Report 06-14
December 2006

An Audit

Petroleum Inspection Fee Revenue Obligations Program

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State Auditor - Janice Mueller

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Janice Mueller
State Auditor

December 5, 2006

Senator Carol A. Roessler and
Representative Suzanne Jeskewitz, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator Roessler and Representative Jeskewitz:

At the request of the departments of Commerce and Administration, and in accordance with s. 13.94(1s), Wis. Stats., we have completed a financial audit of the State of Wisconsin Petroleum Inspection Fee Revenue Obligations Program for the fiscal years ending June 30, 2006, and June 30, 2005. We express our unqualified audit opinion on the Statement of Changes in Program Assets and related notes.

Since the program began in 2000, the State has issued $387.6 million in revenue obligations, such as bonds and commercial paper, to provide financing for payment of claims under the Wisconsin Petroleum Environmental Cleanup Fund Award (PECFA) program. These revenue obligations are not general obligation debt of the State. Instead, they are to be repaid primarily from the fee collected by the Department of Revenue from suppliers of petroleum products sold in Wisconsin. This fee, which is established in s. 168.12(1), Wis. Stats., was reduced from $0.03 per gallon to $0.02 per gallon effective April 1, 2006, as provided for in 2005 Wisconsin Acts 25 and 85.

Petroleum inspection fees are initially credited to the Transportation Fund. They are then transferred by the Department of Revenue to the trustee of the Petroleum Inspection Fee Revenue Obligations Program. After satisfying debt service requirements, the trustee transfers any remaining fees back to the State for deposit to the Petroleum Inspection Fund. We found that the Department of Revenue erroneously transferred amounts in excess of actual petroleum inspection fee collections to the trustee. As a result, the Petroleum Inspection Fund was incorrectly credited for amounts that should have remained in the Transportation Fund. An estimate to correct for this error has already been included in the State's Annual Fiscal Report for 2005-06, published by the Department of Administration in October 2006. In a separate audit communication, we include recommendations for the Department of Revenue to calculate actual excess transfers and make necessary adjustments to the State's central accounting records.

We appreciate the courtesy and cooperation extended to us during the audit by staff of the departments of Commerce, Administration, and Revenue.

Respectfully submitted,

Janice Mueller

Janice Mueller
State Auditor

JM/BN/ss

Audit Opinion ▪

Independent Auditor's Report on the Statement of Changes in Program Assets of the State of Wisconsin Petroleum Inspection Fee Revenue Obligations Program

We have audited the accompanying Statement of Changes in Program Assets of the State of Wisconsin Petroleum Inspection Fee Revenue Obligations Program for the years ended June 30, 2006, and June 30, 2005. This financial statement is the responsibility of the program's management. Our responsibility is to express an opinion on the financial statement based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statement is 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 opinion.

As discussed in Note 1, the Statement of Changes in Program Assets presents only the Petroleum Inspection Fee Revenue Obligations Program and does not purport to, and does not, present fairly the financial position of the State of Wisconsin and the changes in its financial position and its cash flows, where applicable, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2, the program's policy is to prepare its financial statement on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the Statement of Changes in Program Assets presents fairly, in all material respects, the Petroleum Inspection Fee Revenue Obligations Program's assets as of June 30, 2006, and June 30, 2005, and the program's receipts and disbursements for the fiscal years then ended, on the cash basis of accounting.

Our audits were conducted for the purpose of forming an opinion on the Statement of Changes in Program Assets of the Petroleum Inspection Fee Revenue Obligations Program. The supplementary information included as Management's Discussion and Analysis on pages 5 through 9 is presented for purposes of additional analysis and is not a required part of the financial statement. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 28, 2006, on our consideration of the program's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

LEGISLATIVE AUDIT BUREAU

November 28, 2006 by Bryan Naab

Bryan Naab
Audit Director

Management's Discussion and Analysis ▪

Prepared by Management of the Petroleum Inspection Fee Revenue Obligations Program

Management's Discussion and Analysis (MD&A) is intended to provide users of the State of Wisconsin Petroleum Inspection Fee Revenue Obligations Program's Statement of Changes in Program Assets with a narrative overview of the statement, as well as an analysis of some key data presented in the statement. The MD&A should be read in conjunction with the accompanying financial statement and notes. The financial statement, notes, and this discussion are the responsibility of the program's management.

Overview of the Statement of Changes in Program Assets

The Statement of Changes in Program Assets of the State of Wisconsin Petroleum Inspection Fee Revenue Obligations Program is intended to show the changes in the program's assets for fiscal years (FYs) 2005-06 and 2004-05. Accounting for the program is done outside the State of Wisconsin's central accounting system.

The Statement of Changes in Program Assets presents the program's receipts and disbursements on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States. Under the cash basis of accounting, receipts are recorded when received and disbursements are recorded when paid. Both the financial position and the activity of the program are presented on the cash basis of accounting to provide a meaningful presentation to bondholders and extendible municipal commercial paper noteholders regarding resources available to pay debt service. The notes to the financial statement provide additional information that is essential for a full understanding of the data provided in the financial statement.

Noteworthy Financial Activity

The program originated in January 2000 pursuant to a State of Wisconsin Building Commission program resolution adopted on January 19, 2000, amended and restated on May 2, 2000, and further amended on July 30, 2003. The purpose of the program is to provide financing for the payment of claims under the State of Wisconsin Petroleum Environmental Cleanup Fund Award (PECFA) program, which is administered by the Wisconsin Department of Commerce and accounted for in the Petroleum Inspection Fund. The Building Commission may from time to time adopt supplemental resolutions authorizing the issuance of revenue obligations and revenue refunding obligations.

The program resolution establishes special trust funds and accounts and fiduciary responsibilities that are to be undertaken by a trustee for the benefit of the bondholders, extendible municipal commercial paper noteholders, and holders of any other obligations that may be issued. The Bank of New York has been appointed as the trustee for the revenue obligations. The trustee is responsible for maintaining the trust funds in accordance with the program resolution.

As shown in Table A, the program's assets as of June 30, 2004, June 30, 2005, and June 30, 2006, were $27.6 million, $26.6 million, and $66.1 million, respectively. Program assets are classified as reserved for debt service or unreserved.

Table A

Program Assets

	June 30, 2004	June 30, 2005	Percentage Change, 2004 to 2005	June 30, 2006	Percentage Change, 2005 to 2006
Program Assets Reserved for Debt Service:					
Demand deposits	$19,034,145	$26,444,512	38.9%	$55,949,997	111.6%
Investments	4,104,816	128,400	(96.9)	10,126,184	7,786.4
Total	23,138,961	26,572,912	14.8	66,076,181	148.7
Unreserved Program Assets:					
Demand deposits	4,503,281	6,093	(99.9)	3,428	(43.7)
Total Program Assets, June 30	$27,642,242	$26,579,005	(3.8)	$66,079,609	148.6

Program assets reserved for debt service are available to pay principal and interest of revenue obligations. Reserved funds may be invested in direct obligations of the United States or held in demand deposit accounts. The amount held in reserve as of June 30, 2005, increased by 14.8 percent from the amount held as of June 30, 2004, primarily because of an increase in debt service requirements. Program assets held in reserve as of June 30, 2006, increased 148.7 percent over the amount held as of June 30, 2005, primarily due to the transfers of funds from the State to the trustee to provide for the early redemption of revenue obligations after June 30, 2006, as discussed later.

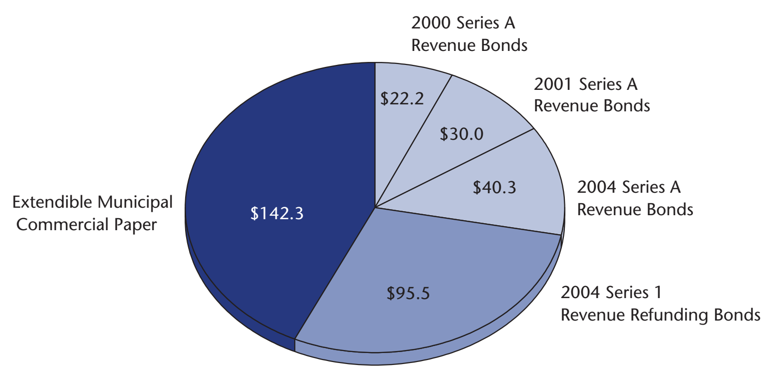
The program's revenue obligations are issued pursuant to Subchapter II of Chapter 18, Wis. Stats.; s. 101.143(9m), Wis. Stats.; and the program resolution and supplemental resolutions adopted by the State of Wisconsin Building Commission. The revenue obligations are payable from, and primarily secured by, petroleum inspection fees, as received by the trustee, that suppliers are charged on petroleum products received for sale in Wisconsin. The revenue obligations are not general obligations of the State of Wisconsin.

During FYs 2005-06 and 2004-05, no additional bonds or extendible municipal commercial paper were issued. As of June 30, 2006, a total of $387.6 million of revenue obligations had been issued under the program resolution and the supplemental resolutions to pay PECFA claims, to pay issuance or administrative expenses, to make deposits to reserve funds, or to pay accrued or capitalized interest.

A portion of the revenue bonds issued has already been repaid, and as of June 30, 2006, the total revenue obligations outstanding were $330.3 million, consisting of $92.5 million of revenue bonds, $95.5 million of revenue refunding bonds, and $142.3 million of extendible municipal commercial paper. Figure A displays the obligations outstanding as of June 30, 2006, by type (revenue bond or commercial paper) and series.

Figure A

Petroleum Inspection Fee Revenue Obligations Outstanding as of June 30, 2006
(In Millions)



As of June 30, 2005, revenue obligations outstanding totaled $348.5 million, consisting of $110.7 million of revenue bonds, $95.5 million of revenue refunding bonds, and $142.3 million of extendible municipal commercial paper.

On December 16, 2005, the State transferred approximately $30.1 million from the Petroleum Inspection Fund to the trustee. Those funds were invested to provide for the payment on July 1, 2006, of principal, interest, and any redemption premium on the early redemption of $15.0 million of 2001 Series A Petroleum Inspection Fee Revenue Bonds with a maturity date of July 1, 2007, and $15.0 million of 2001 Series A Petroleum Inspection Fee Revenue Bonds with a maturity date of July 1, 2008. In addition, on June 22, 2006, the State transferred $8.0 million from the Petroleum Inspection Fund to the trustee. Those funds were invested to provide for the payment on August 1, 2006, of principal, interest, and any redemption premium on the early redemption of $7.9 million of 2000 Series A Petroleum Inspection Fee Revenue Bonds, maturing on July 1, 2012. Consequently, $37.9 million in bonds will be redeemed during FY 2006-07 in addition to the already required debt service payments.

The debt service coverage ratio, calculated as the ratio of petroleum inspection fees remitted by the State to the trustee divided by the senior debt service payments made during each fiscal year, was 3.60 in FY 2005-06 and 4.41 in FY 2004-05. The ratios were based on $114,948,709 and $115,900,632 of petroleum inspection fees remitted by the State to the trustee, and $31,933,524 and $26,290,295 of total senior debt service, respectively, in each of those years.

Petroleum inspection fees not retained by the trustee for debt service are transferred to the State by the trustee and are used up to the amount authorized by statute to pay PECFA claims, PECFA administrative costs, and other costs and transfers, including transfers to the trustee to redeem revenue obligations early. The petroleum inspection fees transferred to the State were $92.2 million in FY 2003-04, $86.4 million in FY 2004-05, and $82.7 million in FY 2005-06, as shown in Table B.

Table B

Petroleum Inspection Fees

	FY 2003-04	FY 2004-05	Percentage Change, FY 2003-04 to FY 2004-05	FY 2005-06	Percentage Change, FY 2004-05 to FY 2005-06
Petroleum Inspection Fees Remitted by the State to the Trustee	$116,634,054	$115,900,632	(0.6)%	$114,948,709	(0.8)%
Petroleum Inspection Fees Retained by the Trustee	24,464,311	29,547,089	20.8	32,279,060	9.2
Petroleum Inspection Fees Transferred by the Trustee to the State	$ 92,169,743	$ 86,353,543	(6.3)	$ 82,669,649	(4.3)

The petroleum inspection fees remitted to the trustee have remained relatively constant, while an increasing amount of the fees has been needed to fund debt service. As a result, the amount of fees transferred to the State declined 6.3 percent between FY 2003-04 and FY 2004-05, and 4.3 percent between FY 2004-05 and FY 2005-06.

During FY 2005-06, $24.8 million in claims was paid from petroleum inspection fees transferred to the State. This amount represents a decrease of 36.7 percent from the $39.2 million paid from the fees in FY 2004-05 and is the result of a decline in claims volume. No claims were paid from the proceeds of revenue obligations and interest and investment income during FY 2005-06, while $4.5 million was paid from these funds in FY 2004-05.

As of June 30, 2006, approved but unpaid claims totaled $0.8 million, which is $1.9 million less than at June 30, 2005. Approximately $6.2 million of claims submitted to the Department of Commerce had yet to be both reviewed and approved. The Department estimates that approximately $32.7 million of additional claims had not been submitted as of June 30, 2006, for costs that landowners had already incurred as of that date.

2005 Wisconsin Acts 25 and 85 amend s. 168.12(1), Wis. Stats., by reducing the petroleum inspection fee—which is the primary source of payment on the debt service for the petroleum inspection fee revenue obligations—from $0.03 per gallon to $0.02 per gallon effective April 1, 2006. Had a petroleum inspection fee of $0.02 per gallon been in effect for all of FY 2005-06 and FY 2004-05, the inspection fees collected for each year would have been approximately $79.2 million and $77.3 million, respectively.

On September 1, 2005, Standard and Poor's Rating Services, one of three rating agencies that have assigned ratings to the State of Wisconsin's petroleum inspection fee revenue obligations, revised its long-term rating outlook on the bonds from stable to negative. The rationale for this change was the impairment of pledged petroleum inspection fee revenues due to the reduction in the per gallon fee included in 2005 Wisconsin Act 25, resulting in reduced coverage of debt service. At that time, Standard and Poor's affirmed its "AA-" long-term rating on the petroleum inspection fee revenue bonds.

On December 19, 2005, Standard and Poor's revised its long-term outlook on the bonds from negative to stable. The rationale for this change was improvement in the projected coverage of maximum annual debt service following a transfer made by the State on December 16, 2005, which provides for the early redemption of two large bond maturities. At that time, Standard and Poor's again affirmed its "AA-" long-term rating on the petroleum inspection fee revenue bonds.

On October 5, 2006, Standard and Poor's revised its long-term rating on the bonds from "AA-" to "AA," in part because fuel sales were relatively stable even during periods of high fuel prices. On that date, the rating on the extendible municipal commercial paper was affirmed at "A-1+."

■ ■ ■ ■

Financial Statement ■

Statement of Changes in Program Assets for the Fiscal Years Ended June 30, 2006 and 2005

	Fiscal Year 2005-06		Fiscal Year 2004-05	
Program Assets, July 1		$ 26,579,005		$ 27,642,242
RECEIPTS				
Proceeds from Sale of Revenue Obligations		0		0
Petroleum Inspection Fees Remitted by the State of Wisconsin to the Trustee	$ 114,948,709		$ 115,900,632	
Less: Petroleum Inspection Fees Transferred from the Trustee to the State of Wisconsin Petroleum Inspection Fund (see Note 7)	(82,669,649)		(86,353,543)	
Petroleum Inspection Fees Retained by the Trustee		32,279,060		29,547,089
Interest and Investment Income		1,115,920		297,352
Transfer from Petroleum Inspection Fund		38,156,504		0
Total Receipts		**71,551,484**		**29,844,441**
TOTAL PROGRAM ASSETS AVAILABLE		**98,130,489**		**57,486,683**
DISBURSEMENTS				
Transfers of Proceeds from Sale of Revenue Obligations and Interest and Investment Income to the State of Wisconsin Petroleum Inspection Fund		0		4,470,776
Debt Service (see Note 5):				
Senior debt service–bond principal	18,205,000		12,735,000	
Senior debt service–bond interest	9,581,888		11,186,846	
Senior debt service–commercial paper interest	4,146,636		2,368,449	
Junior subordinate debt service–commercial paper principal	0		0	
Total Debt Service		31,933,524		26,290,295
Debt Issuance Costs		0		28,459
Other Costs		117,356		118,148
Total Disbursements		**32,050,880**		**30,907,678**
Program Assets Reserved for Debt Service (see Note 4)	66,076,181		26,572,912	
Unreserved Program Assets (see Note 4)	3,428		6,093	
PROGRAM ASSETS, JUNE 30		**$ 66,079,609**		**$ 26,579,005**

The accompanying notes are an integral part of this statement.

Notes to the Statement of Changes in Program Assets ■

1. Description of the Program

The State of Wisconsin Petroleum Inspection Fee Revenue Obligations Program, which is administered jointly by the Wisconsin Department of Commerce and the Wisconsin Department of Administration, originated in January 2000, pursuant to the State of Wisconsin Building Commission Program Resolution for State of Wisconsin Petroleum Inspection Fee Revenue Obligations, adopted on January 19, 2000, and amended and restated on May 2, 2000, and further amended on July 30, 2003. The Building Commission may from time to time adopt supplemental resolutions authorizing the issuance of revenue obligations up to the aggregate amount authorized by Wisconsin Statutes and revenue refunding obligations. The purpose of the program is to provide financing for the payment of claims under the State of Wisconsin Petroleum Environmental Cleanup Fund Award (PECFA) program, which is administered by the Wisconsin Department of Commerce.

The program resolution establishes special trust funds and accounts and fiduciary responsibilities that are to be undertaken by a trustee for the benefit of the bondholders, extendible municipal commercial paper noteholders, and holders of any other obligations that may be issued. The Bank of New York has been appointed as the trustee for the revenue obligations. The trustee is responsible for maintaining the trust funds in accordance with the program resolution, which requires investments of trust fund balances to be in accordance with directives established by the program resolution. The Bank of New York is also the registrar for the revenue obligations. In addition, The Bank of New York is the issuing and paying agent for revenue bonds; U.S. Bank Trust National Association is the issuing and paying agent for extendible municipal commercial paper.

Revenue bond and extendible municipal commercial paper proceeds are held by the trustee until the Department of Commerce and the Department of Administration request the trustee to remit specific amounts to the State to pay PECFA claims.

The petroleum inspection fee revenue obligations are payable from, and primarily secured by, petroleum inspection fees that result from a fee authorized in s. 168.12(1), Wis. Stats., to be charged suppliers for petroleum products received for sale in Wisconsin. Prior to April 2006, the fee was $0.03 per gallon. However, effective April 1, 2006, it was reduced to $0.02 per gallon as required by 2005 Wisconsin Acts 25 and 85. Petroleum inspection fees are paid monthly by suppliers to the Wisconsin Department of Revenue, which subsequently forwards them to the program's trustee.

All revenues and assets of the program are restricted for the purposes provided by the program resolution under which the revenue obligations are issued. The trustee transfers fees in excess of the amount needed to meet debt service requirements and pay Petroleum Inspection Fee Revenue Obligations Program administrative costs to the State of Wisconsin Petroleum Inspection Fund. The Department of Commerce uses the transferred fees to pay PECFA claims, PECFA program administrative costs, and other costs and transfers, including transfers to the trustee to redeem revenue obligations early.

The Statement of Changes in Program Assets presents only the Petroleum Inspection Fee Revenue Obligations Program and is not intended to present fairly the financial activity of the State of Wisconsin.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Statement of Changes in Program Assets presents the Petroleum Inspection Fee Revenue Obligations Program's receipts and disbursements on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States. Under the cash basis of accounting, receipts are recorded when received and disbursements are recorded when paid. The program's assets may include cash, consisting of demand deposits held by The Bank of New York and U.S. Bank Trust National Association, and investments valued at historical cost. The financial position and activity of the program is presented on the cash basis of accounting to provide a meaningful presentation to bondholders and extendible municipal commercial paper noteholders regarding resources available to pay debt service.

3. DEPOSITS AND INVESTMENTS

GASB Statement Number 40, *Deposit and Investment Risk Disclosures*, requires disclosures related to custodial credit risk and other investment risks, including credit, concentration of credit, and interest rate risks. The program's deposit and investment policies are governed by Wisconsin

Statutes and the program resolution. The program is authorized by Wisconsin Statutes and the program resolution to deposit funds with the trustee and the commercial paper issuing and paying agent. The program is also authorized by Wisconsin Statutes and the program resolution to invest funds reserved for debt service in direct obligations of the United States. In addition, the program is authorized to invest funds not reserved for debt service in direct obligations of the United States, high-quality corporate commercial paper, certificates of deposit, and other investments authorized under s. 25.17(3)(b), Wis. Stats., and permitted by the program resolution.

As of June 30, 2006, the demand deposit accounts with the trustee and the commercial paper issuing and paying agent totaled $55,953,425. As of June 30, 2005, the demand deposit accounts with the trustee and the commercial paper issuing and paying agent totaled $26,450,605. Each year, $200,000 was insured against loss by the Federal Deposit Insurance Corporation (FDIC). The remaining $55,753,425 as of June 30, 2006, and $26,250,605 as of June 30, 2005, was not insured or collateralized.

As of June 30, 2006, the program held investments, purchased for $10,126,184, consisting of U.S. Treasury Bills and Notes with a combined total face value of $10,182,000. These investments were registered and held by the program's agent in the program's name. As of June 30, 2006, these investments had a fair market value of $10,129,550. U.S. Treasury Bills in the amount of $1,686,000, to be used for scheduled debt service payments, mature on June 30, 2007. U.S. Treasury Notes in the amount of $7,972,000, to be used for the early redemption of the 2000 Series A Petroleum Inspection Fee Revenue Bonds, mature on July 31, 2006. U.S. Treasury Notes in the amount of $524,000, to be used for scheduled debt service payments, mature on December 14, 2006.

As of June 30, 2005, the program held investments purchased for $128,400 consisting of U.S. Treasury Notes with a face value of $128,000. These investments were registered and held by the program's agent in the program's name. As of June 30, 2005, the fair market value of these investments was $127,035, and they were scheduled to mature on December 31, 2005.

4. PROGRAM ASSETS

Program assets required to be held in the various interest and principal redemption accounts at the trustee and the issuing and paying agents are reported as Program Assets Reserved for Debt Service. Program assets in excess of those reserved for debt service are reported as Unreserved Program Assets. The program's unreserved assets are available for transfer to the State of Wisconsin Petroleum Inspection Fund to pay PECFA claims. In addition, the program's unreserved assets are available to pay debt issuance costs or administrative costs of the program.

As of June 30, 2006, the program's assets totaled $66,079,609. Of this amount, $66,076,181, consisting of demand deposits of $55,949,997 and investments acquired for $10,126,184, was reserved for debt service. The remaining $3,428, consisting of demand deposits, was unreserved.

As of June 30, 2005, the program's assets totaled $26,579,005. Of this amount, $26,572,912, consisting of demand deposits of $26,444,512 and investments acquired for $128,400, was reserved for debt service. The remaining $6,093, consisting of demand deposits, was unreserved.

5. REVENUE BONDS AND EXTENDIBLE MUNICIPAL COMMERCIAL PAPER

The program's revenue obligations are issued pursuant to Subchapter II of Chapter 18, Wis. Stats.; s. 101.143(9m), Wis. Stats.; and the program resolution and supplemental resolutions adopted by the State of Wisconsin Building Commission. The revenue obligations are payable from, and primarily secured by, petroleum inspection fees that suppliers are charged on petroleum products received for sale in Wisconsin (see also Note 7). The revenue obligations are not general obligations of the State.

The senior revenue bonds issued by the program and outstanding as of June 30, 2006, were as follows:

Senior Revenue Bonds

Date Issued	Series	Interest Rates	Maturity Through	First Optional Redemption Date	Amount Issued	June 30, 2006 Amount Outstanding
03/02/2000	2000 Series A	5.25 to 6.0%	7/1/2012	07/01/2005	$170,250,000	$ 22,190,000
12/18/2001	2001 Series A	5.0	7/1/2008	07/01/2006	30,000,000	30,000,000
02/04/2004	2004 Series A	3.0 to 5.0	7/1/2012	07/01/2009	45,000,000	40,290,000
05/20/2004	2004 Series 1	3.0 to 5.0	7/1/2012	07/01/2009	95,470,000	95,470,000
			Total Senior Revenue Bonds		$340,720,000	$187,950,000

The 2000 Series A Petroleum Inspection Fee Revenue Bonds maturing on or after July 1, 2006, are and have been subject to optional redemption since July 1, 2005, at prices ranging from 102 to 100 percent of the face value plus accrued interest. The 2001 Series A Petroleum Inspection fee Revenue Bonds are subject to optional redemption on or after July 1, 2006, at a price of 100 percent of the face value plus accrued interest. The 2004 Series A Petroleum Inspection Fee Revenue Bonds maturing on or after July 1, 2010, are subject to optional redemption on or after July 1, 2009, at prices ranging from 102 to 100 percent of the face value plus accrued interest. The 2004 Series 1 Petroleum Inspection Fee Revenue Refunding Bonds, maturing on or after July 1, 2010, are subject to optional redemption on or after July 1, 2009, at prices ranging from 102 to 100 percent of the face value plus accrued interest.

During the fiscal years ended June 30, the following changes occurred in revenue bonds outstanding:

Fiscal Year	Balance July 1	Bonds Issued	Principal Redeemed	Balance June 30
2004-05	$218,890,000	$0	$12,735,000	$206,155,000
2005-06	206,155,000	0	18,205,000	187,950,000

In FY 2005-06, the State announced its intention to call certain maturities for early redemption and transferred funds available in the Petroleum Inspection Fund to the trustee. $15.0 million of the 2001 Series A Petroleum Inspection Fee Revenue Bonds with a scheduled maturity date of July 1, 2007, and $15.0 million of the 2001 Series A Petroleum Inspection Fee Revenue Bonds with a scheduled maturity date of July 1, 2008, will be redeemed early on July 1, 2006. $7,885,000 of the 2000 Series A Petroleum Inspection Fee Revenue Bonds with a scheduled maturity date of July 1, 2012, will be redeemed early on August 1, 2006. The program's future debt service requirements as of June 30, 2006, for principal and interest for Petroleum Inspection Fee Revenue Bonds 2000 Series A, 2001 Series A, 2004 Series A, and 2004 Series 1 are as shown on the following table, which includes and reflects the intended optional redemptions expected to occur on July 1, 2006, and August 1, 2006.

Future Debt Service on Revenue Bonds

Fiscal Year Ending June 30	Principal Amount	Interest Amount	Total Debt Service on Bonds
2007	$ 57,660,000	$ 7,665,383	$ 65,325,383
2008	20,270,000	5,671,325	25,941,325
2009	21,280,000	4,685,825	25,965,825
2010	22,350,000	3,622,350	25,972,350
2011	23,470,000	2,506,925	25,976,925
2012	24,635,000	1,365,950	26,000,950
2013	18,285,000	390,825	18,675,825
Total	$187,950,000	$25,908,583	$213,858,583

The program may also issue extendible municipal commercial paper, which may have maturities from 1 to 180 days and is not callable prior to maturity. The principal of and interest on the extendible municipal commercial paper will be paid at maturity unless the State exercises its option to extend the maturity date to a date that is up to 270 days after the original issue date. New (rollover) extendible municipal commercial paper may be issued to pay the principal due on maturing extendible municipal commercial paper. Each note bears interest from its date of issuance, at the rate determined on the date of issuance.

Interest payments on extendible municipal commercial paper are on parity with the payments on the senior bonds. Principal on extendible municipal commercial paper has a junior subordinate pledge and is payable from proceeds of rollover notes, issuance of refunding senior bonds, certain moneys held by the trustee, or other funds made available by the State for this purpose.

The following table presents the extendible municipal commercial paper activity for FY 2005-06 and FY 2004-05.

Fiscal Year	Balance July 1	Commercial Paper Issued	Principal Repaid	Balance June 30
2004-05	$142,300,000	$0	$0	$142,300,000
2005-06	142,300,000	0	0	142,300,000

As of June 30, 2006, the $142,300,000 in outstanding extendible municipal commercial paper had interest rates ranging from 3.45 percent to 3.70 percent, and maturities ranging from July 25, 2006, to September 7, 2006. As of June 30, 2005, the $142,300,000 in outstanding extendible municipal commercial paper had interest rates ranging from 2.48 percent to 2.95 percent, and maturities ranging from July 7, 2005, to August 10, 2005.

Additional series of senior bonds may be issued on parity with the current bond series outstanding and collateralized by an equal lien on the petroleum inspection fees. However, no additional series, other than refunding bonds and bonds issued to fund outstanding extendible municipal commercial paper, may be issued unless, among other things, the debt service coverage ratio, as defined in the program resolution, is at least 2.0.

Each month that variable-rate debt, such as the extendible municipal commercial paper, is outstanding, the State is required by the program resolution to provide to the trustee a certificate setting forth the program's "variable rate takeout capacity" and "variable rate debt exposure." The "variable rate takeout capacity" measures the State's ability, given certain conservative interest rate assumptions, to convert variable-rate debt to fixed-rate debt. "Variable rate debt exposure" measures the program's outstanding variable-rate debt. This certification was required and performed each month during FY 2005-06 and FY 2004-05. Because the program's ability to convert variable-rate debt to fixed-rate debt was higher than the amount of variable-rate debt outstanding each month, as evidenced by the program's variable-rate takeout capacity, the State needed to take no further action. For June 2006, the program's variable-rate takeout capacity was calculated to be $251,025,910, which was $108,725,910 higher than the variable-rate debt exposure of $142,300,000. For June 2005, the program's variable-rate takeout capacity was calculated to be $399,880,323, which was $257,580,323 higher than the variable-rate debt exposure of $142,300,000. The decline in the program's variable-rate takeout capacity is largely due to the reduction in the per gallon petroleum inspection fee, which caused projected petroleum inspection fees used in the calculation to be lower in June 2006 than in June 2005.

6. DEBT AUTHORITY FOR THE PROGRAM

In addition to the petroleum inspection fee revenue obligations issued through June 30, 2006, Wisconsin Statutes authorize the program to issue additional revenue obligations of up to $49,076,000, plus an additional amount to pay issuance and administrative costs, make any necessary deposits to reserve funds, or pay accrued or capitalized interest. Further, the State of Wisconsin Building Commission has authorized the program to issue revenue bonds to fund any or all of the outstanding extendible municipal commercial paper and to issue up to $26,845,000 in revenue refunding bonds to refund currently outstanding bonds, plus an additional amount not to exceed $550,000 to pay issuance and administrative costs, make any necessary deposits to reserve funds, or pay accrued or capitalized interest related to revenue refunding bonds.

7. PETROLEUM INSPECTION FEES

Petroleum inspection fees result from the fees imposed under s. 168.12(1), Wis. Stats., and payments received under ss. 101.143(4)(h)1m, 101.143(5)(a), and 101.143(5)(c), Wis. Stats. Under s. 168.12(1), Wis. Stats., a $0.03 per gallon fee was imposed by the State on suppliers for petroleum products received for sale in Wisconsin. 2005 Wisconsin Acts 25 and 85 amended s. 168.12(1), Wis. Stats., by reducing the petroleum inspection fee imposed from $0.03 per gallon to $0.02 per gallon, effective April 1, 2006. The per gallon fees are paid to the State of Wisconsin Department of Revenue by suppliers along with motor fuel taxes. The Department of Revenue determines the amount collected for the per gallon fees and remits it to the program's trustee on a monthly basis. For certain months during FY 2005-06 and FY 2004-05, the Department of Revenue transferred $8.8 million to the trustee and intended to make adjustments in subsequent months when actual collections became known. Because of an oversight, the amounts of the adjustment were not precisely determined and applied during FY 2005-06. Nevertheless, management believes the amounts actually transferred are at least equal to fees collected and attributable to that fiscal year.

The other petroleum inspection fees consist of penalty payments made under s. 101.143(4)(h)1m, Wis. Stats., by consultants for submitting claims for ineligible costs; proceeds under s. 101.143(5)(a), Wis. Stats., from the sale of remedial equipment and supplies that had originally been paid for by PECFA awards; and net recoveries under s. 101.143(5)(c), Wis. Stats., related to the Wisconsin Attorney General's actions against fraudulent claims. In FY 2005-06, these other petroleum inspection fees totaled $19,705 and were made available to the trustee. These fees were not transferred to the trustee because the trustee indicated that no deficiencies existed in any of the program's accounts held by the trustee, which would require the transfer of the fees. In FY 2004-05, these other fees totaled $245,761 and were transferred to the trustee. However, because no deficiencies existed in any of the program's accounts at the time of transfer, they were immediately transferred back to the State.

The trustee transfers the petroleum inspection fees in excess of the amount needed to meet debt service requirements and to pay administrative costs of the Petroleum Inspection Fee Revenue Obligations Program to the State of Wisconsin Petroleum Inspection Fund, free of the first lien pledge of the program resolution. The Department of Commerce uses the fees transferred to the State of Wisconsin Petroleum Inspection Fund to pay PECFA claims, PECFA program administrative costs, and other costs and transfers, including transfers to the trustee to redeem revenue bonds early.

From July 1, 2004, through June 30, 2006, the following amounts of petroleum inspection fees were remitted by the Wisconsin Department of Revenue to the trustee, retained by the trustee to meet debt service requirements and pay Petroleum Inspection Fee Revenue Obligations Program administrative costs, and transferred by the trustee to the State of Wisconsin Petroleum Inspection Fund.

Month	Petroleum Inspection Fees Remitted by the State to the Trustee	Petroleum Inspection Fees Retained by the Trustee	Petroleum Inspection Fees Transferred by the Trustee to the State
July 2005	$ 9,343,515	$ 2,727,820	$ 6,615,695
August	8,800,000	2,724,327	6,075,673
September	8,810,111	2,726,328	6,083,783
October	11,462,817	2,750,663	8,712,154
November	8,800,000	2,767,327	6,032,673
December	11,889,398	2,642,327	9,247,071
January 2006	15,915,173	2,510,182	13,404,991
February	10,029,942	2,664,672	7,365,270
March	8,299,072	2,662,783	5,636,289
April	8,800,000	2,687,824	6,112,176
May	6,147,047	2,729,376	3,417,671
June	6,651,634	2,685,431	3,966,203
Total FY 2005-06	$114,948,709	$32,279,060	$82,669,649
July 2004	$ 8,800,000	$ 2,383,156	$ 6,416,844
August	11,393,340	2,382,855	9,010,485
September	8,783,390	2,444,155	6,339,235
October	8,800,000	2,456,156	6,343,844
November	13,351,929	2,511,056	10,840,873
December	8,724,095	2,455,838	6,268,257
January 2005	9,316,866	2,449,778	6,867,088
February	10,118,832	2,441,074	7,677,758
March	10,058,425	2,432,874	7,625,551
April	8,179,391	2,457,674	5,721,717
May	9,328,603	2,427,146	6,901,457
June	9,045,761	2,705,327	6,340,434
Total FY 2004-05	$115,900,632	$ 29,547,089	$86,353,543

8. DEBT SERVICE COVERAGE RATIO FOR SENIOR DEBT

There are alternative methods to calculate debt service coverage. For purposes of additional analysis, the debt service coverage ratios for senior debt for FY 2005-06 and FY 2004-05 follow. They are calculated as the ratio of petroleum inspection fees remitted to the trustee during the respective fiscal years, divided by the senior debt service payments made during each fiscal year.

Debt Service Coverage Ratio for Senior Debt

	Fiscal Year 2005-06		Fiscal Year 2004-05	
Fees Remitted to the Trustee		$114,948,709		$115,900,632
Senior Debt Service:				
Principal—bonds	$18,205,000		$12,735,000	
Interest—bonds	9,581,888		11,186,846	
Interest—commercial paper	4,146,636		2,368,449	
Total Senior Debt Service		$ 31,933,524		$ 26,290,295
Debt Service Coverage Ratio for Senior Debt		3.60		4.41

9. PECFA CLAIMS

The Petroleum Inspection Fee Revenue Obligations Program was established during FY 1999-2000, and bonds and extendible municipal commercial paper were issued to reduce a backlog that had accumulated because at that time approved PECFA claims significantly exceeded the petroleum inspection fee revenues available to pay the claims. While the backlog has been largely eliminated, PECFA claims continue to be submitted to the Department of Commerce.

The following table summarizes the activity related to PECFA claims during FY 2005-06 and FY 2004-05.

Summary of PECFA Claims
July 1, 2004 through June 30, 2006
(In Millions)

	FY 2005-06	FY 2004-05
Approved but Unpaid PECFA Claims as of July 1	$ 2.7	$ 3.9
Claims Approved for Payment During the Fiscal Year	22.9	42.5
Total Approved PECFA Claims	25.6	46.4
Less Claims Paid:		
Paid from Proceeds of Revenue Obligations and Interest and Investment Income	0.0	4.5
Paid From Petroleum Inspection Fees	24.8	39.2
Total Claims Paid During the Fiscal Year	24.8	43.7
Approved but Unpaid PECFA Claims as of June 30	$ 0.8	$ 2.7

In addition to the $0.8 million in approved claims waiting for payment as of June 30, 2006, approximately $6.2 million of claims submitted to the Department of Commerce had yet to be both reviewed and approved. The Department estimates that approximately $32.7 million of additional claims had not been submitted as of June 30, 2006, for costs that landowners had already incurred as of that date. In addition, it estimates that an additional $0.4 million in liabilities may exist related to claimants appealing the Department's determinations on previously finalized claims.

10. SUBSEQUENT EVENTS

On July 1, 2006, the State called for early redemption a total of $30.0 million of the 2001 Series A Petroleum Inspection Fee Revenue Bonds having a 5.0 percent coupon, including $15.0 million due on July 1, 2007, and $15.0 million due on July 1, 2008. On August 1, 2006, the State called for early redemption the last remaining maturity of the 2000 Series A Petroleum Inspection Fee Revenue Bonds with a face value of $7.9 million and a 5.5 percent coupon, and due July 1, 2012.

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Report on Control and Compliance ■

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on Audits of the Financial Statement Performed in Accordance with Government Auditing Standards

We have audited the cash-basis Statement of Changes in Program Assets of the State of Wisconsin Petroleum Inspection Fee Revenue Obligations Program for the years ended June 30, 2006, and June 30, 2005, and have issued our report thereon dated November 28, 2006. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits, we considered the program's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the Statement of Changes in Program Assets and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters pertaining to reports and related procedures the State used to determine the amount of petroleum inspection fees to transfer to the program's trustee during fiscal year 2005-06 that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the program's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement.

The Department of Revenue collects petroleum inspection fees along with other motor fuel taxes charged suppliers of petroleum products sold in Wisconsin. These fees are initially credited to the Transportation Fund and, on a monthly basis, the Department of Revenue transfers the petroleum inspection fees to the program's trustee to meet debt service requirements. Fees in excess of those needed for debt service are subsequently transferred by the trustee to the State for deposit to the Petroleum Inspection Fund. During our fiscal year 2005-06 audit, we noted that the Department of Revenue had not taken sufficient steps to ensure the reliability of the reports summarizing the petroleum inspection fee collections and used to determine the amounts to transfer to the program's trustee. For instance, the reports for the August and November 2005 and April 2006 transfers appeared to be in error and indicated that only $2.5 million, $7.4 million, and $5.1 million, respectively, of inspection fees were collected. Those amounts are significantly less than the average monthly collections.

For these months, the Department of Revenue recognized that collections appeared to be underreported and, therefore, transferred $8.8 million to the trustee as an estimate of the actual collections. Based on additional audit procedures, we believe the amounts transferred to the trustee during fiscal year 2005-06 exceeded actual petroleum inspection fee collections. Therefore, the State met its requirement to transfer petroleum inspection fees to the trustee. However, because fees not needed for debt service are subsequently transferred to the Petroleum Inspection Fund, that fund was credited for an undetermined amount that should have remained in the Transportation Fund.

In a separate audit communication to the Department of Revenue, we include specific recommendations for corrective action, including the need for the Department to ensure the accuracy of its petroleum inspection fee collections reports, to follow established procedures to adjust subsequent transfers for petroleum inspection fees in the event an estimate is used, and to calculate any excess transfers made to the Petroleum Inspection Fund and return the excess to the Transportation Fund. The Department of Revenue agrees with the recommendations and is currently reviewing the petroleum inspection fee collections report to ensure its accuracy. We note that an estimate of the required transfer to the Transportation Fund was included in the State's Annual Fiscal Report for 2005-06.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe that the reportable condition described above is a material weakness.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the program's Statement of Changes in Program Assets is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, 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 independent auditor's report is intended for the information and use of the program's management and the Wisconsin Legislature. This independent auditor's report, upon submission to the Joint Legislative Audit Committee, is a matter of public record and its distribution is not limited. However, because we do not express an opinion on internal control over financial reporting or on compliance, this report is not intended to be used by anyone other than these specified parties.

LEGISLATIVE AUDIT BUREAU

November 28, 2006 by Bryan Naab

Bryan Naab
Audit Director