Ohio Petroleum Underground Storage Tank Release Compensation Board

Financial Statements for the Years Ended June 30, 2003 and 2002 and Independent Auditors' Report

Auditor of State
Betty Montgomery

Board Members
Ohio Petroleum Underground Storage Tank Release Compensation Board
50 West Broad St., Suite 1500
P.O. Box 163188
Columbus, OH 43216-3188

We have reviewed the *Independent Auditor's Report* of the Ohio Petroleum Underground Storage Tank Release Compensation Board, Franklin County, prepared by Deloitte & Touche LLP, for the audit period July 1, 2002 through June 30, 2003. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Ohio Petroleum Underground Storage Tank Release Compensation Board is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

December 14, 2005

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OHIO PETROLEUM UNDERGROUND STORAGE TANK RELEASE COMPENSATION BOARD

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INDEPENDENT AUDITORS' REPORT

To the Members of
Ohio Petroleum Underground Storage
Tank Release Compensation Board:

We have audited the accompanying statements of net assets of Ohio Petroleum Underground Storage Tank Release Compensation Board (the "Board") as of June 30, 2003 and 2002, and the related statements of revenues, expenses and changes in net assets and of cash flows for the years 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 audits.

We conducted our audits 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 respective 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 also 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 audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of Ohio Petroleum Underground Storage Tank Release Compensation Board, at June 30, 2003 and 2002, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis on pages 2–6 is not a required part of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board. The supplementary information is the responsibility of the Board's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards,* we have also issued a report dated November 19, 2005, on our consideration of Ohio Petroleum Underground Storage Tank Release Compensation Board's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants and other matters. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Deloitte + Touche LLP

November 19, 2005

OHIO PETROLEUM UNDERGROUND STORAGE TANK RELEASE COMPENSATION BOARD

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2003 AND 2002

The following Management's Discussion and Analysis ("MD&A") section of the 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, 2003 and 2002. 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, 2003 and 2002:

	2003	2002	% Change
ASSETS:			
Current assets	$ 26,484,081	$ 30,598,784	-13.45%
Capital assets	346,778	301,291	15.10%
Other noncurrent assets	12,630,919	12,659,152	-0.22%
Total assets	$ 39,461,778	$ 43,559,227	-9.41%

LIABILITIES:			
Current liabilities	$ 23,171,946	$ 22,161,739	4.56%
Noncurrent liabilities	44,092,134	47,101,397	-6.39%
Reserve for unpaid claims	53,985,637	45,261,463	19.28%
Total liabilities	121,249,717	114,524,599	5.87%
NET ASSETS:			
Investment in capital assets, net of related debt	346,778	301,291	15.10%
Unrestricted net assets (deficiency)	(82,134,717)	(71,266,663)	15.25%
Total net assets	(81,787,939)	(70,965,372)	15.25%
Total liabilities and net assets	$ 39,461,778	$ 43,559,227	-9.41%

Current assets decreased by $4,114,703 (13.45%) over last year primarily due to a decrease of $3,972,103 in unrestricted investments and cash on hand with the custodian.

Capital assets increased $45,487 (15.1%) primarily due to relocation of the Board's offices and ongoing electronic database design and development. Approximately $23,500 was spent on modular furniture and other related furniture and fixture items for the new office location. An additional $8,800 was spent to equip the new offices with both voice and data connections. Computer and printer replacement costs were about $10,300. Approximately $80,000 was spent on the ongoing design and development of the customized database system.

With the relocation of the offices, $30,800 of computer and connectivity hardware specific to the old location was salvaged. All disposed assets were fully depreciated.

There is no related debt on capital assets.

Current liabilities increased $1,010,207 due primarily to an increase of $476,000 in unearned revenue and $317,945 in refundable fees.

Long-term liabilities decreased by $3,009,263 (6.4%) as a result of an annual revenue bond principal payment.

Reserve for unpaid claims increased by $8,724,174 (19.3%) due primarily to the continuing receipt of gross face values related to petroleum releases occurring prior to the December 22, 1998 federal upgrade deadline which required all underground storage tanks to meet design and installation, corrosion protection, spill and overfill protection, and release detection performance standards. The following tables illustrate the affect of these continuing submissions of costs for early releases.

- Gross Face Values reported since June 30, 2002 totaled approximately $24 million, with more than $20.9 million resulting from notification years prior to 1999:

Reported Gross Face Value			
Notification Year	June 30, 2003	June 30, 2002	Difference
1989	$ 182,570	$ 182,570	$ -
1990	40,191,539	37,732,278	2,459,261
1991	66,980,997	63,655,904	3,325,093
1992	38,137,716	36,119,092	2,018,624
1993	31,547,028	28,979,451	2,567,577
1994	22,761,764	20,661,446	2,100,318
1995	21,659,749	19,297,507	2,362,242
1996	31,498,977	28,189,921	3,309,056
1997	7,827,229	6,775,854	1,051,375
1998	8,314,905	6,591,552	1,723,353
1999	6,592,919	5,465,119	1,127,800
2000	2,129,639	992,472	1,137,167
2001	965,465	266,710	698,755
2002	95,813		95,813
Total	$278,886,310	$254,909,876	$23,976,434
1998 & Prior			$20,916,899

- Largely as a result of the increase in reported face values, the estimates of "Ultimate" Gross Face Value increased by $37.5 million, with approximately $28.2 million resulting from notification years prior to 1999:

Estimated Ultimate Face Value			
Notification Year	June 30, 2003	June 30, 2002	Difference
1989	$ 202,653	$ 208,152	$ (5,499)
1990	45,810,214	43,473,719	2,336,495
1991	78,660,601	76,806,849	1,853,752
1992	46,972,287	44,433,621	2,538,666
1993	40,333,162	36,754,353	3,578,809
1994	30,422,461	26,993,535	3,428,926
1995	30,614,868	26,880,062	3,734,806
1996	46,000,000	40,600,000	5,400,000
1997	13,500,000	11,500,000	2,000,000
1998	17,200,000	13,900,000	3,300,000
1999	10,800,000	8,700,000	2,100,000
2000	5,500,000	3,800,000	1,700,000
2001	2,800,000	1,000,000	1,800,000
2002	3,700,000		3,700,000
Total	$372,516,246	$335,050,291	$37,465,955
1998 & Prior			$28,165,955

- Gross Face Value is a measure of the amounts the Fund will ultimately pay (although there are reductions for deductibles and disallowed costs). The increases in Gross Face Value lead to increases in the estimates of ultimate losses and consequently, estimated loss reserves. The following compares these estimates:

Estimated Ultimate Loss			
Notification Year	June 30, 2003	June 30, 2002	Difference
1989	$ 25,000	$ 25,000	$ (700)
1990	26,076,785	25,658,938	417,847
1991	44,467,887	42,570,674	1,897,213
1992	24,949,064	23,965,048	984,016
1993	20,791,072	18,975,329	1,815,743
1994	15,151,872	13,023,438	2,128,434
1995	14,684,995	13,089,042	1,595,953
1996	22,080,120	19,326,843	2,753,277
1997	6,552,409	5,537,850	1,014,559
1998	7,656,137	6,141,667	1,514,470
1999	4,831,716	3,980,000	851,716
2000	2,604,200	1,760,000	844,200
2001	1,277,400	470,000	807,400
2002	1,764,200		1,764,200
Total	$192,912,857	$174,524,529	$18,388,328
1998 & Prior			$14,120,812

Net assets decreased $10,822,567 (15.25%) due to the large increase in the change in reserves for unpaid claims. Total operating revenue exceeded operating expenses less the change in reserves for unpaid claims by $1,366,453 (12.8%).

Financial Information

Revenue

The following schedule presents a summary of revenues for the fiscal years ended June 30, 2003 and 2002.

	2003	**2002**	**Increase (Decrease)**
Operating Revenues:			
Tank fees	$ 11,991,975	$ 11,461,977	$ 529,998
Other	28,310	58,356	(30,046)
Non-operating Revenues:			
Earnings on investments	521,108	1,331,581	(810,473)
Total revenue	$ 12,541,393	$ 12,851,914	$ (310,521)

Total revenue for 2003 decreased 2.4% from the previous year. This decrease is the net result of an increase in operating revenues of $499,952 and a decrease of $810,473 in non-operating revenues.

The 4.3% increase in operating revenues is the net result of an increase in the amount of prior year fees collected in the current year and a decrease in miscellaneous revenue. Prior year fee collections in fiscal year 2003 exceeded prior year fee collections in the previous year by $257,897. Miscellaneous revenue decreased over 51% due to the maturing of linked deposits during the year and a decrease in the number of training seminars offered by the Board.

The 61% decrease in non-operating revenues is a result of decreasing StarOhio interest rates and the maturing of approximately $14.5 million in Fannie Mae and Freddie Mac investments. StarOhio interest rates dropped from 3.85% in fiscal year 2002 to less than 1.2% at the end of fiscal year 2003. Approximately $14,840,000 in Fannie Mae and Freddie Mac investments with a yield of 5.5% matured in May 2002 and were reinvested in the StarOhio account.

The following schedule presents a summary of expenses for the fiscal years ended June 30, 2003 and 2002:

	2003	**2002**	**Increase (Decrease)**
Claims paid	$ 9,021,158	$ 11,802,356	$ (2,781,198)
Change in reserve for unpaid claims	9,565,947	2,896,308	6,669,639
Administration	1,528,831	1,360,598	168,233
Refundable fees	26,030	37,567	(11,537)
Depreciation	77,813	77,451	362
Total operating expenses	$ 20,219,779	$ 16,174,280	$ 4,045,499

Total operating expenses increased 25% over 2002 due to the significant increase 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 2003, the Board obligated $10 million. Approximately $9,020,000 was issued in claim settlements.

Administration expenses increased 12.4% over 2002 as a result of increased health insurance costs and increased legal and professional fees. Health insurance costs, including dental and vision coverage, increased $31,558 or just over 35%. Legal and professional fees included about $101,000 in costs associated with the performance of a claims reserve actuarial study, which occurred for the first time in 2003.

OHIO PETROLEUM UNDERGROUND STORAGE TANK RELEASE COMPENSATION BOARD

STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2003 AND 2002

	2003	2002
ASSETS		
CURRENT ASSETS:		
Cash with custodian	$ 2,629,930	$ 2,889,817
Linked deposits	140,947	530,597
Unrestricted investments	22,868,583	26,580,799
Accrued interest receivable	667	3,104
Fees receivable, net of allowance for uncollectible amounts of $4,290,766 and $3,889,409, respectively	843,954	594,467
Total current assets	26,484,081	30,598,784
RESTRICTED INVESTMENTS	12,090,869	12,053,648
DEFERRED BOND ISSUANCE COSTS—Net	540,050	605,504
FURNITURE AND EQUIPMENT AT COST—Net of accumulated depreciation	346,778	301,291
TOTAL	$ 39,461,778	$ 43,559,227
LIABILITIES AND DEFICIENCY IN NET ASSETS		
CURRENT LIABILITIES:		
Fees received in advance	$ 7,775,455	$ 7,299,600
Claims payable	953,383	1,795,156
Current portion of reserve for unpaid claims	9,046,617	8,204,844
Bonds payable	3,055,000	2,860,000
Bond interest payable	1,153,167	1,223,163
Refundable fees	904,596	586,651
Accounts payable	116,548	43,991
Accrued liabilities	167,180	148,334
Total current liabilities	23,171,946	22,161,739
BONDS PAYABLE—Less current portion	44,092,134	47,101,397
RESERVE FOR UNPAID CLAIMS—Less current portion	53,985,637	45,261,463
DEFICIENCY IN NET ASSETS:		
Investment in capital assets—net of related debt	346,778	301,291
Deficiency in unrestricted net assets	(82,134,717)	(71,266,663)
Total deficiency in net assets	(81,787,939)	(70,965,372)
TOTAL	$ 39,461,778	$ 43,559,227

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, 2003 AND 2002

	2003	2002
OPERATING REVENUES:		
Tank fees	$ 11,991,975	$ 11,461,977
Other	28,310	58,356
Total operating revenues	12,020,285	11,520,333
OPERATING EXPENSES:		
Claims	9,021,158	11,802,356
Change in reserves for unpaid claims	9,565,947	2,896,308
Administration	1,528,831	1,360,598
Refundable fees	26,030	37,567
Depreciation	77,813	77,451
Total operating expenses	20,219,779	16,174,280
OPERATING LOSS	(8,199,494)	(4,653,947)
NONOPERATING REVENUE (EXPENSE):		
Earnings on investments	521,108	1,331,581
Interest expense	(3,144,181)	(3,359,144)
Total nonoperating expense	(2,623,073)	(2,027,563)
NET LOSS	(10,822,567)	(6,681,510)
DEFICIENCY IN NET ASSETS—Beginning of year	(70,965,372)	(64,283,862)
DEFICIENCY IN NET ASSETS—End of year	$ (81,787,939)	$ (70,965,372)

See notes to financial statements.

OHIO PETROLEUM UNDERGROUND STORAGE TANK RELEASE COMPENSATION BOARD

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2003 AND 2002

	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	$ 12,567,035	$ 11,677,363
Cash paid to employees	(895,612)	(860,540)
Cash paid to claimants	(9,862,931)	(11,017,283)
Cash paid to others	(502,392)	(466,148)
Net cash provided by (used in) operating activities	1,306,100	(666,608)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Payment of bond principal	(2,860,000)	(2,680,000)
Cash paid for interest	(3,168,440)	(3,348,962)
Cash used in noncapital financing activities	(6,028,440)	(6,028,962)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES—Purchase of furniture and equipment	(123,300)	(95,445)
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of investments	3,674,995	5,618,361
Interest on investments	521,108	1,331,581
Cash provided by investing activities	4,196,103	6,949,942
NET (DECREASE) INCREASE IN CASH WITH CUSTODIAN AND LINKED DEPOSITS	(649,537)	158,927
CASH WITH CUSTODIAN AND LINKED DEPOSITS—Beginning of year	3,420,414	3,261,487
CASH WITH CUSTODIAN AND LINKED DEPOSITS—End of year	$ 2,770,877	$ 3,420,414
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	$ (8,199,494)	$ (4,653,947)
Adjustments to reconcile loss from operations to net cash (used in) operating activities:		
Depreciation	77,813	77,451
Amortization of bond issue costs	65,454	65,454
(Increase) decrease in assets:		
Fees receivable	(249,487)	254,845
Accrued interest receivable	2,437	157,084
Increase (decrease) in liabilities:		
Increase in fees received in advance	475,855	(333,050)
Decrease in claims payable	(841,773)	785,073
Increase in reserves for unpaid claims	9,565,947	2,896,308
Increase in refundable fees	317,945	78,151
Increase in accounts payable and accrued liabilities	91,403	6,023
Net cash provided by (used in) operating activities	$ 1,306,100	$ (666,608)

See notes to financial statements.

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. An estimated 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 defines financial soundness as an unobligated fund balance of at least $15 million. The Act prohibits the Board from assessing annual fees for any year in which the unobligated fund balance exceeds $45 million. The Act excludes the State of Ohio from responsibility for liabilities of the Fund.

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.

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 Board is required to maintain an unobligated fund balance of at least $15 million as required by the Ohio Revised Code. The unobligated fund balance is 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 included in unrestricted investments. The unobligated fund balance is $24,311,158 and $27,744,624 at June 30, 2003 and 2002, 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*.

Furniture and Equipment—Furniture and equipment 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 $540,050 at June 30, 2003, and $605,504 at June 30, 2002, are net of accumulated amortization of $441,692 and $376,238, respectively.

Deficiency in Net Assets:

Invested in capital assets, net of related debt—Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to acquisition, construction, or improvement of those assets.

Unrestricted—Net assets are assets that are not subject to externally-imposed stipulations.

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 is required to apply FASB statements and interpretations issued on or before November 30, 1989, and has elected not to apply those issued after that date.

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.

New Accounting Pronouncements—In May 2002, GASB issued Statement No. 39, *Determining Whether Certain Organizations are Component Units,* which is effective for periods beginning after June 15, 2003. GASB Statement No. 39 provides objective criteria for determining whether certain organizations should be reported as component units based on the nature and significance of their relationship with a primary government and to clarify reporting for those organizations. Implementation of GASB Statement No. 39 is not expected to have a significant impact on its reported financial position.

In March 2003, GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures, an Amendment of GASB Statement No. 3,* which is effective for fiscal periods beginning after June 15, 2004. This Statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest rate risk, this Statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates.

In November 2003, GASB issued Statement 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 Benefits Other Than Pension Plans*. 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.

Board management has not yet determined the impact that implementation of GASB Statements 40, 42, 43, 45 and 47 will have on the Board’s financial statements.

3. COVERAGE

Petroleum underground storage tank owners/operators must pay a fee each fiscal year as determined by the Board ($450 per tank in 2003 and 2002). 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 maintain an unobligated fund balance based on the budget of at least $15 million. 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.

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 2003	Year Ended June 2002
Unpaid claims and claim adjustment expenses— Beginning of year	$ 55,261,463	$ 51,580,082
Incurred claim and claim adjustment expenses:		
Provision for insured events of current year	1,962,977	248,220
Increase (decrease) in provision for prior years	16,624,128	14,483,892
Total incurred claims and claim adjustment expense	18,587,105	14,732,112
Payments:		
Claims and claim adjustment expenses attributable to insured events of prior years	9,021,158	11,802,356
Other	841,773	(751,625)
Total payments	9,862,931	11,050,731
Total unpaid claims and claim adjustment expenses— End of year	$ 63,985,637	$ 55,261,463
This liability is shown in the balance sheet as follows:		
Claims payable	$ 953,383	$ 1,795,156
Current portion of reserve for unpaid claims	9,046,617	8,204,844
Reserve for unpaid claims—less current portion	53,985,637	45,261,463
Estimated unpaid liability	$ 63,985,637	$ 55,261,463

4. CASH AND INVESTMENTS

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:

	2003	2002
Carrying amount	$2,629,930	$2,889,817
Custodial balance	1,389,315	1,249,117

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.

Investments—The Board's unrestricted investments are held by the Treasurer of State, subject to the investment policies of the Treasurer of State and the State Board of Deposit, and governed by the Uniform Depository Act of the Ohio Revised Code.

The Uniform Depository Act authorized investments in the following:

- Bonds, notes or other obligations of or guaranteed by the United States, or those for which the faith of the United States is pledged for the payment of principal and interest
- Bonds, notes, debentures, or other obligations or securities issued by any federal government agency, or the Export-Import Bank of Washington
- Repurchase agreements in the securities enumerated above
- Interim deposits in the eligible institutions applying for interim monies
- Bond and other obligations of the State of Ohio
- The Treasurer of State's investment pool
- Linked deposits, reduced-rate deposits at financial institutions that provide reduced-rate loans to small businesses, as authorized under Section 135.63, Ohio Revised Code
- Agricultural linked deposits, reduced-rate deposits at financial institutions placed on or before June 30, 1987, that provide reduced-rate loans to farmers, as authorized under Section 135.74, Ohio Revised Code
- Securities lending agreements with an eligible financial institution that is a member of the Federal Reserve System or Federal Home Loan Bank, or any recognized U.S. Government securities dealer

- Commercial paper maturing in 180 days or less, rated in one of the two highest rating categories by two nationally recognized rating agencies, and not exceeding 5% of the investment portfolio

- Bankers’ acceptances maturing in 270 days or less and not exceeding 10% of the investment portfolio.

The Fund’s investments are held in the Treasurer of State’s investment pool (“STAROhio”). STAROhio is an investment pool managed by the State Treasurer’s Office, which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the Securities Exchange Commission as an investment company, but does operate in a manner similar to Rule 2a-7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio’s share price, which is the price the investment could be sold for on June 30, 2003 and 2002. These investments are not subject to categorization as defined in GASB Statement No. 3, as they are not evidenced by securities that exist in physical or book entry form.

Restricted investments are held by bond trustees maintaining debt service accounts (see Note 7) in instruments similar to those already described. 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:

	2003		2002	
	Cost	**Fair Value**	**Cost**	**Fair Value**
U.S. Treasury notes	$ 6,096,441	$ 6,128,084	$ 6,407,758	$ 6,455,831
Money Market Funds	3,308	3,308	5,597,817	5,597,817
Cash and Other Assets	5,959,477	5,959,477		
Total	$ 12,059,226	$ 12,090,869	$ 12,005,575	$ 12,053,648

Unrestricted investments are carried at fair value which approximates cost and includes $1,187,355 and $1,725,991 obligated by the Board for the payment of claims at June 30, 2003 and 2002, respectively.

5. FURNITURE AND EQUIPMENT

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

	Balance June 30, 2002	Additions	Disposals/ Deletion	Balance June 30, 2003
Capital assets:				
Furniture	$ 58,948	$ 23,423	$ -	$ 82,371
Data processing equipment	480,472	99,876	30,814	549,534
Total capital assets	539,420	123,299	30,814	631,905
Less accumulated depreciation:				
Furniture	50,458	2,821		53,279
Data processing equipment	187,671	74,991	30,814	231,848
Total accumulated depreciation	238,129	77,812	30,814	285,127
Net capital assets	$ 301,291	$ 45,487		$ 346,778

6. COMMITMENTS AND CONTINGENCIES

The Board leases office space under an operating lease agreement expiring in fiscal year 2005. Rent expense for the fiscal years ended June 30, 2003 and 2002 was $105,553 and $89,841, respectively. Future minimum payments for the year ended June 30, 2004 and 2005 are $86,713.

The Board is involved in various litigations 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.

7. 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 interest rate of 6.75%. The scheduled maturities are as follows:

Fiscal Year Ended June 30	**Principal**	**Interest**	**Total**
2004	$ 2,180,000	$ 978,750	$ 3,158,750
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	15,590,000	$ 3,363,187	$ 18,953,187
Less unamortized discount	119,407		
Bonds payable	15,470,593		
Less amount currently due	2,180,000		
Bonds payable—less current portion	$ 13,290,593		

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 maturities are as follows:

Fiscal Year Ended June 30	Principal	Interest	Total
2004	$ 875,000	$ 1,996,625	$ 2,871,625
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	31,980,000	$15,409,078	$47,389,078
Less unamortized discount	303,457		
Bonds payable	31,676,543		
Less amount currently due	875,000		
Bonds payable—less current portion	$30,801,543		

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.

8. 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 health care 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 health care coverage. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the ORC. In 2003 the employer was required to contribute 13.31% of active member payroll. For full-time employees, the portion of an employee's contribution is equal to 8.5% to be picked up (assumed and paid) on behalf of the employee, and in lieu of payment by the employee, by the Board.

The Board's contributions, representing 100% of employer contributions for the year ended June 30, 2003, and for each of the preceding two years, are as follows:

2003	$ 89,421
2002	64,695
2001	64,387

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 43215-642 or by calling 614-222-6705 or 1-800-222-7377.

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

OPERS provides postretirement health care coverage to age and service retirees with 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care 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 health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2003 employer contribution rate for state employers was 13.31% of covered payroll; 5.00% was the portion that was used to fund health care for the year. These rates are the actuarially determined contribution requirements for OPERS. The portion of the Board's 2003 and 2002 contribution that was used to fund post-employment benefits was $33,591 and $25,997, respectively. The ORC provides the statutory authority requiring public employers to fund postretirement health care through their contributions to OPERS.

The assumptions and calculations below were based on the Retirements System's latest Actuarial Review performed as of December 31, 2002. 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 vestment assumption rate for 2002 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 0.50% to 6.30%. Health care costs were assumed to increase 4.00% annually.

OPEB are advance-funded on an actuarially determined basis. As of December 31, 2002, the actuarial value of the Retirement System's net assets available for OPEB was $10 billion. The number of active contributing participants was 364,881. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were $18.7 billion and $8.7 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 health care. 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 ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-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 health care costs in excess of their monthly health care 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.

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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*

To the Members of
Ohio Petroleum Underground Storage
Tank Release Compensation Board:

We have audited the financial statements of Ohio Petroleum Underground Storage Tank Release Compensation Board (the “Board”) as of and for the years ended June 30, 2003 and 2002, and have issued our report thereon dated November 19, 2005. We conducted our audits 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 audits, 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 assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more for the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

Compliance

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 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 audits and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board’s management and the Ohio Auditor of State and is not intended to be and should not be used by anyone other than those specified parties.

Deloitte + Touche LLP

November 19, 2005

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**PETROLEUM UNDERGROUND STORAGE TANK
RELEASE COMPENSTION BOARD**

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
DECEMBER 27, 2005**