

**FILED**

DEC 15 2011

State Auditor & Inspector

Re: 70033

**Petroleum Storage Tank  
Release Indemnity Fund**

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

*Cash Basis Financial Statements*

June 30, 2011 and 2010

(With Independent Auditors' Report Thereon)



**PETROLEUM STORAGE TANK RELEASE INDEMNITY FUND**  
**(Administered by the Petroleum Storage Tank Division of**  
**the Oklahoma Corporation Commission)**

**CASH BASIS FINANCIAL STATEMENTS**

---

*Table of Contents*

---

	<u>Page</u>
<u>Independent Auditors' Report</u> .....	1
 <u>Basic Financial Statements</u>	
Balance Sheets—Governmental Funds/ Statements of Net Assets (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
 Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in <u>Accordance with <i>Government Auditing Standards</i></u> .....	20
 <u>Schedule of Current Year and Prior Year Audit Findings</u> .....	22



## INDEPENDENT AUDITORS' REPORT

Oklahoma Corporation Commission  
Petroleum Storage Tank Release Indemnity Fund

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 years ended June 30, 2011 and 2010, which collectively comprise the Indemnity Fund's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Petroleum Storage Tank Division of the Oklahoma Corporation Commission's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States 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 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 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 opinions.

As described in Note 2, the financial statements were prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States, and are not intended to present the financial position and results of operations in conformity with accounting principles generally accepted in the United States.

As discussed in Note 2, the financial statements of the Indemnity Fund 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 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, 2011 and 2010, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States.

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, 2011 and 2010, and the respective changes in cash basis financial position thereof for the years then ended in conformity with the basis of accounting described in the accompanying notes.

(Continued)

## INDEPENDENT AUDITORS' REPORT, CONTINUED

Effective July 1, 2010, the Indemnity Fund implemented Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). As more fully discussed in Note 2, the effect of implementing GASB 54 resulted in certain changes to the presentation of fund balances and certain 2010 fund balances were reclassified to conform to the 2011 presentation.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2011, 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.

Management has omitted the management's discussion and analysis and a budget-to-actual comparison that accounting principles generally accepted in the United States 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.

*Finley + Cook, PLLC*

Shawnee, Oklahoma  
December 6, 2011

**PETROLEUM STORAGE TANK RELEASE INDEMNITY FUND**  
**(Administered by the Petroleum Storage Tank Division of**  
**the Oklahoma Corporation Commission)**

**BALANCE SHEETS—GOVERNMENTAL FUNDS/  
STATEMENTS OF NET ASSETS (CASH BASIS)**

*June 30, 2011 and 2010*

	<u>2011</u>		<u>2010</u>	
	<u>General</u> <u>Fund</u>	<u>Statement of</u> <u>Net Assets</u>	<u>General</u> <u>Fund</u>	<u>Statement of</u> <u>Net Assets</u>
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$ 12,589,301	12,589,301	10,187,692	10,187,692
Total assets	<u>\$ 12,589,301</u>	<u>12,589,301</u>	<u>10,187,692</u>	<u>10,187,692</u>
<b>Liabilities</b>				
Liabilities	\$ -	-	-	-
<b>Fund Balances</b>				
Unassigned	<u>12,589,301</u>		<u>10,187,692</u>	
Total fund balances	<u>12,589,301</u>		<u>10,187,692</u>	
Total liabilities and fund balances	<u>\$ 12,589,301</u>		<u>10,187,692</u>	
<b>Net Assets</b>				
Unrestricted		<u>\$ 12,589,301</u>		<u>10,187,692</u>

See Independent Auditors' Report.  
See accompanying notes to cash basis financial statements.

**PETROLEUM STORAGE TANK RELEASE INDEMNITY FUND**  
**(Administered by the Petroleum Storage Tank Division of**  
**the Oklahoma Corporation Commission)**

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

*Years Ended June 30, 2011 and 2010*

	2011		2010	
	<u>General Fund</u>	<u>Statement of Activities</u>	<u>General Fund</u>	<u>Statement of Activities</u>
Expenditures/expenses:				
Claims reimbursement	\$ 14,098,900	14,098,900	18,428,376	18,428,376
Storage tank inspection and compliance	983,266	983,266	1,569,923	1,569,923
Claims processing	906,210	906,210	824,957	824,957
Administrative expenses	397,120	397,120	433,126	433,126
Allocation to the Oklahoma Corporation Commission	733,890	733,890	1,175,632	1,175,632
Transfers to the Oklahoma Corporation Commission	2,000,000	2,000,000	1,450,000	1,450,000
Total expenditures/expenses	<u>19,119,386</u>	<u>19,119,386</u>	<u>23,882,014</u>	<u>23,882,014</u>
Program revenues:				
Proceeds from motor fuel tax assessment	21,068,126	21,068,126	18,148,390	18,148,390
Interest income	363,331	363,331	450,225	450,225
Deductible on claims	73,442	73,442	100,870	100,870
Other income	16,096	16,096	7,201	7,201
Total program revenues	<u>21,520,995</u>	<u>21,520,995</u>	<u>18,706,686</u>	<u>18,706,686</u>
Changes in fund balances/ net assets	2,401,609	2,401,609	(5,175,328)	(5,175,328)
Fund balances/net assets:				
Beginning of year	<u>10,187,692</u>	<u>10,187,692</u>	<u>15,363,020</u>	<u>15,363,020</u>
End of year	<u>\$ 12,589,301</u>	<u>12,589,301</u>	<u>10,187,692</u>	<u>10,187,692</u>

See Independent Auditors' Report.  
See accompanying notes to cash basis financial statements.

**PETROLEUM STORAGE TANK RELEASE INDEMNITY FUND**  
**(Administered by the Petroleum Storage Tank Division of**  
**the Oklahoma Corporation Commission)**

**NOTES TO CASH BASIS FINANCIAL STATEMENTS**

**June 30, 2011 and 2010**

---

**(1) NATURE OF OPERATIONS AND REPORTING ENTITY**

**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 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.

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

From July 1, 2004, through January 31, 2006, 25% of the assessment on the sale of each gallon of motor fuel, diesel fuel, and blending materials was allocated to higher education as approved by the Oklahoma Legislature. From February 1, 2006, through June 30, 2006, the Indemnity Fund received the full \$0.01 assessment. Effective July 1, 2006, the first \$1,000,000 received in each fiscal year from the \$0.01 assessment on motor fuel, diesel fuel, and blending materials is to be deposited directly into the Commission's revolving fund. Eight percent (8%) of the remainder of the assessment collected during each fiscal year is deposited into the Department of Environmental Quality's revolving fund. The remaining assessment received will be deposited into the Indemnity Fund.

Effective July 1, 2008, House Bill 1423 amended Title 17, Section 352, by defining the "motor fuel" on which the one cent (\$0.01) per gallon assessment is based. The Indemnity Fund was previously funded by a one cent (\$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). 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."

See Independent Auditors' Report.



**PETROLEUM STORAGE TANK RELEASE INDEMNITY FUND**  
**(Administered by the Petroleum Storage Tank Division of**  
**the Oklahoma Corporation Commission)**

**NOTES TO CASH BASIS FINANCIAL STATEMENTS, CONTINUED**

---

**(1) NATURE OF OPERATIONS AND REPORTING ENTITY, CONTINUED**

**Principal Activity, Continued**

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.

In connection with the revenues received by the Indemnity Fund, currently the first \$1,000,000 received in each fiscal year from the one cent (\$0.01) assessment on motor fuel is to be deposited directly into 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 now 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. The remaining portion each month will be deposited into the Indemnity Fund.

The amount paid to the Department of Transportation’s Weigh Station Improvement Revolving Fund for the years ended June 30 was as follows:

	<u>2011</u>	<u>2010</u>
Cumulative amount to be paid, beginning of year	\$ 39,000,000	45,000,000
Payments during the year	<u>(6,000,000)</u>	<u>(6,000,000)</u>
Cumulative amount to be paid, end of year	<u>\$ 33,000,000</u>	<u>39,000,000</u>

**Transfers to the Commission**

Effective July 1, 2009, House Bill 1266 authorized the Commission to transfer \$250,000 from the Indemnity Fund to the Commission for the purpose of performing the duties placed upon the Commission by the Oklahoma Legislature.

Effective March 1, 2010, House Bill 2505 amended Title 17, Section 353, by allowing the administrator of the Commission to transfer funds from the Indemnity Fund in an amount not to exceed \$1,200,000 to the Commission for the purpose of performing the duties placed upon the Commission by the Oklahoma Legislature. This act shall remain in effect until June 30, 2011.

As of June 30, 2010, \$1,450,000 had been transferred from the Indemnity Fund to the Commission, in compliance with House Bills 1266 and 2505.

See Independent Auditors’ Report.

**PETROLEUM STORAGE TANK RELEASE INDEMNITY FUND**  
**(Administered by the Petroleum Storage Tank Division of**  
**the Oklahoma Corporation Commission)**

**NOTES TO CASH BASIS FINANCIAL STATEMENTS, CONTINUED**

---

**(1) NATURE OF OPERATIONS AND REPORTING ENTITY, CONTINUED**

**Transfers to the Commission, 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. As of June 30, 2011, \$2,000,000 had been transferred from the Indemnity Fund to the Commission in compliance with House Bill 1503.

**(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**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 the Governmental Accounting Standards Board (GASB), the Indemnity Fund's financial statements should include the operations of all organizations for which the Indemnity Fund has financial accountability. 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.

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

See Independent Auditors' Report.

**PETROLEUM STORAGE TANK RELEASE INDEMNITY FUND**  
**(Administered by the Petroleum Storage Tank Division of**  
**the Oklahoma Corporation Commission)**

**NOTES TO CASH BASIS FINANCIAL STATEMENTS, CONTINUED**

---

**(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

**Basis of Presentation, Continued**

***Government-Wide Financial Statements***

The statements of net assets 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 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 the 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 and Basis of Accounting**

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded, regardless of the measurement focus applied.

***Measurement Focus***

On the government-wide statements of net assets 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 assets 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 assets 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.

See Independent Auditors' Report.

**PETROLEUM STORAGE TANK RELEASE INDEMNITY FUND**  
**(Administered by the Petroleum Storage Tank Division of**  
**the Oklahoma Corporation Commission)**

**NOTES TO CASH BASIS FINANCIAL STATEMENTS, CONTINUED**

---

**(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

**Measurement Focus and Basis of Accounting, Continued**

*Measurement Focus, Continued*

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.

*Basis of Accounting*

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.

If the aforementioned financial statements were prepared in accordance with accounting principles generally accepted in the United States, 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, fixed 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.

See Independent Auditors’ Report.

**PETROLEUM STORAGE TANK RELEASE INDEMNITY FUND**  
**(Administered by the Petroleum Storage Tank Division of**  
**the Oklahoma Corporation Commission)**

**NOTES TO CASH BASIS FINANCIAL STATEMENTS, CONTINUED**

---

**(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

**Equity Classifications**

*Government-Wide Statements*

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt—consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets—consists of net assets 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.
- c. Unrestricted net assets—all other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.” All net assets 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 asset balances.

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

*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:

- a. Nonspendable fund balance—includes amounts that cannot be spent because they are either 1) not in spendable form or 2) legally or contractually required to be maintained intact.
- b. Restricted fund balance—consists of fund balance with constraints placed on the use of resources 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.

See Independent Auditors’ Report.

**PETROLEUM STORAGE TANK RELEASE INDEMNITY FUND**

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

**NOTES TO CASH BASIS FINANCIAL STATEMENTS, CONTINUED**

**(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

**Equity Classifications, Continued**

*Fund Statements, Continued*

- c. Committed fund balance—the committed fund balance classification reflects 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.
- d. Assigned fund balance—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.
- e. Unassigned fund balance—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 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.

Effective July 1, 2010, the Indemnity Fund implemented GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). The following table shows the fund balance classifications as shown on the governmental funds balance sheets in accordance with GASB 54 for the years ended June 30:

	<u>General Fund</u>	
	<u>2011</u>	<u>2010</u>
Fund balances:		
Unassigned	\$ 12,589,301	10,187,692
 Total fund balances	 \$ 12,589,301	 10,187,692

The fund balance classifications for 2010 were changed to conform with GASB 54.

See Independent Auditors’ Report.

**PETROLEUM STORAGE TANK RELEASE INDEMNITY FUND**

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

**NOTES TO CASH BASIS FINANCIAL STATEMENTS, CONTINUED**

---

**(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

**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, 2011 and 2010, \$12,169,859 and \$9,923,943, respectively, of encumbrances were outstanding.

**Cash and Cash Equivalents**

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

**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.

**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, 2012, the one cent (\$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. During the years ended and as of June 30, 2011 and 2010, the Indemnity Fund was in compliance with the maintenance level.

**Advertising Costs**

All costs associated with advertising are expensed as incurred.

See Independent Auditors' Report.

**PETROLEUM STORAGE TANK RELEASE INDEMNITY FUND**

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

**NOTES TO CASH BASIS FINANCIAL STATEMENTS, CONTINUED**

---

**(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

**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.

**Recent Accounting Pronouncements**

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements* (GASB 62). The objective of GASB 62 is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements.

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedures

The requirements in GASB 62 will improve financial reporting by contributing to GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. GASB 62 is effective for financial statements for periods beginning after December 15, 2011, with earlier application encouraged. The provisions of GASB 62 are required to be applied retroactively for all periods presented.

**Date of Management's Subsequent Events Review**

Management of the Indemnity Fund has evaluated subsequent events through December 6, 2011, the date which the financial statements were available to be issued.

See Independent Auditors' Report.



**PETROLEUM STORAGE TANK RELEASE INDEMNITY FUND**

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

**NOTES TO CASH BASIS FINANCIAL STATEMENTS, CONTINUED**

---

**(3) CASH AND CASH EQUIVALENTS**

Cash and cash equivalents of the Indemnity Fund at June 30 consisted of the following:

	<u>2011</u>	<u>2010</u>
Deposits in OK INVEST	\$ <u>12,589,301</u>	<u>10,187,692</u>

OK INVEST is a fund that is managed by the state treasurer on a pooled basis as part of the deposits of the State of Oklahoma and requires that financial institutions deposit collateral securities to secure the deposits of such cash in each institution. The amount of collateral securities to be pledged for the security is established by rules promulgated by the state treasurer. Deposits are invested overnight in repurchase agreements and other various securities. In accordance with the state treasurer's policies, the amount of collateral securities to be pledged by financial institutions through the state treasurer's office are pledged at market value and must be at 110% of value to collateralize the amount on deposit, less any federal insurance coverage. It is the policy of OK INVEST to invest in only securities with a Moody's credit rating of A or higher.

The custodial credit risk for deposits is the risk that the Indemnity Fund will not be able to recover deposits that are in the possession of any outside party. Deposits are exposed to custodial credit risk if they are not insured or collateralized. At June 30, 2011 and 2010, all of the Indemnity Fund's deposits were held in other governmental agencies, insured, or fully collateralized.

**(4) CLAIMS REIMBURSEMENTS**

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

	<u>2011</u>	<u>2010</u>
Third-party claims	\$ 13,590,214	17,797,321
Suspicion of releases	<u>508,686</u>	<u>631,055</u>
	<u>\$ 14,098,900</u>	<u>18,428,376</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.

See Independent Auditors' Report.

**PETROLEUM STORAGE TANK RELEASE INDEMNITY FUND**  
**(Administered by the Petroleum Storage Tank Division of**  
**the Oklahoma Corporation Commission)**

**NOTES TO CASH BASIS FINANCIAL STATEMENTS, CONTINUED**

**(5) OPERATING EXPENSES**

Operating expenses at June 30 consisted of the following:

	<u>2011</u>		
	<u>Administrative</u> <u>Expenses</u>	<u>Claims</u> <u>Processing</u>	<u>Storage Tank</u> <u>Inspection and</u> <u>Compliance</u>
Salaries and benefits	\$ 366,608	701,018	972,593
Professional services	17,329	116,143	6,892
Other	13,183	89,049	3,781
	<u>\$ 397,120</u>	<u>906,210</u>	<u>983,266</u>
	<u>2010</u>		
	<u>Administrative</u> <u>Expenses</u>	<u>Claims</u> <u>Processing</u>	<u>Storage Tank</u> <u>Inspection and</u> <u>Compliance</u>
Salaries and benefits	\$ 377,096	737,983	1,508,237
Professional services	42,409	33,607	59,582
Other	13,621	53,367	2,104
	<u>\$ 433,126</u>	<u>824,957</u>	<u>1,569,923</u>

**(6) ALLOCATION 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, 2011 and 2010, amounts paid included \$151,007 and \$173,363, respectively, for salaries of personnel in the Office of General Counsel and \$582,883 and \$1,002,269, respectively, for other general and administrative expenses of the Commission.

See Independent Auditors' Report.

**PETROLEUM STORAGE TANK RELEASE INDEMNITY FUND**

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

**NOTES TO CASH BASIS FINANCIAL STATEMENTS, CONTINUED**

---

**(7) 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. 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:

<u>Fiscal Year 2011</u>		<u>Fiscal Year 2010</u>	
<u>State Employees</u>	<u>Indemnity Fund</u>	<u>State Employees</u>	<u>Indemnity Fund</u>
<u>All Salary</u>	<u>All Salary</u>	<u>All Salary</u>	<u>All Salary</u>
3.5%	15.5%	3.5%	15.5%

  

<u>Fiscal Year 2009</u>	
<u>State Employees</u>	<u>Indemnity Fund</u>
<u>All Salary</u>	<u>All Salary</u>
3.5%	14.5%

The Indemnity Fund's contributions to the Retirement Plan for the years ended June 30, 2011, 2010, and 2009, were approximately \$306,000, \$398,000, and \$261,000, respectively, and were equal to its required contributions for each year.

See Independent Auditors' Report.

**PETROLEUM STORAGE TANK RELEASE INDEMNITY FUND**

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

**NOTES TO CASH BASIS FINANCIAL STATEMENTS, CONTINUED**

---

**(8) 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").

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 are 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.

See Independent Auditors' Report.

**PETROLEUM STORAGE TANK RELEASE INDEMNITY FUND**

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

**NOTES TO CASH BASIS FINANCIAL STATEMENTS, CONTINUED**

**(8) OKLAHOMA STATE EMPLOYEES DEFERRED COMPENSATION PLAN AND  
DEFERRED SAVINGS INCENTIVE PLAN, CONTINUED**

**Deferred Compensation Plan, Continued**

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.

Further information may be obtained from the Oklahoma State Employees Deferred Compensation Plan's audited financial statements for the years ended June 30, 2011 and 2010. 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.

See Independent Auditors' Report.

**PETROLEUM STORAGE TANK RELEASE INDEMNITY FUND**  
**(Administered by the Petroleum Storage Tank Division of**  
**the Oklahoma Corporation Commission)**

**NOTES TO CASH BASIS FINANCIAL STATEMENTS, CONTINUED**

---

**(8) OKLAHOMA STATE EMPLOYEES DEFERRED COMPENSATION PLAN AND DEFERRED SAVINGS INCENTIVE PLAN, CONTINUED**

**Deferred Savings Incentive Plan**

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.

**(9) RELATED-PARTY TRANSACTIONS**

Included in administrative expenses and claims processing are payments to other state agencies for various goods and services totaling \$116,085 and \$93,292 for the years ended June 30, 2011 and 2010, respectively.

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, 2011 and 2010, there was approximately \$578,000 and \$104,000, respectively, paid from the Indemnity Fund to the LUST Trust Fund Grant for such sites.

**(10) COMMITMENTS AND CONTINGENCIES**

**Other Legal**

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 financial position of the Indemnity Fund.

See Independent Auditors' Report.

**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 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, 2011, which collectively comprise the Indemnity Fund's basic financial statements and have issued our report thereon dated December 6, 2011. Our report includes a paragraph noting that the financial statements were prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States, and an explanatory paragraph stating that the financial statements of the Indemnity Fund are intended to present the financial position and 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 that is attributable to the transactions of the Indemnity Fund. In addition, our report includes a paragraph noting that the management of the Indemnity Fund has omitted management's discussion and analysis and a budget-to-actual comparison that accounting principles generally accepted in the United States require to be presented to supplement the basic financial statements. Also, our report includes a paragraph noting the Indemnity Fund's implementation of GASB 54. We conducted our audit in accordance with auditing standards generally accepted in the United States 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 Indemnity Fund's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Indemnity Fund's internal control over financial reporting.

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

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

(Continued)

**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, CONTINUED**

**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.

*Finley + Cook, PLLC*

Shawnee, Oklahoma  
December 6, 2011



**PETROLEUM STORAGE TANK RELEASE INDEMNITY FUND**  
**(Administered by the Petroleum Storage Tank Division of**  
**the Oklahoma Corporation Commission)**

**SCHEDULE OF CURRENT YEAR AND PRIOR YEAR AUDIT FINDINGS**

---

*Year Ended June 30, 2011*

---

**Current Year**

There were no findings noted during the year ended June 30, 2011.

**Prior Year**

There were no findings noted during the year ended June 30, 2010.