OHIO PETROLEUM UNDERGROUND STORAGE TANK RELEASE COMPENSATION BOARD

Columbus, Ohio

Financial Statements
and
Supplementary Financial Information
For the years ended June 30, 2007 and 2006

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
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, 2006 through June 30, 2007. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

March 4, 2008

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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 assets of Ohio Petroleum Underground Storage Tank Release Compensation Board (the Board) as of June 30, 2007 and 2006 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, 2007 and 2006 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 January 10, 2008 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
January 10, 2008

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OHIO PETROLEUM UNDERGROUND STORAGE
TANK RELEASE COMPENSATION BOARD
Management's Discussion & Analysis
For the Years Ended June 30, 2007 and 2006
(UNAUDITED)

The following Management's Discussion and Analysis ("MD&A") section of the Ohio Petroleum Underground Storage Tank Release Compensation Board's (the "Board") financial report represents a discussion and analysis of the Board's financial performance during the fiscal years ended June 30, 2007 and 2006. 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, 2007 and 2006:

	2007	2006	% Change
ASSETS:			
Current assets	$ 24,283,172	$ 19,423,417	25.02%
Capital assets	154,486	155,581	-0.70%
Other noncurrent assets	6,774,760	12,418,563	-45.45%
Total assets	$ 31,212,418	$ 31,997,561	-2.45%

	2007	2006	% Change
LIABILITIES:			
Current liabilities	$ 25,938,962	$ 26,477,000	-2.03%
Non-current liabilities	29,871,040	33,787,835	-11.59%
Reserve for unpaid claims	30,106,871	36,779,630	-18.14%
Total liabilities	85,916,873	97,044,465	-11.47%
NET ASSETS:			
Investment in capital assets, net of related debt	154,486	155,581	-0.70%
Unrestricted net assets (deficiency)	(54,858,941)	(65,202,485)	15.86%
Total net assets	(54,704,455)	(65,046,904)	15.90%
Total liabilities and net assets	$ 31,212,418	$ 31,997,561	-2.45%

Current assets increased by approximately $4,859,800 (25.02%) over last year primarily due to a net increase in unrestricted investments and cash with custodian of approximately $4,737,000. Fees receivable increased approximately $122,600 over 2006. The Board estimates fees receivable using an historical collection average determined as a percentage of fee and penalty amounts collected versus those certified to the Ohio Attorney General's Office for collection. Historically, the Attorney General's Office has collected approximately 30% and 10% of fees and penalties, respectively. In 2007 approximately $767,000 were collected in prior year fees and penalties.

Capital assets remained relatively the same with a decrease of less than $1,100. Approximately $61,200 was spent for furniture and data processing equipment; accumulated depreciation increased $62,300. 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 2007, approximately $46,600 was spent on the database design and development. A portion of this amount is attributed to out of scope tasks not included in the 2004 contract. Purchases of miscellaneous pre-packaged software upgrades and computer replacements were about $5,800. Also in 2007, the Board began the process of replacing its file server; approximately $8,000 was spent toward this project. An additional $800 was spent on miscellaneous office furniture. No capital assets were salvaged during fiscal year 2007.

There is no related debt on capital assets.

Other noncurrent assets are restricted investments held by the bond trustee for the payment of revenue bond interest and principal. This account must be fully funded on July 1 with the current and ensuing years' anticipated debt service. In fiscal year 2006, the account was funded on June 30, 2006 for the 2007 fiscal year and on July 2, 2007, the first business day in July, for the 2008 fiscal year. This difference in timing resulted in a decrease of approximately $5,598,300 or about 46.2%.

Current liabilities decreased about $538,000 due to a $255,000 increase in bond debt service payable within one year and a decrease of approximately $734,700 in fees received in advance. 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, 2007. In determining the amount to obligate, the Board considers the unobligated balance, claims paying experience, and anticipated revenue. The Board obligated $9 million for the payment of claims anticipated to be paid in each of the 2006 and 2007 fiscal years. Consequently, current liabilities were not affected by the change in reserves for unpaid claims.

Long-term bonds payable decreased by $3,916,795 (11.59%) 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, 2007 was $3,022,691.

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, 2007 was $26,848,349.

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

Reserve for unpaid claims decreased by $6,672,759 (18.14%) 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 (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 $2.6 million from June 30, 2006 to June 30, 2007. The amount of cash paid for claims approximated $9.3 million for fiscal year 2007.

Net assets deficit decreased $10,342,449 (15.90%) 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 $4,573,480 (20%).

The deficiency in unrestricted net assets includes an actuarial estimate of the current and long-term reserve for unpaid claims of $39,106,871. In July 2007, the Board contracted with an independent firm, Pinnacle Actuarial Resources, Inc., to perform a review of management's assumptions and estimate its unpaid claims liability for the year ended June 30, 2007. A copy of Pinnacle's report may be obtained by writing to the Board at P.O. Box 163188, Columbus, OH 43216-3188 or by calling 614-752-8963. The remaining deficit in unrestricted net assets has been financed by the proceeds of two revenue bond issuances, totaling $65 million.

Financial Information

Revenue

The following schedule presents a summary of revenues for the fiscal years ended June 30, 2007 and 2006.

	2007	2006	Increase (Decrease)
Operating Revenues:			
Tank fees, net of refunds	$ 15,627,816	$ 13,720,669	$ 1,907,147
Other	215	326	(111)
Non-operating Revenues:			
Earnings on investments	1,200,287	884,903	315,384
Total revenue	$ 16,828,318	$ 14,605,898	$ 2,222,420

Total revenue for 2007 increased approximately $2.22 million or about 15.2% from the previous year. This increase is the net result of an increase in operating revenues of $1,907,147 and an increase of $315,384 in non-operating revenues.

The approximate 13.9% increase in operating revenues is mainly due to an increase in both current and prior year fee receipts. Effective July 1, 2006, the Board increased the per-tank fee by $50 to $600 per-tank for the standard $55,000 deductible and by $100 per-tank for the reduced $11,000 deductible. In addition effective June 30, 2006, where a change in the ownership of an underground storage tank occurs, the purchaser is assessed a one-time $500 per-facility fee for transferring the Certificate of Coverage. Fee collections in fiscal year 2007 exceeded 2006 fee collections by about $1,857,700. Of this amount, $194,000 was collected in transfer fees and about $767,000 was related to prior year fees. In addition, the Board identified approximately $14,000, net of refunds paid, in fees and penalties that were paid but not due.

The 35.64% increase in non-operating revenues is the result of increased involvement in the management of funds maintained in the non-interest bearing custodial account held by the Treasurer of Ohio, and increases in the State Treasury Asset Reserve of Ohio (STAR Ohio) interest rates and fair market values of restricted assets. To maximize interest earnings, the Board annually notifies the Treasurer of the maximum amount of funds that may be maintained in the custodial account. In fiscal year 2007, this amount was $200,000. The average monthly STAR Ohio yield increased from 4.07% in fiscal year 2006 to 5.17% in fiscal year 2007.

The following schedule presents a summary of expenses for the fiscal years ended June 30, 2007 and 2006:

	2007	2006	Increase (Decrease)
Incurred claims and claims adjustment	$ 2,627,524	$ 3,383,545	$ (756,021)
Administration	1,519,035	1,418,912	100,123
Depreciation	62,293	54,563	7,730
Total operating expenses	$ 4,208,852	$ 4,857,020	$ (648,168)

Total operating expenses decreased approximately 13.3% from 2006 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 and the change in reserve for unpaid claims of approximately $9.48 million and $6.85 million, respectively.

As previously stated, the Board annually obligates funds for the payment of claims in the upcoming fiscal year. In fiscal year 2007, the Board obligated $9 million. Approximately $9,445,300 was issued in claim settlements. Of this amount, $9,300,282 was paid before the end of the fiscal year.

Administration costs experienced a 7% increase over 2006. The change is largely the net result of increased personnel and legal and professional costs and a decrease in refundable fees. Full-time permanent personnel received a 3% cost of living adjustment effective with the first pay period in fiscal year 2007. In addition, one senior level staff member terminated State employment in June 2007 and approximately $22,600 was paid for accrued vacation, personal and sick leave balances. Upon termination, vacation and personal leave hours are paid at 100% and sick leave hours are paid at 50%.

Legal and professional expenses increased in fiscal year 2007 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 2004 and 2005 audits were issued in November 2006. Consequently, legal and professional expenses increased approximately $30,000 in fiscal year 2007 as a result of costs associated with the audits of two 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 2007, these fees approximated $36,300, an increase of $22,800 over 2006. Effective with new certifications, the Board voted at its November 2006 meeting to begin passing these costs to the debtor.

Depreciation increased 14.2% due to capitalization of additional customized computer database related modules. Modules are capitalized and depreciated when placed into production.

OHIO PETROLEUM UNDERGROUND STORAGE TANK RELEASE COMPENSATION BOARD

STATEMENTS OF NET ASSETS

	June 30 2007	June 30 2006
ASSETS		
CURRENT ASSETS		
Cash with custodian	$ 2,941,805	$ 9,561,624
Unrestricted investments	19,465,216	8,108,225
Fees receivable, net of allowance for uncollectible amounts of $7,609,386 and $6,903,066, respectively	1,876,151	1,753,568
Total Current Assets	24,283,172	19,423,417
RESTRICTED INVESTMENTS	6,496,527	12,074,875
DEFERRED BOND ISSUANCE COSTS - Net	278,233	343,688
CAPITAL ASSETS AT COST - Net of accumulated depreciation	154,486	155,581
	$ 31,212,418	$ 31,997,561
LIABILITIES AND NET ASSETS (DEFICIENCY)		
CURRENT LIABILITIES		
Fees received in advance	$ 10,701,500	$ 11,436,239
Claims payable	1,458,907	1,285,965
Current portion of reserve for unpaid claims	7,541,093	7,714,035
Bonds payable	3,975,000	3,720,000
Bond interest payable	820,579	912,379
Refundable fees	1,179,725	1,165,711
Accounts payable	76,970	43,266
Accrued liabilities	185,188	199,405
Total Current Liabilities	25,938,962	26,477,000
BONDS PAYABLE - Less current portion	29,871,040	33,787,835
RESERVE FOR UNPAID CLAIMS - Less current portion	30,106,871	36,779,630
NET ASSETS (DEFICIENCY):		
Invested in capital assets, net of related debt	154,486	155,581
Unrestricted net assets (deficiency)	(54,858,941)	(65,202,485)
Total Net Assets (Deficiency)	(54,704,455)	(65,046,904)
	$ 31,212,418	$ 31,997,561

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, 2007 AND 2006

	2007	2006
OPERATING REVENUES:		
Tank fees, net of refunds	$ 15,627,816	$ 13,720,669
Other	215	326
Total Operating Revenues	15,628,031	13,720,995
OPERATING EXPENSES:		
Incurred claims and claims adjustment	2,627,524	3,383,545
Administration	1,519,035	1,418,912
Depreciation	62,293	54,563
Total Operating Expenses	4,208,852	4,857,020
OPERATING INCOME	11,419,179	8,863,975
NONOPERATING REVENUE (EXPENSE)		
Earnings on investments	1,200,287	884,903
Interest expense	(2,277,017)	(2,516,720)
Total Nonoperating Expense	(1,076,730)	(1,631,817)
Net Income	10,342,449	7,232,158
NET ASSETS (DEFICIENCY) - Beginning of year		
Beginning of year	(65,046,904)	(72,279,062)
End of year	$ (54,704,455)	$ (65,046,904)

See notes to financial statements.

OHIO PETROLEUM UNDERGROUND STORAGE TANK RELEASE COMPENSATION BOARD

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$ 14,849,740	$ 16,549,040
Cash paid to employees	(1,107,356)	(1,006,571)
Cash paid to claimants	(9,300,282)	(9,651,017)
Cash paid to others	(391,755)	(422,146)
Net Cash Provided By Operating Activities	4,050,347	5,469,306
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Payment of bond principal	(3,720,000)	(3,485,000)
Cash paid for interest	(2,310,612)	(2,547,538)
Net Cash Used In Noncapital Financing Activities	(6,030,612)	(6,032,538)
CASH FLOWS USED IN CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(61,198)	(57,572)
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of investments	(5,778,643)	6,429,466
Interest on investments	1,200,287	884,903
Net Cash (Used) Provided By Investing Activities	(4,578,356)	7,314,369
NET (DECREASE) INCREASE IN CASH WITH CUSTODIAN	(6,619,819)	6,693,565
CASH WITH CUSTODIAN		
Beginning of year	9,561,624	2,868,059
End of year	$ 2,941,805	$ 9,561,624

	2007	2006
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 11,419,179	$ 8,863,975
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	62,293	54,563
Amortization of bond issue costs	65,455	65,454
Reserves for unpaid claims	(6,845,701)	(6,618,884)
Changes in assets and liabilities:		
Fees receivable	(122,583)	(171,530)
Fees received in advance	(734,739)	2,805,614
Claims payable	172,942	351,412
Refundable fees	14,014	75,230
Accounts payable and accrued liablities	19,487	43,472
Total Adjustments	(7,368,832)	(3,394,669)
Net Cash Provided By Operating Activities	$ 4,050,347	$ 5,469,306

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 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 $22,278,127 and $16,983,674 at June 30, 2007 and 2006, 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 $278,233 at June 30, 2007 and $343,688 at June 30, 2006 are net of accumulated amortization of $703,509 and $638,054, 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

New Accounting Pronouncements - In 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 ($600 per tank in 2007 and $550 per tank in 2006). 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	$ 45,779,630	$52,047,102
Incurred claim and claim adjustment expenses:		
Provision for insured events of current year	2,550,000	$ 4,661,487
(Decrease) Increase in provision for prior years	77,524	(1,277,942)
Total incurred claims and claim adjustment expense	$ 2,627,524	$ 3,383,545
Claim and claim adjustment payments attributable to insured events of prior years	9,300,283	9,651,017
Total unpaid claims and claim adjustment expenses—End of year	$ 39,106,871	$45,779,630
This liability is shown in the balance sheet as follows:		
Claims payable	$ 1,458,907	$ 1,285,965
Current portion of reserve for unpaid claims	7,541,093	7,714,035
Reserve for unpaid claims—less current portion	30,106,871	36,779,630
Estimated unpaid liability	$ 39,106,871	$45,779,630

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).

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, 2007.

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.

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:

	2007	**2006**
Carrying amount	$2,941,805	$9,561,624
Custodial balance	1,411,025	8,094,574

NOTE 4 - CASH AND INVESTMENTS (Continued)

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 Treasurer's 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.

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 $128,894 and $686,175 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, 2007, STAR Ohio's investments in U.S. Agencies were rated AAA by Standard & Poor's and Aaa by Moody's Investor Services. U.S. Government obligations are excluded from credit risk. Money market ratings for the Huntington Treasury Money Market VII were rated AAAm 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:

		2007 Fair Value		**2006 Fair Value**
U.S. Treasury notes	$	6,489,586	$	6,228,916
Money Market Funds		6,940		5,845,958
Cash & Other Assets		1		1
Total	$	6,496,527	$	12,074,875

NOTE 5 - CAPITAL ASSETS

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

	Balance June 30, 2006	Additions	Balance June 30, 2007
Capital assets:			
Furniture	$ 96,475	$ 785	$ 97,260
Data processing equipment	705,155	60,413	765,568
Total capital assets	801,630	61,198	862,828
Less accumulated depreciation:			
Furniture	80,562	8,316	88,878
Data processing equipment	565,487	53,977	619,464
Total accumulated depreciation	646,049	62,293	708,342
Net capital assets	$ 155,581	$ (1,095)	$ 154,486

NOTE 6 - OPERATING LEASES

The Board leases office space under an operating lease agreement expiring in June 2009. Rent expense for the fiscal years ended June 30, 2007 and 2006 was $102,872 and $87,439, respectively. Future minimum payments under the 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
2008	2,855,000	302,569	3,157,569
2009	3,055,000	103,106	3,158,106
Total	5,910,000	$ 405,675	$ 6,315,675
Less unamortized discount	32,309		
Bonds payable	5,877,691		
Less amount currently due	2,855,000		
Bonds payable—less current portion	$ 3,022,691		

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**
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	28,140,000	$ 7,764,216	$35,904,216
Less unamortized discount	171,651		
Bonds payable	27,968,349		
Less amount currently due	1,120,000		
Bonds payable—less current portion	$26,848,349		

Activity for long-term bond obligations for the years ended June 30, 2007 and 2006, is summarized as follows:

	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

	Balance at 6/30/2006	Amortization of Bond Discount	Decreases	Balance at 6/30/2007	Due Within One Year
Bonds payable	$37,507,835	$58,205	$(3,720,000)	$33,846,040	$3,975,000

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 2007, the employer was required to contribute 13.77% of active member payroll, and employees were required to contribute 9.5% of their annual covered salary.

The Board's contributions, representing 100% of employer contributions for the year ended June 30, 2007, and for each of the preceding two years, are as follows:

2007	$ 109,095
2006	102,708
2005	94,463

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 2007 and 2006 employer contribution rate for state employers was 13.77% and 13.54% of covered payroll, respectively; 5% and 4.5% was the portion that was used to fund health care for the years ended June 30, 2007 and 2006, respectively. These rates are the actuarially determined contribution requirements for OPERS. The portion of the Board's 2007 and 2006 contribution that was used to fund post-employment benefits was $38,009 and $32,603, 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 2007, 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 year ended June 30, 2007, and have issued our report thereon dated January 10, 2008. 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 audit 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Board's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Board's financial statements that is more than inconsequential will not be prevented or detected by the Board's internal control. We consider the deficiency described in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting, which is identified as Item No. 2007-1.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Board's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiency noted above is a material weakness.

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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
January 10, 2008

OHIO PETROLEUM UNDERGROUND STORAGE

TANK RELEASE COMPENSATION BOARD

Schedule of Findings and Responses

June 30, 2007

Internal Control Over Financial Reporting

Item No. 2007 - 1, Maintenance of a detailed accounts receivable aging ledger

Criteria: Complete underlying accounting data is critical to allow for accurate financial reporting and evaluation of significant estimates such as allowances for doubtful accounts.

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 maintenance of detailed account receivable aging ledgers.

Effect: As of the year ended June 30, 2007, management was unable to produce a detailed accounts receivable aging schedule resulting in management making estimates relating to collectible accounts using methods that may result in less accurate estimations of collectablity.

Recommendation: We 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:

Accounts Receivable

The Board currently estimates fees receivable using an historical collection average determined as a percentage of annual and late fee amounts collected versus those certified to the Ohio Attorney General's Office for collection. During the 2006 audit, management considered alternative ways to estimate the Board's allowance for uncollectible amounts. As a result of this analysis, in the second quarter of fiscal year 2008, minor changes to the Board's current database system ledgers and related internal procedures utilized in monitoring the aging of individual accounts receivable balances were implemented. With these enhancements and expanded reporting capabilities in place, management is in a position to again consult with its auditors regarding alternative methodologies and anticipates, as a result of these discussions, a new methodology will be adopted for the recording of allowances for uncollectible amounts in fiscal year 2008, with full implementation in fiscal year 2009.

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
MARCH 18, 2008**

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