

# **PETROLEUM STORAGE TANK RELEASE INDEMNITY FUND**

*(Administered by the Petroleum Storage Tank Division  
of the Oklahoma Corporation Commission)*

**June 30, 2013**

## PETROLEUM STORAGE TANK RELEASE INDEMNITY FUND

*(Administered by the Petroleum Storage Tank Division of the Oklahoma Corporation Commission)*

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Independent Auditors' Report .....	1
Governmental Funds/Statements of Net Position (Cash Basis) .....	3
Statements of Revenues, Expenditures, and Changes in Fund	
Balances--Governmental Funds/Statements of Activities (Cash Basis) .....	4
Notes to Cash Basis Financial Statements .....	5
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 <i>Government Auditing Standards</i> .....	20

## Independent Auditors' Report

To the Oklahoma Corporation Commission  
Petroleum Storage Tank Release Indemnity Fund  
Oklahoma City, Oklahoma

### **Report on the Financial Statements**

We have audited the accompanying cash basis financial statements of the governmental activities and the General Fund of the Petroleum Storage Tank Release Indemnity Fund (the "Indemnity Fund"), administered by the Petroleum Storage Tank Division of the Oklahoma Corporation Commission, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Indemnity Fund's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note A; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities and the General Fund of the Indemnity Fund as of June 30, 2013 and 2012, and the respective change in the cash basis financial position thereof for the years then ended in conformity with the basis of accounting described in Note A.

## **Basis of Accounting**

We draw attention to Note A of the financial statements, which describes the basis of accounting. The financial statements are prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

## **Emphasis of Matter**

As discussed in Note A, the financial statements of the Indemnity Fund are intended to present the financial position and the changes in financial position of only the portion of the Governmental and the General Fund of the Petroleum Storage Tank Division of the Oklahoma Corporation Commission that is attributable to the transactions of the Indemnity Fund. They do not purport to, and do not, present fairly the financial position of the General Fund of the Petroleum Storage Tank Division of the Oklahoma Corporation Commission as of June 30, 2013, and the change in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## **Other Matters**

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2013, on our consideration of the Indemnity Fund's internal control over financial reporting and on 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 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.

*Cole & Reed P.C.*

Oklahoma City, Oklahoma  
December 20, 2013

GOVERNMENTAL FUNDS/  
STATEMENTS OF NET POSITION (CASH BASIS)

PETROLEUM STORAGE TANK RELEASE INDEMNITY FUND

*(Administered by the Petroleum Storage Tank Division of the Oklahoma Corporation Commission)*

	June 30,			
	2013		2012	
	<u>General Fund</u>	<u>Statement of Net Position</u>	<u>General Fund</u>	<u>Statement of Net Position</u>
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 21,292,819	\$ 21,292,819	\$ 18,620,611	\$ 18,620,611
TOTAL ASSETS	<u>\$ 21,292,819</u>	<u>\$ 21,292,819</u>	<u>\$ 18,620,611</u>	<u>\$ 18,620,611</u>
 LIABILITIES AND FUND BALANCES				
Liabilities	\$ -	\$ -	\$ -	\$ -
 FUND BALANCES				
Unassigned	<u>21,292,819</u>		<u>18,620,611</u>	
TOTAL FUND BALANCES	<u>21,292,819</u>		<u>18,620,611</u>	
 TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 21,292,819</u>		<u>\$ 18,620,611</u>	
 NET POSITION				
Unrestricted		<u>\$ 21,292,819</u>		<u>\$ 18,620,611</u>

See notes to cash basis financial statements.

STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES--  
GOVERNMENTAL FUNDS/STATEMENTS OF ACTIVITIES (CASH BASIS)

PETROLEUM STORAGE TANK RELEASE INDEMNITY FUND

(Administered by the Petroleum Storage Tank Division of the Oklahoma Corporation Commission)

	June 30,			
	2013		2012	
	General Fund	Statement of Activities	General Fund	Statement of Activities
PROGRAM REVENUES:				
Proceeds from motor fuel tax assessment	\$ 21,104,195	\$ 21,104,195	\$ 22,216,198	\$ 22,216,198
Deductible on claims	32,305	32,305	64,977	64,977
Other income	-	-	10,291	10,291
TOTAL PROGRAM REVENUES	21,136,500	21,136,500	22,291,466	22,291,466
EXPENDITURES/EXPENSES				
Claims reimbursement	15,778,387	15,778,387	13,457,823	13,457,823
Storage tank inspection and compliance	1,168,456	1,168,456	1,346,572	1,346,572
Claims processing	789,425	789,425	783,297	783,297
Administrative expenses	382,197	382,197	424,118	424,118
Allocations to the Oklahoma Corporation Commission	785,610	785,610	740,104	740,104
TOTAL EXPENDITURES/EXPENSES	18,904,075	18,904,075	16,751,914	16,751,914
OTHER REVENUE				
Insurance proceeds	-	-	110,112	110,112
Interest income	439,783	439,783	381,646	381,646
TOTAL OTHER REVENUE	439,783	439,783	491,758	491,758
CHANGES IN FUND BALANCES/NET POSITION	2,672,208	2,672,208	6,031,310	6,031,310
FUND BALANCES/NET POSITION:				
BEGINNING OF YEAR	18,620,611	18,620,611	12,589,301	12,589,301
END OF YEAR	\$ 21,292,819	\$ 21,292,819	\$ 18,620,611	\$ 18,620,611

See notes to cash basis financial statements.

## NOTES TO CASH BASIS FINANCIAL STATEMENTS

### PETROLEUM STORAGE TANK RELEASE INDEMNITY FUND

*(Administered by the Petroleum Storage Tank Division of the Oklahoma Corporation Commission)*

June 30, 2013

#### NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principal Activity: The Petroleum Storage Tank Release Indemnity Fund (the "Indemnity Fund") is administered by the Oklahoma Corporation Commission's (the "Commission") Petroleum Storage Tank Division (the "Division"). The Indemnity Fund was created by a legislative act in 1989 to provide funding for the rehabilitation of polluted sites due to releases of petroleum from storage tank systems into the environment of the state. The Indemnity Fund encourages voluntary corrective action in a manner and to a level of completion that protects public health, safety, and welfare and minimizes damage to the environment by reimbursing to eligible persons allowable costs incurred for corrective actions to clean up eligible releases. Indemnity Fund monies are also used to pay the salaries of employees of the Compliance and Inspection Department of the Commission who are involved in the regulation of storage tanks pursuant to the Oklahoma Storage Tank Regulation Act. The activities of the Indemnity Fund are subject to Oklahoma Statutes Title 17, Chapters 14 and 15, of the Oklahoma Statutes Title 17 O.S. 350 et seq., which were last amended by Senate Bill 155, which was effective November 1, 2005, and Senate Bill 1366, which was effective July 1, 2006, and House Bill 1423, which was effective July 1, 2008, House 2381, which was effective May 25, 2012, and Senate Bill 1336, which was effective June 8, 2012.

The Indemnity Fund is currently funded by a \$0.01 assessment on the sale of each gallon of motor fuel.

Effective July 1, 2006, the first \$1,000,000 received in each fiscal year from the \$0.01 assessment on motor fuel is to be deposited directly into the Commission's Revolving Fund. Participating Native American Tribes receive four and a half percent (4.5%) of the monthly assessment once the annual payment is paid to the Commission's Revolving Fund. Eight percent (8%) of the remainder of the assessment collected during each fiscal year is to be deposited into the Department of Environmental Quality's Revolving Fund. Effective July 1, 2008, House Bill 1423 states that of the remaining assessment received, \$500,000 is to be deposited each month into the Department of Transportation's Weigh Station Improvement revolving fund until a total of \$51,000,000 is reached. Effective May 25, 2012, House Bill 2391 increased the total amount to be deposited in the Department of Transportation's Weigh Station Improvement Revolving Fund to \$81,000,000. The remaining portion each month will be deposited into the Indemnity Fund. See Note H for a breakdown of the required transfers under Oklahoma Statutes Title 17.

Effective July 1, 2008, House Bill 1423 amended Title 17, Section 352, by defining the "motor fuel" on which the \$0.01 per gallon assessment is based. The Indemnity Fund was previously funded by a \$0.01 assessment on the sale of each gallon of motor fuel, diesel fuel, and blending materials (as defined by Title 68, Section 500.3 of the Oklahoma Statutes). House Bill 1423 condensed the wording to only include "motor fuel" as it has the same meaning as "blended fuel" (the words "diesel fuel" and "blending materials" were taken out of the statute).

## NOTES TO CASH BASIS FINANCIAL STATEMENTS--Continued

### PETROLEUM STORAGE TANK RELEASE INDEMNITY FUND

*(Administered by the Petroleum Storage Tank Division of the Oklahoma Corporation Commission)*

June 30, 2013

#### NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Principal Activity--Continued: Per Title 68, Section 500.3, blended fuel is defined as "a mixture composed of gasoline or diesel fuel and another liquid, other than a de minimis amount of a product such as carburetor detergent or oxidation inhibitor that can be used as a fuel in a highway vehicle. This term includes gasohol, ethanol, and fuel grade ethanol."

House Bill 1423 also authorized Underground Storage Tank Operator Training and authorized either the Storage Tank Regulation Revolving Fund created in Section 315 of Title 17 or the Indemnity Fund to be able to pay for this training up to \$250,000.

Funds Included in Presentation: For purposes of this report, the Indemnity Fund (Fund 1185F) has been combined with Fund 205, a revolving fund established by the Commission to pay the administrative expenses of the Indemnity Fund utilizing monies transferred from the Indemnity Fund.

Financial Reporting Entity: The Indemnity Fund is included in the General Fund of the Petroleum Storage Tank Division of the Oklahoma Corporation Commission. The accompanying financial statements are intended to present the financial position and the changes in financial position of only that portion of the governmental activities and the General Fund of the Petroleum Storage Tank Division of the Oklahoma Corporation Commission attributable to the transactions of the Indemnity Fund and not that of the General Fund of the Petroleum Storage Tank Division of the Oklahoma Corporation Commission.

In accordance with Governmental Accounting Standards Board ("GASB") Statement No. 14, *The Financial Reporting Entity*, and as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units* and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, consists of the primary government, organizations for which the primary government is financially accountable, and other organization for which the nature and significance of their relationship with the primary government are such the exclusion could cause the financial statements to be misleading. The Indemnity Fund has determined there are no other organizations for which it has financial accountability.

Basis of Presentation: As further noted below, the financial statements have been prepared using the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.



## NOTES TO CASH BASIS FINANCIAL STATEMENTS--Continued

### PETROLEUM STORAGE TANK RELEASE INDEMNITY FUND

*(Administered by the Petroleum Storage Tank Division of the Oklahoma Corporation Commission)*

June 30, 2013

## NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Basis of Presentation--Continued: GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, defines the accounting principles to be used for the presentation of financial statements of the Indemnity Fund.

Government-Wide Financial Statements - The statements of net position and the statements of activities display information about the Indemnity Fund as a whole. The Indemnity Fund's activities are all governmental in nature and generally are financed primarily through assessment revenues received. The Indemnity Fund has no business-type activities as defined by GASB Statement No. 34.

Fund Financial Statements - Fund financial statements are normally organized into funds, each of which is considered to be a separate accounting entity. A fund is accounted for by providing a separate set of self-balancing accounts which constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses.

For financial statement presentation, the Indemnity Fund has only one fund, which is the General Fund. The General Fund is the operating fund of the Indemnity Fund and is used to account for all activities of the Indemnity Fund.

Measurement Focus: Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. On the government-wide statements of net position and the statements of activities, the Indemnity Fund's activities are presented using the "economic resources" measurement focus as defined below:

The statements of net position and the statements of activities utilize an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of changes in net position and financial positions. All assets and liabilities (whether current or noncurrent) associated with their activities are normally reported. However, due to the presentation of these financial statements on a cash basis, only cash is reported.

In the fund financial statements, the "current financial resources" measurement focus is used as defined below:

The General Fund utilizes a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on the balance sheet. The operating statements present sources and uses of available spendable financial resources during a given period. The fund uses fund balances as the measure of available spendable financial resources at the end of the period, as limited by the use of the cash basis of accounting. Because of the cash basis of accounting, the fund balances total to the cash balance at the end of the year.

## NOTES TO CASH BASIS FINANCIAL STATEMENTS--Continued

### PETROLEUM STORAGE TANK RELEASE INDEMNITY FUND

*(Administered by the Petroleum Storage Tank Division of the Oklahoma Corporation Commission)*

June 30, 2013

#### NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Basis of Accounting: Basis of accounting refers to “when” transactions are recorded, regardless of the measurement focus applied. The accompanying financial statements have been prepared using the cash basis of accounting and are not intended to present the financial position and results of operations in conformity with accounting principles generally accepted in the United States of America.

If the aforementioned financial statements were prepared in accordance with accounting principles generally accepted in the United States of America, the following changes would be necessary:

- The Indemnity Fund would utilize the accrual basis of accounting in the government-wide financial statements and the modified accrual basis of accounting in the fund financial statements.
- The Indemnity Fund would capitalize and record on its accrual basis financial statements, at cost, capital assets (such as land, buildings, furniture, and equipment) and depreciate such assets.
- The Indemnity Fund would record liabilities and long-term debt on its accrual basis financial statements.

Equity Classifications: Government-Wide Statements - Equity is classified as net position and displayed in three components:

Restricted net position: Consists of net position with constraints placed on the use either by 1) external groups, such as creditors, grantors, contributors, or laws or regulations of other governments, or 2) law through constitutional provisions or enabling legislation.

Unrestricted net position: Consists of all other net position that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.” All net position meet this definition due to the presentation of these financial statements being on a cash basis, and no constraints have been placed on the remaining net position balances.

It is the Indemnity Fund’s policy to first use restricted net position prior to the use of unrestricted net position when an expenditure is incurred for purposes for which both restricted and unrestricted net position are available.

## NOTES TO CASH BASIS FINANCIAL STATEMENTS--Continued

### PETROLEUM STORAGE TANK RELEASE INDEMNITY FUND

*(Administered by the Petroleum Storage Tank Division of the Oklahoma Corporation Commission)*

June 30, 2013

## NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

### Equity Classifications--Continued:

Fund Statements - Governmental fund equity is classified as fund balance. Fund balance is further classified as nonspendable, restricted, committed, assigned, and unassigned. These classifications are defined as:

Nonspendable: Includes fund balance amounts that cannot be spent because they are either 1) not in spendable form or 2) legally or contractually required to be maintained intact.

Restricted: Includes fund balance that have constraints placed on the use of resources which are either 1) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or 2) imposed by law through constitutional provisions or enabling legislation.

Committed: Includes fund balance with specific purposes pursuant to constraints imposed by formal action of the Indemnity Fund's highest level of decision-making authority. Also, such constraints can only be removed or changed by the same form of formal action.

Assigned: The assigned fund balance classification reflects amounts that are constrained by Indemnity's Fund intent to be used for specific purposes, but meet neither the restricted nor committed forms of constraint. Assigned funds cannot cause a deficit in unassigned fund balance.

Unassigned: The unassigned fund balance classification is the residual classification for the General Fund only. Unassigned fund balance essentially consists of excess funds that have not been classified in the four above fund balance categories. All fund balances meet this definition, since the fund balances do not meet any of the above definitions.

It is the Indemnity Fund's policy to first use the restricted fund balance prior to the use of the unrestricted fund balance when an expense is incurred for purposes for which both a restricted and an unrestricted fund balance are available. The Indemnity Fund's policy for the use of the unrestricted fund balance amounts require that committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Cash and Cash Equivalents: Deposits in OK INVEST (see Note B) and highly liquid investments with original maturities of 3 months or less are considered to be cash equivalents.

## NOTES TO CASH BASIS FINANCIAL STATEMENTS--Continued

### PETROLEUM STORAGE TANK RELEASE INDEMNITY FUND

*(Administered by the Petroleum Storage Tank Division of the Oklahoma Corporation Commission)*

June 30, 2013

#### NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Deductibles: Eligible claims for reimbursement are subject to a co-payment equal to 1% of the eligible costs, up to a maximum co-payment of \$5,000.

Encumbrances: Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditures of resources are recorded as expenditures of the applicable funds, is used. This is an extension of the formal budgetary integration in the General Fund. Encumbrances do not represent any further constraint on the use of amounts than is already communicated by governmental fund balance classification as restricted, committed, or assigned. As of June 30, 2013 and 2012, \$21,014,463 and \$18,450,782, respectively, of encumbrances were outstanding.

Indemnity Fund Maintenance Level: State statute sets forth a maintenance level of cash (presented herein as cash and cash equivalents) for the Indemnity Fund in an amount equal to \$5,000,000 plus the previous 6 months' cash disbursements for claim reimbursements. In the event the Indemnity Fund's cash balance falls below this specified maintenance level at any month end on or before December 31, 2013, the \$0.01 assessment (or applicable portion thereof) is to be deposited into the Indemnity Fund for at least the following 3 calendar months. If the Indemnity Fund's cash balance exceeds the specified maintenance level, the assessment (or applicable portion thereof) is to be deposited into other funds as directed by state statute. Senate Bill 155, which was effective November 1, 2005, amended State Statute 17 O.S. 352(7) to define disbursements as funds expended or encumbered for the purpose of calculating the regulatory maintenance level. Effective June 8, 2012, Senate Bill 1336 extended the compliance maintenance level requirement from December 31, 2012 to December 31, 2022. During the years ended and as of June 30, 2013 and 2012, the Indemnity Fund was in compliance with the maintenance level.

Income Taxes: The Indemnity Fund is exempt from state and federal income taxes, and accordingly, no provision for income taxes is reflected by the Indemnity Fund.

## NOTES TO CASH BASIS FINANCIAL STATEMENTS--Continued

### PETROLEUM STORAGE TANK RELEASE INDEMNITY FUND

*(Administered by the Petroleum Storage Tank Division of the Oklahoma Corporation Commission)*

June 30, 2013

#### NOTE B--DEPOSITS AND INVESTMENTS

Custodial Credit Risk - Deposits: Custodial credit risk is the risk that in the event of a bank failure, the Indemnity Fund's deposits may not be returned to it. The Indemnity Fund's deposit policy for custodial credit risk is described as follows:

Oklahoma Statutes require the State Treasurer to ensure that all State funds either be insured by Federal Deposit Insurance, collateralized by securities held by the cognizant Federal Reserve Bank, or invested in U.S. government obligations. The Indemnity Fund deposits with the State Treasurer are pooled with the funds of other State Agencies and then, in accordance with statutory limitations, placed in financial institutions or invested as the State Treasurer may determine, in the State's name.

The Indemnity Fund's carrying amount of the deposits with the State Treasurer were \$21,292,819 and \$18,260,611 at June 30, 2013 and 2012, respectively.

The differences between the bank balances of deposits and the related carrying amounts were generally not significant and are due to outstanding checks and deposits in-transit.

Some deposits with the State Treasurer are placed in the State Treasurer's internal investment pool, *OK INVEST*. *OK INVEST* pools the resources of all state funds and agencies and invests them in (a) U.S. treasury securities which are explicitly backed by the full faith and credit of the U.S. government; (b) U.S. agency securities which carry an implicit guarantee of the full faith and credit of the U.S. government; (c) money market mutual funds which participates in investments, either directly or indirectly, in securities issued by the U.S. treasury and/or agency and repurchase agreements relating to such securities; (d) investments related to tri-party repurchase agreements which are collateralized at 102% and, whereby, the collateral is held by a third party in the name of the State Treasurer; (e) collateralized certificates of deposits; (f) commercial paper; (g) obligations of state and local governments; and (h) State of Israel bonds.

Of funds on deposit with the State Treasurer, amounts invested in *OK INVEST* total \$21,331,328 in 2013 and \$18,876,763 in 2012.

# NOTES TO CASH BASIS FINANCIAL STATEMENTS--Continued

## PETROLEUM STORAGE TANK RELEASE INDEMNITY FUND

(Administered by the Petroleum Storage Tank Division of the Oklahoma Corporation Commission)

June 30, 2013

### NOTE B--DEPOSITS AND INVESTMENTS--Continued

For financial reporting purposes, deposits with the State Treasurer that are invested in *OK INVEST* are classified as cash equivalents. At June 30, the distributions of deposits in *OK INVEST* are as follows:

OK INVEST Portfolio	2013		2012	
	Cost	Market Value	Cost	Market Value
U.S. Agency securities	\$ 8,384,982	\$ 8,349,532	\$ 6,673,894	\$ 6,693,510
Certificates of deposit	544,920	544,920	609,708	609,708
Money market mutual funds	2,001,663	2,001,663	2,583,857	2,583,857
End of day commercial paper sweep	448,347	448,347	-	-
Mortgage backed agency securities	9,166,150	9,211,149	8,331,913	8,852,307
Municipal bonds	359,363	397,790	338,590	386,292
Foreign bonds	168,491	168,391	94,992	94,992
U.S. Treasury Obligations	257,412	314,128	243,809	304,168
TOTAL	<u>\$ 21,331,328</u>	<u>\$ 21,435,920</u>	<u>\$ 18,876,763</u>	<u>\$ 19,524,834</u>

Agencies and funds that are considered to be part of the State's reporting entity in the State's Comprehensive Annual Financial Report are allowed to participate in *OK INVEST*. Oklahoma statutes and the State Treasurer establish the primary objectives and guidelines governing the investment of funds in *OK INVEST*. Safety, liquidity, and return on investment are the objectives which establish the framework for the day to day *OK INVEST* management with an emphasis on safety of the capital and the probable income to be derived and meeting the State and its funds and agencies' daily cash flow requirements.

Guidelines in the Investment Policy address credit quality requirements and diversification percentages and specify the types and maturities of allowable investments, and the specifics regarding these policies can be found on the State Treasurer's website at <http://www.treasurer.state.ok.us/>. The State Treasurer, at his discretion, may further limit or restrict such investments on a day to day basis. *OK INVEST* includes a substantial investment in securities with an overnight maturity as well as in U.S. government securities with a maturity of up to ten years. *OK INVEST* maintains an overall weighted average maturity of no more than four years.

## NOTES TO CASH BASIS FINANCIAL STATEMENTS--Continued

### PETROLEUM STORAGE TANK RELEASE INDEMNITY FUND

(Administered by the Petroleum Storage Tank Division of the Oklahoma Corporation Commission)

June 30, 2013

#### NOTE B--DEPOSITS AND INVESTMENTS--Continued

Participants in *OK INVEST* maintain an interest in its underlying investments and, accordingly, may be exposed to certain risks. As stated in the State Treasurer information statement, the main risks are interest rate risk, credit/default risk, liquidity risk, and U.S. government securities risk. *Interest rate risk* is the risk that during periods of rising interest rates, the yield and market value of the securities will tend to be lower than prevailing market rates; in periods of falling interest rates, the yield will tend to be higher. *Credit/default risk* is the risk that an issuer or guarantor of a security, or a bank or other financial institution that has entered into a repurchase agreement, may default on its payment obligations. *Liquidity risk* is the risk that *OK INVEST* will be unable to pay redemption proceeds within the stated time period because of unusual market conditions, an unusually high volume of redemption requests, or other reasons. *U.S. Government securities risk* is the risk that the U.S. government will not provide financial support to U.S. government agencies, instrumentalities, or sponsored enterprises if it is not obligated to do so by law. Various investment restrictions and limitations are enumerated in the State Treasurer's Investment Policy to mitigate those risks; however, any interest in *OK INVEST* is not insured or guaranteed by the State, the FDIC, or any other government agency.

#### NOTE C--CLAIMS REIMBURSEMENTS

Claims reimbursements for the years ended June 30 consisted of the following:

	2013	2012
Third-party claims	\$ 15,175,919	\$ 12,939,045
Suspicion of releases	602,468	518,778
	<u>\$ 15,778,387</u>	<u>\$ 13,457,823</u>

Third-party claims are those claims in which an eligible tank owner has received reimbursement from the Indemnity Fund for allowable cleanup costs incurred.

Payments for suspicion of releases are payments to third parties for costs incurred to investigate and assess a site for a confirmed release and to determine whether additional cleanup procedures are necessary.

## NOTES TO CASH BASIS FINANCIAL STATEMENTS--Continued

### PETROLEUM STORAGE TANK RELEASE INDEMNITY FUND

*(Administered by the Petroleum Storage Tank Division of the Oklahoma Corporation Commission)*

June 30, 2013

#### NOTE D--OPERATING EXPENSES

Operating expenses at June 30 consisted of the following:

	2013		
	Administrative Expenses	Claims Processing	Storage Tank Inspection and Compliance
Salaries and benefits	\$ 333,010	\$ 643,899	\$ 973,207
Professional services	28,217	117,228	16,826
Other	20,970	28,298	178,423
	<u>\$ 382,197</u>	<u>\$ 789,425</u>	<u>\$ 1,168,456</u>

  

	2012		
	Administrative Expenses	Claims Processing	Storage Tank Inspection and Compliance
Salaries and benefits	\$ 389,984	\$ 724,899	\$ 1,083,602
Professional services	17,021	11,054	146,198
Other	17,113	47,344	116,772
	<u>\$ 424,118</u>	<u>\$ 783,297</u>	<u>\$ 1,346,572</u>

#### NOTE E--ALLOCATIONS TO THE OKLAHOMA CORPORATION COMMISSION

The overhead allocation paid to the Commission is determined by the Comptroller of the Commission. For the years ended June 30, 2013 and 2012, amounts paid included \$90,378 and \$166,147, respectively, for salaries of personnel in the Office of General Counsel and \$695,232 and \$573,957, respectively, for other general and administrative expenses of the Commission.

#### NOTE F--RETIREMENT PLAN

Plan Description: The Indemnity Fund indirectly contributes to the Oklahoma Public Employees Retirement Plan (the "Retirement Plan"), a cost-sharing, multiple-employer public employee retirement system administered by the Oklahoma Public Employees Retirement System (the "System"). The Retirement Plan provides retirement, disability, and death benefits to plan members and beneficiaries. The benefit provisions are established and may be amended by the Oklahoma Legislature.



## NOTES TO CASH BASIS FINANCIAL STATEMENTS--Continued

### PETROLEUM STORAGE TANK RELEASE INDEMNITY FUND

*(Administered by the Petroleum Storage Tank Division of the Oklahoma Corporation Commission)*

June 30, 2013

#### NOTE F--RETIREMENT PLAN--Continued

Plan Description--Continued: Title 74 of the Oklahoma Statutes, Sections 901 through 932 and 935, as amended, assigns the authority for management and operation of the Retirement Plan to the Board of Trustees of the System. The System issues a publicly available annual financial report that includes financial statements and required supplementary information for the Retirement Plan. That annual report may be obtained by writing to the Oklahoma Public Employees Retirement System, 5801 N. Broadway Extension, Suite 400, Oklahoma City, Oklahoma 73118 or by calling 1-800-733-9008.

Funding Policy: Retirement Plan members and the Indemnity Fund are required to contribute at a rate set by statute. The contribution requirements of Retirement Plan members and the Indemnity Fund are established and may be amended by the Oklahoma Legislature. The contribution rates are as follows:

Fiscal Year 2013		Fiscal Year 2012	
State Employees	Indemnity Fund	State Employees	Indemnity Fund
All Salary	All Salary	All Salary	All Salary
3.5%	16.5%	3.5%	16.5%

  

Fiscal Year 2011	
State Employees	Indemnity Fund
All Salary	All Salary
3.5%	15.5%

The Indemnity Fund's contributions to the Retirement Plan for the years ended June 30, 2013, 2012, and 2011, were approximately \$312,000, \$344,000, and \$306,000, respectively, and were equal to its required contributions for each year.

#### NOTE G--OKLAHOMA STATE EMPLOYEES DEFERRED COMPENSATION PLAN AND DEFERRED SAVINGS INCENTIVE PLAN

Deferred Compensation Plan: The State of Oklahoma offers its employees a Deferred Compensation Plan (the "Plan") as authorized by Section 457 of the Internal Revenue Code (IRC), as amended by the Tax Reform Act of 1986, and in accordance with the provisions of Sections 1701 through 1706 of Title 74 of the Oklahoma Statutes.

The supervisory authority for the management and operation of the Plan is the Board of Trustees of the Oklahoma Public Employees Retirement System (the "Board").

## NOTES TO CASH BASIS FINANCIAL STATEMENTS--Continued

### PETROLEUM STORAGE TANK RELEASE INDEMNITY FUND

*(Administered by the Petroleum Storage Tank Division of the Oklahoma Corporation Commission)*

June 30, 2013

## NOTE G--OKLAHOMA STATE EMPLOYEES DEFERRED COMPENSATION PLAN AND DEFERRED SAVINGS INCENTIVE PLAN--Continued

Deferred Compensation Plan--Continued: The Plan is available to all State of Oklahoma employees, as well as any elected officials receiving a salary from the State of Oklahoma. Participants may direct the investment of their contributions in available investment options offered by the Plan. The minimum contribution amount is the equivalent of \$25 per month, and participants are immediately 100% vested in their respective accounts. All interest, dividends, and investment fees are allocated to participants' accounts.

Participants may defer until future years up to the lesser of 100% of their compensation as defined by Plan documents or the maximum amount allowed each year as determined by the Internal Revenue Service, currently \$16,500.

The Plan offers a catch-up program to participants, which allows them to defer annually for the 3 years prior to their year of retirement up to twice that plan year's deferral limit. The amount of additional contributions in excess of the normal maximum contributions to the Plan is also limited to contributions for years in which the participant was eligible but did not participate in the Plan or the difference between contributions made and the maximum allowable level. To be eligible for the catch-up program, the participant must be within 3 years of retirement with no reduced benefits.

Participants age 50 or older may make additional contributions of up to \$5,500 annually, subject to certain limits.

Deferred compensation benefits are paid to participants or beneficiaries upon termination, retirement, death, or unforeseeable emergency. Such benefits are based on a participant's account balance and are disbursed in a lump sum or periodic payments at the option of the participant or beneficiaries in accordance with the Plan's provisions.

Effective January 1, 1998, the Board established a Trust and a Trust Fund covering the Plan's assets, pursuant to federal legislation enacted in 1996, requiring public employers to establish such trusts for plans meeting the requirements of Section 457 of the IRC no later than January 1, 1999. Under the terms of the Trust, the corpus or income of the Trust Fund may be used only for the exclusive benefit of the Plan's participants and their beneficiaries. Prior to the establishment of the Trust, the Plan's assets were subject to the claims of general creditors of the State of Oklahoma. The Board acts as trustee of the Trust. The participants' accounts are invested in accordance with the investment elections of the participants. The Board is accountable for all deferred compensation received, but has no duty to require any compensation to be deferred or to determine that the amounts received comply with the Plan or to determine that the Trust Fund is adequate to provide the benefits payable pursuant to the Plan.

## NOTES TO CASH BASIS FINANCIAL STATEMENTS--Continued

### PETROLEUM STORAGE TANK RELEASE INDEMNITY FUND

*(Administered by the Petroleum Storage Tank Division of the Oklahoma Corporation Commission)*

June 30, 2013

#### NOTE G--OKLAHOMA STATE EMPLOYEES DEFERRED COMPENSATION PLAN AND DEFERRED SAVINGS INCENTIVE PLAN--Continued

Deferred Compensation Plan--Continued: Further information may be obtained from the Oklahoma State Employees Deferred Compensation Plan's audited financial statements for the years ended June 30, 2013 and 2012. The Indemnity Fund believes that it has no liabilities with respect to the Plan.

Deferred Savings Incentive Plan: Effective January 1, 1998, the State of Oklahoma established the Oklahoma State Employees Deferred Savings Incentive Plan (the "Savings Incentive Plan") as a money purchase pension plan pursuant to IRC Section 401(a). The Savings Incentive Plan and its related Trust are intended to meet the requirements of IRC Sections 401(a) and 501(a).

Any qualified participant who is a State of Oklahoma employee that is an active participant in the Oklahoma State Employees Deferred Compensation Plan is eligible for a contribution of the amount determined by the Oklahoma Legislature, currently the equivalent of \$25 per month. Participation in the Savings Incentive Plan is automatic in the month of participation in the Plan and is not voluntary.

Upon cessation of contributions to the Plan, termination of employment with the State of Oklahoma, retirement, or death, a participant will no longer be eligible for contributions from the State of Oklahoma into the Savings Incentive Plan. Participants are at all times 100% vested in their Savings Incentive Plan account. Participant contributions are not required or permitted.

Qualified participants may make rollover contributions to the Savings Incentive Plan, provided such rollover contributions meet applicable requirements of the IRC. Plan participants may direct the investment of the contributions in available investment options offered by the Savings Incentive Plan. All interest, dividends, and investment fees are allocated to the participants' accounts.

Savings Incentive Plan benefits are paid to participants or beneficiaries upon termination, retirement, or death. Such benefits are based on a participant's account balance and are disbursed in a lump sum or periodic payments or may be rolled over to a qualified plan at the option of the participant or beneficiaries.

## NOTES TO CASH BASIS FINANCIAL STATEMENTS--Continued

### PETROLEUM STORAGE TANK RELEASE INDEMNITY FUND

*(Administered by the Petroleum Storage Tank Division of the Oklahoma Corporation Commission)*

June 30, 2013

#### NOTE H--REQUIRED TRANSFERS UNDER OKLAHOMA STATUTES TITLE 17

As required by Oklahoma Statutes Title 17, the Participating Native American Tribes received 4.5% of the total funds collected from the motor fuel assessment for the years ended June 30, 2013 and 2012, which approximated \$1,435,000 and \$1,450,000, respectively.

As required by Oklahoma Statutes Title 17, the Department of Environmental Quality Revolving Fund received the first 8% of the gross motor fuel assessment collected after the annual payments to the Commission's Revolving Fund and the participating tribes for the years ended June 30, 2013 and 2012, which approximated \$2,357,000 and \$2,454,000, respectively.

The first \$500,000 received each month from the motor fuel assessment after the \$1,000,000 annual payment to the Commission's Revolving Fund and 8% payment to the Department of Environmental Quality Revolving Fund must be paid to the Department of Transportation's Weigh Station Revolving Fund until the revolving fund receives \$81,000,000 in accordance with House Bill 2391. The amount paid to the Department of Transportation's Weigh Station Improvement Revolving Fund for the years ended June 30 was as follows:

	2013	2012
Cumulative amount to be paid, beginning of year	\$ 57,000,000	\$ 33,000,000
Additional amount to be paid per HB 2391	-	30,000,000
Payments during the year	(6,000,000)	(6,000,000)
Cumulative amount to be paid, end of year	<u>\$ 51,000,000</u>	<u>\$ 57,000,000</u>

The LUST Trust Fund Grant pays for the initial cost of cleaning polluted sites when the tank owner cannot be located, is financially unable, or is unwilling to clean the site. After the site is cleaned, application can be made to the Indemnity Fund on behalf of the LUST Trust Fund Grant to recover those funds spent. Recovered funds are spent by the LUST Trust Fund Grant on other remediation projects. At June 30, 2013 and 2012, there was approximately \$223,000 and \$497,000, respectively, paid from the Indemnity Fund to the LUST Trust Fund Grant for such sites.

#### NOTE I--RELATED-PARTY TRANSACTIONS

Included in administrative expenses and claims processing are payments to other state agencies for various goods and services totaling \$366,964 and \$244,368 for the years ended June 30, 2013 and 2012, respectively.

## NOTES TO CASH BASIS FINANCIAL STATEMENTS--Continued

### PETROLEUM STORAGE TANK RELEASE INDEMNITY FUND

*(Administered by the Petroleum Storage Tank Division of the Oklahoma Corporation Commission)*

June 30, 2013

#### NOTE I--RELATED-PARTY TRANSACTIONS--Continued

Effective July 1, 2010, House Bill 1503 authorized the Commission to transfer an amount not to exceed \$2,000,000 from the Indemnity Fund to the Commission for the purpose of performing the duties placed upon the Commission by the Oklahoma Legislature.

#### NOTE J--COMMITMENTS AND CONTINGENCIES

From time to time, the Indemnity Fund is subject to claims and lawsuits which arise primarily in the ordinary course of business. Based on information presently available and advice received from legal counsel in connection with such claims and lawsuits, it is the opinion of management that the disposition or ultimate determination of such claims and lawsuits will not have a material effect on the cash basis financial position of the Indemnity Fund.

**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**

Oklahoma Corporation Commission  
Petroleum Storage Tank Release Indemnity Fund

We have audited, in accordance with the 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, the cash basis financial statements of the governmental activities and the General Fund of the Petroleum Storage Tank Release Indemnity Fund (the "Indemnity Fund"), administered by the Petroleum Storage Tank Division of the Oklahoma Corporation Commission, as of and for the year ended June 30, 2013, and the related notes to the financial statement which collectively comprise the Indemnity Fund's basic financial statements, and have issued our report thereon dated December 20, 2013. Our report was modified to include explanatory paragraphs noting that the financial statements of the Indemnity Fund were prepared on the cash basis of accounting and are intended to present the financial position (cash basis) and changes in financial position (cash basis) of only that portion of the governmental activities and the General Fund of the Petroleum Storage Tank Division of the Oklahoma Corporation Commission that is attributable to the transactions of the Indemnity Fund. In addition, our report was modified to include other matters noting that the Indemnity Fund has not presented management's discussion and analysis.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Indemnity Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Indemnity Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Indemnity Fund's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Indemnity Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Oklahoma Corporation Commission, the Storage Tank Advisory Council, Petroleum Storage Tank Division management, the Office of the Auditor and Inspector of the State of Oklahoma, the Governor, and the Oklahoma Legislature and is not intended to be and should not be used by anyone other than these specified parties.

Cole & Reed P.C.

Oklahoma City, Oklahoma  
December 20, 2013