OHIO PETROLEUM UNDERGROUND STORAGE TANK RELEASE COMPENSATION BOARD

Columbus, Ohio

Financial Statements
and
Supplementary Financial Information
For the years ended June 30, 2004 and 2003

and Independent Auditors' Report Thereon

Mary Taylor, CPA
Auditor of State

Board Members
Ohio Petroleum Underground Storage Tank Release Compensation Board
50 W Broad Street, Suite 1500
PO Box 163188
Columbus, Ohio 43216-3188

We have reviewed the *Independent Auditor's Report* of the Ohio Petroleum Underground Storage Tank Release Compensation Board, Franklin County, prepared by Schneider Downs & Co., Inc., for the audit period July 1, 2003 through June 30, 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. The Ohio Petroleum Underground Storage Tank Release Compensation Board is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

February 6, 2007

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CONTENTS

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SCHNEIDER DOWNS

INSIGHT ▪ INNOVATION ▪ EXPERIENCE

INDEPENDENT AUDITORS' REPORT

Ohio Petroleum Underground Storage
Tank Release Compensation Board
Columbus, Ohio

We have audited the accompanying statement of net assets of Ohio Petroleum Underground Storage Tank Release Compensation Board (the Board) as of June 30, 2004 and the related statement of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Board as of June 30, 2003 were audited by other auditors whose report dated November 19, 2005 expressed an unqualified opinion on those statements.

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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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.

In our opinion, the 2004 financial statements referred to above present fairly, in all material aspects, the financial position of the Board as of June 30, 2004 and the changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 6, 2006 on our consideration of the Board'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 on 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.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the Management's Discussion and Analysis. However, we did not audit the information and express no opinion on it.

Schneider Downs & Co., Inc.
Columbus, Ohio
November 6, 2006

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OHIO PETROLEUM UNDERGROUND STORAGE
TANK RELEASE COMPENSATION BOARD
Management's Discussion & Analysis
For the Years Ended June 30, 2004 and 2003
(UNAUDITED)

The following Management's Discussion and Analysis (MD&A) section of the Ohio Petroleum Underground Storage Tank Release Compensation Board's (the Board) financial report represents a discussion and analysis of the Board's financial performance during the fiscal years ended June 30, 2004 and 2003. Please read it in conjunction with the Board's financial statements, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Board accounts for all transactions under a single enterprise fund and the financial statements are prepared using proprietary fund (enterprise fund) accounting. Under this method of accounting, an economic resources measurement focus and an accrual basis of accounting are used. Revenue is recognized in the year for which coverage is provided and expenses are recorded when incurred. The financial statements include a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows. These are followed by notes to the financial statements.

The Statement of Net Assets presents information on the assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Board is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Assets reports the operating revenues and expenses and non-operating revenue and expenses of the Board for the fiscal year with the difference being combined with any capital contributions to determine the change in net assets for the fiscal year.

The Statement of Cash Flows reports cash and cash equivalent activities for the fiscal year resulting from operating activities, capital and related financing activities, and investing activities. The net result of these activities added to the beginning of the year's cash and cash equivalents balance reconciles to the cash and cash equivalents balance at the end of the current fiscal year.

Financial Position

The following summarizes the Board's financial position as of June 30, 2004 and 2003:

	2004	2003	% Change
ASSETS:			
Current assets	$ 29,974,164	$ 26,484,081	13.18%
Capital assets	229,925	346,778	-33.70%
Other noncurrent assets	6,603,166	12,630,919	-47.72%
Total Assets	$ 36,807,255	$ 39,461,778	-6.73%

LIABILITIES:			
Current liabilities	$ 25,376,251	$ 23,171,946	9.51%
Non-current liabilities	40,885,798	44,092,134	-7.27%
Reserve for unpaid claims	47,637,147	53,985,637	-11.76%
Total liabilities	113,899,196	121,249,717	-6.06%
NET ASSETS:			
Investment in capital assets, net of related debt	229,925	346,778	-33.70%
Unrestricted net assets (deficiency)	(77,321,866)	(82,134,717)	-5.86%
Total net assets	(77,091,941)	(81,787,939)	-5.74%
Total Liabilities And Net Assets	$ 36,807,255	$ 39,461,778	-6.73%

Current assets increased by $3,490,083 (13.18%) over last year primarily due to an increase of $3,139,163 in unrestricted investments and cash on hand with the custodian as of June 30, 2004. Fees receivable increased $492,534 over 2003. The Board estimates fees receivable using an historical collection average determined as a percentage of fee and penalty amounts collected versus those certified to the Ohio Attorney General's Office for collection. Historically, the Attorney General's Office has collected approximately 30% and 10% of fees and penalties, respectively. In 2004, approximately $575,000 was collected in prior year fees and penalties.

Capital assets decreased $116,853 (33.7%) due to approximately $70,000 in purchases, approximately $3,800 in disposals, and an increase in accumulated depreciation of $183,082. In January 2004, the Board entered into a time and material contract in an amount not to exceed $185,640 for the completion of the design and development of the customized electronic database system. In fiscal year 2004, approximately $46,800 was spent on the database design and development. Computer and printer replacement costs were about $9,300. Approximately $14,000 was spent on modular furniture and lateral files.

Approximately $3,853 in out-of-service furniture and replaced computer equipment was salvaged. All disposed assets were fully depreciated.

There is no related debt on capital assets.

Current liabilities increased $2,204,305 due primarily to an increase of $2,115,820 in unearned revenue.

Long-term liabilities decreased by $3,206,336 (7.3%) as a result of an annual revenue bond principal payment, net of related discount.

The Board is authorized to issue revenue bonds for the purpose of reimbursing petroleum underground storage tank owners for corrective action costs. In July 1993, the Board issued $30,000,000 of revenue bonds, Series A. The issuance consisted of $5,465,000 in serial bonds with interest rates ranging from 3.875% to 5.25%, which matured from August 15, 1994 through August 15, 1997, and term bonds of $24,535,000 with an interest rate of 6.75%, maturing through August 15, 2008. The balance outstanding, net of related discount, as of June 30, 2004 was $10,977,075.

In July 1998, the Board issued a second series, Series B, of revenue bonds in the principal amount of $35,000,000. The issuance consists of serial bonds of $9,170,000 with interest rates ranging from 5.81% to 6.20% and maturity dates of August 15, 1999 through 2008, and term bonds of $25,830,000 with an interest rate of 6.375% and maturing through August 15, 2013. The balance outstanding, net of related discount, as of June 30, 2004 was $29,908,723.

Annual debt service (principal and interest) for the two issues is approximately $6,000,000. The amortization schedules are presented in the notes to the financial statements.

Reserve for unpaid claims decreased by $6,290,744 (11.76%) as a result of claim reimbursements being paid at a rate greater than the increase in the ultimate estimated loss. Ultimate estimated loss, which is in part a measure of reported gross face values reduced for deductibles and non-reimbursable costs, is an estimate of the amount the Financial Assurance Fund (Fund) will ultimately pay and includes both losses for the most recent year and changes in the estimates of ultimate losses for prior years. The estimated ultimate loss for both reported and incurred but not reported (IBNR) insured events increased approximately $3.4 million from June 30, 2003 to June 30, 2004. The amount of the cash paid for claims approximated $9.7 million for fiscal year 2004.

Net assets increased $4,695,998 (5.74%) due primarily to the decrease in the change in reserves for unpaid claims. Total operating revenue exceeded operating expenses less the change in reserves for unpaid claims by $1,047,404 (9.3%).

The deficiency in unrestricted net assets includes management's estimate of the current and long-term reserve for unpaid claims of $56,741,510. The remaining deficit in unrestricted net assets has been financed by the proceeds of two revenue bond issuances, totaling $65 million.

Financial Information

Revenue

The following schedule presents a summary of revenues for the fiscal years ended June 30, 2004 and 2003:

	2004	2003	Increase (Decrease)
Operating Revenues:			
Tank fees	$ 12,303,387	$ 11,991,975	$ 311,412
Other	27,398	28,310	(912)
Non-operating Revenues:			
Earnings on investments	312,086	521,108	(209,022)
Total Revenue	$ 12,642,871	$ 12,541,393	$ 101,478

Total revenue for 2004 increased $101,478 or about 0.8% from the previous year. This increase is the net result of an increase in operating revenues of $310,500 and a decrease of $209,022 in non-operating revenues.

The approximate 2.6% increase in operating revenues is due to adjustments of prior year tank fees which were identified and recognized during the current fiscal year.

The 40.1% decrease in non-operating revenues is a result of decreasing StarOhio interest rates and a $3.2 million reduction in the unrestricted investments average monthly balance. StarOhio interest rates dropped from a high of 1.8% in fiscal year 2003 to a low of less than 1% in fiscal year 2004.

The following schedule presents a summary of expenses for the fiscal years ended June 30, 2004 and 2003:

	2004	**2003**	**Increase (Decrease)**
Incurred claims and claims adjustment	$ 3,388,156	$ 18,587,105	$ (15,198,949)
Administration	1,339,246	1,528,831	(189,585)
Refundable fees	78,300	26,030	52,270
Depreciation	186,935	77,813	109,122
Total Operating Expenses	$ 4,992,637	$ 20,219,779	$ (15,227,142)

Total operating expenses decreased approximately 75% from 2003 due to the significant decrease in the change in reserve for unpaid claims as previously discussed.

The Board annually obligates funds for the payment of claims in the upcoming fiscal year. In determining the amount to obligate, the Board considers the unobligated balance, claims paying experience, and anticipated revenue. In fiscal year 2004, the Board obligated $10 million. Approximately $9,680,000 was issued in claim settlements.

Administration expenses decreased 12.4% from 2003 primarily as a result of decreased rent, temporary employee services, and legal and professional costs. As a result of the office relocation in June 2003, rent expense decreased approximately $9,000 from fiscal year 2003. Also as a result of the relocation, other expenses, including telephone and costs associated with staff parking, decreased slightly in 2004. The Board utilizes temporary personnel during periods of increased workload and to temporarily staff vacated permanent positions. A position that was vacated and staffed with temporary personnel in fiscal year 2003 was staffed with permanent personnel in the last half of 2003, resulting in reduced temporary employee service costs in fiscal year 2004. Fiscal year 2003 legal and professional fees included about $101,000 in costs associated with the claims reserve actuarial study performed for fiscal years 1999 through 2002. Because this estimate was prepared in-house for fiscal year 2004, no direct expenses were incurred for this service.

OHIO PETROLEUM UNDERGROUND STORAGE
TANK RELEASE COMPENSATION BOARD

STATEMENTS OF NET ASSETS

	June 30	
	2004	2003
ASSETS		
CURRENT ASSETS		
Cash with custodian	$ 3,528,408	$ 2,629,930
Linked deposits	-	140,947
Unrestricted investments	25,109,268	22,868,583
Accrued interest receivable	-	667
Fees receivable, net of allowance for uncollectible amounts of $5,674,530 and $4,290,766, respectively	1,336,488	843,954
Total Current Assets	29,974,164	26,484,081
RESTRICTED INVESTMENTS	6,128,570	12,090,869
DEFERRED BOND ISSUANCE COSTS - Net	474,596	540,050
CAPITAL ASSETS AT COST - Net of accumulated depreciation	229,925	346,778
	$ 36,807,255	$ 39,461,778
LIABILITIES AND NET ASSETS (DEFICIENCY)		
CURRENT LIABILITIES:		
Fees received in advance	$ 9,891,275	$ 7,775,455
Claims payable	895,637	953,383
Current portion of reserve for unpaid claims	9,104,363	9,046,617
Bonds payable	3,260,000	3,055,000
Bond interest payable	1,078,364	1,153,167
Refundable fees	928,022	904,596
Accounts payable	47,831	116,548
Accrued liabilities	170,759	167,180
Total Current Liabilities	25,376,251	23,171,946
BONDS PAYABLE - Less current portion	40,885,798	44,092,134
RESERVE FOR UNPAID CLAIMS - Less current portion	47,637,147	53,985,637
NET ASSETS (DEFICIENCY):		
Invested in capital assets, net of related debt	229,925	346,778
Unrestricted net assets (deficiency)	(77,321,866)	(82,134,717)
Total Net Assets (Deficiency)	(77,091,941)	(81,787,939)
	$ 36,807,255	$ 39,461,778

See notes to financial statements.

OHIO PETROLEUM UNDERGROUND STORAGE
TANK RELEASE COMPENSATION BOARD

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003

	2004	2003
OPERATING REVENUES:		
Tank fees	$ 12,303,387	$ 11,991,975
Other	27,398	28,310
Total Operating Revenues	12,330,785	12,020,285
OPERATING EXPENSES:		
Incurred claims and claims adjustment	3,388,156	18,587,105
Administration	1,339,246	1,528,831
Refundable fees	78,300	26,030
Depreciation	186,935	77,813
Total Operating Expenses	4,992,637	20,219,779
OPERATING INCOME (LOSS)	7,338,148	(8,199,494)
NONOPERATING REVENUE (EXPENSE)		
Earnings on investments	312,086	521,108
Interest expense	(2,954,236)	(3,144,181)
Total Nonoperating Expense	(2,642,150)	(2,623,073)
Net Income (Loss)	4,695,998	(10,822,567)
NET ASSETS (DEFICIENCY)		
Beginning of year	(81,787,939)	(70,965,372)
End of year	$ (77,091,941)	$ (81,787,939)

See notes to financial statements.

OHIO PETROLEUM UNDERGROUND STORAGE TANK RELEASE COMPENSATION BOARD

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2004 AND 2003

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$ 13,978,164	$ 12,567,035
Cash paid to employees	(926,921)	(895,612)
Cash paid to claimants	(9,736,646)	(9,862,931)
Cash paid to others	(490,309)	(502,392)
Net Cash Provided By Operating Activities	2,824,288	1,306,100
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Payment of bond principal	(3,055,000)	(2,860,000)
Cash paid for interest	(2,975,375)	(3,168,440)
Net Cash Used In Noncapital Financing Activities	(6,030,375)	(6,028,440)
CASH FLOWS USED IN CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(70,082)	(123,300)
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of investments	3,721,614	3,674,995
Interest on investments	312,086	521,108
Net Cash Provided By Investing Activities	4,033,700	4,196,103
NET INCREASE (DECREASE) IN CASH WITH CUSTODIAN AND LINKED DEPOSITS	757,531	(649,537)
CASH WITH CUSTODIAN AND LINKED DEPOSITS		
Beginning of year	2,770,877	3,420,414
End of year	$ 3,528,408	$ 2,770,877

	2004	2003
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income (loss)	$ 7,338,148	$ (8,199,494)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	186,935	77,813
Amortization of bond issue costs	65,454	65,454
Reserves for unpaid claims	(6,290,744)	9,565,947
Changes in assets and liabilities:		
Fees receivable	(492,534)	(249,487)
Accrued interest receivable	667	2,437
Fees received in advance	2,115,820	475,855
Claims payable	(57,746)	(841,773)
Refundable fees	23,426	317,945
Accounts payable and accrued liablities	(65,138)	91,403
Total Adjustments	(4,513,860)	9,505,594
Net Cash Provided By Operating Activities	$ 2,824,288	$ 1,306,100

See notes to financial statements.

NOTE 1 – DESCRIPTION OF THE BOARD

The Ohio Petroleum Underground Storage Tank Release Compensation Board (the Board) was established as a body both corporate and politic of the State of Ohio upon enactment of House Bill 421 (the Act) in 1989. The Board consists of the Treasurer of State and the directors of the State of Ohio Departments of Commerce and Environmental Protection as ex-officio members, and nine members appointed by the Governor with the advice and consent of the Senate.

Pursuant to the Act, the Board may determine the amount of reimbursement to responsible persons for costs necessary to improve property damaged by accidental petroleum releases. The Board may issue revenue bonds, payable solely from its revenues, to pay the costs incurred by the tank owners/operators for improvements to property.

The Act created the Financial Assurance Fund (the Fund) to reimburse underground petroleum storage tank owners for the costs of corrective actions and third-party compensation for bodily injury or property damage resulting from the petroleum releases of underground storage tanks.

The Fund is authorized by law to collect (1) annual and supplemental fees from underground storage tank owners/operators, (2) interest earned on monies in the Fund, and (3) proceeds from revenue bonds authorized by the Board. Authorized disbursements from the Fund are for (1) the Board's administrative expenses, (2) payment of claims to tank owner/operators who hold valid certificates of coverage, (3) transfers of funds required under trust agreements established in connection with bond issuances, and (4) placement of certificates of deposit with financial institutions for the purpose of providing low-cost financing to eligible tank owners through the Board's linked deposit program. A claim is recognized as an expense when the Board accepts the claim for payment. A reserve is accrued for estimated claims.

The Board may establish annual fees and assess supplemental fees needed to maintain the financial soundness of the Fund. The Act prohibits the Board from assessing annual fees for any year in which the unobligated fund balance exceeds $45 million. Supplemental fees may be assessed in any fiscal year in which the unobligated fund balance is less than $15 million. The Act excludes the State of Ohio from responsibility for liabilities of the Fund.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Classification and Basis of Accounting—The Fund is classified as an Enterprise Fund and is reporting as a special purpose government engaged in business type activities. The accrual basis of accounting is applied to the Fund.

Revenue Recognition—Fees are recognized in the year for which coverage is provided. Fees received in advance of the coverage year are deferred. Earnings on investments are accrued as earned.

Claims Expenses—Claims expenses are recognized to the extent risk has been transferred to the Fund. Risk is deemed transferred when the Board approves a claim for payment. Accordingly, claims expenses are accrued when the Board approves a claim for payment. In order to expedite certain claims, the Board may approve partial (installment) payments. Partial claims expenses are also recognized when approved. These partial payments are subject to further review, upon which the Board may approve additional payments, or, in limited circumstances, require a refund.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The amount of the reserve for unpaid claims is estimated using actuarial assumptions and is not discounted to a present value. Assumptions include the estimate of incurred-but-not-reported (IBNR) claims, the introduction of the risk-based corrective action process for claims incurred on or after March 31, 1999, the Board's payment experience, the eligibility approval rate and third-party claims.

Unobligated Fund Balance— The Ohio Revised Code requires the Board to maintain an unobligated fund balance at a level that ensures the continued financial soundness of the fund and allows the Board to assess a supplemental fee in any fiscal year in which the unobligated fund balance is less than $15 million. The unobligated fund balance is included in unrestricted investments and defined by the Ohio Administrative Code as monies not previously designated by the Board for claims reimbursement, not legally restricted, not placed in a linked deposit account, and not placed in a debt service account. The unobligated fund balance is $27,784,698 and $24,311,158 at June 30, 2004 and 2003, respectively.

Investments—Investments are recorded at fair value in accordance with Governmental Accounting Standard Board (GASB) Statement No. 31, *Accounting and Financial Reporting For Certain Investments and for External Pools*.

Capital Assets—Capital asset purchases are recorded at historical cost, and are depreciated using the straight-line method over the estimated useful lives of three to five years.

Refundable Fees—The Board has determined that certain prior year fees were collected from individuals not required to contribute to the Fund. Accordingly, the Board has recorded a liability for the refund of these fees.

Bond Issuance Costs—Costs associated with the revenue bond issues are capitalized by the Board and amortized using the effective interest method over the term of the issuance (15 years). Deferred bond issuance costs of $474,596 at June 30, 2004 and $540,050 at June 30, 2003 are net of accumulated amortization of $507,146 and $441,692, respectively.

Application of Financial Accounting Standards Board (FASB) Statements and Interpretation— In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting,* the Board follows GASB guidance as applicable to proprietary funds and is required to apply FASB Statements and Interpretations issued on or before November 30, 1989 and has elected to apply only those issued after that date that do not conflict or contradict GASB pronouncements.

Management Estimates—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Pronouncements— In March 2003, the GASB issued Statement No. 40, Deposit and Investment Risk Disclosures, an Amendment of GASB Statement No. 3. This statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rate risk. The provisions of this statement are effective for financial statements for periods beginning after June 15, 2004. The adoption of GASB Statement No. 40 did not have an impact on the Board's accounting policies; however, it modified the Board's note disclosures for cash, cash equivalents and investments. See Note 4.

In November 2003, the GASB issued Statement of Governmental Accounting Standards No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which is effective for fiscal periods beginning after December 15, 2004. Statement No. 42 establishes accounting and financial reporting standards for impairment of capital assets.

In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pensions*. The standards in this Statement apply for trust funds included in the financial reports of plan sponsors or employers, as well as for the stand-alone financial reports of OPEB plans or the public employee retirement systems, or other third parties, that administer them. The provisions of this statement are effective for periods beginning after December 15, 2005.

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes standards for the measurement, recognition and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. This Statement is effective for periods beginning after December 15, 2006.

In June 2005, GASB issued Statement No. 47, *Accounting for Termination Benefits*. This Statement establishes standards for accounting and financial reporting for termination benefits provided by employees, including early retirement incentives, severance benefits and other termination-related benefits. The provisions of this statement are effective for financial statements for periods beginning after June 15, 2005.

In September 2006, GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. This Statement establishes criteria to ascertain whether the proceeds received from exchanging an interest in expected cash flows from collecting specific receivables or future revenues for an immediate cash payment should be reported as revenue or a liability.

Board management has not yet determined the impact that implementation of GASB Statements 42, 43, 45, 47 and 48 will have on the Board's financial statements.

NOTE 3 – COVERAGE

Petroleum underground storage tank owners/operators must pay a fee each fiscal year as determined by the Board ($450 per tank in 2004 and 2003). The tank owners/operators must also demonstrate an ability to fund $55,000 of eligible costs caused by petroleum releases, in compliance with rules promulgated by the State Fire Marshal. Tank owners/operators with six or fewer tanks may elect to reduce their deductible from $55,000 to $11,000 by paying an additional $150 annual fee per tank. The Board's obligation to pay eligible claims is limited to (1) an annual maximum per individual owner/operator and (2) the availability of unobligated assets in the Fund. The maximum annual disbursement per fiscal year to an individual owner/operator is as follows:

Number of Tanks Owned	**Maximum Annual Disbursements (Net of Deductibles)**
Less than 100	$1 million
101 to 200	$2 million
201 to 300	$3 million
Over 300	$4 million

The Board is not required to make payments for the costs of corrective action when the amount of approved claims exceeds the unobligated fund balance. The Board annually sets fees to ensure an unobligated fund balance based on the budget of at least $15 million at the end of the fiscal year. However, in the event that unobligated funds fall below $15 million, the Board is able to assess a supplemental fee, and again consider payout of all eligible claims.

NOTE 3 – COVERAGE (Continued)

The Board establishes a liability for both reported and unreported insured events, which includes estimates for future payments of losses. The amount of the liability is estimated using actuarial techniques. The following represents changes in those aggregate liabilities for the Board during the past two years:

	Year Ended June 2004	Year Ended June 2003
Unpaid claims and claim adjustment expenses— Beginning of year	$ 63,985,637	$55,261,463
Incurred claim and claim adjustment expenses:		
Provision for insured events of current year	2,921,866	1,962,977
Increase in provision for prior years	466,290	16,624,128
Total incurred claims and claim adjustment expense	3,388,156	18,587,105
Claim and claim adjustment payments attributable to insured events of prior years	9,736,646	9,862,931
Total unpaid claims and claim adjustment expenses— End of year	$ 57,637,147	$63,985,637
This liability is shown in the balance sheet as follows:		
Claims payable	$ 895,637	$ 953,383
Current portion of reserve for unpaid claims	9,104,363	9,046,617
Reserve for unpaid claims—less current portion	47,637,147	53,985,637
Estimated unpaid liability	$ 57,637,147	$63,985,637

Changes in the unpaid claim liability are the combined impact of:

i. Estimated ultimate losses on newly reported claims (increases the liability);

ii. Changes in the estimated ultimate losses on previously reported claims (may increase or decrease the liability);

iii. Changes in the estimated ultimate losses on unreported claims (may increase or decrease the liability);

iv. Claim reimbursement payments (decreases the liability).

NOTE 3 – COVERAGE (Continued)

The amounts that the Fund will ultimately pay (items i, ii and iii) are measured, in part, by the reported gross claim face values adjusted for non-reimbursable and undocumented costs and deductible amounts. In 2004, the estimated Ultimate Face Value grew by approximately $5.4 million, compared to almost $37.5 million in fiscal year 2003. The amount of paid loss increased in 2004 by $9.5 million, thereby reducing the liability by an amount greater than the increases in i, ii and iii above.

NOTE 4 – CASH AND INVESTMENTS

Provisions within the Ohio Revised Code govern the investment and deposit of Board monies. In accordance with these statutes, investments are restricted to obligations of the United States or of any agency or instrumentality thereof (and funds consisting exclusively of, and repurchase agreements secured by, those obligations), obligations guaranteed as to principal and interest by the United States, obligations of the State of Ohio or any political subdivision thereof, the State Treasury Asset Reserve of Ohio (STAR Ohio) investment pool, and certificates of deposit of any national bank located in Ohio and certain other banks incorporated in Ohio and subject to inspection by the Superintendent of Institutions.

STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the Securities and Exchange Commission as an investment company, but does operate in a manner similar to Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2004.

The State Treasurer's Office issues a publicly available stand-alone financial report for STAR Ohio that includes financial statements and required supplementary information. That report may be obtained by writing to State Treasury Asset Reserve of Ohio, STAR Ohio, 30 East Broad Street, 9th Floor, Columbus, Ohio 43215-3461 or by calling 1-800-648-7827.

Public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the Federal Deposit Insurance Corporation (FDIC), or may pledge a pool of government securities valued at least 105% of the total value of public monies on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and mature or be redeemable within five years of the date of the related repurchase agreement. State law does not require security for public deposits and investments to be maintained in the Board's name.

NOTE 4 – CASH AND INVESTMENTS (Continued)

Cash—Cash with custodian is held by the Treasurer of State. The carrying amount and custodial balance of cash with custodian at June 30 were as follows:

	2004	2003
Carrying amount	$3,528,408	$2,629,930
Custodial balance	2,100,768	1,389,315

Differences between the carrying amount and custodial balances were principally due to deposits in transit. Custodial balances are collateralized with securities held by the pledging financial institution's trust department or an agent in the State's name.

Linked Deposits—The Act authorizes the Board to place certificates of deposit with financial institutions at interest rates set approximately 3% below the current two-year treasury note yield. These deposits are insured by the Federal Deposit Insurance Corporation. The financial institutions loan these deposits to tank owners approved by the Board to replace or improve underground storage tanks. The financial institutions assume credit risks associated with these loans. There were no active linked deposits as of June 30, 2004 and 2003.

Investments—The Fund's unrestricted investments are held in the Treasurer of State's investment pool (STAR Ohio). Unrestricted investments are carried at fair value, which approximates cost and includes $852,978 and $1,187,355 obligated by the Board for the payment of claims at June 30, 2004 and 2003, respectively. Standard & Poor's rating for the STAR Ohio fund is AAAm.

Bond trustees maintaining debt service accounts (see Note 8) hold restricted investments in instruments similar to those described above. At June 30, restricted investments included U.S. Treasury notes held by trustees, but not in the Board's name, and money market funds as follows:

	2004		2003	
	Cost	Fair Value	Cost	Fair Value
U.S. Treasury notes	$ 6,075,437	$ 6,128,124	$ 6,096,441	$ 6,128,084
Money Market Funds	445	445	3,308	3,308
Cash & Other Assets	1	1	5,959,477	5,959,477
Total	$ 6,075,883	$ 6,128,570	$ 12,059,226	$ 12,090,869

NOTE 4 – CASH AND INVESTMENTS (Continued)

In March 2003, the GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures*. This statement amends Statement No. 3 and addresses additional cash and investment risks to which governments are exposed. Generally, this statement requires that state and local governments communicate key information about such risks in four principal areas: investment credit risks, including credit quality information issued by rating agencies; interest rate disclosures that include investment maturity information; interest rate sensitivity for investments that are highly sensitive to changes in interest rates; and foreign exchange exposures that would indicate the foreign investment's denomination. The provisions of this statement were effective for fiscal periods beginning after June 15, 2004. The Board has elected early implementation for the year ended June 30, 2004.

Interest Rate Risk – The market value of securities will increase or decrease based upon changes in the general level of interest rates. Investments with longer maturity dates are subject to greater degrees of increases or decreases in market value as interest rates change.

Credit Risk – Credit risk is the risk of loss due to the failure of a security issuer to pay principal or interest, or the failure of the issuer to make timely payments of principal or interest. Eligible investments, pursuant to the ORC, affected by credit risk include certificates of deposit, commercial paper, bankers' acceptances and counterparties involved in repurchase agreements.

Concentration of Credit Risk – Concentration of credit risk is the risk of inability to recover the value of deposits, investments or collateral securities in the possession of an outside party caused by a lack of diversification.

Custodial Credit Risk – Custodial credit risk is the risk that, in the event of a failure of a depository institution or counterparty to a transaction, the Board will be unable to recover the value of deposits, investments or collateral securities in the possession of an outside party.

STAR Ohio investments are not exposed to custodial credit risk, as defined by Statement No. 40. Securities in STAR Ohio are either insured, registered or held by STAR Ohio or by its agent in the name of STAR Ohio. Also as stated in GASB Statement No. 40, obligations of the U. S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. Cash on deposit with the bond trustee and held as restricted investments are collateralized with securities held by the pledging financial institution's trust department but not in the Board's name.

NOTE 5 – CAPITAL ASSETS

A summary of the changes in capital assets for the fiscal year follows:

	Balance June 30, 2003	Additions	Disposals/ Deletion	Balance June 30, 2004
Capital assets:				
Furniture	$ 82,371	$ 13,979	$ 1,060	$ 95,290
Data processing equipment	549,534	56,103	2,793	602,844
Total capital assets	631,905	70,082	3,853	698,134
Less accumulated depreciation:				
Furniture	53,279	10,335	1,060	62,554
Data processing equipment	231,848	176,600	2,793	405,655
Total accumulated depreciation	285,127	186,935	3,853	468,209
Net capital assets	$ 346,778	$ (116,853)		$ 229,925

NOTE 6 – OPERATING LEASE

The Board leases office space under an operating lease agreement expiring in fiscal year 2007. Rent expense for the fiscal years ended June 30, 2004 and 2003 was $96,601 and $105,553, respectively. Future minimum payments for the years ended June 30 are as follows:

Year Ending	Amount
2005	$ 86,713
2006	95,388
2007	95,388
	$ 277,489

NOTE 7 – COMMITMENTS AND CONTINGENCIES

The Board is involved in various litigation arising in the ordinary course of business. The Board believes that the reserves recorded in the financial statements are adequate to satisfy the outcome of litigation. However, because of the risks associated with any litigation, the ultimate outcome may differ.

NOTE 8 – BONDS PAYABLE

On December 13, 1990, the Board authorized the issuance of not more than $50 million of revenue bonds, pursuant to State statute, to reimburse responsible persons for the costs of corrective actions. The revenue bonds will be retired solely from annual fees, any supplemental fees assessed by the Board and interest income. The bonds do not constitute debt or a pledge of the faith and credit of the State.

In July 1993, the Board issued term revenue bonds with an interest rate of 6.75%. The scheduled amortization follows:

Fiscal Year Ended June 30	**Principal**	**Interest**	**Total**
2005	$ 2,335,000	$ 826,369	$ 3,161,369
2006	2,495,000	663,356	3,158,356
2007	2,670,000	489,037	3,159,037
2008	2,855,000	302,569	3,157,569
2009	3,055,000	103,106	3,158,106
Total	13,410,000	$ 2,384,437	$ 15,794,437
Less unamortized discount	97,925		
Bonds payable	13,312,075		
Less amount currently due	2,335,000		
Bonds payable—less current portion	$ 10,977,075		

NOTE 8 – BONDS PAYABLE (Continued)

In July 1998, the Board authorized and issued $35,000,000 of revenue bonds for the purpose of making payments and reimbursements to the owners for the costs of corrective actions. The issuance consists of serial bonds of $9,170,000 with interest rates ranging from 5.81% to 6.20% and maturity dates of August 15, 1999 through 2008, and term bonds of $25,830,000 with an interest rate of 6.375% and maturing through August 15, 2013. The scheduled amortization follows:

Fiscal Year Ended June 30	**Principal**	**Interest**	**Total**
2005	$ 925,000	$ 1,942,481	$ 2,867,481
2006	990,000	1,884,181	2,874,181
2007	1,050,000	1,821,575	2,871,575
2008	1,120,000	1,754,568	2,874,568
2009	1,190,000	1,683,255	2,873,255
2010	4,530,000	1,502,269	6,032,269
2011	4,825,000	1,204,078	6,029,078
2012	5,145,000	886,284	6,031,284
2013	5,485,000	547,453	6,032,453
2014	5,845,000	186,309	6,031,309
Total	31,105,000	$ 13,412,453	$ 44,517,453
Less unamortized discount	271,277		
Bonds payable	30,833,723		
Less amount currently due	925,000		
Bonds payable—less current portion	$ 29,908,723		

Bond covenants require the Board to maintain a debt service account balance (restricted investments) equal to the succeeding year's debt service principal plus interest requirement. The Board is also required to maintain a debt service reserve account balance equal to the greatest single year's debt service requirement or maintain bond insurance. The Board has elected to maintain bond insurance. The Board is also required to maintain unrestricted cash with the custodian plus unrestricted investments of at least $7.5 million. The Board also covenants that it will assess annual tank fees that will result in revenues equal to at least 135% of the debt service charges plus estimated annual expenditures of the Board, less anticipated proceeds from any bonds to be issued during the fiscal year and the anticipated unobligated balance.

NOTE 9 – DEFINED BENEFITS

Defined Benefit Retirement Plan—All Board employees are required to participate in the statewide Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans: the Traditional Pension Plan (TP) - a cost-sharing multiple-employer defined benefit pension plan, the Member Directed Plan (MD) - a defined contribution plan; and the Combined Plan (CO) - a cost-sharing multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. OPERS provides retirement, disability, survivor and post retirement healthcare benefits to qualifying members of both the TP and CO plans; however, health care benefits are not statutorily guaranteed. Members of the MD plan do not qualify for ancillary benefits, including post-employment healthcare coverage. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the ORC. In 2005 the employer was required to contribute 13.31% of active member payroll, and employees were required to contribute 8.5% of their annual covered salary.

The Board's contributions, representing 100% of employer contributions for the year ended June 30, 2004, and for each of the preceding two years, are as follows:

2004	$93,366
2003	89,421
2002	64,695

OPERS issues a publicly available stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling 614-222-6705 or 1-800-222-7377.

Other post-employment benefits for healthcare costs provided by OPERS are as follows:

In order to qualify for postretirement healthcare coverage, age and service retirees under the TP and CO must have 10 or more years of qualifying Ohio service credit. Healthcare coverage for diability recipients and primary survivor recipients is available. The healthcare coverage provided by the retirement system is considered an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 12, "*Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers*". A portion of each contribution to OPERS is set aside for the funding of postretirement healthcare. The Ohio Revised Code provides statutory authority for employer contributions. The 2004 and 2003 employer contribution rate for state employers was 13.31% of covered payroll; 4% and 5% was the portion that was used to fund healthcare for the years ended December 31, 2004 and 2003, respectively. These rates are the actuarially determined contribution requirements for OPERS. The portion of the Board's 2004 and 2003 contribution that was used to fund post employment benefits was $28,059 and $33,591, respectively. The ORC provides the statutory authority requiring public employers to fund postretirement healthcare through their contributions to OPERS.

NOTE 9 – DEFINED BENEFITS (Continued)

The assumptions and calculations below were based on the Retirements System's latest Actuarial Review performed as of December 31, 2003. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach, assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets. The investment assumption rate for 2003 was 8.00%. An annual increase of 4.00% compounded annually is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.00% base increase, were assumed to range from 1% to 6%. Healthcare costs were assumed to increase at 4.00% annually.

OPEB are advance-funded on an actuarially determined basis. As of December 31, 2003, the actuarial value of the Retirement System's net assets available for OPEB was $10.5 billion. The number of active contributing participants in the TP and CO was 369,885. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were $26.9 billion and $16.4 billion, respectively.

In December 2001, the OPERS Board adopted the Health Care "Choices" Plan (the Choices Plan) in its continuing effort to respond to the rise in the cost of healthcare. The Choices Plan is offered to all persons newly hired under OPERS after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices, as the name suggests, incorporates a cafeteria approach, offering a more broad range of health care options. The Plan uses a graded scale from 10 to 30 years to calculate a monthly health care benefit. This is in contrast to the 10-year "cliff" eligibility standard for the traditional Plan.

The benefit recipients are free to select the option that best meets their needs. Recipients will fund healthcare costs in excess of their monthly healthcare benefit. The Plan also offers a spending account feature, enabling benefit recipients to apply their allowance toward specific medical expenses, much like a Medical Spending Account.

In response to the adverse investment returns experience by OPERS from 2000 through 2002 and the continued healthcare inflation, the OPERS board, during 2003, considered extending Choices type cost cutting measures to all active members and benefit recipients. As of this date, the board has not determined the exact changes that will be made to the healthcare plan.

INDEPENDENT AUDITORS' 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*

Ohio Petroleum Underground Storage
Tank Release Compensation Board
Columbus, Ohio

We have audited the financial statements of Ohio Petroleum Underground Storage Tank Release Compensation Board (the Board) as of and for the year ended June 30, 2004, and have issued our report thereon dated November 6, 2006. 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 Board'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 necessary disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts 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 Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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This report is intended solely for the information and use of the management, the Ohio Petroleum Underground Storage Tank Release Compensation Board and the Auditor of State and is not intended to be and should not be used by anyone other than these specified parties.

Schneider Downs & Co., Inc.

Columbus, Ohio
November 6, 2006

Mary Taylor, CPA
Auditor of State

OHIO PETROLEUM UNDERGROUND STORAGE TANK RELEASE

FRANKLIN 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
FEBRUARY 20, 2007

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