

**MIAMI TOWNSHIP
MONTGOMERY COUNTY, OHIO**

**AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2003**



**Auditor of State
Betty Montgomery**

Board of Trustees
Miami Township
2700 Lyons Road
Miamisburg, Ohio 45342

We have reviewed the *Independent Auditors' Report* of Miami Township, Montgomery County, prepared by Bastin & Company, LLC for the audit period January 1, 2003 through December 31, 2003. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. Miami Township is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

September 30, 2005

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**MIAMI TOWNSHIP
MONTGOMERY COUNTY, OHIO**

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Bastin & Company, LLC

Certified Public Accountants

INDEPENDENT AUDITORS' 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, Montgomery County, Ohio, (the Township) as of and for the year ended December 31, 2003. 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 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 combined fund cash balances and reserves for encumbrances of the Township as of December 31, 2003, and its combined cash receipts and disbursements for the year then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 22, 2005 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Bastin & Company, LLC

Cincinnati, Ohio
July 22, 2005

**MIAMI TOWNSHIP
MONTGOMERY COUNTY
COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES
IN FUND CASH BALANCES - ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND
TYPES
FOR THE YEAR ENDED DECEMBER 31, 2003**

	<u>Governmental Fund Types</u>			<u>Fiduciary Fund Type</u>	<u>Total (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Expendable Trust</u>	
<i>Cash Receipts:</i>					
Local Taxes	\$ 163,693	\$ 9,032,349	\$ -	\$ -	\$ 9,196,042
Intergovernmental Revenues	1,216,348	2,292,968	-	-	3,509,316
Special Assessments	64,099	-	104,818	-	168,917
Charges For Services	-	594,189	-	-	594,189
Licenses, Permits, and Fees	21,815	600	-	-	22,415
Fines, Forfeitures, and Penalties	-	31,634	-	-	31,634
Earnings On Investments	413,691	14,703	-	4,895	433,289
Other Revenue	<u>171,781</u>	<u>47,620</u>	<u>-</u>	<u>20,028</u>	<u>239,429</u>
 Total Cash Receipts	 <u>2,051,427</u>	 <u>12,014,063</u>	 <u>104,818</u>	 <u>24,923</u>	 <u>14,195,231</u>
<i>Cash Disbursements:</i>					
Current:					
General Government	1,152,874	-	-	-	1,152,874
Public Safety	-	7,695,050	-	-	7,695,050
Public Works	-	1,004,029	-	-	1,004,029
Health	-	1,293,857	-	-	1,293,857
Conservation – Recreation	209,481	-	-	2,338	211,819
Capital Outlay	<u>406,776</u>	<u>801,662</u>	<u>101,083</u>	<u>-</u>	<u>1,309,521</u>
 Total Cash Disbursements	 <u>1,769,131</u>	 <u>10,794,598</u>	 <u>101,083</u>	 <u>2,338</u>	 <u>12,667,150</u>
 Total Receipts Over (Under) Disbursements	 282,296	 1,219,465	 3,735	 22,585	 1,528,081
<i>Other Financing Receipts:</i>					
Other Sources	<u>1,000</u>	<u>17,697</u>	<u>-</u>	<u>-</u>	<u>18,697</u>
 Excess of Cash Receipts and Other Financing Receipts Over (Under) Cash Disbursements	 283,296	 1,237,162	 3,735	 22,585	 1,546,778
Fund Cash Balance, January 1, 2003	<u>3,042,690</u>	<u>7,058,846</u>	<u>16,571</u>	<u>112,497</u>	<u>10,230,604</u>
Fund Cash Balance, December 31, 2003	<u>\$3,325,986</u>	<u>\$ 8,296,008</u>	<u>\$20,306</u>	<u>\$135,082</u>	<u>\$11,777,382</u>
 Reserves for Encumbrances, December 31, 2003	 <u>\$ 265,262</u>	 <u>\$ 417,937</u>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ 683,199</u>

The accompanying notes are an integral part of these financial statements.

**MIAMI TOWNSHIP
MONTGOMERY COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003**

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, if owned by the Township, 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:

**MIAMI TOWNSHIP
MONTGOMERY COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003**

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

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)

Trust funds are used to account for resources restricted by legally binding trust agreements. If the agreement requires the Township to maintain corpus of the trust, the fund is classified as a nonexpendable trust fund. Other trust funds are classified as expendable. Funds for which the Township is acting in an agency capacity are classified as agency funds. The Township had the following significant fiduciary funds:

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.

**MIAMI TOWNSHIP
MONTGOMERY COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003**

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 re-appropriated.

A summary of 2003 budgetary activity appears in Note 3.

F. Property, Plant and Equipment

The Township records disbursements for acquisitions of property, plant and equipment when paid. The accompanying financial statements do not report these items as assets.

G. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

H. Total Columns on Financial Statements

Total columns on the financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. This data is not comparable to a consolidation. Interfund type eliminations have not been made in the aggregation of this data.

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, 2003 was as follows:

Deposits:	
Demand deposits	\$793,733
Money Market	19,099
Certificates of deposit	1,333,508
Total deposits	2,146,340
 Investments:	
Federal Home Loan Bank Bonds	551,493
Federal Home Loan Mortgage Corporation	2,287,723
Federal National Mortgage Association Notes	6,791,826
Total investments	9,631,042
Total deposits and investments	\$11,777,382

At December 31, 2003, the Township held \$9,079,549 in derivative securities. Such securities are not eligible investments for the Township under Ohio law.

**MIAMI TOWNSHIP
MONTGOMERY COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003**

Deposits: Deposits are either insured by the Federal Depository Insurance Corporation, or 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.

3. BUDGETARY ACTIVITY

Budgetary activity for the year ending December 31, 2003 follows:

2003 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$2,200,808	\$2,052,427	(\$148,381)
Special Revenue	11,888,896	12,031,760	142,864
Capital Projects	104,000	104,818	818
Expendable Trust	25,000	24,923	(77)
Total	\$14,218,704	\$14,213,928	(\$4,776)

2003 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$2,268,837	\$2,034,393	\$234,444
Special Revenue	12,290,588	11,212,535	1,078,053
Capital Projects	105,451	101,083	4,368
Expendable Trust	3,200	2,338	862
Total	\$14,668,076	\$13,350,349	\$1,317,727

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which the Township's Board of Trustees adopts tax rates. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. The State pays the Township amounts equaling these deductions. The Township includes these with Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to make semiannual payments, the first half is due December 31. The second half payment is due the following June 20.

Property owners are assessed tangible personal property tax. They must file a list of tangible property to the County by April 30. The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on the Township's behalf.

**MIAMI TOWNSHIP
MONTGOMERY COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003**

5. RETIREMENT SYSTEMS

The Township's certified Fire Fighters belong to the Ohio Police and Fire Pension Fund (OP&F). Other full-time employees belong to the Public Employees Retirement System of Ohio (OPERS). OP&F and OPERS 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 2003, OP&F participants contributed 10 percent of their wages. The Township contributed an amount equal to 24 percent of fire participant wages to OP&F. OPERS' members contributed 8.5 percent of their wages. The Township contributed an amount equal to 13.55 percent of participants' gross salaries for 2003. The Township has paid all contributions required through December 31, 2003.

6. RISK MANAGEMENT

The Township belongs to the Ohio Township Association Risk Management Authority (OTARMA), a risk-sharing pool available to Ohio local governments. 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.

Casualty Coverage

OTARMA retains casualty risks up to \$250,000 per claim including loss adjustment expenses. OTARMA pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, 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, from the General Reinsurance Corporation.

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.

Property Coverage

OTARMA retains property risks, including automobile physical damage up to \$100,000 on any specific loss with an annual aggregate of \$1,250,000 for 2002. Beginning in 2003 OTARMA retains property risks, including automobile physical damage up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsures specific losses exceeding \$100,000. APEEP's Guarantee Fund pays losses and loss adjustment expenses exceeding operating contributions.

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 township.

**MIAMI TOWNSHIP
MONTGOMERY COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003**

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:

Casualty Coverage	<u>2003</u>	<u>2002</u>
Assets	\$27,792,223	\$23,757,036
Liabilities	<u>(11,791,300)</u>	<u>(9,197,512)</u>
Retained Earnings	<u>\$16,000,923</u>	<u>\$14,559,524</u>

Property Coverage	<u>2003</u>	<u>2002</u>
Assets	\$6,791,060	\$6,596,996
Liabilities	<u>(750,956)</u>	<u>(1,204,326)</u>
Retained Earnings	<u>\$6,040,104</u>	<u>\$5,392,670</u>

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.

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. A Board of Trustees appointed by the Miami Township Board of Trustees governs the District. 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.

9. SUBSEQUENT EVENTS

On May 17, 2005 the Township entered into a Renewable Lease-Purchase Agreement for \$3,118,000 for the purpose of acquisition and construction of a Township Hall Complex. The lease requires semi-annual payments through November 15, 2035.

Bastin & Company, LLC
Certified Public Accountants

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Miami Township
Montgomery County
2700 Lyons Road
Miamisburg, Ohio 45342

To the Board of Trustees:

We have audited the accompanying financial statements of the Miami Township, Montgomery County, Ohio (the Township) as of and for the year ended December 31, 2003, and have issued our report thereon dated July 22, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the 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 an opinion 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 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 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.

Compliance and Other Matters

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* and which is described in the accompanying schedule of findings as item 2003-001.

This report is intended solely for the information and use of management and the Township's Board of Trustees, and is not intended to be and should not be used by anyone other than these specified parties.

Bastin & Company, LLC

Cincinnati, Ohio
July 22, 2005

**MIAMI TOWNSHIP
MONTGOMERY COUNTY
SCHEDULE OF FINDINGS
DECEMBER 31, 2003**

FINDING NUMBER 2003-001

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.

During the fiscal year 2003, the Township invested in mortgage-backed securities with a December 31, 2003 value of \$9,079,549. 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.

Miami Township's 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.**

The second category of Mortgage-Backed Securities are **Pass-Through Structures**. The pass through structures was developed for issuing securities backed by mortgages on single family homes. For these securities, mortgage payments are passed from mortgagors to investors through the servicer. All scheduled principal and interest payments (at the pass through rate net of servicing fees), and any prepayments of principal, and in many cases, prepayment fees are passed through to the investor. Investor's yields can be affected significantly by the amount and timing of principal prepayments and the receipt of prepayment fees. Most pass through securities issued to date have been backed by pools of seasoned mortgages, although future issuance to include pools of newly originated mortgages and single mortgages. Participation certificates, the traditional mechanism by which lenders have sold portions of their mortgage portfolios, also pass along principal and interest payments. **Miami Township does own these types of Securities.**

The third kind of Mortgage-Backed Security is Derivative **Pass-Through Securities**, such as **Collateralized Mortgage Obligations (CMO)**, which share characteristics of bonds and pass-throughs. Although Collateralized Mortgage Obligations do not have definite maturities, principal repayments are allocated to investors holding securities representing tranches that differ by maturity. Principal payments and prepayments are directed first to the shorter maturity tranches and, sequentially thereafter, to the tranches of longer maturity. In the most common form of **CMO**, investors in the shortest maturity class receive scheduled payments of interest and principal, plus all the unscheduled prepayment until that class is paid off. Prior to that time, investors in the longer maturity classes receive only scheduled interest payments, with the exception of interest accrual notes. In this manner, each class is retired in sequence. Generally, principal is not paid to holders of the longest maturity notes until all other classes are retired. **Miami Township does not own these kinds of securities.**

Derivative mortgage securities are created when mortgage cash flows are divided into two or more pieces, creating at least one instrument that has a set of performance characteristics substantially different from the underlying mortgages. The defining features of these derivative securities are high yield, high credit quality, and returns that are extremely sensitive. **Miami Township does not own these kinds of securities.**

Mortgage strips are created by altering the distribution of the interest and principal on a pass through from pro rate to an unequal allocation. In the extreme case, interest only (IO) is paid to one class of investors, while

principal only (PO) is paid to another class of investors. More moderate allocation can be made as well. These strips are acquired at a discount from the face amount. **Miami Township does not own these types of securities.**

I have included Miami Township's Portfolio Summary Review from our broker, which lists our investments with a description of each. I have also included another entity's Portfolio Summary Review whom own CMO's and is clearly designated in the Description field.

Bases 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 YEAR FINDINGS**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2002-40357-001	Ohio Revised Code 135.14 (B)(1)(2) and 135.14(C) ineligible investments	No	Repeated as finding Number 2003-001



**Auditor of State
Betty Montgomery**

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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
OCTOBER 18, 2005**