



**Auditor of State
Betty Montgomery**

**MIAMI TOWNSHIP
MONTGOMERY COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Miami Township
Montgomery County
2700 Lyons Road
Miamisburg, Ohio 45342

To the Board of Trustees:

We have audited the accompanying financial statements of Miami Township (the Township) as of and for the years ended December 31, 2002 and 2001. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note 1, the Township prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of Miami Township, Montgomery County, as of December 31, 2002 and 2001, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 12, 2003 on our consideration of the Township's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Miami Township
Montgomery County
Independent Accountants' Report
Page 2

This report is intended solely for the information and use of the audit committee, management, the Board and other officials authorized to receive this report under § 117.26, Ohio Revised Code, and is not intended to be and should not be used by 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

May 12, 2003

**MIAMI TOWNSHIP
MONTGOMERY COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN FUND
CASH BALANCES - ALL GOVERNMENTAL FUND TYPES AND SIMILAR FIDUCIARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2002**

	<u>Governmental Fund Types</u>				Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Fiduciary Fund</u>	
Cash Receipts:					
Local Taxes	\$159,723	\$9,353,008			\$9,512,731
Intergovernmental	1,495,646	1,326,328			2,821,974
Special Assessments	88,845		103,557		192,402
Charges for Services		189,748			189,748
Licenses, Permits, and Fees	33,498				33,498
Fines, Forfeitures, and Penalties		3,147			3,147
Earnings on Investments	423,394	14,488		3,625	441,507
Other Revenue	277,851	41,984		25,700	345,535
Total Cash Receipts	<u>2,478,957</u>	<u>10,928,703</u>	<u>103,557</u>	<u>29,325</u>	<u>13,540,542</u>
Cash Disbursements:					
Current:					
General Government	1,206,196				1,206,196
Public Safety		6,769,427			6,769,427
Public Works		820,768			820,768
Health		1,175,631			1,175,631
Conservation - Recreation	190,572			2,839	193,411
Debt Service:					
Redemption of Principal		101,931			101,931
Capital Outlay	984,925	713,170	95,015		1,793,110
Total Cash Disbursements	<u>2,381,693</u>	<u>9,580,927</u>	<u>95,015</u>	<u>2,839</u>	<u>12,060,474</u>
Total Receipts Over Disbursements	97,264	1,347,776	8,542	26,486	1,480,068
Other Financing Receipts:					
Other Sources		34,069			34,069
Excess of Cash Receipts and Other Financing Receipts Over Cash Disbursements	97,264	1,381,845	8,542	26,486	1,514,137
Restated Fund Cash Balances, January 1	<u>2,945,426</u>	<u>5,677,001</u>	<u>8,029</u>	<u>86,011</u>	<u>8,716,467</u>
Fund Cash Balances, December 31	<u>\$3,042,690</u>	<u>\$7,058,846</u>	<u>\$16,571</u>	<u>\$112,497</u>	<u>\$10,230,604</u>
Reserve for Encumbrances, December 31	<u>\$178,837</u>	<u>\$315,290</u>	<u>\$1,451</u>	<u>\$0</u>	<u>\$495,578</u>

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

**MIAMI TOWNSHIP
MONTGOMERY COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN FUND
CASH BALANCES - ALL GOVERNMENTAL FUND TYPES AND SIMILAR FIDUCIARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2001**

	<u>Governmental Fund Types</u>				Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Fiduciary Fund</u>	
Cash Receipts:					
Local Taxes	\$186,946	\$8,848,055			\$9,035,001
Intergovernmental	1,230,301	1,059,191			2,289,492
Special Assessments	35,240		85,591		120,831
Charges for Services		61,159			61,159
Licenses, Permits, and Fees	23,320				23,320
Fines, Forfeitures, and Penalties	2,675	30,384			33,059
Earnings on Investments	524,235	17,520		5,347	547,102
Other Revenue	214,660	120,286		24,646	359,592
	<u>2,217,377</u>	<u>10,136,595</u>	<u>85,591</u>	<u>29,993</u>	<u>12,469,556</u>
Total Cash Receipts					
Cash Disbursements:					
Current:					
General Government	988,471				988,471
Public Safety		6,479,334			6,479,334
Public Works		766,760			766,760
Health		1,329,169			1,329,169
Conservation - Recreation	189,851			2,178	192,029
Debt Service:					
Redemption of Principal		66,387			66,387
Capital Outlay	615,010	1,181,705	91,109		1,887,824
	<u>1,793,332</u>	<u>9,823,355</u>	<u>91,109</u>	<u>2,178</u>	<u>11,709,974</u>
Total Cash Disbursements					
Total Receipts Over/(Under) Disbursements	424,045	313,240	(5,518)	27,815	759,582
Fund Cash Balances, January 1	<u>2,521,381</u>	<u>5,363,761</u>	<u>13,547</u>	<u>58,196</u>	<u>7,956,885</u>
Fund Cash Balances, December 31	<u><u>\$2,945,426</u></u>	<u><u>\$5,677,001</u></u>	<u><u>\$8,029</u></u>	<u><u>\$86,011</u></u>	<u><u>\$8,716,467</u></u>
Reserve for Encumbrances, December 31	<u><u>\$166,159</u></u>	<u><u>\$342,989</u></u>	<u><u>\$1,440</u></u>	<u><u>\$0</u></u>	<u><u>\$510,588</u></u>

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

**MIAMI TOWNSHIP
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

Miami Township, Montgomery County, (the Township), is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Township is directed by a publicly-elected three-member Board of Trustees. The Township provides road and bridge maintenance, police protection, fire protection and emergency medical services.

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

B. Basis of Accounting

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

C. Cash and Investments

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively.

Certificates of deposit, Money Market funds and U.S. government backed securities are valued at cost.

D. Fund Accounting

The Township uses fund accounting to segregate cash and investments that are restricted as to use. The Township classifies its funds into the following types:

1. General Fund

The General Fund is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

2. Special Revenue Funds

These funds are used to account for proceeds from specific sources (other than from trusts or for capital projects) that are restricted to expenditure for specific purposes. The Township had the following significant Special Revenue Funds:

Road and Bridge Fund - This fund receives property tax money for constructing, maintaining and repairing Township roads and bridges.

**MIAMI TOWNSHIP
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Police and Fire District Levy Funds – These funds receive property tax money for operating and maintaining the police and fire departments and the purchase of equipment.

Garbage and Waste Disposal Fund - This fund receives property tax money to pay for the management, maintenance, and operation for the collection and disposal of garbage and refuse.

3. Capital Project Funds

These funds are used to account for receipts that are restricted for the acquisition or construction of major capital projects. The Township had the following significant capital project fund:

Lighting Assessment Fund - This fund receives funds from benefiting property owners for the cost of improvements.

4. Fiduciary Funds (Trust Funds)

These funds are used to account for resources restricted by legally binding trust agreements. The Township had the following significant fiduciary fund:

Waldruhe Park Trust Fund – This fund receives donations and gifts for the operation and maintenance of Waldruhe Park.

E. Budgetary Process

The Ohio Revised Code requires that each fund be budgeted annually.

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund level of control, and appropriations may not exceed estimated resources. The Board of Trustees must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Unencumbered appropriations lapse at year end.

2. Estimated Resources

Estimated resources include estimates of cash to be received (budgeted receipts) plus unencumbered cash as of January 1. The County Budget Commission must also approve estimated resources.

3. Encumbrances

The Ohio Revised Code requires the Township to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated.

A summary of 2002 and 2001 budgetary activity appears in Note 3.

**MIAMI TOWNSHIP
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Property, Plant and Equipment

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

G. Accumulated Leave

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

2. EQUITY IN POOLED CASH AND INVESTMENTS

The Township maintains a cash and investments pool used by all funds. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of cash and investments at December 31 was as follows:

	2002	2001
Demand deposits	\$732,275	\$559,064
Money Market	\$83,755	\$3,125
Certificates of deposit	343,995	67,592
Total deposits	1,160,025	629,781
Federal Home Loan Mortgage Corporation	1,560,039	4,752,656
Federal Home Loan Bank Bonds	55,500	197,710
Federal National Mortgage Association Notes	7,455,040	3,136,320
Total investments	9,070,579	8,086,686
Total deposits and investments	\$10,230,604	\$8,716,467

At December 31, 2002, the Township held \$8,732,998 in derivative securities and at December 31, 2001, the Township held \$7,701,955 in derivative securities. Such securities are not eligible investments for the Township under Ohio law.

Deposits: Deposits are either (1) insured by the Federal Depository Insurance Corporation, (2) collateralized by the financial institution's public entity deposit pool.

Investments: U.S. Government Securities are held in book-entry form by the Federal Reserve, in the name of the Township's financial institution. The financial institution maintains records identifying the Township as owner of these securities.

Investments in mutual funds are not evidenced by securities that exist in physical or book-entry form.

**MIAMI TOWNSHIP
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2002 and 2001 follows:

2002 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$2,167,599	\$2,478,957	\$311,358
Special Revenue	10,418,765	10,962,772	544,007
Capital Projects	99,156	103,557	4,401
Fiduciary	25,000	29,325	4,325
Total	\$12,710,520	\$13,574,611	\$864,091

2002 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$3,054,357	\$2,560,530	\$493,827
Special Revenue	10,860,050	9,896,217	963,833
Capital Projects	106,256	96,466	9,790
Fiduciary	25,000	2,839	22,161
Total	\$14,045,663	\$12,556,052	\$1,489,611

2001 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$1,803,890	\$2,217,377	\$413,487
Special Revenue	9,739,870	10,136,595	396,725
Capital Projects	90,000	85,591	(4,409)
Fiduciary	50,000	29,993	(20,007)
Total	\$11,683,760	\$12,469,556	\$785,796

2001 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$2,757,967	\$1,959,491	\$798,476
Special Revenue	11,911,329	10,166,344	1,744,985
Capital Projects	98,000	92,549	5,451
Fiduciary	25,000	2,178	22,822
Total	\$14,792,296	\$12,220,562	\$2,571,734

**MIAMI TOWNSHIP
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by Board of Trustees. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State, and are reflected in the accompanying financial statements as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to make semiannual payment, the first half is due December 31. The second half payment is due the following June 20.

Tangible personal property tax is assessed by the property owners, who must file a list of such property to the County by each April 30.

The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on behalf of the Township.

5. RETIREMENT SYSTEMS

The Township's certified Fire Fighters belong to the Police and Fire Pension Fund (OP&F). Other employees belong to the Public Employees Retirement System (PERS) of Ohio. OP&F and PERS are cost-sharing, multiple-employer plans. These plans provide retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. For 2002 and 2001, members of OP&F participants contributed 10% of their wages. The Township contributed an amount equal to 24% of their wages to OP&F. PERS members contributed 8.5% of their gross salaries. The Township contributed an amount equal to 13.55% of participants' gross salaries for 2001 and 2002. The Township has paid all contributions required through December 31, 2002.

6. RISK MANAGEMENT

The Township belongs to the Ohio Township Association Risk Management Authority (OTARMA), a risk-sharing pool available to Ohio townships. OTARMA provides property and casualty coverage for its members. OTARMA is a member of the American Public Entity Excess Pool (APEEP). Member governments pay annual contributions to fund OTARMA. OTARMA pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

A. Casualty Coverage

OTARMA retains casualty risks up to \$250,000 per occurrence. Claims exceeding \$250,000 are reinsured with APEEP up to \$1,750,000 per claim and \$5,000,000 in the aggregate per year. Governments can elect additional coverage, from \$2,000,000 to \$10,000,000, which the General Reinsurance Corporation will reinsure.

If losses exhaust OTARMA's retained earnings, APEEP covers OTARMA losses up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000.

**MIAMI TOWNSHIP
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

6. RISK MANAGEMENT (Continued)

B. Property Coverage

OTARMA retains property risks including automobile physical damage up to \$100,000 on any specific loss. The Travelers Indemnity Company reinsures specific losses exceeding \$100,000. The Travelers Indemnity Company also provides aggregate excess coverage for property including automobile physical damage subject to an annual stop loss. When the stop loss is reached in any year, The Travelers Indemnity Company provides coverage in excess of \$10,000.

The aforementioned casualty and property reinsurance agreements do not discharge OTARMA's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective government.

C. Financial Position

OTARMA's financial statements (audited by other accountants) conform with generally accepted accounting principles, and report the following assets, liabilities and retained earnings at December 31 (the latest information available):

<u>Casualty Coverage</u>	<u>2001</u>	<u>2000</u>
Assets	\$23,703,776	\$22,684,383
Liabilities	<u>9,379,003</u>	<u>8,924,977</u>
Retained earnings	<u>\$14,324,773</u>	<u>\$13,759,406</u>

<u>Property Coverage</u>	<u>2001</u>	<u>2000</u>
Assets	\$5,011,131	\$4,156,784
Liabilities	<u>647,667</u>	<u>497,831</u>
Retained earnings	<u>\$4,363,464</u>	<u>\$3,658,953</u>

The Township also obtained commercial insurance for the following risks:

- Vehicles
- Errors and omissions

The Township also provides health insurance and vision coverage to full-time employees through a private carrier.

7. CONTINGENT LIABILITIES

The Township is defendant in a lawsuit. Although the outcome of the suit is not presently determinable, management believes that the resolution of these matters will not materially adversely affect the Township's financial condition.

**MIAMI TOWNSHIP
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

8. RELATED ORGANIZATIONS

Crains Run Water and Sewer District – The Crains Run Water and Sewer District is a district political subdivision of the State of Ohio created under Chapter 6119 of the Ohio Revised Code. The District is governed by a Board of Trustees appointed by the Miami Township Board of Trustees. The District possesses its own contracting and budgeting authority, hires and fires personnel, accounting function and does not depend on the Township for operating subsidies.

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Miami Township
Montgomery County
2700 Lyons Road
Miamisburg, Ohio 45342

To the Board of Trustees:

We have audited the accompanying financial statements of Miami Township (the Township) as of and for the years ended December 31, 2002 and 2001, and have issued our report thereon dated May 12, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Township's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2002-40357-001. We also noted an immaterial instance of noncompliance that we have reported to management of the Township in a separate letter dated May 12, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Township's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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 in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Township in a separate letter dated May 12, 2003.

Miami Township
Montgomery County
Independent Accountants' Report on Compliance and on Internal Control
Required by *Government Auditing Standards*
Page 2

This report is intended solely for the information and use of the audit committee, management, and the Board of Trustees, and is not intended to be and should not be used by 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

May 12, 2003

**MIAMI TOWNSHIP
MONTGOMERY COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2002 AND 2001**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2002-40357-001

Ohio Rev. Code Sections 135.14(B)(1)(2) and 135.14(C) allow that the treasurer or governing board may invest or deposit any part or all of the interim moneys in the following classifications of eligible obligations:

(B)(1) - United States treasury bills, notes, bonds, 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.

(B)(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.

R.C. 135.14(B)(1) also states:

Nothing in the classification of eligible obligations set forth in division (B)(1) of this section or in the classifications of eligible obligations set forth in division (B)(2) of this section shall be construed to authorize any investment in stripped principal or interest obligations of such eligible obligations.

Pursuant to Section 135.14(C), “[n]othing in the classifications of eligible obligations set forth in divisions (B)(1) to (7) of this section shall be construed to authorize any investment in a derivative, and no treasurer or governing board shall invest in a derivative. For purposes of this division, ‘derivative’ means a financial instrument or contract or obligation whose value or return is based upon or linked to another asset or index, or both, separate from the financial instrument, contract, or obligation itself. Any security, obligation, trust account, or other instrument that is created from an issue of the United States treasury or is created from an obligation of a federal agency or instrumentality or is created from both is considered a derivative instrument. An eligible investment described in this section with a variable interest rate payment, based upon a single interest payment or single index comprised of other eligible investments provided for in division (B)(1) or (2) of this section, is not a derivative, provided that such variable rate investment has a maximum maturity of two years.”

Additionally, OAG Opinion 99-026 states, “[a]n examination of the nature and characteristics of mortgage-backed pass-through securities issued by federal government agencies and instrumentalities indicates that such securities are derivatives, as defined by R.C. 135.14(C), and, therefore, not permissible investments under R.C. 135.14.”

Further, the Securities and Exchange Commission (SEC) has recognized the derivative characteristics of mortgage-backed securities, and has defined such securities as "derivative financial instruments" for purposes of 17 C.F.R. § 229.305(b) (1998).

It is also important to note that the Township’s approved investment policy prohibits the Treasurer from investing in securities that are derivatives.

**FINDING NUMBER 2002-40357-001
(Continued)**

During the fiscal years 2002 and 2001, the Township invested in mortgage-backed securities. These securities represent 96% or \$8,732,998 of the fiscal year 2002 total investment balance and 95% or \$7,701,955 of the fiscal year 2001 total investment balance. Based on the above mentioned sections of the Ohio Revised Code, this type of security is determined to be a derivative, and, therefore, is an ineligible and prohibited obligation.

To ensure that the Township is in compliance with the above section of Revised Code and the Township's investment policy, the Township should invest in instruments that are eligible and authorized obligations.

Client Response: The Auditor of State indicates that Miami Township has invested interim monies in "derivatives" as defined by R. C. 135.14(C) and not permissible. The Handbook of Mortgage-Backed Securities by Frank J. Fabozzi describes and defines Mortgage Backed Securities.

There are three types of Mortgage-Backed Securities: Bond Structures, Pass Through Structures, and Derivative Pass Through Structures.

The first category of Mortgage-Backed Securities are **Bond Structures**, which include fixed payment bonds, property specific bonds, and pooled property financings. As with corporate bonds, these offerings generally carry call protection for a portion, or all, of the bond life. Fixed payment bonds usually are backed by pools of mortgages, with the majority of bonds issued to date being backed by seasoned mortgages. Property specific bonds and pooled property financings allow borrowers to directly access the capital markets to finance or refinance commercial properties. **These are the investments that Miami Township owns.**

I have included Miami Township's Portfolio Summary Review from our broker, which lists our investments with a description of each. Based on the above information, Miami Township is in compliance with ORC 135.14(C) and does not have any interim monies invested in "derivatives".

**MIAMI TOWNSHIP
MONTGOMERY COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2002 AND 2001**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2000-40357-001	Ohio Revised Code 5705.41 (B), Expenditures exceeding Appropriations	Yes	Fully Corrected
2000-40357-002	Ohio Revised Code 5705.39, Appropriations exceeding Estimated Resources	Yes	Fully Corrected
2000-40357-003	Computer Control Environment	No	Partially Corrected, repeated in Management Letter.
2000-40357-004	Cash Reconciliation Procedures	No	Partially Corrected, repeated in Management Letter.



**Auditor of State
Betty Montgomery**

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800-282-0370
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**MIAMI TOWNSHIP
MONTGOMERY 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 5, 2003**