

**MIAMI TOWNSHIP
MONTGOMERY COUNTY, OHIO**

**AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2004**



**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, 2004 through December 31, 2004. 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 the governmental activities, each major fund and the aggregate remaining fund information of Miami Township (the Township), Montgomery County, Ohio as of and for the year ended December 31, 2004, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township'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 *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 accompanying financial statements and notes follow the modified cash accounting basis, 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 respective modified cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Miami Township, Montgomery County, Ohio as of December 31, 2004 and the respective changes in modified cash financial position and the respective budgetary comparisons for the General, Police, Fire, Road and Bridge and Trash Funds for the year then ended in conformity with the basis of accounting Note 1 describes.

For the year ended December 31, 2004, the Township revised its financial presentation 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 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.

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board 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 cursive script that reads "Bastin & Company, LLC". The signature is written in black ink on a light-colored background.

Cincinnati, Ohio
July 22, 2005

Miami Township, Montgomery County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2004
Unaudited

This discussion and analysis of Miami Township's financial performance provides an overall review of the Government's financial activities for the year ended December 31, 2004, within the limitations of the Government's modified cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the Government's financial performance.

Highlights

Key highlights for 2004 are as follows:

Net assets of governmental activities increased by \$569,815, or 5 percent. The Road and Bridge Fund experienced the greatest increase in net assets of all Major Funds of \$392,152. Both the General Fund and the Fire Fund experienced decreases of \$108,599 and \$564,836 respectively. General Fund receipts decreased by \$403,906 primarily as a result of the amortization of premiums on investment sales. The most significant change in the Fire Fund was for capital outlay which included a new engine, a new medic, two other vehicles and expenditures for the Department's Master Plan. Of the Other Governmental Funds, the EMS Fund had a \$469,960 increase in net assets. Receipts in the EMS Fund totaled \$523,644 while disbursements were \$53,684.

The Township's receipts are primarily property taxes and intergovernmental receipts. These receipts represent respectively 66 and 26 percent of the total cash received for governmental activities during the year. Property tax receipts increased .5 percent and intergovernmental receipts increased 3 percent over 2003 for a combined net increase of 1 percent.

Work with surrounding jurisdictions on the Austin Interchange continued throughout 2004.

In November of 2004, voters approved a 1.2 mill replacement property tax levy to trash collection services to the community.

In September 2004, the Board of Trustees and the Fraternal Order of Police entered into a three-year collective bargaining agreement. The Board of Trustees also approved the expenditure of funds to celebrate the 175th anniversary of the Township.

The Township received grants in 2004 totaling \$181,373. One grant for \$141,000 was for the purchase of property to be developed into a park named after a former trustee. The other notable grant was for a state of the art patient simulator for the Fire Department.

Miami Township, Montgomery County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2004
Unaudited

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 Government'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 Government as a whole.

Fund financial statements provide a greater level of detail. Funds are created and maintained on the financial records of the Government 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 Government 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 Government's modified cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

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

The statement of net assets and the statement of activities reflect how the Government did financially during 2004, within the limitations of modified cash basis accounting. The statement of net assets presents the pooled cash and investment balances of the governmental activities of the Government at year-end. The statement of activities compares cash disbursements with program receipts for each governmental program. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions 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 draws from the Government's general receipts.

These statements report the Government'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 Government's financial health. Over time, increases or decreases in the Government's cash position is one indicator of whether the Government's financial health is improving or deteriorating.

Miami Township, Montgomery County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2004
Unaudited

When evaluating the Government's financial condition, you should also consider other non-financial factors as well such as the Government's property tax base, the condition of the Government's capital assets and infrastructure, the extent of the Government'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 property taxes.

In the statement of net assets and the statement of activities, we divide the Government into two types of activities:

Governmental activities. Most of the Government's basic services are reported here, including police, fire, streets and parks. Intergovernmental receipts and property taxes finance most of these activities. Benefits provided through governmental activities are not necessarily paid for by the people receiving them.

Business-type activity. Business-type activities are financed by a fee charged to the customers receiving the service. The Government has no business-type activity.

Reporting the Government's Most Significant Funds

Fund financial statements provide detailed information about the Government's major funds - not the Government as a whole.

The Government 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 Government are split into three categories: governmental, proprietary and fiduciary.

Governmental Funds - Most of the Government's activities are reported in governmental funds. The governmental fund financial statements provide a detailed view of the Government'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 Government's programs. The Government's significant governmental funds are presented on the financial statements in separate columns. The information for non-major funds (funds whose activity or balances are not large enough to warrant separate reporting) is combined and presented in total in a single column. The Government's only major governmental fund is the General Fund. The programs reported in governmental funds are closely related to those reported in the governmental activities section of the entity-wide statements. We describe this relationship in reconciliations presented with the governmental fund financial statements.

Proprietary Funds – When the Government charges customers for the services it provides, these services are generally reported in proprietary funds. When the services are provided to the general public, the activity is reported as an enterprise fund. The Government has no enterprise funds. When the services are provided to other department of the Government, the service is reported as an internal service fund. The Government has no internal service funds.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the Government. Fiduciary funds are not reflected on the government-wide financial statements because the resources of these funds are not available to support the Government's programs. The Government has one fiduciary fund, a park owned by another Government entity. The Government maintains the park as required in the agreement.

Miami Township, Montgomery County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2004
Unaudited

The Government as a Whole

Table 1 provides a summary of the Government's net assets for 2004 compared to 2003 on a modified cash basis:

(Table 1)

Net Assets

	Governmental Activities	
	2004	2003
Assets		
Cash and Cash Equivalents	\$ 12,212,115	\$ 11,642,300
Total Assets	\$ 12,212,115	\$ 11,642,300
Net Assets		
Restricted for:		
Capital Projects	\$40,317	\$20,306
Other Purposes	8,954,411	8,296,008
Unrestricted	3,217,387	3,325,986
Total Net Assets	\$12,212,115	\$11,642,300

As mentioned previously, net assets of governmental activities increased 5 percent during 2004. The primary reasons contributing to the increase in the cash balance are as follows:

- The EMS fund balance increased by \$469,960. Receipts from EMS runs totaled \$523,644 while disbursements for collection fees were \$53,684.
- The Road and Bridge Fund showed a decrease in expenditures of \$118,216. Capital outlay needs for 2004 were \$104,739 less than in 2003. The remaining \$13,477 decrease was in supplies and materials.

Miami Township, Montgomery County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2004
Unaudited

Tables 2 reflect the changes in net assets in 2004. Since the Government did not prepare financial statements in this format for 2003, 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.

(Table 2)
Changes in Net Assets 2004

	Governmental Activities 2004
	2004
Receipts:	
Program Receipts:	
Charges for Services and Sales	\$561,601
Operating Grants and Contributions	40,373
Capital Grants and Contributions	141,000
Total Program Receipts	742,974
General Receipts:	
Property and Other Local Taxes	11,480,604
Interest	15,708
Miscellaneous	1,679,774
Total General Receipts	13,176,086
Total Receipts	13,919,060
Disbursements:	
General Government	1,223,961
Security of Persons and Property:	8,060,918
Public Works Services	972,283
Health	1,297,389
Conservation & Recreation	230,993
Other	21,560
Capital Outlay	1,542,141
Total Disbursements	13,349,245
Increase (Decrease) in Net Assets	569,815
Net Assets, January 1, 2004	11,642,300
Net Assets, December 31, 2004	\$12,212,115

Program receipts represent only 5 percent of total receipts and are primarily comprised of restricted intergovernmental receipts such as motor vehicle license and gas tax money, and EMS receipts.

General receipts represent 95 percent of the Government's total receipts, and of this amount, approximately 87 percent are property taxes. Local government funds, hotel/motel occupancy tax,

Miami Township, Montgomery County, Ohio
 Management's Discussion and Analysis
 For the Year Ended December 31, 2004
 Unaudited

inheritance tax, miscellaneous receipts, and interest income make up the balance of the Government's general receipts (13 percent).

Disbursements for General Government represent the overhead costs of running the Government and the support services provided for the other Government activities. These include the costs of the board of trustees, the administrator, finance, human resources, and planning and zoning. Since these costs do not represent direct services to residents, we try to limit these costs to 10 percent of General Fund unrestricted receipts.

Security of Persons and Property are the costs of police and fire protection; Public Works is the costs of road maintenance, building maintenance, and vehicle maintenance; and Leisure Time Activities are the costs of maintaining the parks. Health is the cost of trash collection and disposal.

Governmental Activities

If you look at the Statement of Activities for 2004 you will see that the first column lists the major services provided by the Government. The next column identifies the costs of providing these services. The major program disbursements for governmental activities are for security of persons and property, and health (trash collection), which generally account for 60 and 10 percent of all governmental disbursements, respectively. General government also represents a significant cost, about 9 percent. The next three columns of the Statement entitled Program Receipts identify amounts paid by people who are directly charged for the service and grants received by the Government 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 for 2004.

(Table 3)

Governmental Activities

	Total Cost Of Services 2004	Net Cost of Services 2004
	<u>2004</u>	<u>2004</u>
General Government	\$1,223,961	\$1,082,961
Security of Persons and Property	8,060,918	7,460,619
Public Works	972,283	972,283
Health	1,297,389	1,295,714
Conservation & Recreation	230,993	230,993
Other	21,560	21,560
Capital Outlay	1,542,141	1,542,141
Total Expenses	<u><u>\$13,349,245</u></u>	<u><u>\$12,606,271</u></u>

The dependence upon property tax receipts is apparent as over 86 percent of governmental activities are supported through these general receipts.

Miami Township, Montgomery County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2004
Unaudited

The Government's Funds

Total governmental funds had receipts of \$14,189,005 and \$13,919,060 for 2003 and 2004 respectively. Disbursements were \$12,664,812 and \$13,349,245. The greatest change within governmental funds occurred within the General Fund. For 2004 General Fund receipts were less than disbursements by \$108,599 indicating that the General Fund is in a deficit spending situation.

Debt

In 2004, The Fire Department entered into a capital lease agreement for the purchase of communication equipment. The term of the lease is three years and requires semi-annual payments of \$12,533. In 2005, the Township plans to enter into a thirty-year capital lease to finance the construction of a new administration building. The lease amount will be \$3.1 million. Certificates of Participation (COPS) will be issued by the financing company.

Current Issues

The challenge for all Governments is to provide quality services to the public while staying within the restrictions imposed by limited funding. We rely heavily on property taxes so it is imperative that we continue to enhance our property tax base while maintaining an attractive mix of residential, retail, commercial, and green space property.

The Township is currently working in partnership with other local governments to enhance the area's tax base. The Austin Interchange is a joint project involving two other communities and involves the development of an interchange at Austin Pike and Interstate 75. The economic development possibilities are endless and include office and commercial space, hospitality and convention space, as well as some retail space to serve the needs of workers and travelers. The Township also has certain plans to enter into an agreement, a Joint Economic Development District (JEDD), with a third local government to develop an area in the southern part of the Township.

Contacting the Government's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the Government's finances and to reflect the Government'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 Deborah Preston, Clerk-Treasurer, Miami Township, 2700 Lyons Rd., Miamisburg, Ohio 45342.

Miami Township
Montgomery County
Statement of Net Assets - Modified Cash Basis
December 31, 2004

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$12,212,115
<i>Total Assets</i>	\$12,212,115
 Net Assets	
Restricted for:	
Capital Projects	\$40,317
Other Purposes	8,954,411
Unrestricted	3,217,387
<i>Total Net Assets</i>	\$12,212,115

See accompanying notes to the basic financial statements

Miami Township
Montgomery County
Statement of Activities - Modified Cash Basis
For the Year Ended December 31, 2004

	Program Cash Receipts				Net (Disbursements) Receipts and Changes in Net Assets
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities					
General Government	\$1,223,961			\$141,000	(\$1,082,961)
Public Safety	8,060,918	\$561,601	\$38,698		(7,460,619)
Public Works	972,283				(972,283)
Health	1,297,389		1,675		(1,295,714)
Conservation-Recreation	230,993				(230,993)
Other	21,560				(21,560)
Capital Outlay	1,542,141				(1,542,141)
<i>Total Governmental Activities</i>	<u>\$13,349,245</u>	<u>\$561,601</u>	<u>\$40,373</u>	<u>\$141,000</u>	<u>(12,606,271)</u>
General Receipts					
Property Taxes Levied for:					
					11,480,604
					15,708
					<u>1,679,774</u>
					<i>Total General Receipts</i>
					13,176,086
					Change in Net Assets
					569,815
					<i>Net Assets Beginning of Year</i>
					<u>11,642,300</u>
					<i>Net Assets End of Year</i>
					<u>\$12,212,115</u>

See accompanying notes to the basic financial statements

Miami Township
Montgomery County
Statement of Modified Cash Basis Assets and Fund Balances
Governmental Funds
December 31, 2004

	General	Police	Fire	Road and Bridge	Trash	Other Governmental Funds	Total Governmental Funds
Assets							
Equity in Pooled Cash and Cash							
Equivalents	\$3,217,387	\$3,483,533	\$1,194,351	\$2,195,461	\$699,974	\$1,421,409	\$12,212,115
<i>Total Assets</i>	<u>\$3,217,387</u>	<u>\$3,483,533</u>	<u>\$1,194,351</u>	<u>\$2,195,461</u>	<u>\$699,974</u>	<u>\$1,421,409</u>	<u>\$12,212,115</u>
Fund Balances							
Reserved:							
Reserved for Encumbrances	\$161,710	\$205,784	\$126,026	\$36,863	\$3,982	\$8,897	\$543,262
Unreserved:							
Undesignated (Deficit), Reported in:							
General Fund	3,055,677						3,055,677
Special Revenue Funds		3,277,749	1,068,325	2,158,598	695,992	1,372,195	8,572,859
Capital Projects Funds						40,317	40,317
<i>Total Fund Balances</i>	<u>\$3,217,387</u>	<u>\$3,483,533</u>	<u>\$1,194,351</u>	<u>\$2,195,461</u>	<u>\$699,974</u>	<u>\$ 1,421,409</u>	<u>\$12,212,115</u>

See accompanying notes to the basic financial statements

Miami Township
*Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
December 31, 2004*

Total Governmental Fund Balances	<u>\$12,212,115</u>
<i>Net Assets of Governmental Activities</i>	<u>\$12,212,115</u>

See accompanying notes to the basic financial statements

Montgomery County
Statement of Cash Receipts, Disbursements and Changes in Modified-Cash Basis Fund Balances
Governmental Funds
For the Year Ended December 31, 2004

	General	Police	Fire	Road and Bridge	Trash	Other Governmental Funds	Total Governmental Funds
Receipts							
Property and Other Local Taxes	\$161,753	\$3,484,853	\$3,295,285	\$1,220,101	\$1,075,952		\$9,237,944
Charges for Services		35,870	2,382			\$523,350	561,602
Licenses, Permits and Fees	29,530	7,583	210				37,323
Fines and Forfeitures	40,339	1,651				2,973	44,963
Intergovernmental	1,178,154	842,128	845,063	300,941	255,591	201,864	3,623,741
Special Assessments	49,454					111,382	160,836
Interest	14,041					1,667	15,708
Other	174,250	10,952	17,366	10,533			213,101
<i>Total Receipts</i>	<u>1,647,521</u>	<u>4,383,037</u>	<u>4,160,306</u>	<u>1,531,575</u>	<u>1,331,543</u>	<u>841,236</u>	<u>13,895,218</u>
Disbursements							
Current:							
General Government	1,223,961						1,223,961
Public Safety		3,979,685	4,025,264			55,969	8,060,918
Public Works				972,283			972,283
Health					1,297,389		1,297,389
Conservation-Recreation	230,993						230,993
Other	21,560						21,560
Capital Outlay	279,606	119,498	711,825	169,633		261,579	1,542,141
<i>Total Disbursements</i>	<u>1,756,120</u>	<u>4,099,183</u>	<u>4,737,089</u>	<u>1,141,916</u>	<u>1,297,389</u>	<u>317,548</u>	<u>13,349,245</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(108,599)</u>	<u>283,854</u>	<u>(576,783)</u>	<u>389,659</u>	<u>34,154</u>	<u>523,688</u>	<u>545,973</u>
Other Financing Sources (Uses)							
Other Financing Sources		9,402	11,947	2,493			23,842
<i>Total Other Financing Sources (Uses)</i>		<u>9,402</u>	<u>11,947</u>	<u>2,493</u>			<u>23,842</u>
<i>Net Change in Fund Balances</i>	<u>(108,599)</u>	<u>293,256</u>	<u>(564,836)</u>	<u>392,152</u>	<u>34,154</u>	<u>523,688</u>	<u>569,815</u>
<i>Fund Balances Beginning of Year</i>	<u>3,325,986</u>	<u>3,190,277</u>	<u>1,759,187</u>	<u>1,803,309</u>	<u>665,820</u>	<u>897,721</u>	<u>11,642,300</u>
<i>Fund Balances End of Year</i>	<u>\$3,217,387</u>	<u>\$3,483,533</u>	<u>\$1,194,351</u>	<u>\$2,195,461</u>	<u>\$699,974</u>	<u>\$1,421,409</u>	<u>\$12,212,115</u>

See accompanying notes to the basic financial statements

Miami Township, Montgomery County
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended December 31, 2004*

Net Change in Fund Balances - Total Governmental Funds	<u>\$569,815</u>
<i>Change in Net Assets of Governmental Activities</i>	<u><u>\$569,815</u></u>

See accompanying notes to the basic financial statements

Miami Township, Montgomery County
Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual -Budget Basis
General Fund
For the Year Ended December 31, 2004

	<u>Budgeted Amounts</u>			(Optional)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Receipts				
Property and Other Local Taxes	\$191,195	\$191,195	\$161,753	(\$29,442)
Licenses, Permits and Fees	41,290	41,290	29,530	(11,760)
Fines and Forfeitures			40,339	40,339
Intergovernmental	692,625	692,625	1,178,154	485,529
Special Assessments			49,454	49,454
Interest	425,000	425,000	14,041	(410,959)
Other	200,000	200,000	174,250	(25,750)
<i>Total receipts</i>	<u>1,550,110</u>	<u>1,550,110</u>	<u>1,647,521</u>	<u>97,411</u>
Disbursements				
Current:				
General Government	1,617,737	1,617,737	1,322,849	294,888
Conservation-Recreation	243,392	243,392	230,993	12,399
Other			21,560	(21,560)
Capital Outlay	124,133	124,133	342,428	(218,295)
<i>Total Disbursements</i>	<u>1,985,262</u>	<u>1,985,262</u>	<u>1,917,830</u>	<u>67,432</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	(435,152)	(435,152)	(270,309)	164,843
<i>Fund Balance Beginning of Year</i>	3,060,724	3,060,724	3,060,724	
Prior Year Encumbrances Appropriated	265,262	265,262	265,262	
<i>Fund Balance End of Year</i>	<u>\$2,890,834</u>	<u>\$2,890,834</u>	<u>\$3,055,677</u>	<u>\$164,843</u>

See accompanying notes to the basic financial statements

Miami Township, Montgomery County
Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual -Budget Basis
Police Fund
For the Year Ended December 31, 2004

	<u>Budgeted Amounts</u>			(Optional)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Receipts				
Property and Other Local Taxes	\$4,143,672	\$4,143,672	\$3,484,853	(\$658,819)
Charges for Services	33,000	33,000	35,870	2,870
Liscenses, Permits and Fees			7,583	7,583
Fines and Forfeitures			1,651	1,651
Intergovernmental	-	-	842,128	842,128
Other	93,500	93,500	10,952	(82,548)
<i>Total receipts</i>	<u>4,270,172</u>	<u>4,270,172</u>	<u>4,383,037</u>	<u>112,865</u>
Disbursements				
Current:				
Public Safety	4,423,185	4,423,185	4,037,278	385,907
Capital Outlay	249,177	249,177	267,689	(18,512)
<i>Total Disbursements</i>	<u>4,672,362</u>	<u>4,672,362</u>	<u>4,304,967</u>	<u>367,395</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(402,190)</u>	<u>(402,190)</u>	<u>78,070</u>	<u>480,260</u>
Other Financing Sources (Uses)				
Other Financing Sources			9,402	9,402
<i>Total Other Financing Sources (Uses)</i>			<u>9,402</u>	<u>9,402</u>
<i>Net Change in Fund Balance</i>	(402,190)	(402,190)	87,472	489,662
<i>Fund Balance Beginning of Year</i>	3,087,915	3,087,915	3,087,915	
Prior Year Encumbrances Appropriated	102,362	102,362	102,362	
<i>Fund Balance End of Year</i>	<u>\$2,788,087</u>	<u>\$2,788,087</u>	<u>\$3,277,749</u>	<u>\$489,662</u>

See accompanying notes to the basic financial statements

Miami Township, Montgomery County
Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual -Budget Basis
Fire Fund
For the Year Ended December 31, 2004

	Budgeted Amounts			(Optional)
	Original	Final	Actual	Variance with Final Budget Positive (Negative)
Receipts				
Property and Other Local Taxes	\$3,934,549	\$3,934,549	\$3,295,285	(\$639,264)
Charges for Services			2,382	2,382
Licenses, Permits and Fees			210	210
Intergovernmental	-	-	845,063	845,063
Other	31,900	79,025	17,366	(61,659)
<i>Total receipts</i>	<u>3,966,449</u>	<u>4,013,574</u>	<u>4,160,306</u>	<u>146,732</u>
Disbursements				
Current:				
Public Safety	4,281,057	4,328,181	4,110,975	217,206
Capital Outlay	905,261	905,261	752,140	153,121
<i>Total Disbursements</i>	<u>5,186,318</u>	<u>5,233,442</u>	<u>4,863,115</u>	<u>370,327</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(1,219,869)</u>	<u>(1,219,868)</u>	<u>(702,809)</u>	<u>517,059</u>
Other Financing Sources (Uses)				
Other Financing Sources			11,947	11,947
<i>Total Other Financing Sources (Uses)</i>			<u>11,947</u>	<u>11,947</u>
<i>Net Change in Fund Balance</i>	(1,219,869)	(1,219,868)	(690,862)	529,006
<i>Fund Balance Beginning of Year</i>	1,582,870	1,582,870	1,582,870	
Prior Year Encumbrances Appropriated	176,317	176,317	176,317	
<i>Fund Balance End of Year</i>	<u>\$539,318</u>	<u>\$539,319</u>	<u>\$1,068,325</u>	<u>\$529,006</u>

See accompanying notes to the basic financial statements

Miami Township, Montgomery County
Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual -Budget Basis
Road and Bridge Fund
For the Year Ended December 31, 2004

	Budgeted Amounts		Actual	(Optional)
	Original	Final		Variance with Final Budget Positive (Negative)
Receipts				
Property and Other Local Taxes	\$1,458,571	\$1,458,571	\$1,220,101	(\$238,470)
Intergovernmental	-	-	300,941	300,941
Other			10,533	10,533
<i>Total receipts</i>	<u>1,458,571</u>	<u>1,458,571</u>	<u>1,531,575</u>	<u>73,004</u>
Disbursements				
Current:				
Public Works	1,062,258	1,062,258	1,009,146	53,112
Capital Outlay	447,000	447,000	169,633	277,367
<i>Total Disbursements</i>	<u>1,509,258</u>	<u>1,509,258</u>	<u>1,178,779</u>	<u>330,479</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(50,687)</u>	<u>(50,687)</u>	<u>352,796</u>	<u>403,483</u>
Other Financing Sources (Uses)				
Other Financing Sources			2,493	2,493
<i>Total Other Financing Sources (Uses)</i>			<u>2,493</u>	<u>2,493</u>
<i>Net Change in Fund Balance</i>	(50,687)	(50,687)	355,289	405,976
<i>Fund Balance Beginning of Year</i>	1,664,051	1,664,051	1,664,051	
Prior Year Encumbrances Appropriated	139,258	139,258	139,258	
<i>Fund Balance End of Year</i>	<u>\$1,752,622</u>	<u>\$1,752,622</u>	<u>\$2,158,598</u>	<u>\$405,976</u>

See accompanying notes to the basic financial statements

Miami Township, Montgomery County
Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual -Budget Basis
Trash Fund
For the Year Ended December 31, 2004

	Budgeted Amounts		Actual	(Optional)
	Original	Final		Variance with Final Budget Positive (Negative)
Receipts				
Property and Other Local Taxes	\$1,271,129	\$1,271,129	\$1,075,952	(\$195,177)
Intergovernmental	-	-	255,591	255,591
<i>Total receipts</i>	<u>1,271,129</u>	<u>1,271,129</u>	<u>1,331,543</u>	<u>60,414</u>
Disbursements				
Current:				
Health	<u>1,310,000</u>	<u>1,310,000</u>	<u>1,301,371</u>	<u>8,629</u>
<i>Total Disbursements</i>	<u>1,310,000</u>	<u>1,310,000</u>	<u>1,301,371</u>	<u>8,629</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	(38,871)	(38,871)	30,172	69,043
<i>Fund Balance Beginning of Year</i>	665,820	665,820	665,820	
Prior Year Encumbrances Appropriated				
<i>Fund Balance End of Year</i>	<u><u>\$626,949</u></u>	<u><u>\$626,949</u></u>	<u><u>\$695,992</u></u>	<u><u>\$69,043</u></u>

See accompanying notes to the basic financial statements

Miami Township, Montgomery County
Statement of Fiduciary Net Assets - Modified Cash Basis
Fiduciary Funds
December 31, 2004

	Private Purpose Trust
Assets	
Equity in Pooled Cash and Cash Equivalents	\$151,325
<i>Total Assets</i>	\$151,325
 Net Assets	
Unrestricted	\$151,325

See accompanying notes to the basic financial statements

Miami Township, Montgomery County
Statement of Changes in Fiduciary Net Assets - Modified Cash Basis
Fiduciary Funds
For the Year Ended December 31, 2004

	Private Purpose Trust
Additions	
Contributions	\$12,844
Interest	5,217
<i>Total Additions</i>	18,061
Deductions	
Payments in Accordance with Trust Agreements	1,818
<i>Total Deductions</i>	1,818
Change in Net Assets	16,243
Net Assets - Beginning of Year	135,082
Net Assets - End of Year	\$151,325

See accompanying notes to the basic financial statements

**MIAMI TOWNSHIP
MONTGOMERY COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004**

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. 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.

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.

**MIAMI TOWNSHIP
MONTGOMERY COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004**

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.

D. Basis of Presentation

The Township's basic financial statements consist of government-wide statements, which include 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 Township as a whole. These statements include the financial activities of the Township, except for fiduciary funds.

The statement of net assets presents the financial condition of the governmental activities of the Township at December 31, 2004. The statement of activities presents a comparison between direct expenses and program, revenues for each program of function of the Township's governmental activities. Program Cash Receipts include monies provided by the recipient of the services offered by the program, grants and contributions that are restricted to meeting the operations or capital requirements of particular program. Revenues that are not classified as program revenues are presented as general revenues of the Township, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which the governmental programs are self-financing or draw from the general revenues of the Township.

Fund Financial Statements The Township segregates transactions related to certain Township function or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Township 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. Fiduciary funds are reported by type.

**MIAMI TOWNSHIP
MONTGOMERY COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004**

E. 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.

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.

H. 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 re-appropriated.

I. Net Assets

The financial statements report restricted net assets when contributors, grantors, or other external factors impose limitations in their use.

**MIAMI TOWNSHIP
MONTGOMERY COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004**

J. 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. Inter-fund 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, 2004 was as follows:

	2004
Deposits:	
Demand deposits	\$1,259,032
Money Market	249,750
Certificates of deposit	2,452,281
Total deposits	3,961,063
 Investments:	
Federal Home Loan Bank Bonds	841,763
Federal Home Loan Mortgage Corporation	716,259
Federal National Mortgage Association Notes	6,844,355
Total investments	8,402,377
Total deposits and investments	\$12,363,440

At December 31, 2004, the Township held \$7,560,614 in derivative securities. Such securities are not eligible investments for the Township under Ohio law.

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. 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

**MIAMI TOWNSHIP
MONTGOMERY COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004**

property owner elects to make semiannual payments, 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.

4. CAPITAL LEASE

During 2004, the Township entered into a capital lease totaling \$71,000 for fire and EMS communication equipment with a remaining principal balance due on December 31, 2004 totaling \$59,670. The lease is to be paid in semi-annual installments of \$12,533 over 3 years. The first payment was due on December 1, 2004 and the final payment is due on June 1, 2007.

Amortization of the lease, including interest is scheduled as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2005	\$25,066
2006	25,066
2007	<u>12,532</u>
Total minimum lease payments	62,664
Less: amount representing interest	<u>2,994</u>
Present Value of future minimum lease payments	<u>\$59,670</u>

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 2004, 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 2004. The Township has paid all contributions required through December 31, 2004.

6. RISK MANAGEMENT

Risk Pool Membership

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.

**MIAMI TOWNSHIP
MONTGOMERY COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004**

A. 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.

B. 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. There is no aggregate for 2003 and future accident years. 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.

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, 2003 and 2002 (the latest information available):

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.

**MIAMI TOWNSHIP
MONTGOMERY COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004**

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 financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Miami Township (the Township), Montgomery County, Ohio as of and for the year ended December 31, 2004, wherein we noted the Township revised its financial presentation comparable to the requirements of Governmental Accounting Standard No. 34, which collectively comprise the Township's basic financial statements 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* which is described in the accompanying schedule of findings as item 2004-001.

This report is intended solely for the information and use of the 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, 2004**

FINDING NUMBER 2004-001

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 2004, the Township invested in mortgage-backed securities with a December 31, 2004 value of \$7,560,614. 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>
2003-001	Ohio Revised Code 135.14 (B)(1)(2) and 135.14(C) ineligible investments	No	Repeated as finding Number 2004-001



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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**