OHIO PETROLEUM UNDERGROUND STORAGE
TANK RELEASE COMPENSATION BOARD
Columbus, Ohio

Financial Statements
and
Supplementary Financial Information
For the years ended June 30, 2012 and 2011

and Independent Auditors' Report Thereon

SCHNEIDER DOWNS

INSIGHT ■ INNOVATION ■ EXPERIENCE

www.schneiderdowns.com

Dave Yost · Auditor of State

Ohio Petroleum Underground Storage
Tank Release Compensation Board
50 West Broad Street
P. O. Box 163188
Columbus, Ohio 43216-3188

We have reviewed the *Independent Auditors' 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, 2011 through June 30, 2012. 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.

Dave Yost

Dave Yost
Auditor of State

February 27, 2013

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INDEPENDENT AUDITORS' REPORT

Ohio Petroleum Underground Storage
Tank Release Compensation Board
Columbus, Ohio

We have audited the accompanying statements of net deficit of Ohio Petroleum Underground Storage Tank Release Compensation Board (the Board) as of June 30, 2012 and 2011 and the related statements of revenues, expenses and changes in net deficit 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 respects, the financial position of the Board as of June 30, 2012 and 2011 and the respective changes in net deficit 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 December 27, 2012 on our consideration of the Board's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Schneider Downs & Co., Inc.
www.schneiderdowns.com
PrimeGlobal

1133 Penn Avenue
Pittsburgh, PA 15222-4205
TEL 412.261.3644
FAX 412.261.4876

41 S. High Street
Suite 2100
Columbus, OH 43215-6102
TEL 614.621.4060
FAX 614.621.4062

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on Pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to this required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge that we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Schneider Downs & Co., Inc.

Columbus, Ohio
December 27, 2012

OHIO PETROLEUM UNDERGROUND STORAGE
TANK RELEASE COMPENSATION BOARD

Management's Discussion and Analysis
For the Years ended June 30, 2012 and 2011

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, 2012 and 2011. 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 (Financial Assurance 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 statements of net deficit, statements of revenues, expenses and changes in net deficit, and statements of cash flows. These are followed by notes to the financial statements.

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

The Statements of Revenues, Expenses and Changes in Net Deficit report 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 deficit for the fiscal year.

The Statements of Cash Flows report 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 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, 2012, 2011 and 2010:

	2012	2011	2010
ASSETS:			
Current assets	$ 21,887,900	$ 15,431,103	$ 19,946,667
Capital assets	76,136	92,181	114,481
Other noncurrent assets	-	-	12,189,444
Total Assets	$ 21,964,036	$ 15,523,284	$ 32,250,592
LIABILITIES:			
Current liabilities	$ 22,507,098	$ 22,265,842	$ 26,680,331
Noncurrent liabilities	-	-	16,411,932
Reserve for unpaid claims - noncurrent	20,846,518	23,091,516	29,727,028
Total Liabilities	$ 43,353,616	$ 45,357,358	$ 72,819,291

		2012		2011		2010
NET ASSETS (DEFICIT):						
Investment in capital assets	$	76,136	$	92,181	$	114,481
Unrestricted net deficit		(21,465,716)		(29,926,255)		(40,683,180)
Total Net Assets		(21,389,580)		(29,834,074)		(40,568,699)
Total Liabilities And Net Assets	$	21,964,036	$	15,523,284	$	32,250,592

Current assets increased by approximately $6,457,000 (41.84%) from last year primarily due to increases in investments and cash with custodian, and a decrease in accounts receivable of approximately $5,491,000, $1,138,000, and $166,000 respectively.

Investments increased by approximately $5,491,000 (48.40%) from the prior year. The increase in investments over the prior year is attributed to Fund revenues exceeding claim payments and administrative costs. The Board used approximately $9,900,000 of unobligated investments to retire the Series B bonds on August 15, 2010.

Fees receivable, net of allowance for uncollectible amounts, decreased by approximately $166,000 (10.46%) from the prior year. A detailed review of each receivable was undertaken and based on information available as of June 30, 2012 accounts were separated into six categories, each with an assigned probability of collection. The estimated collectible amount was then determined by applying the assumed probability of collection percentage to each category. The collectible amount of the largest category of outstanding fees is calculated using percentages based on the per-tank fee and late fee payments received for delinquent accounts certified to the State of Ohio Attorney General's Office, Collections Enforcement for collection. Historically, the Attorney General's Office has collected 15.45%, 4.93% and 4.55% of fees certified within one, two and three years of the date of certification, respectively. Late payment fees have been collected by the Attorney General's Office at rates of 6.12%, 2.36% and 1.43% within one, two, and three years of the date of certification, respectively.

The allowance for uncollectible amounts was approximately $4,961,000 and $5,627,000 for fiscal years 2012 and 2011, respectively. The $666,000 decrease in the allowance for uncollectible amounts is primarily attributable to the aging of accounts certified to the Attorney General's Office for collection and the write-off of the receivable and allowance for uncollectible amounts for those accounts outstanding more than three years from the date of certification.

Collateral on loaned securities decreased by approximately $5,700 (64.74%) from the prior year due to a decrease in cash equity held by the Treasurer of State.

Capital assets decreased by approximately $16,000 (17.41%). Approximately $14,700 was spent for data processing equipment, and accumulated depreciation increased $30,700. In fiscal year 2012, approximately $11,100 was spent on computer replacements and $3,600 was spent on the design and development of the ability to pay tracking module within the Statistical Tank and Reimbursement Records System database.

There is no related debt on capital assets.

Other noncurrent assets represented restricted investments held by the bond trustee for the payment of revenue bond interest and principal. Bond covenants required this account to be funded on or before July 1 with the current and ensuing years' anticipated debt service. Due to the retirement of the Series B bonds on August 15, 2010, this debt service account was last funded on June 30, 2010.

Current liabilities increased by $241,000 (1.08%) primarily due to an increase in fees received in advance of $407,000, and decreases in refundable fees payable and accounts payable of $150,400, and $20,400, respectively.

Fees received in advance increased approximately 3.73%. This increase is primarily attributed to a few midsize owners and marketers remitting the annual fees prior to June 30 in fiscal year 2012, but subsequent to June 30 in fiscal year 2011.

Refundable fees decreased approximately 7.33%. The decrease is attributable to a reallocation of staff resources that resulted in an increase in the amount of refunds paid over the prior year of approximately $158,000.

Accounts payable decreased by approximately 27.25%. This is primarily attributed to a decrease from the prior year in the amount payable to the State of Ohio Attorney General's Office, Collections Enforcement for fees charged to the Board for the collection of delinquent accounts.

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, 2012. In determining the amount to obligate, the Board considers the unobligated balance, claims paying experience and anticipated revenue. The Board obligated $9,000,000 for the payment of claims anticipated to be paid in each of the 2011 and 2012 fiscal years. Consequently, current liabilities were not affected by the change in reserves for unpaid claims.

Reserve for unpaid claims decreased by approximately $2,245,000 (9.72%) as a result of claim reimbursements being paid at a rate greater than the increase in ultimate estimated loss. Ultimate estimated loss is an estimate of the amount the Financial Assurance 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 $4,814,000 from June 30, 2011 to June 30, 2012; fiscal year 2012 claim payments were approximately $7,059,000. Additional discussion regarding the reserve for unpaid claims can be found in Note 3 to the financial statements. The Board issues a stand-alone report, titled "Estimated Unpaid Claims Liability as of June 30, 2012" that represents the analysis of the loss reserves. It is available on the Board's website at www.petroboard.org, or may be obtained by writing to the Board at P.O. Box 163188, Columbus, Ohio, 43216-3188 or by calling 614-752-8963.

Total net deficit decreased approximately $8,444,000 (28.30%) due primarily to operating net revenues exceeding net expenses during fiscal year 2012.

The unrestricted net deficit includes management's estimate of the current and long-term reserve for unpaid claims of approximately $29,847,000.

OHIO PETROLEUM UNDERGROUND STORAGE
TANK RELEASE COMPENSATION BOARD

Management's Discussion and Analysis
For the Years ended June 30, 2012 and 2011

Financial Information

Revenue

The following schedule presents a summary of revenues for the fiscal years ended June 30, 2012, 2011 and 2010:

	2012	2011	2010
Operating Revenues:			
Tank fees	$ 14,143,883	$ 14,215,995	$ 14,911,613
Recovery of bad debt	382,336	169,147	180,444
Other	341	1,329	502
	14,526,560	14,386,471	15,092,559
Nonoperating Revenues:			
Other income	-	-	110,127
Earnings on investments	9,886	17,517	60,998
	9,886	17,517	171,125
Total Revenue	$ 14,536,446	$ 14,403,988	$ 15,263,684

Total revenue for 2012 increased approximately $132,000 (0.92%) from the previous year. This increase is the net result of increases in operating revenues of approximately $140,000 and a decrease in and nonoperating revenues of approximately $7,600.

The 0.97% increase in operating revenues is the net result of an increase in the recovery of fees previously determined uncollectible and a decrease in the tank fees collected for the current and prior fiscal years. For 2012, the Board maintained its fee structure of $600 per-tank for the standard $55,000 deductible and $800 per-tank for the reduced $11,000 deductible.

The 43.56% decrease in non-operating revenues is due to a decrease in earnings on investments of approximately $7,600.

Earnings on investments decreased 43.56% due to a decrease in the State Treasury Asset Reserve of Ohio (STAR Ohio) interest rates and a decrease in the funds available for investment due to the use of the Debt Service Fund for the retirement of the Series B bonds in August 2010. The average monthly STAR Ohio yield decreased from 0.11% in fiscal year 2011 to 0.05% in fiscal year 2012. During its January 11, 2012 meeting, the Finance Committee of the Board met with a representative of the Treasurer of State's office to discuss its investment options. The Board anticipates allocating a portion of its unobligated funds to investments providing increased returns in fiscal year 2013.

OHIO PETROLEUM UNDERGROUND STORAGE
TANK RELEASE COMPENSATION BOARD

Management's Discussion and Analysis
For the Years ended June 30, 2012 and 2011

The following schedule presents a summary of expenses for the fiscal years ended June 30, 2012, 2011 and 2010:

	2012	2011	2010
Incurred claims and claims adjustment	$ 4,459,000	$ 1,667,900	$ 4,836,170
Administration	1,602,215	1,716,131	1,474,590
Depreciation	30,737	52,530	54,831
Total Operating Expenses	$ 6,091,952	$ 3,436,561	$ 6,365,591

Total operating expenses increased approximately $2,655,000 from 2011 (77.27%) due to an increase in the incurred claims and claims adjustment expense of approximately $2,791,000, and decreases in administration and depreciation expenses of approximately $114,000, and $22,000, respectively.

Incurred claims and claims adjustment expense increased 167.34% from the prior year. For fiscal year 2012, incurred claims and claims adjustment expenses represent the incurred claims and claims adjustment expense and the increase in the change in reserve for unpaid claims of approximately $2,840,000 and $1,974,000, respectively. In addition, netted in incurred claims and claims adjustment expense is $355,000 received for the settlement of a subrogation claim. A third-party contractor caused a release of petroleum at a Fund eligible UST site. In May 2012, the Board approved a settlement with the third party and its insurer, totaling $355,000. As of June 30, 2012, the Fund has reimbursed the responsible person $259,000 for corrective action costs to investigate and remediate the subject release. Corrective action is ongoing at the site and additional reimbursement from the Fund is anticipated. For fiscal year 2011, the expense was approximately $2,604,000 and the change in reserve for unpaid claims decreased by approximately $936,000.

As previously stated, the Board annually obligates funds for the payment of claims in the upcoming fiscal year. For fiscal year 2012, the Board obligated $9,000,000. Claim settlement determinations issued for fiscal years 2012 and 2011 were approximately $7,004,000 and $7,041,000, respectively. Claimants are provided a 30-day period in which to object to the claim settlement determination. If an objection is not received, payment is issued to the claimant within 45 days of the date of the determination. Claim payments made during 2012 totaled $7,059,000.

Administration costs decreased 6.64% from fiscal year 2011. This change is the net result of decreases in legal and professional and amortized bond issue costs, and an increase in salary expense from the previous year. Legal and professional expenses decreased approximately $39,000 (14.88%) in fiscal year 2012 for several reasons. In fiscal year 2011, the Board contracted with a professional actuary to assist with the estimate of the loss reserves for the year ended June 30, 2010; similar services during the 2012 fiscal year were not required. In addition, fewer administrative appeals were held during the 2012 fiscal year, resulting in a decrease in the costs for the services of a hearing officer. Amortized bond issue costs decreased $128,000 from the prior year due to the amortization of the remaining bond issue costs upon the retirement of the Series B revenue bond in August 2010. Salaries expense increased $54,400 (4.87%) due to increases in health care costs, a one-time 32-hour pay supplement provided to all state employees as agreed in the OSCEA contract in effect for the 2010 through 2011 fiscal years, and an average 3% merit increase awarded to the Board's staff in January 2012. Merit increases were last provided to the staff in July 2008.

Depreciation decreased 41.49% due to older capital assets being fully depreciated.

OHIO PETROLEUM UNDERGROUND STORAGE
TANK RELEASE COMPENSATION BOARD

STATEMENTS OF NET DEFICIT

	June 30	
	2012	2011
CURRENT ASSETS		
Cash with custodian	$ 3,528,061	$ 2,390,397
Linked deposit	100,000	100,000
Unrestricted investments	16,835,156	11,344,351
Collateral on loaned securities	3,099	8,789
Fees receivable, net of allowance for uncollectible amounts of $4,961,078 and $5,626,792, respectively	1,421,584	1,587,566
Total Current Assets	21,887,900	15,431,103
CAPITAL ASSETS AT COST - Net of accumulated depreciation	76,136	92,181
	$ 21,964,036	$ 15,523,284
CURRENT LIABILITIES		
Fees received in advance	$ 11,324,700	$ 10,917,448
Claims payable	661,591	558,544
Current portion of reserve for unpaid claims	8,338,409	8,441,456
Refundable fees	1,901,915	2,052,324
Accounts payable	54,517	74,938
Accrued liabilities	222,867	212,343
Obligations under loaned securities	3,099	8,789
Total Current Liabilities	22,507,098	22,265,842
RESERVE FOR UNPAID CLAIMS - Less current portion	20,846,518	23,091,516
Total Liabilities	43,353,616	45,357,358
NET ASSETS (DEFICIT)		
Invested in capital assets, net of related debt	76,136	92,181
Unrestricted net deficit	(21,465,716)	(29,926,255)
Total Net Deficit	(21,389,580)	(29,834,074)
	$ 21,964,036	$ 15,523,284

See notes to financial statements.

OHIO PETROLEUM UNDERGROUND STORAGE
TANK RELEASE COMPENSATION BOARD

STATEMENTS OF REVENUES, EXPENSES AND CHANGE IN NET DEFICIT
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
OPERATING REVENUES		
Tank fees, net of refunds	$ 14,143,883	$ 14,215,995
Recovery of bad debt	382,336	169,147
Other	341	1,329
Total Operating Revenues	14,526,560	14,386,471
OPERATING EXPENSES		
Incurred claims and claims adjustment	4,459,000	1,667,900
Administration	1,602,215	1,716,131
Depreciation	30,737	52,530
Total Operating Expenses	6,091,952	3,436,561
OPERATING INCOME	8,434,608	10,949,910
NONOPERATING INCOME (EXPENSE)		
Earnings on investments	9,886	17,517
Interest expense	-	(232,802)
Total Nonoperating Income (Expense)	9,886	(215,285)
Net Income	8,444,494	10,734,625
NET DEFICIT		
Beginning of year	(29,834,074)	(40,568,699)
End of year	$ (21,389,580)	$ (29,834,074)

See notes to financial statements.

OHIO PETROLEUM UNDERGROUND STORAGE
TANK RELEASE COMPENSATION BOARD

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$ 15,321,468	$ 14,837,669
Cash paid to employees	(1,161,356)	(1,089,229)
Cash paid to claimants	(6,703,998)	(7,303,412)
Cash paid to others	(822,839)	(652,059)
Net Cash Provided By Operating Activities	6,633,275	5,792,969
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Payment of bond principal	-	(21,300,000)
Cash paid for interest	-	(678,938)
Net Cash Used In Noncapital Financing Activities	-	(21,978,938)
CASH FLOWS USED IN CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(14,692)	(30,230)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(22,936,148)	(50,101,263)
Sale of investments	17,345,343	53,629,125
Investments matured	100,000	12,030,195
Interest on investments	9,886	17,517
Net Cash (Used In) Provided By Investing Activities	(5,480,919)	15,575,574
NET INCREASE (DECREASE) IN CASH WITH CUSTODIAN	1,137,664	(640,625)
CASH WITH CUSTODIAN		
Beginning of year	2,390,397	3,031,022
End of year	$ 3,528,061	$ 2,390,397

	2012	2011
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating Income	$ 8,434,608	$ 10,949,910
Adjustments to reconcile increase in net assets from operations to net cash provided by operating activities:		
Depreciation	30,737	52,530
Allowance for uncollectible accounts	(665,714)	265,928
Amortization of bond issue costs	-	127,850
Reserves for unpaid claims	(2,348,045)	(5,457,950)
Changes in assets and liabilities:		
Fees receivable	831,696	65,140
Insurance claim receivable	-	34,191
Fees received in advance	407,252	(252,602)
Claims payable	103,047	(177,562)
Refundable fees	(150,409)	130,975
Accounts payable and accrued liabilities	(9,897)	54,559
	(1,801,333)	(5,156,941)
Net Cash Provided By Operating Activities	$ 6,633,275	$ 5,792,969

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

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 in response to USEPA Resource Conservation and Recovery Act Subtitle I regulations, which require responsible persons to demonstrate financial responsibility for paying the costs of corrective action resulting from accidental releases of petroleum resulting from the operation of underground storage tanks. 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.

The Board may issue revenue bonds, payable solely from its revenues, for the purpose of funding the Financial Assurance Fund (the Fund). The Act created the Fund to reimburse responsible persons for the costs of corrective actions and third-party compensation for bodily injury or property damage resulting from releases of petroleum from underground storage tanks. Pursuant to the Act, the Board may determine the amount of payment or reimbursement to responsible persons.

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.

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

A summary of significant accounting policies consistently applied by management in the preparation of the accompanying financial statements follows:

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.

Operating revenues and expenses generally result from providing services in connection with ongoing operations. Operating revenues are primarily derived from tank fees. Operating expenses include the costs of claims and related administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Governmental Accounting Standard Board (GASB) guidance as applicable to proprietary funds and is required to apply FASB Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements. As permitted by Generally Accepted Accounting Standards, the Board has elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

Use of 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.

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 $18,421,706 and $12,710,377 at June 30, 2012 and 2011, respectively.

Investments - Investments are recorded at fair value in accordance with 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 life of 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 were capitalized by the Board and amortized using the effective interest method over the term of the issuance (15 years). During the year ended June 30, 2011, the Board paid off the bonds and expensed all remaining bond issuance costs.

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 present value. Assumptions include the estimate of IBNR claims, the Board's payment experience, the eligibility approval rate and third-party claims.

Accounting Pronouncements - The GASB has recently issued the following new accounting pronouncements that will be effective in future years and may be relevant to the Board:

- GASB No. 61, "The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34"
- GASB No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position"
- GASB No. 65, "Items Previously Reported as Assets and Liabilities"
- GASB No. 66, "Technical Corrections - 2012 - an amendment of GASB Statements No. 10 and No. 62"
- GASB No. 68, "Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27"

Management has not yet determined the impact that these new GASB Pronouncements will have on the Board's financial statements.

Reclassifications - Certain prior-year amounts have been reclassified to conform with the current year's presentation.

NOTE 3 - COVERAGE

Petroleum underground storage tank owners/operators must pay a fee each fiscal year as determined by the Board ($600 per tank in 2012 and 2011). 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 fee per tank ($200 in 2012 and 2011). 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 the solvency of the fund based on projected revenues, administrative expenses and claim payment obligations. 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 covered 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 of the Board during the past two years:

	Year Ended June 2012	Year Ended June 2011
Unpaid claims and claim adjustment expenses- Beginning of year	$ 32,091,516	$ 37,727,028
Incurred claim and claim adjustment expenses:		
Provision for insured events of current year	2,839,800	2,603,500
Change in provision for prior years	1,974,200	(935,600)
Total Incurred Claims and Claim Adjustment Expense	4,814,000	1,667,900
Claim and claim adjustment payments attributable to Insured events of prior years	(7,058,998)	(7,303,412)
Total Unpaid Claims and Claim Adjustment Expenses- End of year	$ 29,846,518	$ 32,091,516

This liability is shown in the statement of net deficit as follows:

Claims payable	$ 661,591	$ 558,544
Current portion of reserve for unpaid claims	8,338,409	8,441,456
Reserve for unpaid claims-less current portion	20,846,518	23,091,516
Estimated Unpaid Liability	$ 29,846,518	$ 32,091,516

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

i. Estimated ultimate losses on newly reported claims (increases the liability);
ii. Changes in the estimated ultimate losses on previously reported claims (may increase or decrease the liability);
iii. Changes in the estimated ultimate losses on unreported claims (may increase or decrease the liability);
iv. Claim reimbursement payments (decreases the liability).

NOTE 3 - COVERAGE (Continued)

The amounts that the Fund will ultimately pay (items i, ii and iii) are measured, in part, by the reported gross claim face values adjusted for non-reimbursable and undocumented costs and deductible amounts. In fiscal year 2012, the reported gross face value increased by approximately $12,520,100 and the estimated ultimate face value increased by approximately $14,497,000.

NOTE 4 - CASH AND INVESTMENTS

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

STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the Securities and Exchange Commission as an investment company, but does operate in a manner similar to Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2012. The value of the STAR Ohio investments was approximately $16,835,000 and $11,344,000 as of June 30, 2012 and 2011, respectively.

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 1-800-228-1102.

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:

	2012	2011
Carrying amount	$ 3,528,061	$ 2,390,397
Custodial balance	3,492,061	1,715,225

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.

NOTE 4 - CASH AND INVESTMENTS (Continued)

Linked Deposits - The Act authorizes the Board to place certificates of deposit with financial institutions at interest rates below current market rates. 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.

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 102% 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 Treasurer's Office.

STAR Ohio investments are not exposed to custodial credit risk, as defined by Statement No. 40. Securities in STAR Ohio are either insured, registered or held by STAR Ohio or by its agent in the name of STAR Ohio. Also as stated in GASB Statement No. 40, obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality.

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 to 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 limit 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.

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.

NOTE 4 - CASH AND INVESTMENTS (Continued)

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 $1,941,493 and $1,024,296 obligated by the Board for the payment of claims at June 30, 2012 and 2011, 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, 2012, STAR Ohio's investments in U.S. Agencies were rated AAA by Standard & Poor's and AAAm by Moody's Investor Services. Obligations of the U.S. Government are explicitly guaranteed by the U.S. Government and are not considered to have credit risk.

Securities Lending - As of June 30, 2012 and 2011, the Board had no securities out on loan. The Board has been allocated with cash collateral of $3,099 and $8,789 for fiscal years 2012 and 2011, respectively, from the securities lending program administered through the Treasurer of State's Office based on the amount of cash equity with the State's common cash and investment account.

NOTE 5 - CAPITAL ASSETS

A summary of the changes in capital assets for the years ended June 30, 2011 and 2012 follows:

	Balance June 30, 2010	Additions	Disposals/ Deletion	Balance June 30, 2011	Additions	Disposals/ Deletion	Balance June 30, 2012
Capital assets:							
Furniture	$ 99,018	$ 5,459	$ (2,592)	$ 101,885	-		$ 101,885
Data processing equipment	813,807	24,771	(9,102)	829,476	$ 14,692		844,168
Total Capital Assets	912,825	30,230	(11,694)	931,361	14,692		946,053
Less accumulated depreciation							
Furniture	97,094	1,588	(2,592)	96,090	1,679	-	97,769
Data processing equipment	701,250	50,942	(9,102)	743,090	29,058		772,148
Total Accumulated Depreciation	798,344	52,530	(11,694)	839,180	30,737	-	869,917
Net Capital Assets	$ 114,481	$ (22,300)	-	$ 92,181	$ (16,045)	-	$ 76,136

NOTE 6 - OPERATING LEASES

The Board leases office space under an operating lease agreement expiring in fiscal year 2013. Rent expense for the fiscal years ended June 30, 2012 and 2011 was $109,000 and $104,000, respectively. Future minimum payments under the renewed operating lease agreement for the year ended June 30, 2013 are $109,000.

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.

In July 1993, the Board issued term revenue bonds with an interest rate of 6.75%. The bonds issued July 1993 matured on August 15, 2008.

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:

There was no activity for long-term bond obligations during the fiscal year ended June 30, 2012. Activity for long-term bond obligations for the year ended June 30, 2011 is summarized as follows:

	Balance at 6/30/2010	Amortization of Bond Discount	Payments	Balance at 6/30/2011	Due Within One Year
Bonds Payable	$ 21,236,932	$ 63,068	$ (21,300,000)	-	-

At its June 9, 2010 meeting, the Board voted to retire all outstanding Series B bonds in August 2010. Accordingly, the remaining Series B bonds, totaling $21,300,000, were retired on August 15, 2010 using approximately $12,100,000 in investments restricted at June 30, 2010 for the payment of debt service and the remaining amount from unobligated and unrestricted funds. Early retirement of the bonds resulted in a $2,100,000 savings in interest costs that would have been paid if the bonds have fully matured as scheduled on August 15, 2013.

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 death benefits, and annual cost-of-living adjustments to qualifying members of both the TP and CO plans. 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 in accordance with Chapter 145 of the Ohio Revised Code (ORC). For the years ended December 31, 2012 and 2011, the employee contribution rate was 10%, and the employer contribution rate was 14% of covered payroll.

The Board's contributions, representing 100% of employer contributions for the year ended June 30, 2012, and for each of the preceding two years, are as follows:

Year Ended June 30		Amount
2012	$	115,996
2011		106,954
2010		101,002

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 614-222-5601 or 1-800-222-7377.

NOTE 8 - DEFINED BENEFITS (Continued)

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

The post-retirement healthcare coverage includes a medical plan, prescription drug program and Medicare Part B premium reimbursement for qualifying members. In order to qualify for post-retirement 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.*" OPEB are advance funded on an actuarially determined basis. 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 portion of the employer's contribution to OPERS set aside for the funding of OPEB for members in the traditional and combined plans were 4% and 6.05% respectively for the period January 1, 2011 through December 31, 2011. This is compared to 5.5% and 4.73% for the period January 1 through February 28, 2010 for the traditional and combined plans respectively, and 5.0% and 4.23% for the period of March 1, 2010 through December 31, 2010 for the traditional and combined plans respectively. These rates are the actuarially determined contribution requirements for OPERS. The portion of the Board's 2012 and 2011 contribution that was used to fund post-employment benefits was $33,140 and $38,193, respectively. The ORC provides the statutory authority requiring public employers to fund post-retirement healthcare through their contributions to OPERS.

NOTE 9 - CONTINGENCIES

The Board is involved in various claims and legal proceedings arising from the normal course of business. While the ultimate liability, if any, from these proceedings is presently indeterminable, in the opinion of management, these matters should not have a material adverse effect on the Board's financial statements.

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SUPPLEMENTARY FINANCIAL INFORMATION

SCHNEIDER DOWNS

INSIGHT ▪ INNOVATION ▪ EXPERIENCE

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 year ended June 30, 2012, and have issued our report thereon dated December 27, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Board's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Schneider Downs & Co., Inc.
www.schneiderdowns.com
PrimeGlobal

1133 Penn Avenue
Pittsburgh, PA 15222-4205
TEL 412.261.3644
FAX 412.261.4876

41 S. High Street
Suite 2100
Columbus, OH 43215-6102
TEL 614.621.4060
FAX 614.621.4062

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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
December 27, 2012

Dave Yost • 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
MARCH 12, 2013

88 East Broad Street, Fourth Floor, Columbus, Ohio 43215-3506
Phone: 614-466-4514 or 800-282-0370 Fax: 614-466-4490
www.ohioauditor.gov