to be used for operating expenses for the Little Auglaize project.

C. Basis of Accounting

The District's financial statements are prepared using the modified cash basis of accounting. Except for modifications having substantial support, receipts are recorded in the District's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred.

Last year the District reported fund financial statements by fund type using the regulatory basis of accounting as prescribed by the State Auditor's Office. This year the District has implemented the modified cash basis of accounting described in Note 2. The fund financial statements now present each major fund in a separate column rather than a column for each fund type. The transition from the regulatory basis of accounting to the modified cash basis of accounting did not generate any changes to fund balance/equity as previously reported at December 31, 2004, since the basis of accounting has not changed.

D. Budgetary Process

All funds are legally required to be budgeted and appropriated. The District annually prepares an operating budget, which includes estimated resources and appropriations. Estimated resources establish a limit on the amount the District may appropriate.

Appropriations are the District's authorization to spend resources and sets limits on disbursements plus encumbrances at the level of control selected by the District. The legal level of control has been established at the fund, account line item level for all funds.

Estimated resources may be amended during the year if projected increases or decreases in receipts are identified by the District Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts of estimated revenues when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts of amended estimated revenues in effect at the time final appropriations were passed by the District.

Appropriations are subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the original appropriations for that fund that covered the entire year. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the District during the year.

E. Cash and Investments

To improve cash management, cash received by the District is pooled and invested. Individual fund integrity is maintained through District records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

**MAUMEE WATERSHED CONSERVANCY DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
(Continued)**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)**

During 2005, the District invested in nonnegotiable certificates of deposit. The nonnegotiable certificates of deposit are reported at cost.

Interest earnings are allocated to District funds according to State statutes, grant requirements, or debt related restrictions. Interest receipts were credited to the various District funds during 2005 as follows: Preliminary Fund \$1,289; Grassy Creek Maintenance Fund \$1,434; Little Auglaize Maintenance Fund \$4,008; Bond Retirement Fund \$2,090; and Little Auglaize Improvement Fund \$36.

F. Inventory

The District reports disbursements for inventories when paid. These items are not reflected as assets in the accompanying financial statements.

G. Capital Assets

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets in the accompanying financial statements.

H. Accumulated Leave

In certain circumstances, such as upon leaving employment or retirement, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the District's modified cash basis of accounting.

I. Employer Contributions to Cost-Sharing Pension Plans

The District recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 6 and 7, the employer contributions include portions for pension benefits and for postretirement health care benefits.

J. Long-Term Obligations

The District's modified cash basis financial statements do not report liabilities for bonds or other long-term obligations. Proceeds of debt are reported when the cash is received and principal and interest payments are reported when paid.

K. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for maintenance of the Grassy Creek and Little Auglaize projects.



**MAUMEE WATERSHED CONSERVANCY DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
(Continued)**

**NOTE 3 – BUDGETARY BASIS OF ACCOUNTING**

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budget Basis presented for the Preliminary Fund, Grassy Creek Maintenance Fund, and Little Auglaize Maintenance Fund are prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. There is no difference between the budgetary basis and the modified cash basis in as much as encumbrances are canceled at year end.

**NOTE 4 – DEPOSITS AND INVESTMENTS**

Monies held by the District are classified by State statute into three categories.

Active monies are public monies determined to be necessary to meet current demands upon the District treasury. Active monies must be maintained either as cash in the 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 Directors have identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

Interim monies held by the District can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security 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. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;

**MAUMEE WATERSHED CONSERVANCY DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
(Continued)**

**NOTE 4 – DEPOSITS AND INVESTMENTS – (CONTINUED)**

6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio).

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 District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

Deposits

Custodial credit risk is the risk that in the event of bank failure, the District will not be able to recover deposits. At year end, \$77,000 of the District's bank balance of \$321,840 was exposed to custodial credit risk because those deposits were uninsured and collateralized with securities held by the pledging financial institution, but not in the District's name.

The District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

**NOTE 5 – RISK MANAGEMENT**

Risk Pool Membership

The District belongs to the Ohio Government Risk Management Plan (the "Plan"), an unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to approximately 500 Ohio governments ("Members").

Pursuant to Section 2744.081 of the Ohio Revised Code, the Plan is a separate legal entity. The Plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages, modified for each Member's needs. The Plan pays judgments, settlements and other expenses resulting from covered claims that exceed the Member's deductible.

The Plan issues its own policies and reinsures the Plan with A- VII or better rated carriers, except for the 5% portion retained by the Plan. After September 1, 2003, the Plan pays the lesser of 5% or \$25,000 of casualty losses and the lesser of 5% or \$50,000 of property losses. The individual members are only responsible for their self-retention (deductible) amounts, which vary from member to member.

**MAUMEE WATERSHED CONSERVANCY DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
(Continued)**

**NOTE 5 – RISK MANAGEMENT – (CONTINUED)**

The Pool's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2004 and 2003 (the latest information available):

	<u>2004</u>	<u>2003</u>
Assets	\$6,685,522	\$5,402,167
Liabilities	\$2,227,808	\$1,871,123
Members' Equity	\$4,457,714	\$3,531,044

You can read the complete audited financial statements for The Ohio Government Risk Management Plan at the Plan's website, [www.ohioplan.org](http://www.ohioplan.org).

The District also provides health insurance coverage to employees through a private carrier.

**NOTE 6 – DEFINED BENEFIT PENSION PLAN**

The District participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings.

The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-6705 or (800) 222-7377.

For the year ended December 31, 2005, the members of all three plans were required to contribute 8.5 percent of their annual covered salaries. The District's contribution rate for pension benefits for 2005 was 9.55 percent. The Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2005, 2004, and 2003, were \$14,066, \$13,932, and \$11,634, respectively. The full amount has been contributed for 2005, 2004, and 2003.

**MAUMEE WATERSHED CONSERVANCY DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
(Continued)**

**NOTE 7 - POSTEMPLOYMENT BENEFITS**

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in *GASB Statement No. 12*. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2005 local government employer contribution rate was 13.55 percent of covered payroll; 4.00 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2004, include a rate of return on investments of 8.00 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase between 1.00 and 6.00 percent annually for the next eight years and 4.00 percent annually after eight years.

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually.

The number of active contributing participants in the traditional and combined plans was 376,109. Actual employer contributions for 2005 which were used to fund postemployment benefits were \$5,891. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2004, (the latest information available) were \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$29.5 billion and \$18.7 billion, respectively.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to increasing health care costs.

**NOTE 8- DEBT**

The District's long-term debt activity for the year ended December 31, 2005, was as follows:

	Interest Rate	Balance December 31, 2004	Additions	Reductions	Balance December 31, 2005	Due Within One Year
<u>Governmental Activities</u>						
Special Assessment Bonds						
1992 Issue (\$1,540,000)	5.50%	\$170,000	\$0	\$80,000	\$90,000	\$80,000

**MAUMEE WATERSHED CONSERVANCY DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
(Continued)**

**NOTE 8- DEBT – (CONTINUED)**

The outstanding special assessment bonds relate to various District projects. The bonds are special obligations of the District and are payable from the collection of special assessments levied on certain property benefited by the projects. The bonds are repaid in semiannual installments including interest, over 15 years.

The following is a summary of the District's future annual debt service requirements:

Year	Special Assessments Bonds	
	Principal	Interest
2006	\$80,000	\$4,950
2007	10,000	550
Totals	<u>\$90,000</u>	<u>\$5,500</u>

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**Auditor of State  
Betty Montgomery**

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

Maumee Watershed Conservancy District  
Defiance County  
1464 Pinehurst Drive  
Defiance, Ohio 43512-8670

To the Board of Directors:

We have audited the financial statements of the governmental activities and each major fund of the Maumee Watershed Conservancy District, Defiance County, (the District) as of and for the year ended December 31, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated April 12, 2006, in which we disclosed the District prepares its financial statements on a basis of accounting other than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated April 12, 2006, we reported another matter involving internal control over financial reporting we did not deem a reportable condition.

**Compliance and Other Matters**

As part of reasonably assuring whether the 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, providing an opinion 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*. In a separate letter to the District's management dated April 12, 2006, we reported another matter related to noncompliance we deemed immaterial.

Maumee Watershed Conservancy District  
Defiance County  
Independent Accountants' Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters  
Required by *Government Auditing Standards*  
Page 2

We intend this report solely for the information and use of the audit committee, management, and Board of Directors. It is not intended for anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

April 12, 2006





**Auditor of State  
Betty Montgomery**

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140

Telephone 614-466-4514  
800-282-0370

Facsimile 614-466-4490

**MAUMEE WATERSHED CONSERVANCY DISTRICT  
DEFIANCE 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  
MAY 4, 2006**