# OHIO PETROLEUM UNDERGROUND STORAGE TANK RELEASE COMPENSATION BOARD

Columbus, Ohio

Financial Statements
and
Supplementary Financial Information
For the years ended June 30, 2006 and 2005

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
P.O. 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, 2005 through June 30, 2006. 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 Storgage Tank Release Compensation Board is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

November 1, 2007

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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 statements of net assets of Ohio Petroleum Underground Storage Tank Release Compensation Board (the Board) as of June 30, 2006 and 2005 and the related statements of revenues, expenses and changes in net assets and 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the 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, the financial statements referred to above present fairly, in all material aspects, the financial position of the Board as of June 30, 2006 and 2005 and the respective changes in net assets and cash flows for the years 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 September 10, 2007 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 audits.

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

Schneider Downs & Co., Inc.

Columbus, Ohio
September 10, 2007

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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, 2006 and 2005. 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, noncapital financing activities, capital and related financing activities, and investing activities. The net result of these activities added to the beginning of the year's cash with custodian balance reconciles to the cash with custodian balance at the end of the current fiscal year.

### Financial Position

The following summarizes the Board's financial position as of June 30, 2006 and 2005:

| | 2006 | 2005 | % Change |
|---|---|---|---|
| ASSETS: | | | |
| Current assets | $ 19,423,417 | $ 18,989,176 | 2.29% |
| Capital assets | 155,581 | 152,572 | 1.97% |
| Other noncurrent assets | 12,418,563 | 12,482,629 | -0.51% |
| Total assets | $ 31,997,561 | $ 31,624,377 | 1.18% |

| LIABILITIES: | 2006 | 2005 | % Change |
|---|---|---|---|
| Current liabilities | $ 26,477,000 | $ 24,403,579 | 8.50% |
| Non-current liabilities | 33,787,835 | 37,452,758 | -9.79% |
| Reserve for unpaid claims | 36,779,630 | 42,047,102 | -12.53% |
| Total liabilities | 97,044,465 | 103,903,439 | -6.60% |
| | | | |
| NET ASSETS: | | | |
| Investment in capital assets, net of related debt | 155,581 | 152,572 | 1.97% |
| Unrestricted net assets (deficiency) | (65,202,485) | (72,431,634) | 9.98% |
| Total net assets | (65,046,904) | (72,279,062) | 10.01% |
| | | | |
| Total liabilities and net assets | $ 31,997,561 | $ 31,624,377 | 1.18% |

**Current assets** increased by approximately $434,200 (2.29%) over last year primarily due to a net increase in unrestricted investments and cash with custodian of approximately $262,700. Fees receivable increased approximately $171,500 over 2005. 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 32% and 10% of fees and penalties, respectively. In 2006, approximately $429,900 was collected in prior year fees and penalties.

**Capital assets** remained relatively the same with an increase of about $3,000 (1.97%). Approximately $57,600 was spent for furniture and data processing equipment; accumulated depreciation increased $54,600. 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 2006, approximately $50,200 was spent on the database design and development. Purchases of miscellaneous pre-packaged software upgrades, computer replacements and new printers totaled about $6,500. An additional $900 was spent on miscellaneous office furniture and equipment, such as wired telephones. No capital assets were salvaged during fiscal year 2006.

There is no related debt on capital assets.

**Current liabilities** increased $2,073,421 due to increases in bonds payable, claims payable and fees received in advance of $235,000, $351,412 and $2,805,614, respectively, and a decrease of $1,351,412 in the current portion of reserve for unpaid claims. The current portion of reserve for unpaid claims represents the amount obligated for the payment of claims in the upcoming fiscal year less claims payable as of June 30, 2006. In determining the amount to obligate, the Board considers the unobligated balance, claims paying experience, and anticipated revenue. In June 2006, the Board obligated $9 million for the payment of claims anticipated to be paid in fiscal year 2007. The amount obligated for the payment of claims in the 2006 fiscal year was $10 million.

**Long-term liabilities** decreased by $8,932,395 (11.24%) as discussed below.

**Bonds payable** decreased by $3,664,923 (9.79%) 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 consists of $5,465,000 in serial bonds with interest rates ranging from 3.875% to 5.25% and maturity dates of August 15, 1994 through August 15, 1997, and term bonds of $24,535,000 with an interest rate of 6.75% and maturing through August 15, 2008. The balance outstanding, net of related discount, as of June 30, 2006 was $5,854,352.

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, 2006 was $27,933,483.

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 $5,267,472 (12.53%) as a result of claim reimbursements being paid at a rate greater than the increase in 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, 2005 to June 30, 2006. The amount of cash paid for claims approximated $9.7 million for fiscal year 2006.

**Net assets** increased $7,232,158 (10.01%) due primarily to the decrease in the reserves for unpaid claims. Total operating income exceeded operating expenses less the change in reserves for unpaid claims by $2,245,091 (19%).

The deficiency in unrestricted net assets includes management's estimate of the current and long-term reserve for unpaid claims of $45,779,630. The remaining deficit in unrestricted net assets has been financed by the proceeds of two revenue bond issuances, as well as fees received in advance of approximately $11,500,000.

## Financial Information

### Revenue

The following schedule presents a summary of revenues for the fiscal years ended June 30, 2006 and 2005.

| | 2006 | 2005 | Increase (Decrease) |
|---|---|---|---|
| Operating Revenues: | | | |
| Tank fees, net of refunds | $ 13,720,669 | $ 12,916,175 | $ 804,494 |
| Other | 326 | 24,347 | (24,021) |
| Non-operating Revenues: | | | |
| Earnings on investments | 884,903 | 524,532 | 360,371 |
| Total revenue | $ 14,605,898 | $ 13,465,054 | $ 1,140,844 |

Total revenue for 2006 increased approximately $1.14 million or about 8.47% from the previous year. This increase is the net result of an increase in operating revenues of $780,473 and an increase of $360,371 in non-operating revenues.

The approximate 6.04% increase in operating revenues is mainly due to an increase in current year fee receipts and a decrease in miscellaneous revenue received from constituents for participation in Board-sponsored informational seminars. Effective July 1, 2005, the Board increased the per-tank fee by $50 to $550 per-tank. Operating revenues in fiscal year 2006 exceeded 2005 operating revenues by about $780,500. In addition, the Board identified approximately $75,230 in fees and penalties that were paid but not due. The Board in partnership with the Bureau of Underground Storage Tank Regulations ("BUSTR") sponsors professional seminars for its constituents, including underground storage tank owners, consultants and contractors. Constituents are charged a fee to cover direct expenses the Board incurs for food, conference room leasing, and printing and copying. During fiscal year 2005, the Board and BUSTR sponsored three seminars. Because comparable seminars were not sponsored in fiscal year 2006, other revenue decreased 98%.

The 68.70% increase in non-operating revenues is a result of increasing State Treasury Asset Reserve of Ohio ("STAR Ohio") interest rates. Interest rates increased from 2.97% at the end of fiscal year 2005 to 4.94% at the end of 2006.

The following schedule presents a summary of expenses for the fiscal years ended June 30, 2006 and 2005:

| | 2006 | 2005 | Increase (Decrease) |
|---|---|---|---|
| Incurred claims and claims adjustment | $ 3,383,545 | $ 4,401,817 | $ (1,018,272) |
| Administration | 1,418,912 | 1,369,192 | 49,720 |
| Depreciation | 54,563 | 141,891 | (87,328) |
| Total operating expenses | $ 4,857,020 | $ 5,912,900 | $ (1,055,880) |

Total operating expenses decreased approximately 17.86% from 2005 mainly due to the change in reserve for unpaid claims as previously discussed. Incurred claims and claims adjustment expenses represents the net result of claims paid expense and the change in reserve for unpaid claims of approximately $10 million and $6.6 million, respectively.

As previously stated, the Board annually obligates funds for the payment of claims in the upcoming fiscal year. In fiscal year 2006, the Board obligated $10 million. Approximately $10,184,085 was issued in claim settlements. Of this amount, $9,651,017 was paid before the end of the fiscal year.

The 3.63% increase in administration costs from 2005 is the net result of increased personnel, postage, and legal and professional costs and decreases in costs related to temporary services and Board-sponsored professional seminars. The Board utilizes temporary personnel during periods of increased workload and to temporarily staff vacated permanent positions. In the second quarter of fiscal year 2005, a staff position that was historically filled with temporary employees was converted to a full-time permanent position, increasing personnel costs and reducing temporary employee expenses in fiscal year 2006 when compared to fiscal year 2005. In addition, full-time permanent personnel received moderate merit-based salary increases during fiscal year 2006.

As previously stated, the Board in partnership with BUSTR periodically sponsors professional seminars for its constituents. Because the Board did not sponsor seminars in fiscal year 2006, administrative expenses decreased approximately $17,200.

Legal and professional expenses increased in fiscal year 2006 for two principal reasons – costs associated with the Board's annual audits and with the collection of accounts receivable. With the implementation of the annual actuarial determination of the Board's loss reserves in the 2003 fiscal year, the Board's annual audits were delayed. The fiscal year 2003 audit was issued in November 2005, and the 2004 and 2005 audits were issued in November 2006. Consequently, legal and professional expenses increased approximately $20,000 in fiscal year 2006 as a result of costs associated with the audits of three fiscal years. The Board periodically certifies delinquent accounts to the Ohio Attorney General's Office for collection. For this service, the Attorney General's Office, Collections Enforcement Section charges a percentage of all monies collected. In fiscal year 2006, these fees approximated $13,500.

Depreciation decreased 61.55% due to over $324,000 of customized computer database-related modules being fully depreciated as of June 30, 2005.

OHIO PETROLEUM UNDERGROUND STORAGE
TANK RELEASE COMPENSATION BOARD

STATEMENTS OF NET ASSETS

| | June 30 2006 | June 30 2005 |
|---|---|---|
| **ASSETS** | | |
| CURRENT ASSETS | | |
| Cash with custodian | $ 9,561,624 | $ 2,868,059 |
| Unrestricted investments | 8,108,225 | 14,539,079 |
| Fees receivable, net of allowance for uncollectible amounts of $6,903,066 and $6,518,472, respectively | 1,753,568 | 1,582,038 |
| Total Current Assets | 19,423,417 | 18,989,176 |
| RESTRICTED INVESTMENTS | 12,074,875 | 12,073,487 |
| DEFERRED BOND ISSUANCE COSTS - Net | 343,688 | 409,142 |
| CAPITAL ASSETS AT COST - Net of accumulated depreciation | 155,581 | 152,572 |
| | $ 31,997,561 | $ 31,624,377 |
| **LIABILITIES AND NET ASSETS (DEFICIENCY)** | | |
| CURRENT LIABILITIES | | |
| Fees received in advance | $ 11,436,239 | $ 8,630,625 |
| Claims payable | 1,285,965 | 934,553 |
| Current portion of reserve for unpaid claims | 7,714,035 | 9,065,447 |
| Bonds payable | 3,720,000 | 3,485,000 |
| Bond interest payable | 912,379 | 998,274 |
| Refundable fees | 1,165,711 | 1,090,481 |
| Accounts payable | 43,266 | 20,354 |
| Accrued liabilities | 199,405 | 178,845 |
| Total Current Liabilities | 26,477,000 | 24,403,579 |
| BONDS PAYABLE - Less current portion | 33,787,835 | 37,452,758 |
| RESERVE FOR UNPAID CLAIMS - Less current portion | 36,779,630 | 42,047,102 |
| NET ASSETS (DEFICIENCY): | | |
| Invested in capital assets, net of related debt | 155,581 | 152,572 |
| Unrestricted net assets (deficiency) | (65,202,485) | (72,431,634) |
| Total Net Assets (Deficiency) | (65,046,904) | (72,279,062) |
| | $ 31,997,561 | $ 31,624,377 |

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, 2006 AND 2005

| | 2006 | 2005 |
|---|---|---|
| OPERATING REVENUES: | | |
| Tank fees, net of refunds | $ 13,720,669 | $ 12,916,175 |
| Other | 326 | 24,347 |
| Total Operating Revenues | 13,720,995 | 12,940,522 |
| OPERATING EXPENSES: | | |
| Incurred claims and claims adjustment | 3,383,545 | 4,401,817 |
| Administration | 1,418,912 | 1,369,192 |
| Depreciation | 54,563 | 141,891 |
| Total Operating Expenses | 4,857,020 | 5,912,900 |
| OPERATING INCOME | 8,863,975 | 7,027,622 |
| NONOPERATING REVENUE (EXPENSE) | | |
| Earnings on investments | 884,903 | 524,532 |
| Interest expense | (2,516,720) | (2,739,275) |
| Total Nonoperating Expense | (1,631,817) | (2,214,743) |
| Net Income | 7,232,158 | 4,812,879 |
| NET ASSETS (DEFICIENCY) - Beginning of year | | |
| Beginning of year | (72,279,062) | (77,091,941) |
| End of year | $ (65,046,904) | $ (72,279,062) |

See notes to financial statements.

OHIO PETROLEUM UNDERGROUND STORAGE
TANK RELEASE COMPENSATION BOARD

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

| | 2006 | 2005 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash received from customers | $ 16,549,040 | $ 11,681,128 |
| Cash paid to employees | (1,006,571) | (974,963) |
| Cash paid to claimants | (9,651,017) | (9,991,862) |
| Cash paid to others | (422,146) | (432,513) |
| Net Cash Provided By Operating Activities | 5,469,306 | 281,790 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| Payment of bond principal | (3,485,000) | (3,260,000) |
| Cash paid for interest | (2,547,538) | (2,767,405) |
| Net Cash Used In Noncapital Financing Activities | (6,032,538) | (6,027,405) |
| CASH FLOWS USED IN CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Purchase of capital assets | (57,572) | (64,538) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Sale of investments | 6,429,466 | 4,625,272 |
| Interest on investments | 884,903 | 524,532 |
| Net Cash Provided By Investing Activities | 7,314,369 | 5,149,804 |
| NET INCREASE (DECREASE) IN CASH WITH CUSTODIAN | 6,693,565 | (660,349) |
| CASH WITH CUSTODIAN | | |
| Beginning of year | 2,868,059 | 3,528,408 |
| End of year | $ 9,561,624 | $ 2,868,059 |

| | 2006 | 2005 |
|---|---|---|
| RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES: | | |
| Operating income | $ 8,863,975 | $ 7,027,622 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation | 54,563 | 141,891 |
| Amortization of bond issue costs | 65,454 | 65,454 |
| Reserves for unpaid claims | (6,618,884) | (5,628,961) |
| Changes in assets and liabilities: | | |
| Fees receivable | (171,530) | (245,550) |
| Fees received in advance | 2,805,614 | (1,260,650) |
| Claims payable | 351,412 | 38,916 |
| Refundable fees | 75,230 | 162,459 |
| Accounts payable and accrued liablities | 43,472 | (19,391) |
| Total Adjustments | (3,394,669) | (6,745,832) |
| Net Cash Provided By Operating Activities | $ 5,469,306 | $ 281,790 |

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

## 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 petroleum releases from 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 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 $16,983,674 and $16,506,644 at June 30, 2006 and 2005, respectively.

Investments - Investments are recorded at fair value in accordance with Governmental Accounting Standards 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 $343,688 at June 30, 2006 and $409,142 at June 30, 2005 are net of accumulated amortization of $638,054 and $572,600, 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 with 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 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 expenses/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. The adoption of GASB Statement No. 45 did not have an impact on the Board's accounting policies; however, it modified the Board's note disclosures for OPEB.

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. The Board has not yet evaluated the impact that the adoption of this Statement will have on its financial statements.

In May 2007, GASB issued Statement No. 50, *Pension Disclosures – An Amendment of GASB Statements No. 25 and No. 27*. This Statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits ("OPEB") and, in doing so, enhances information disclosed in notes to the financial statements or presented as required supplementary information ("RSI") by pension plans and by employers that provide pension benefits. The Board has not yet evaluated the impact that the adoption of this Statement will have on its financial statements.

NOTE 3 - COVERAGE

Petroleum underground storage tank owners/operators must pay a fee each fiscal year as determined by the Board ($550 per tank in 2006 and $500 per tank in 2005). 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 |

NOTE 3 - COVERAGE (Continued)

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.

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 2006 | Year Ended June 2005 |
|---|---|---|
| Unpaid claims and claim adjustment expenses— Beginning of year | $ 52,047,102 | $57,637,147 |
| Incurred claim and claim adjustment expenses: | | |
| Provision for insured events of current year | $ 4,661,487 | $ 2,962,634 |
| (Decrease) Increase in provision for prior years | (1,277,942) | 1,439,183 |
| Total incurred claims and claim adjustment expense | $ 3,383,545 | $ 4,401,817 |
| Claim and claim adjustment payments attributable to insured events of prior years | $ 9,651,017 | $ 9,991,862 |
| Total unpaid claims and claim adjustment expenses— End of year | $ 45,779,630 | $52,047,102 |
| This liability is shown in the balance sheet as follows: | | |
| Claims payable | $ 1,285,965 | $ 934,553 |
| Current portion of reserve for unpaid claims | 7,714,035 | 9,065,447 |
| Reserve for unpaid claims—less current portion | 36,779,630 | 42,047,102 |
| Estimated unpaid liability | $ 45,779,630 | $52,047,102 |

NOTE 3 - COVERAGE (Continued)

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).

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 2006, the estimated Ultimate Face Value grew by approximately $7 million, resulting in an increase in incurred claims and claim adjustment expense of about $3.4 million. The amount of paid loss increased in 2006 by about $9.7 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 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, 2006.

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.

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:

| | 2006 | 2005 |
|---|---|---|
| Carrying amount | $9,561,624 | $2,868,059 |
| Custodial balance | 8,094,574 | 2,583,759 |

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.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of a public depository failure, the Board will be unable to recover the value of deposits. Public depositories must provide security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in addition to 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. The Board is not exposed to custodial credit risk, because the funds are held by the State Treasurers Office.

STAR Ohio investments are not exposed to custodial credit risk, as defined by GASB 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.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater sensitivity of its fair value changes in market interest rates. The Board does not experience interest rate risk on U.S. Treasury notes, money market funds and cash assets. The investments held in STAR Ohio adopt the policies of STAR Ohio by which exposure to fair value losses arising from increasing interest rates by limiting the final stated maturity on any investment to 397 days and limiting the weighted average maturity of the portfolio to 60 days.

NOTE 4 - CASH AND INVESTMENTS (Continued)

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.

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 $686,175 and $900,494 obligated by the Board for the payment of claims at June 30, 2006 and 2005, respectively. Standard & Poor's rating for the STAR Ohio fund is AAAm. STAR Ohio's investment policy requires all securities held by STAR Ohio be rated the equivalent of A-1 + or A-1 and at least 50% of the Total Average Portfolio be rated A-1+ or better. As of June 30, 2006, STAR Ohio's investments in U.S. Agencies were rated AAA by Standard & Poor's and Aaa by Moody's Investor Services.

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:

| | 2006 Fair Value | 2005 Fair Value |
|---|---|---|
| U.S. Treasury notes | $ 6,228,916 | $ 6,173,517 |
| Money Market Funds | 5,845,958 | 87 |
| Cash & Other Assets | 1 | 5,899,883 |
| Total | $ 12,074,875 | $ 12,073,487 |

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.

## NOTE 5 - CAPITAL ASSETS

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

| | Balance June 30, 2005 | Additions | Balance June 30, 2006 |
|---|---|---|---|
| Capital assets: | | | |
| Furniture | $ 96,162 | $ 313 | $ 96,475 |
| Data processing equipment | 647,896 | 57,259 | 705,155 |
| Total capital assets | 744,058 | 57,572 | 801,630 |
| Less accumulated depreciation: | | | |
| Furniture | 71,551 | 9,011 | 80,562 |
| Data processing equipment | 519,935 | 45,552 | 565,487 |
| Total accumulated depreciation | 591,486 | 54,563 | 646,049 |
| Net capital assets | $ 152,572 | $ 3,009 | $ 155,581 |

## NOTE 6 - OPERATING LEASES

The Board leases office space under an operating lease agreement expiring in June 2007. Rent expense for the fiscal years ended June 30, 2006 and 2005 was $87,439 and $87,436, respectively. Future minimum payments for the year ended June 30, 2007 are $95,388. In June 2007, the Board renewed the operating lease agreement. Future minimum payments under the renewed operating lease agreement for each of the years ended June 30, 2008 and 2009 are $99,593.

## NOTE 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.

NOTE 7 - BONDS PAYABLE (Continued)

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** |
|---|---|---|---|
| 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 | 8,580,000 | $ 894,712 | $ 9,474,712 |
| Less unamortized discount | 55,648 | | |
| Bonds payable | 8,524,352 | | |
| Less amount currently due | 2,670,000 | | |
| Bonds payable—less current portion | $ 5,854,352 | | |

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:

NOTE 7 - BONDS PAYABLE (Continued)

| **Fiscal Year Ended June 30** | **Principal** | **Interest** | **Total** |
|---|---|---|---|
| 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 | 29,190,000 | $ 9,585,791 | $38,775,791 |
| Less unamortized discount | 206,517 | | |
| Bonds payable | 28,983,483 | | |
| Less amount currently due | 1,050,000 | | |
| Bonds payable—less current portion | $27,933,483 | | |

Activity for long-term bond obligations for the years ended June 30, 2006 and 2005, is summarized as follows:

| | Balance at 6/30/2004 | Amortization of Bond Discount | Decreases | Balance at 6/30/2005 | Due Within One Year |
|---|---|---|---|---|---|
| Bonds payable | $44,145,798 | $51,960 | $(3,260,000) | $40,937,758 | $3,485,000 |

| | Balance at 6/30/2005 | Amortization of Bond Discount | Decreases | Balance at 6/30/2006 | Due Within One Year |
|---|---|---|---|---|---|
| Bonds payable | $40,937,758 | $55,077 | $(3,485,000) | $37,507,835 | $3,720,000 |

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 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 healthcare benefits to qualifying members of both the TP and CO plans; however, healthcare 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 2006, the employer was required to contribute 13.54% of active member payroll, and employees were required to contribute 9% of their annual covered salary.

The Board's contributions, representing 100% of employer contributions for the year ended June 30, 2006, and for each of the preceding two years, are as follows:

| | |
|---|---|
| 2006 | $ 102,708 |
| 2005 | 94,463 |
| 2004 | 93,366 |

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:

> The postretirement healthcare coverage includes a medical plan, prescription drug program and Medicare Part B premium reimbursement for qualifying members. 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 disability recipients and primary survivor recipients is available. The healthcare coverage provided by the retirement system meets the definition of an Other Post-employment Benefit ("OPEB") as described in GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits other than Pension.* A portion of each contribution to OPERS is set aside for the funding of postretirement healthcare. The ORC provides statutory authority for employer contributions and permits, but does not mandate, OPERS to provide OPEB to its eligible members and beneficiaries. The ORC currently limits the employer contribution to a rate not to exceed 14% of covered payroll. Active members do not make contributions to the OPEB plan. OPERS Post Employment Health Care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). The 2006 and 2005 employer contribution rate for state employers was 13.54% and 13.31% of covered payroll, respectively; 4.5% and 4% was the portion that was used to fund health care for the years ended December 31, 2006 and 2005, respectively. These rates are the actuarially determined contribution requirements for OPERS. The portion of the Board's 2006 and 2005 contribution that was used to fund post-employment benefits was $32,603 and $28,389, respectively.

NOTE 8 - DEFINED BENEFITS (Continued)

The ORC provides the statutory authority requiring public employers to fund postretirement healthcare through their contributions to OPERS. For 2006, member and employer contribution rates were consistent across all three plans.

In September 2004, the OPERS board adopted the Health Care Preservation Plan ("HCPP") with an effective date of January 1, 2007. In addition to the HCPP, OPERS took additional action to improve the solvency of the Health Care Fund in 2005 by creating a separate pool for healthcare assets. As an additional component of the HCPP, member and employer contribution rates increased as of January 1, 2006 and 2007, which will allow additional funds to be allocated to the healthcare plan.

* * * * * *

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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*

Ohio Petroleum Underground Storage
Tank Release Compensation Board
Columbus, Ohio

We have audited the financial statements of the Ohio Petroleum Underground Storage Tank Release Compensation Board ("the Board") as of and for the years ended June 30, 2006 and 2005, and have issued our report thereon dated September 10, 2007. 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 an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation over financial reporting that, in our judgment, could adversely affect the Board's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Responses as Reportable Condition No. 1.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness.

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IGAF WORLDWIDE

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 audits, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards,* and which are described in the accompanying Schedule of Findings and Responses as Reportable Condition No. 2.

This report is intended solely for the information and use of 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
September 10, 2007

**OHIO PETROLEUM UNDERGROUND STORAGE**

**TANK RELEASE COMPENSATION BOARD**

Schedule of Findings and Responses

June 30, 2006 and 2005

**Internal Control Over Financial Reporting**

Reportable Condition No. 1, Internal Accounting System and Timely Financial Reporting

*Criteria*: Complete underlying accounting data is critical to allow for accurate and timely financial reporting.

*Condition*: During the period under audit, Ohio Petroleum Underground Storage Tank Release Compensation Board ("the Board") did not have adequate resources available to allow for the timely monitoring of accounts receivable and preparation of the actuarial analysis of claims sufficient to prepare timely financial statements.

*Effect*: As of the year ended June 30, 2006, management was unable to produce a complete set of financial statements, which included the actuarial information that would have allowed for completion of the financial statement audit within statutory due dates.

*Recommendation:* We recommend that a system be implemented that allows for the timely completion and recording of the reserve for unpaid claims liability. This can be accomplished by allocating sufficient internal resources or obtaining the services of an independent consultant. Monitoring of work by independent consultants is critical in maintaining the integrity of data used for internal reporting purposes. We also recommend that a system be developed that allows for the maintenance of detailed accounts receivable ledgers sufficient to monitor the aging of individual receivable balances and assist in the analysis of potentially uncollectible accounts.

Management Response:

Recording of the Reserve for Unpaid Claims Liability

Two factors have contributed to the delayed release of the Board's audited financial statements. The first being a change in the way the Board estimates and presents its claims liability and the second, a change in the Board's independent auditors.

During the 2001 fiscal year audit, the Board was made aware of a requirement to prepare an actuarial estimate of its long-term claims liability. In response to this requirement, the Board elected to retain a third party to perform the first year's analysis and estimate. In subsequent periods, the Board elected to perform this study in-house using current staff. In addition, based on potential changes in the assumptions, the Board would periodically contract with an independent firm to review both the assumptions and methodology and calculate the estimate.

In October 2002, the Board contracted with an independent firm, PricewaterhouseCoopers LLP ("PwC"), to assess and estimate its reserve for unpaid claims liability at June 30, 1999, 2000, 2001 and 2002. PwC released its findings in August 2003. Using the methodology developed by PwC, the Board's in-house staff prepared the estimate of its claims liability for the years ended June 30, 2003 through June 30, 2006. To perform the study in-house, resources, including the acquisition of and familiarization with actuarial software, had to be allocated to the project and this resulted in a delay of the 2003 fiscal year audit.

With the release of the 2003 fiscal year audited financial statements in November 2005, the Board, in agreement with its then-current auditors, elected an early termination of its auditing contract. As a result, the Board issued a Request for Proposals for auditing services, reviewed responses to the request, and in March 2006, entered into a contract with its current auditors, Schneider Downs, to perform the 2004 through 2008 audits. Having contracted with Schneider Downs, the audits for the years ended June 30, 2004 and 2005 were released in November 2006. In July 2007, the Board again contracted with an independent firm, Pinnacle Actuarial Resources, Inc. ("Pinnacle), to perform a review of management's assumptions and estimate its unpaid claims liability for the year ended June 30, 2007.

Implementing the study of the Board's long-term claims liability and selecting an auditing firm resulted in the delayed release of audited financial statements. However, the Board has made measurable progress and has implemented procedures to ensure a more timely estimate of its reserve for unpaid claims liability and thereby, ensure that once up to date, audited statements will be timely released. Management anticipates that Pinnacle will present its final report to the Board of Directors at the November 2007 quarterly meeting. In addition, the Board's staff and its auditors are committed to the timely issuance of the audited financial statements for the year ended June 30, 2007.

Accounts Receivable

The Board currently 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. During the 2006 audit, management consulted with its auditors to discuss alternative ways to estimate the Board's allowance for uncollectible amounts. As a result of those discussions, management is reviewing and anticipates minor changes in the Board's current database system ledgers and internal procedures utilized in monitoring the aging of individual accounts receivable balances. It is management's intent to complete these changes and to again consider alternative methodologies for reasonably estimating allowances for uncollectible amounts during the 2008 fiscal year. Whether a new methodology is ultimately adopted will be based on a cost-benefit analysis of available resources and the affect on the Board's financial position.

**Compliance and Other Matters**

Reportable Condition No. 2, Abuse by Senior Manager

*Criteria*: Organizations such as the Board are expected to demonstrate an inherent responsibility to promote ethical conduct among all of its employees. Senior management holds an important role in organizational governance. Accordingly, it is imperative that such individuals act with honesty, integrity and responsibility.

*Condition*: The Board's executive director inappropriately used his state-owned computer and other state resources.

*Effect*: This individual was directly responsible for activity indicative of someone who is pursuing interests for purposes other than work-related matters and for personal gain related to a business. His actions resulted in direct violations of the State's IT policies.

Management Response:

The Ohio Inspector General's Office conducted an investigation into anonymous complaints alleging that the Executive Director was working on a movie using his state computer and other state resources during state time. As a result of the investigation, in its June 8, 2007 report, the OIG made four recommendations:

1. That the Board consider all the findings of the report and take appropriate action regarding the Executive Director.

2. That the Board chair or his designee establish a process to review and approve all leave requests and time sheets for the Executive Director.

3. That the Board develop a mandatory training session for new Executive Directors and Board employees.

4. That the Board establish a written policy to address personal use of IT resources, and include this policy in the Employee Handbook.

At its June 13, 2007 meeting, the Board voted unanimously to immediately terminate the Executive Director's employment. In addition, as recommended by the OIG, the Board established a process to review and approve all leave requests and time sheets for the Executive Director position; developed a mandatory training session for new Executive Directors and employees to include Department of Administrative Services' directives and policies, ethics for state employees, and executive orders; and established a written policy addressing personal use of IT resources, including email, Internet, computers and software.

The Inspector General's full report and the Board's response to that report may be obtained from the OIG website at http://watchdog.ohio.gov.

Mary Taylor, CPA
Auditor of State

**OHIO PETROLEUM UNDERGROUND STORAGE TANK RELEASE COMPENSATION 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**
**NOVEMBER 13, 2007**

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